

Management Innovation



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ABSTRACT

While scholarly research has produced a great deal of useful knowledge about various forms of innovation, there has been very little attention given to the dynamics of *management innovation* - the implementation of a new management practice, process or structure that significantly alters the way in which the work of management is performed, and is intended to further organizational goals. In this paper we address this gap in research by focusing on two questions. First, *what is the nature of management innovation?* How can we categorize or make sense of the enormous variety of management innovations that exist, and how can we distinguish management innovation from related concepts, such as management fashion and process innovation? Second, *what are the causes of management innovation?* What are the conditions that lead management innovation to transpire, and to what extent can these be recreated in contemporary settings?

Building on Abrahamson's (1996) theory of management fashion, we develop a model of management innovation in which we focus on the role of middlemen we call *management innovators* who intervene in the market for management ideas and practices. Rather than simply encouraging the adoption of techniques that are being pushed by "managerial fashion setters" these management innovators seek to combine new ideas from various sources and adapt them to the specific needs of users. Viewed in this way, management

innovations are never entirely new creations, but they involve some element of novelty in combination with ideas and practices taken from a number of different sources. This model complements Abrahamson's work, in that it helps to explain how management innovations first take shape, whereas Abrahamson focuses on the process through which certain management innovations become management fashions. We develop a set of propositions concerning the facilitating conditions under which management innovations would be likely to transpire, and we highlight the critical role of the management innovator as the catalyst for the entire process. Finally, we put forward a research agenda to further our understanding of management innovation.

INTRODUCTION

Over the past half-century, scholars around the world have produced a vast body of academic research and writing on the topic of innovation. Attention has been focused on issues as diverse as the nature of human creativity, the management of industrial research and development, the diffusion of innovation, competitive responses to “disruptive” innovation, the linkage between innovation and national competitiveness, the role of government policy in promoting (or frustrating) innovation, and the distribution of economic rents between innovators and exploiters. Along the way, a large number of taxonomies have been developed with the goal of distinguishing among various types of innovation: incremental versus radical, product versus process, technology-driven versus market-driven, and so on (Tushman and Anderson, 1986; Henderson and Clark, 1990; Utterback, 1994; Christensen, 1997).

Yet as they have reconnoitered the innovation landscape, researchers have paid relatively scant attention to the dynamics of *management innovation*, defined as the implementation of a new management practice, process or structure that significantly alters the way in which the work of management is performed, and is intended to further organizational goals (Gruber and Niles, 1972; Teece, 1980; Kimberly, 1981; Damanpour and Evan, 1984; Abrahamson, 1991; Alänge, Jacobsson, and Jarnehammar, 1998). Indeed, while the search term ‘technological innovation’ generates some 11,548 peer-reviewed articles in the Business Source Premier database, ‘management innovation’ only

accounts for 104 (search on May 31, 2005). We therefore know little about how management practices, processes and structures evolve and, perhaps, advance over time. While many of the landmarks of management innovation are familiar to every business scholar (for example, GE's development of the modern research lab, Du Pont's invention of capital budgeting tools, GM's adoption of the M-form organization structure and Toyota's success in harnessing the problem-solving skills of first-level employees), there exists no generalized model of management innovation as a dynamic process.

Management innovation has, of course, received some research attention. Business historians have produced histories of management thought and have dug deeply into specific cases of management innovation (Chandler, 1962; Whitsett and Yorks, 1983; Fligstein, 1985; Pezet, 1997), yet they have not, thus far, produced any sort of systematic, cross-innovation description of the process of management innovation. Other researchers have studied the diffusion of management ideas (Teece, 1980; Zmud, 1982; Damanpour, 1987; Abrahamson and Rosenkopf, 1993; Burns and Wholey, 1993; Guler, Guillén et al., 2002) but have seemed mostly uninterested in exploring the deep origins and creation processes of those innovations. Scholars have also surveyed the ever-shifting currents of contemporary "management fashion" (Abrahamson, 1991; Abrahamson, 1996; Zbaracki, 1998; Abrahamson and Fairchild, 1999), yet their analysis has produced few insights into how a particular company or economy might improve its capacity to invent valuable new management processes and

practices. While business school professors and management consultants regularly volunteer advice on how a company might better manage its product or process innovation, there seem to be few management thinkers who are prepared to tell companies how to become more effective at management innovation.

