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How dynamic capabilities affect adoption of management innovations

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ABSTRACT

Management innovation facilitates changes including technical innovation thus improving organizational performance; Chinese firms typically adopt these management innovations. Building on previous research of how and why management innovation occurs, this study measures the influence of four dynamic capabilities on four stages of the innovation process. The study surveys 264 Chinese firms and analyzes results through PLS-SEM. The findings indicate that relational capability facilitates sensing capability, absorptive capacity, and integrative capability. Further, all of these dynamic capabilities affect stages of the adoptive management innovation process; from initiation through to implementation. As innovation results can be intangible and lagging, and consequently difficult to measure, the method offers managers an alternative by monitoring the effects of different capabilities at each stage of the adoptive management innovation process.

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1. Introduction

As competition intensifies and globalization accelerates, innovation is frequently a main source of competitive advantage and economic growth (e.g., Damanpour & Schneider, 2006; Tushman & O'Reilly, 2002). Although abundant academic research focuses on innovation, most focus on technological innovation (e.g., Henderson & Clark, 1990; Utterback, 1994) and the potential of technological innovation for producing explicit and significant benefit (OECD, 2005). This was until Stata (1989) argued that the bottleneck of many U.S. companies was management innovation, rather than technological innovation. Hamel (2006: 73) forcefully argues that “a management breakthrough can deliver a potent advantage to the innovating company and produce a seismic shift in industry leadership, while technology and product innovation, by comparison, tend to deliver small-caliber advantages”. Management innovation particularly prerequisites and facilitates efficient use of technical products and process innovations (Caroli & Van Reenen, 2001) thus improving organizational performance through productivity, lead times, quality and flexibility (e.g., Hammer & Champy, 1993; Womack, Jones, & Roos, 1990). Hence, management innovation has become the most important and sustainable source of competitive advantage. Henceforward, management innovation has attracted extensive attention to realize the critical contributions to long-term success of firms (e.g., Birkinshaw, Crainer, & Mol, 2007; Birkinshaw, Hamel, & Mol, 2008; Birkinshaw & Mol, 2006; Hamel,

2006, 2007; Lin & Su, 2010, 2014; Mol & Birkinshaw, 2009; Vaccaro, Jansen, Van Den Bosch, & Volberda, 2012). Researchers have recently focused on why management innovation matters (e.g., Hamel, 2006), how management innovation occurs (e.g., Birkinshaw et al., 2008; Lin & Su, 2014), what antecedents may affect innovation (e.g., Mol & Birkinshaw, 2009; Vaccaro et al., 2012), how new management ideas or methods are delivered (e.g., Abrahamson, 1996; Teece, 1980) and what conditions initiate diffusion of management innovation (e.g., Guillén, 1994; Kossek, 1987). Surprisingly little research considers why management innovations so often fail to yield the intended results. Besides institutional factors (DiMaggio & Powell, 1983; Guillén, 1994), leadership behaviors (Vaccaro et al., 2012), and the interaction between context and search (Mol & Birkinshaw, 2009), management innovation also relies on the whole organizational system with valuable, rare, inimitable, and non-substitutable resources (Barney, 1991; Teece, Pisano, & Shuen, 1997; Wernerfelt, 1984). Accumulating valuable resources is insufficient to support sustainable competitive advantages in the ever-changing competitive environment (Liao, Kickul, & Ma, 2009; Teece, 2007; Teece et al., 1997). Dynamic capabilities are capabilities of integrating, reconfiguring, gaining and releasing these resources (Eisenhardt & Martin, 2000; Teece et al., 1997; Zollo & Winter, 2002) which may enable firms to reconfigure internal and external competencies to support management addressing the challenges faced in rapidly changing environments. Succinctly, management innovation alone is insufficient to generate success (Teece, 2007) without the dynamic capabilities of a firm to purposefully create, extend or modify its resource base.

Mol and Birkinshaw (2009) present two types of management innovation: generating innovation, namely a practice or a structure new to the state of the art; and adoptive management innovation, namely

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something that is novel to the firm and is adopted from another context. Although the former enables production of new knowledge (Birkinshaw et al., 2008), the latter dominates the innovation practices of Chinese firms (Lin & Su, 2014) and perhaps globally. Therefore, the present study focuses on adoptive management innovation. Seeing dynamic capabilities as an internal driver for management innovation and focusing on what makes adoptive management innovation distinctive, the study attempts to address two questions: first, how can adoptive management innovation be measured as a complex and multidimensional concept or process where results are intangible, uncertain, lagging and even inseparable from that of technological innovation? Considering the difficulty in measuring outputs of management innovation, the study here advocates a process-oriented method based on the set-up of a four-phase framework instead of a result-oriented one based on ambiguous outputs. The study sets up a measurement scale based on this process-oriented method, by extracting the characteristics and major activities in each phase of innovation. Second, how can dynamic capabilities efficiently enhance the process of adoptive management innovation? Previous research emphasizes the relationship between dynamic capabilities and innovation (e.g., Ambrosini, Bowman, & Collier, 2009; Aragón-Correa & Sharma, 2003; Cheng & Chen, 2013; Clausen, 2013; Hart & Dowell, 2010; Helfat et al., 2007; Kohlbacher, 2013; Ridder, 2011; Teece, 2007; Teece et al., 1997), and contends that a firm's dynamic capabilities could significantly enhance its ability to innovate (O'Connor, 2008), especially in the case of radical management innovation. Nonetheless, the literature contains gaps in discussing how dynamic capabilities internally enhance the performance of management innovation. Closer analysis also reveals that the majority of research is theoretical and conceptual. Therefore, the present study attempts to explore how different dynamic capabilities affect each phase of adoptive management innovation by using Partial Least Squares Structural Equation Modeling (PLS-SEM) to address the lack of empirical evidence and offer managerial implications.

