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Evaluating Key Factors of Innovation as a Corporate Strategy

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Abstract:

This paper explores the role of innovation strategy in modern business by considering relevant literature. Each of the innovation components of organizational structure, organizational culture, and the role of human resources are evaluated in the context of innovation strategy. The gains through innovation highlights the gains in productivity, competitiveness, and sustainable competitive advantage achieved in modern business. Organizational structure must reinforce the innovation strategy by streamlining the chain of command to promote diffusion of ideas and information within the organization. The importance of organizational culture is a further critical factor for innovation, and is particularly dependent on the organizational process in handling failure of initiatives, and employee empowerment. Much of the success in developing an innovative culture and innovation practices depends on human resource policy. Remuneration systems must reflect the organizational commitment to innovation. The importance of technology as a key driver for innovation requires careful selection and continuous professional development of staff in order to possess necessary skills for future company needs. The main finding in the paper reveals the importance of new business models, business structures, and human resource policy which reflects today's dynamic business environment.

Keywords: Innovation, organizational culture, employee empowerment, human resource management

1. Introduction

The current business environment is constantly in a state of flux, with technological advances and consumer preferences changing at an ever quickening pace. The proliferation of marketing media instantaneously communicating messages to consumers is altering the landscape from companies establishing a loyal consumer base, to business models requiring a dynamic approach to satisfying the needs and wants of target markets.

Innovation strategy is a vital component for many businesses to remain competitive. The ability to improve existing products, upgrade production processes, improve organizational systems, and introduce new products to market, require new business practices that contrast with traditional business models. Organizational structure must accommodate the fluid transfer of ideas throughout the organization. The organizational culture must be conducive for employees to both take risks as well as encourage participation. Whereas cost-cutting strategies may be focused within the production department for results, and niche strategies rely on marketing departments, innovative strategies rely on employees for success, and specifically the human resource department.

This paper begins by exploring the benefits from using an innovation strategy. Section 3 details the components of organizational structure critical for success. Organizational culture is described within an innovation strategy context in section 4. Section 5 identifies human resource management aspects critical to success for innovation strategy. The paper concludes with a brief summary.

2. Gains through Innovation

Organizational innovation, which consists of both the creation and improvement of new products or services as well as institutional systems, is an important source of sustainable competitive advantage. (Hurley & Hult, 1998) Research highlights the importance of innovation in enabling firms to create value and sustaining competitive advantage in today's increasingly complex and dynamic business environment. (Madhavan & Grover, 1998; Subramaniam & Youndt, 2005) Effective innovation leads to gains in productivity, competitiveness, market share, quality, profit, wages, standard of living, and reduced inequality. (Dertouzos, Lester, & Solow, 1989) Highlighting the importance of innovation on society, the Government of Canada (2002) has stated that quality of life and standard of living considerations depend critically on the innovation of business, specifically utilizing planned innovation to meet goals.

Innovation should be "a vital ingredient in your enterprise strategy, particularly over long term, if you are to maintain a stream of competitive products on the market." (European Commission 2003) Firms that feature greater innovativeness are more capable of adapting to changing environments and in developing responses that result in better performance. (Montes et al., 2004) According to the Georgia Manufacturing Survey (1999), those firms that compete through innovation or new technology reported return on sales nearly 40% higher than firms competing on low prices.

A number of critical determinants must be addressed in order for a firm to provide realize success and benefits from an innovative strategy. The organizational structure must encourage rather than impede company goals. Innovation demands a derivation from traditional structure in promoting the exchange of information and ideas throughout levels of traditional hierarchal organizations.

3. Organizational Structure for Innovation

In order to create an effective and dynamic workplace reflecting the needs of modern business, the structure of firms must change from traditional structures. In the past, the hierarchal system has been a very effective system to enable workers and company objectives to work in harmony. Managerial power resting in distinct layers within a company allowed for decision making to be handled in a top-down fashion. Lower level employees were given job security if they did what they were told by management and given opportunity for advancement within the company. Those businesses of today employing a competitive strategy of innovation require input from employees. No longer are workers being told what to do but rather expected to do all things better. The focus is on results, and less so on the process of obtaining the results.

Competition has required businesses to become leaner and more efficient. The need to maximize use of resources and practices drives companies to expect and extract more company value from its employees. This in turn has altered organizational structure, particularly for companies stressing innovation. This changing organizational structures feature key points as identified by Morris & Brandon (1994): Move the workforce closer to the customer, empower the worker and shrink the decision chain. The workforce who actually deals with customers has an intimate view of its customers, allowing for best solutions to be provided by those staff with best idea of what the customer wants. What the customer wants must be a driver of innovation.