If one assumes that the work of management scholars is, at least in part, to generate new and useful management knowledge (Abrahamson, 2004; Van de Ven and Johnson, 2005), it is rather perplexing that there has not been more systematic research into the ways in which new management practices, processes and structures actually get invented and improved (or ultimately abandoned). A comprehensive understanding of the origins of successful management innovation would seem to be a prerequisite for improving the productivity and impact of management scholarship. By this logic, it is not enough to track the life cycles of new management ideas and practices, one must understand their conception and early gestation.

Equally perplexing is the apparent lack of attention given to the management of management innovation within large companies. Stata (1989: 63) argued that “at Analog Devices, and many other U.S. companies, product and process innovation are not the main bottleneck to progress. The bottleneck is management innovation. We have to ask ourselves, as a company and a nation, are we investing enough in management innovation?” While companies

have built elaborate and well-honed mechanisms for generating and exploiting new scientific discoveries, new product breakthroughs and radical improvements in operating efficiency, there is little evidence they have approached management innovation with anything like the same diligence and creativity. Companies do, of course, experiment with new management methods. They tweak compensation systems, rearrange organizational units, redefine executive roles, alter capital budgeting criteria, implement new human resource policies and occasionally renovate their executive development programs. Nevertheless, we suspect it is a rare CEO who would claim that his or her company has an explicit and continual process for management innovation. Similarly few CEOs could point out who monitors or is responsible for management innovation. Yet to the extent that innovation in management methods and practices is capable of creating significant competitive advantage for the innovating firms (a point we return to later), we should expect that business leaders would be interested in building a capacity for management innovation within their organizations. Interestingly Jack Welch, the former CEO and Chairman of General Electric, recently expressed a belief that GE's long and enviable track record of superior financial performance is, in substantial part, a reflection of GE's successful history in management innovation (personal communication with one of the authors).

While a deeper understanding of the dynamics of management innovation may help business scholars to more effectively facilitate the process of knowledge

creation, and increase the capacity of (at least some) firms to build competitive advantage, there is a third, rather more fundamental justification for an expanded interest in this particular form of innovation: Advances in management practice contribute to long-term improvements in macroeconomic performance (Schumpeter, 1947; Teece, 1980; Baumol, 2002). This assertion seems to have been almost universally accepted by business historians who typically describe a new way of organizing or a new management method in terms of its contribution to increased factor productivity and/or heightened competitive advantage (Chandler, 1962).

Among organization theory scholars, the link between management innovation and improved macroeconomic performance is less immediately accepted. Abrahamson (1996: 257) has argued that management innovation is an element of the “management fashion” process by which “management fashion setters continuously redefine both theirs and fashion followers’ collective beliefs about which management techniques lead rational management progress”. An even stronger form of this argument has been presented by authors like Barley and Kunda (1992: 365), who suggest that managerial thought should be characterized by “a continued wrestling with counterpunctual themes” rather than progression, and Staw and Epstein (2000: 523), who similarly argued that “there is not a clear progression of ideas based on systematic knowledge of people and organizations”. These authors build on neoinstitutional theory, and view the adoption of new management practices as driven primarily by

sociopsychological pressures to conform, rather than by the desire for economic progress per se. Our approach does not in any way dispute the cyclical process by which some management techniques fall in and out of favor. However, our belief is that there is also an underlying process whereby highly effective management innovations (such as Toyota's Production Method, capital budgeting techniques, the M-Form structure, and human resource management) become deeply institutionalized across industry sectors, while management innovations that are less important or less effective in their application are selected out. Thus, even though there may not be an immediate link between later adoptions of a management practice and firm performance (Staw and Epstein, 2000), the benefits at a societal level from improvements in the practice of management are likely to be substantial.

