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What kinds of culture and organizational structure are most favourable to innovation?

Module Title: Managing Innovation and Change

Contents

Introduction

With the rapid development of society, the rate of change in people's lives has increased in areas such as technology, market requirements and life cycle. These issues also surround organizations, and they have brought about an increase in competitiveness. In order to gain competitive advantage, organizations cannot afford to continue producing products, services or even maintain managerial style in the same way. Hence, Eaton (2005) has suggested that organizations have to acquire the ability to create new products/services and innovate new processes. These are essential skills in providing a sustainable form of competitive advantage. In other words, innovation plays a vital role for organizations in order to gain and maintain a competitive edge.

However, most managers and companies have found difficulties in exhorting their operating organizations to be more innovative and creative. Moreover, the increasing importance of innovation poses a challenge to organizations, which is how to manage, facilitate and sustain innovation effectively (Galbraith, 2004). It is the view of Nystrom (1990: p.143) that "Organizational innovation is viewed as a result of the interaction between strategy and structure, with organizational culture and climate as important intervening variables." Structure leads to stability and continuity, while strategy is necessary to achieve innovative direction and radical change. While some organizational cultures and climates are more likely to promote stability, others are needed to facilitate creativity and innovation. In other words, organizational structure and culture are key factors which can a play significant role in facilitating and promoting innovation in organizations. Hence, it has been suggested that appropriate organizational structure and culture are favourable to innovation in the organization.

This paper will attempt to determine what kinds of culture and organizational structures are most favourable to innovation. Firstly, there will be an introduction

to innovation. This will be commented on later in determining the optimum kinds of organizational structure and culture to promote innovation. In the next part, there will be an attempt to evaluate the most favourable organizational structures and cultures for innovation. Finally, some conclusions will be drawn, based on the points that the essay has explored.

Innovation

To determine the most favourable organizational structure and culture to bring about innovation, it is necessary to acquire a clear understanding of innovation in advance.

West and Farr (1990: p.9) define organizational innovation as: "the intentional introduction and application within a role, group or organization of ideas, processes, products or procedures, new to the relevant unit of adoption, designed to significantly benefit the individual, the group, organization or wider society". Moreover, Tidd, Bessant and Pavitt (1997: p.318) indicate that "innovation is becoming a corporate-wide task, involving production, marketing, administration, purchasing and many other functions." Therefore, innovation is not only concerned with products, but also with service, administration and other functions in organizations. In addition, innovation is not only meant to create something new, it also needs to translate those new creations into actions. To put it another way, it involves both processes, ie the initial phase of the innovation process and its implementation. Moreover, both phases require looser and more flexible conditions which enable the gathering and sharing of various information for the generation of innovation (Tidd et al, op.cit). Finally, people should be aware that innovation involves risk and unpredictably.

Identifying Organizational Structure & Culture

Organizational structure

In terms of organizational structure, Buchanan and Huczynski (2001: p.447) indicate that its principal purpose is "to divide up organizational activities and allocate them to subunits and co-ordinate and control these activities so that they achieve the aims of the organization." In addition, organizational structures contain three main variables: centralization, formalization and complexity. There are two very distinct approaches to organizational structure: mechanistic and organic. According to Burns and Stalker(1961: p.247) "mechanistic is highly bureaucratic, with a strict division of authority and preoccupation with matters of internal efficiency. There is an inability to respond to new and unforeseen circumstances. In contrast, organic is flexible and informal, with a good deal of sharing of responsibility and lower ranked staff have considerable responsibility delegated to them. It is able to adapt to change."

As regards the need for gathering and sharing information to generate innovation, a highly centralized organization is not conducive to this. There are several reasons. Firstly, the majority of the decisions are made at the top of management in centralized firms. This results in less freedom in the flow of information through the channel of communication in organizations.

Consequently, there are fewer opportunities for employees to obtain more information. In addition, this situation creates a negative environment for people to create new ideas in an organization which does not share information about itself. Secondly, the centralized organizations also offer formalization, which refers to a degree of standardization (such as rules, job descriptions, procedures) Engestrom, 2002). Moreover, "it is an inhibitor of innovation initiation as rigid rules and procedures may prohibit organization decision makers from seeking new sources of information". These issues negatively influence the employees'

potential for creative ability, because of less communication and flexibility to translate innovation into action, and the slow process of decision-making.

In contrast, "the decentralized organization empowers employees to make more decisions, thereby enhancing the organization's ability to be responsive to changes as they are detected in the external environment." (Buhler, 2002: p.371). In other words, employees have opportunities to participate in the process of operating, and as a result, they are more willing to make more contributions to the organization. In addition, the decentralized structure is to be found in organic approaches. As mentioned previously, the feature of organic structure is its greater flexibility. No doubt, it offers a positive condition for people to acquire a variety of information and share a greater diversity of ideas. Consequently, these attitudes will enable the organization to generate more, new ideas, and to be conducive to fostering innovation. Additionally, in a decentralized organization, there is low formalization. Hence, it has a positive influence on seeking and implementing new sources of information within the organization. Consequently, a decentralized organizational structure is more conducive to generating new sources of information and implementing that information in the organization. In practice, there are a number of organizations which achieve benefits by choosing this structure. For example, "General Electric in the USA underwent a painful but ultimately successful transformation, moving away from a rigid and mechanistic structure to a looser and decentralized form" (Tidd et al, op.cit: p.318).