Section 2 of this paper presents a literature review of dynamic capabilities and management innovation. Section 3 presents the hypotheses and a structural model of relationships between dynamic capabilities and adoptive management innovation. Section 4 presents the research setting, data collection, measures and the measurement model. Section 5 shows the results and analysis of PLS-SEM from 264 respondents. Section 6 discusses the findings and contributions, managerial implications, limitations, and suggestions for further research. Finally, Section 7 offers a brief conclusion.

2. Literature review

2.1. Definition of adoptive management innovation

Birkinshaw et al. (2008: 829) define management innovation as the “generation and implementation of a management practice, process, structure or technique that is new to the state of the art and is intended to further organizational goals”. In line with this definition, the study here focuses on observable innovation at an operational level, rather than unobservable management ideas, and advocates a positive effect of management innovation on organizational performance. Also, Birkinshaw et al.'s (2008) definition highlights another core issue of how new an innovation has to be. Some researchers focus on generating management innovation that is new to the state of the art without known precedent (e.g., Birkinshaw et al., 2008; Hamel, 2006); while others focus on adoptive management innovation that is new only to the organization (e.g., Lin & Su, 2014; Mol & Birkinshaw, 2009; Vaccaro et al., 2012).

Adoptive management innovation represents new approaches to structuring a firm, new management techniques, and new marketing methods that firms adopt from another context (Mol & Birkinshaw, 2009). According to Vaccaro et al. (2012: 30), “in the case of ‘new to the organization’, the level of analysis is the firm” and “focusing on

this level of analysis enables us to empirically test a series of hypotheses at the firm level of analysis and draw on a potentially much more sizable sample of management innovations”. Adoptive management innovation is highly uncertain, and its success relies on adaptation to the organization's idiosyncratic context (Ansari, Fiss, & Zajac, 2010) but dominates innovation in Chinese firms (Lin & Su, 2014). Therefore, research on the internal driving mechanism of adoptive management innovation may offer invaluable insights. For this purpose, the study here adopts the definition of adoptive management innovation given by Lin and Su (2014: 86–87) as “the introduction and implementation of an existing or mature management practice, process, structure, or technique that has been successfully implemented elsewhere, aiming to improve organizational performance and further organizational goals”.

2.2. Measurement of adoptive management innovation and its process

Though the significant effects of management innovation on organizational performance and its high research value have been identified (Armbruster, Bikfalvi, Kinkela, & Laya, 2008), its measurement is lacking. Mol and Birkinshaw (2009) and Vaccaro et al. (2012) use a result-oriented method from tangible technological innovation field (e.g., Romijn, 2002; Souitaris, 2001) to measure management innovation. However, Birkinshaw et al. (2008: 829) argue that “there are important differences in the nature of the outputs of management innovation and technological innovation”, for example, unlike technological innovations, management innovations are typically tacit in nature. They are also relatively difficult to observe and identify system borders for, while results are lagging and even inseparable (Teece et al., 1997). These attributes increase the importance of the innovation process, and also the difficulty of measuring the results of management innovation quantitatively (Birkinshaw et al., 2008). Mol and Birkinshaw (2009) suggest more research focus on these poorly understood processes. In fact, both the process of generating management innovation set up by Birkinshaw et al. (2007, 2008) and that of adoptive management innovation by Lin and Su (2014) indicate the importance of innovation process in realizing its goal of improving organizational performance. Therefore, a process-oriented method would be more suitable for exploring deeper into the nature of management innovation.

Then, what would be the process through which adoptive management innovation occurs? Researchers from the Management Innovation Lab of London Business School explore this question. Hamel (2006) argues that a systematic process for producing management breakthroughs must include commitment to a big management problem, novel principles that illuminate new approaches, a deconstruction of management orthodoxies, and analogies from atypical organizations. Birkinshaw et al. (2007) develop a five-stage process consisting of dissatisfaction with the status quo, outside inspiration, change agents, invention and internal validation. Birkinshaw et al. (2008) later develop a framework with four interlinked phases of motivation, invention, implementation, and theorization and labeling. Although such concepts focus on generating management innovation and the roles of key agents by holding a rational perspective, they also acknowledge the complexity of innovation. Holding the same rational perspective, Lin and Su (2014) pay particular attention to adoptive management innovation, and develop a two-interlinked-subprocess framework with adoption decision and implementation. Adoption decision reflects the initiation phases of problem identification, innovation perception, attitude formation, problem diagnoses, innovation revision, proposal evaluation, and yes-no selection; implementation reflects events and actions that pertain to modifying the innovation, preparing the organization for its use, trial use, acceptance of the innovation, and continuous use of the innovation.

The framework in the present study similarly provides highlights of the roles of key staff and even their mental activities; however, considering the reliance on the whole organization for successful initiation to implementation of management innovation, the study here takes an

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