Measuring the impact of any sort of innovation on economic growth or industrial productivity is fraught with difficulty. Yet despite the measurement problems, it is broadly accepted that technological innovation, along with institutional and public policy innovation, play important roles in generating economic progress (through mechanisms such as advances in communication, efficient capital markets and economic integration). Indeed, the proposition that innovation drives economic progress typically provides a substantial part of the rationale for devoting resources to research on innovation. We believe this proposition provides an equally compelling rationale for the study of management innovation. There is, of course, no argument here that management innovation

always, or even usually, yields positive economic benefits. No one would make such a bold claim for technological innovation and we are not making it for management innovation. With any type of innovation there are many more failures than successes. But whatever the role of management innovation in economic progress, whether large or small, positive or negative, it is a role that can be fully understood only if we become better informed about the nature of management innovation itself.

The purpose of this paper is to outline some first steps en route to the bold goals we wish to achieve. We focus our discussion on two specific questions. First, *what is the nature of management innovation?* How can we categorize or make sense of the enormous variety of management innovations that exist, and how can we distinguish management innovation from related concepts, such as management fashion and process innovation? Second, *what are the causes of management innovation?* What are the conditions that lead management innovation to transpire, and to what extent can these be recreated in contemporary settings? The paper concludes with some thoughts about the future research agenda that might be pursued to further advance our understanding of management innovation.

WHAT IS MANAGEMENT INNOVATION?

Definitions

A survey of the literature suggests there are several related terms in use - managerial innovation (Kimberly and Evanisko, 1981), administrative innovation (Damanpour and Evan, 1984), organizational innovation (Kimberly and Evanisko, 1981; Damanpour and Evan, 1984; Alänge et al., 1998; Clark, 2003) and management innovation (Kossek, 1987; Stata, 1989; Abrahamson, 1996). Confusingly, organizational innovation is sometimes used to imply any type of innovation generated by organizations, including for instance new products. Administrative innovation typically refers to a narrow range of innovations around organizational structure and human resource policies, and does not include innovations in for instance marketing or operations management. Our preference therefore is to use the latter term, management innovation, which we define as *the implementation of a new management practice, process or structure that significantly alters the way in which the work of management is performed and furthers organizational goals*. This definition has four critical elements.

First, management innovation involves *implementation*. In the field of technology management, it is customary to distinguish between invention (the initial idea or scientific breakthrough) and innovation (the development of a viable product or process from the initial idea). Similarly, the

development of a new management idea by an academic or a consultant is conceptually distinct from a management innovation, which involves implementing the idea in a business setting (Gruber and Niles, 1972; Davenport, Prusak, and Wilson, 2003). For example, Discounted Cash Flow (DCF) was invented in the nineteenth century but was only implemented in France well into the 1950s (Pezet, 1997). Our focus in this research is on the latter event, because it is the point at which economic value is created. A management idea has value to the academic community; a management innovation has value to the business community.

Second, management innovation has to be *new* to the adopting organization. New here does not necessarily mean new to the world. Rather, it means the innovation in question involves a significant level of experimentation and risk on the part of adopting organization. If one considers a spectrum of approaches to the implementation of new management practices, on the left side a firm might buy an “off the shelf” practice from a consultancy (e.g. a stock-option plan for employees), and on the right side the firm could hypothetically come up with a completely novel practice of its own (e.g. Danish hearing aid company Oticon’s “spaghetti organization”, Lovas and Ghoshal, 2000). New refers to those practices towards the right side of the spectrum in which the level of experimentation and adaptation is sufficiently great that the credibility of the internal sponsor is at stake. Thus, for example, the decision to implement SAP software in a firm may involve considerable effort and adaptation, but the

credibility of the decision-maker in choosing SAP would not be questioned (Abrahamson, 1996: 261) As such, implementing SAP would not be a management innovation. On the other hand, the implementation of a new information system architecture *would* be a management innovation: it would require a great deal of justification and explanation, and would be very high risk for the individuals sponsoring it.

Third, the focus of management innovation is on the implementation of a new *management practice, process or structure* (Alänge et al., 1998). These terms are intended to cover the full spectrum of management activities: management practice refers to such things as pay-for-performance or brand management; administrative process refers to such things as Business Process Reengineering or GE's Work Out; organizational structure refers to such things as the M-Form, the Matrix organization, and the Joint Venture. This definition deliberately excludes analytical techniques, such as the 5-forces framework, core competence analysis, or shortest-path analysis, because they do not significantly alter the way management work is performed, and as such they do not incur the same risks or challenges in their implementation.