Further, as Tidd et al (op.cit: p.335) point out, "innovation is primarily about combining different perspectives in solving problems, and there is much potential value in team working." For example, in the late 1980s, Ford and Chrysler succeeded in dramatically reducing time and improving quality through extensive team working. In other words, team working can increase employees' commitment to playing their role in creating and implementing new ideas. As Katz and Allen (1997) indicated, successful innovation also requires the strong support of resources, the mediation of inter-group conflicts and the protection of

the development effort from outside sources of interference. Hence, the trend of the Matrix structure offered by many organizations, which is based on a project and functional structure, and provides benefits of grouping specialisms, has increased flexibility and a stable career that comes from retaining a departmental base for the different occupations (Engestrom, op.cit). As a result, it is more effective at supporting team working and increasing employees' commitment. The organization provides good conditions for people to make positive contributions to generate innovation.

In brief, "an organic, matrix and decentralized structure will provide the creative individual with freedom sufficient to be creative". This kind of organizational structure would be most favourable to innovation.

Culture

As mentioned above, the nature of innovations involves risk and unpredictability. It seems that these act as a barrier that inhibits employees in activating and exerting their potential abilities. The main reason is that nobody can guarantee their creativity can be successful and they are scared to take responsibility for their mistakes.

 In order to gain competitive advantage based on innovation, it is important for the organization to inspire the intellectual assets, motivating their potential ability and encouraging their enthusiasm.   Brower (1965: p.103) describes a working atmosphere favourable to innovation as: "requiring participation and freedom of expression." In addition, as Nystrom (op.cit) points out, an appropriate culture is an important intervening variable in facilitating innovation in an organization. This part will attempt to identify what kind of culture is necessary to build up a working atmosphere that can be favourable to innovation.

As Moss (2000: p.176) points out "a culture for innovation begins with

expectations. Rubbermaid and 3M make innovation an explicit focus, setting goals and measures for innovation, such as the percent of revenue from new products." That is to say, a certain reward system could be effective in motivating employees. This system could involve monetary rewards. But most managers found that their intellectual people believed that recognition from management, colleagues, and others was more powerful, and very effective in promoting creativity. Also, in the cases of 3M and Elf Acquitane, managers rely on non-monetary rewards, like recognition, to signal that innovation is rewarded (Reilly and Tushman, 1997: p205). Consequently, this system was able to boost people's morale and improve their attitude because they felt the organization recognized their value. It seems to offer an attraction for the more intellectual employees' enthusiasms.

In terms of the risk involved in any innovation, the culture for innovation also requires guidelines which encourage employees to take risks to be formulated.

Managers have to be prepared to accept mistakes and encourage people to try something new. And, if they do not work out, the employees should not be punished for mistakes. "At Nordstrom and Federal Express, the heroes often include those who tried to satisfy customers and failed as well as those who succeeded." (Buhler, 2000: p.248). Consequently, this attitude encourages employees and they are emboldened to take risks in the process of innovation. One FedEx worker is quoted as saying: "I do not have any fear that if I try something that does not work, there will be repercussions. There have been a few things that did not work. We just did not do them the next day" (Reilly and Tushman, op.cit: pp.206-207). Obviously, these existing examples show that under flexible circumstances and together with the attraction of an award system, intellectual people are willing to exert their potential ability to be creative.
It is the view of Tidd et al (op.cit: p.335) that: "experiments indicate that groups have more to offer than individuals in terms of both fluency of idea generation and in flexibility of solution developed." To put it simply, team working is effective

for generating innovation. Employees are able to gather/share a diversity of information through communication. Thus, the culture for innovation also requires building up an open communication environment. At the same time, the culture must guide employees to foster trust and encourage them to be open to communication.

In brief, the culture which is able to integrate these main elements, will be the culture which is able to create a relaxed, informal working environment for employees to exert their potential and exploit their enthusiasms to the full. This culture would be the culture that is most favourable to innovation.

Conclusion

To return to the essays' starting point, determining what kinds of organizational structures and cultures are most favourable to innovation, it has been suggested that organizations should choose the most appropriate culture and structure according to their own demands. Hence, in terms of the conditional needs of innovation, an organic, matrix and decentralized structure could be involved in satisfying all of the conditional needs for generating and implementing innovation in an organization. In considering the nature of unpredictability and risk in innovation, the culture which is able to create a liberal, informal, working environment, is the culture which is most favourable to innovation because these conditions can stimulate employees to make positive contributions to the process of innovation, and it is able to thrive in these organizational cultures.

(1996 words)

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