Bureaucratic hierarchies of the past do not support the smooth transition of workers and information throughout an organization. With increased levels of management necessitates greater communication lines, at best slowing the process of disseminating ideas within an organization, and in cases, sabotaging the process. Therefore, structure plays a key role in stimulating innovation within a company. Employees are not independent of other organizational aspects. Rather, employees and structure co-exist and influence one another. In the search for advantage over competitors, it is imperative that employees are given the opportunity to contribute productively to the attainment of corporate goals. If the mechanisms in place stifle employee ability to achieve this purpose, the process will fail and competitive advantage will not be attained.

One vital component in creating an organizational structure conducive to innovation is reducing the chain of command within the firm.

4. Organizational Structure- Chain of Command

Having a long chain of command to go through in order to implement ideas provides frustration and may even stall the process. The more managers that ideas and information need to bypass in their journey toward company integration and dissemination, the greater the possibility of finding a roadblock during the process. Furthermore, hierarchies limit flexibility through bureaucratic inertia and indirectly through disincentives that prevent lower-level managers and employees from assuming responsibility for improvements. (Boyer, 1990) A chain is only as strong as its weakest link, as is the innovation chain; one manager more concerned with protecting their own position rather than embracing the fact that business today is dynamic, undermines the whole system. Reducing and eliminating unnecessary levels in the chain speeds up the process and, as shown, avoids potential setbacks.

Staff are more likely to actively seek innovative practices and ideas if there are incentives present that encourage staff to improve company operational policy or methods. (Hayek, 1948; Jensen & Meckling, 1992) This requires transforming the organizational structure to facilitate fluid communication throughout an organization, and eliminating managerial levels impeding this process. The change in company paradigm from a structure suppressing change and ideas, to one of encouraging the flow of information throughout an organization is critical to establish a successful innovative culture.

5. Organizational Culture

Innovation initiatives greatly depend on employees' knowledge, expertise, and commitment. (Youndt et al., 1996) An organization that expects contributions from throughout an organization must both reward employees input, as well as encourage employees to actively contribute. Rewarding employee contributions is a valuable tool. Equally, if not of greater importance, is the firm's reception and treatment of ideas which ultimately fail. It is imperative to view failures as part of the learning process, rather than by discouraging future input through resulting adverse reactions towards the failed process.

6. Organizational Culture- Learning from Failures

Innovation involves taking risks. Therefore, it should be expected that not all innovative undertakings be successful. The company reaction to failed attempts at improving company performance through innovation is an important aspect to promoting an innovative culture within an organization. Negative company reaction results in compromising the organizational culture by stifling and discouraging future input from employees.

Innovation requires many independent areas of a business coordinating to implement ideas effectively; failures can help identify areas of an organization which are not operating at acceptable levels. By addressing reasons for failure due to internal factors such as incompetence, ineffective implementation of the change, or managerial deficiencies, failed attempts at innovation result in positive change within the organization. Rewarding failure may do more for promoting innovation than rewarding successes. If individuals are not afraid of failure, they will more actively contribute ideas. Should employees be punished for failure, they will be unlikely, or at least less likely, to contribute ideas in the future. (Samaha 1996, pp.148)

In addition to the importance of how a company accepts failed attempts at innovation, organizational culture requires an empowered workforce. Empowering employees is critical for employees committing to the success of an organization, and motivating employees to aspire for improved company performance.

7. Organizational Culture- Employee Empowerment

Empowering employees is another critical factor in fostering an organizational culture promoting innovation. High levels of involvement and participation are necessary for employees to contribute to the successful implementation of innovation endeavors as well as stimulating the creative process. (Damanpour, 1991) Empowerment of employees is an easy theoretical solution to many organizational deficiencies and problems, but rather difficult to effectively put into practice. Not always are employees encouraged to utilize the power that they have been bestowed, making the whole process window dressing rather than effective utilization of employee skill. Power is an aspect which some managers still cling to, due to a number of factors such as fear of losing their own position or status, lack of acceptance of subordinate's ideas, and rigid view on change itself. These change deterrents contribute to suppressed power for employees to contribute effectively to the organization.