Fourth, management innovation is *intended to further organizational goals*. This is an obvious point, but it is important as a means of highlighting the reason why firms are prepared to engage in the somewhat risky process of management innovation in the first place. It also hints at two related points.

First, not all management innovations are ultimately successful. Volvo experimented for many years with cellular manufacturing, for example, with the intention of delivering significant benefits, but the innovation was ultimately discontinued (Berggren 1994). Second, organizational goals includes both traditional metrics of business performance (efficiency, effectiveness, competitive advantage) as well as internal metrics, such as improved quality of working life for employees, lower turnover, and improved quality. It also acknowledges the important role of external legitimacy as a factor in the decision to adopt new management practices (Staw and Epstein, 2000).

With this definition in mind, it is useful to contrast management innovation with two related concepts - process innovation and management fashion. *Process innovation* refers to the development of new ways of managing the primary value-adding activities (i.e. those involved in resource transformation) of the firm with a view to making them more efficient or effective. Management innovation, in contrast, is focused on the *supporting activities* that surround the resource transformation process, and which add value to it. Some innovations, however, particularly those stemming from operations management, are really hybrids between management innovation and process innovation. Enterprise Resource Planning is a good example of a hybrid; it affects the production process directly, but it also changes the way resource transformation is *managed*. Likewise, Total Quality Management affects the supply and transformation of inputs, but it also has enormous implications for the way the

firm is organized. There is therefore a continuum between process innovation and management innovation, with certain innovations portraying characteristics of both.

A *management fashion* is a relatively transitory collective belief that a management technique leads to rational management progress (Abrahamson, 1996: 257). As described by Abrahamson, certain management innovations *become* management fashions if they get taken up by a significant number of “management fashion users”; other management innovations either die out or remain in use in a relatively small number of firms. It is also important to note that management fashions do not arise solely from management innovations. For example, Abrahamson (1996) discusses specific analytical tools (such as five-forces analysis or critical path analysis), as well as broader management rhetorics (such as “learning organization”) as being susceptible to management fashion, yet neither fits within our definition of management innovation.

Prior Research

Having established the boundaries around the term management innovation, it is useful to briefly summarize the prior research on the subject. Broadly speaking, research has taken place in three areas. The first is the process of diffusion of a particular management innovation across a population of firms. There are too many studies in this genre to provide a definitive list, but examples include the diffusion of the M-form (Fligstein, 1985; Palmer, Friedland et al., 1987), the matrix structure (Burns and Wholey, 1993), ISO 9000 (Guler, Guillén et al., 2002), total quality management (Westphal, Gulati, and Shortell, 1997; Zbaracki, 1998), and quality circles (Abrahamson and Fairchild, 1999). Research has also looked specifically at the process of diffusion of certain management innovations across country boundaries (Kogut and Parkinson, 1993; Lillrank, 1995; Guler, Guillén, and MacPherson, 2002). The focus of this research is primarily on understanding patterns of diffusion and the forces shaping those patterns (Abrahamson and Fairchild, 1999).

The second major area of prior research – and the one closest to our interest here – has examined the conditions under which management innovation takes place. Some of this work is historical in its orientation, in that it attempts to discern the social and economic conditions under which a particular management innovation took root (Chandler, 1962; Stjernberg and Philips, 1993; Abrahamson, 1997; Pezet, 1997). Other studies address contemporary examples of management innovation, though typically with a focus on single

case studies rather than the broader issues emerging from those studies (Tichy and Sandstrom, 1974; Whitsett and Yorks, 1983; Berggren, 1994; McCabe, 2000). There is also some work on administrative innovations, albeit fairly straightforward administrative innovations, that attempts to predict the presence of these innovations in libraries and hospitals (Kimberly and Evanisko, 1981; Damanpour, 1987). Various individual, firm level and environmental predictors were found to have a bearing on administrative innovation, though cross-organizational differences account for the bulk of the variation in implementation of administrative innovations (Kimberly and Evanisko, 1981).

Finally, there is a small body of literature concerned with the link between management innovation and technological innovation. This research has shown that management innovation often triggers technical innovation, but the process of invention and uptake is typically slower (Kimberly and Evanisko, 1981; Damanpour and Evan, 1984; Georgantzas and Shapiro, 1993; Boer and Daring, 2001), which could be related to differences between these types of innovations. In this research stream it has also been observed that there is no taxonomy of management innovations as yet (Alänge et al., 1998).

This brief review suggests a couple of important observations. One is the relative lack of research on management innovation per se – the different forms it takes, and the process by which it takes place in organizational settings. The other is the lack of an overarching framework to help make sense of the

process of management innovation, or the broader evolution in management innovations over time. In the remainder of this paper we begin to address these gaps in prior research.

Types of Management Innovation

The review of the literature and the examples provided suggest that management innovation is a complex and multi-faceted phenomenon. Management innovations can be enterprise-wide in their scope (e.g. Total Quality Management) or restricted to a single functional area (e.g. employee assessment centers). There is in addition a hierarchical element to management innovation, in that the higher-order innovations such as welfare capitalism, led to many lower-order innovations such as job evaluation, merit pay, profit-sharing pension plans, employee health cover and vacations (Abrahamson and Fairchild, 1999; Kossek, 1987). And as our definition suggests, management innovations can encompass changes to management practice, work processes, and the way organizations are structured.

As a first step in developing our understanding, it is therefore useful to develop a typology of management innovations. Such a typology allows us to identify the primary dimensions along which management innovations vary, and it provides the first steps towards theory development (Doty and Glick, 1994). We propose two key dimensions that both capture a large portion of the variance in the different types of management innovations, as well as offering implications

for firm-level competitive advantage.

The first dimension refers to the “depth” of the management innovation into the firm’s belief system or culture. The surface elements of the organization are its management practices. These are underpinned by its processes and structure, which in turn are underlain by a set of management principles or beliefs. Some management innovations are shallow: they involve changes to management practice that build on or refine existing processes, structures or beliefs. MRP II, for example, involved relatively incremental changes to management practices in comparison to MRP I. Other management innovations are very deep: they challenge the current way of working, and they require the firm to rethink its fundamental principles. The M-Form structure, for example, was a deep management innovation because it required executives at the top of the organization to give up power over operational decision-making, and it required many employees to work in business units, rather than in central functions. This distinction between shallow and deep management innovations is analogous to the distinction between incremental and radical innovations in the technology innovation literature. Incremental innovations tend to reinforce existing capabilities and ways of working, while radical innovations often require organizations to develop entirely new capabilities and perspectives (Nelson and Winter, 1982; Tushman and Anderson, 1986; Christensen, 1997).

The second dimension concerns the “breadth” of the management innovation,

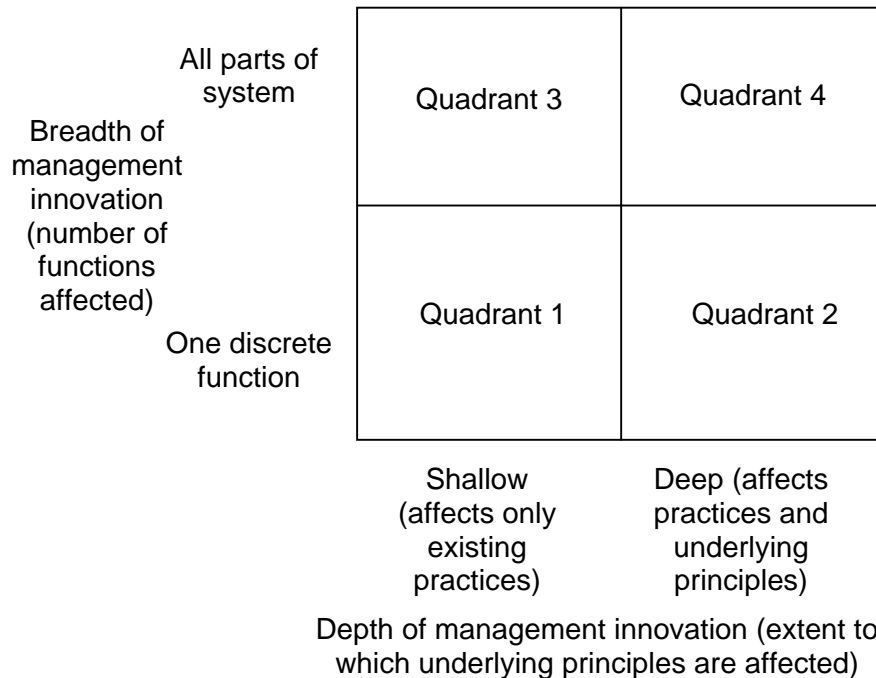
that is the number of functions of the organization that are affected by it. The innovation can be focused in one discrete part of the system (e.g. employee assessment centres are specific to the Human Resource function), or it can affect multiple parts of the system and the linkages between them (e.g. Business Process Re-engineering cuts across many functions). As we will argue, this is an important dimension because it influences both the degree of risk and complexity in implementing the innovation in the first place, and also the difficulty that other organizations will have in adopting the innovation if it proves to be successful. Succeeding in the creation of broad management innovations requires bringing together a wide range of specialists and making these specialists work together.