Introduction of workplace innovation is costly and risky. Even under ideal circumstances, the payoff will result only after long periods have elapsed. This of course favors large firms that have the necessary financial resources to make these investments and not need immediate results to justify limited resources devoted to the endeavor. Innovation does not only put strain on an organization financially. In order for innovation to be successful, staff must possess necessary skills and training. Human resource management (HRM) must ensure that staff is prepared to meet proposed changes and be forever evolving to meet future needs.

8. The Role of Human Resources in Promoting Innovation

Utilizing a company strategy of innovation requires a holistic approach, with all employees encouraged and empowered to contribute to organizational innovation. Human resources play a prominent role in both influencing and creating the skills, attitudes and behaviors of employees in pursuing organizational objectives. (Collins & Clark, 2003) Furthermore, the importance of the human resource policy extends to the creation of necessary conditions for catalyzing and directing organizational time and resources toward innovation endeavors. (Scarborough, 2003)

Human resource practices can promote innovation and the innovation process in a variety of ways. HRM practices which foster innovation include motivating employees through pay systems, empowering employees, requiring management to act as leaders and coaches- rather than the traditional view of functioning as a more authoritative figure. HRM is tasked with initiating change with the introduction of new technologies, and ensuring employees possess necessary skills for current and future company requirements.

9. HRM in Promoting Innovation- Remuneration

Wages are a major contributor to motivating employees to perform desired behaviors at acceptable levels of productivity. A pay system is meant to align individual expectations and behaviors with company objectives. Thus, a pay system must be in place which encourages employees to embrace change. Jankelson (1990) expresses this belief, stating that an effective remuneration program can successfully link the organizational values with employee values- bonding the employee and the organization.

Kreitner (1995) describes motivation as the psychological process that gives behavior purpose and direction. In a study conducted by Harpaz (1990), pay was indeed found to be a main motivator for employees. Tracey (1994) outlines the importance of motivation on employees as being a key aspect to the success of an organization. A company's strategy must be reinforced by its remuneration system to ensure consistent messages are sent to employees regarding behavior and company focus.

A company's financial rewards system is a vital factor in encouraging innovation within staff. When redefining how employees perceive operational systems and policies, it is of utmost importance to reward desired behaviors. Operant conditioning allows for the learning process of staff to be supported by the power of suggestion of monetary reward. This subtle acknowledgement by management helps to define norms within an organization, allowing employees to understand those values of employees encouraged by a company.

An organization which seeks innovation, must promote risk taking and rewarding successful ideas for improving products or performance. One such example would be offering financial incentives for successful employee input, as well as including such evaluation criteria within employee reviews.

10. HRM in Promoting Innovation- Technology

Innovation and technology are often complementary factors as change agents. Modification of business practices are often accompanied by implementing new technology. This new technology alters the tasks performed by employees, and often requires employees bestowed with a differing skill set to effectively complete routine tasks. This innovative environment requires employees to change with the company, or inevitably terminating employment in those workers entrenched in current, existing roles.

The increased use of technology in business has put pressure on human resource management practices as discussed by Noe, Hollenbeck, Gerhart & Wright (1997). The fit between increased use of technology and employees needs constant monitoring due to the constantly changing environment. The constant improvement of systems in a dynamic environment are best met by soliciting feedback from employees with intimate knowledge and experience, which often includes lower company ranks. Similar to the needs for innovation discussed in this paper, employees must feel empowered, and able to introduce ideas that will be received openly within an organization, in order to effectively and regularly contribute to the improvement within the organization.

A critical function of human resources departments is both ensure employees have necessary skills to perform jobs effectively, as well as to anticipate future needs. Effective HRM allows for the smooth transition integrating new technology within a firm through proactive employee training initiatives, and careful selection of new employees with a keen focus on meeting future needs.

11. Conclusion

Competing in the business world by utilizing an innovative strategy requires a business to focus its resources and efforts on common objectives. First, employees must be given the opportunity to exert their creative energy. An organization must support this aspect by featuring an organizational culture which embraces employee empowerment and freedom to implement ideas beneficial to the company. Furthermore, it is necessary to have a suitable organizational structure, both to ensure ideas are not suppressed by unnecessary managerial levels as well as creating shorter communication lines to speed up processes. Human resource practices are key within a strategy utilizing employee creativity and involvement. It is imperative that the organization convey appropriate messages to its employees. This is accomplished with pay systems, rewarding desired behavior, training for current and future organizational needs, selecting highly skills employees, accepting failed attempts at innovation, and using minimal controls to stifle employee freedom.

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13. References

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