If these two dimensions are juxtaposed, it is possible to identify four generic types of management innovation (figure 1). As usual, the intention with this framing is to clarify what the polar positions in the matrix look like, rather than to suggest that all management innovations fit cleanly into one box or another. In reality, both dimensions are likely to be continuous scales, and it is an empirical question as to how the actual population of management innovations varies along them. Below we provide brief examples of management innovations in each quadrant of the matrix. Before doing so, it should be acknowledged that in using well-known examples, there will inevitably be differences in interpretation that could cause some readers to disagree with the labels we put on them¹.

¹ There is in fact no generally agreed upon list of management innovations, although there are several partial listings like those of Carson, Lanier, Carson, and Guidry (2000), Kossek (1987), Pascale (1990),

However, it should be clear that what is important here in this discussion is the validity of the overall framework, not the specific examples.

Figure 1. A Typology of Management Innovation



Quadrant 1 consists of management innovations that affect management practice in a single functional area. Examples of this would include employee assessment centers and benefit schemes (in human resources), quality circles (in operations), scenario planning (in strategy), and share repurchase schemes (in finance). Such innovations are often highly significant in terms of their impact on the firm, but their limited breadth makes them relatively straightforward to implement, and they typically require limited behavioural change on the part of employees.

and Rigby (2001). We attribute this to a lack of understanding of the principles of management innovation and perhaps too much focus on how these principles are expressed in single innovations.

Quadrant 2 consists of management innovations that affect deep-seated management principles in a single functional area. An example of this is Shell's "Gamechanger" program (Hamel, 2000) which provided seed funding for new ventures within Shell's Exploration and Production division. Rather than requiring potential entrepreneurs to seek funding through their line organization, Gamechanger provided them with access to an alternative pot of money, with funding decisions made by mid-ranking managers. We view this as deep because it overturned many of the traditional principles of resource allocation in Shell: proposals were judged by peer managers, very quickly, and with very few strings attached, whereas traditionally proposals were judged by top executives, rather slowly, and with lots of constraints. However, the innovation took place in one single functional area, so it was relatively straightforward for a small group of individuals to put in place.

Quadrant 3 consists of management innovations that affect management practice across a number of functional areas. One example of this type is the Balanced Scorecard, which was popularized by Harvard Professor Bob Kaplan in the 1990s but was actually implemented first in Advanced Micro Devices in 1986 (Stata, 1989). The Balanced Scorecard is a management accounting tool that keeps track of performance on four dimensions (financial, customer, internal processes, learning) so that top managers have a more complete view of how the firm is performing. Its implementation requires changes across all the different functions of the firm, but these changes are at the level of everyday

practice, rather than in terms of the underlying belief system and principles of the firm.

Finally, quadrant 4 consists of management innovations that affect deep-seated management principles across a number of functional areas. Total Quality Management (TQM) is perhaps the best example of this type. If we view Toyota's production system as the definitive example of TQM, it permeated the entire organization from supply chain to manufacturing to human resource management. It was also a deep innovation, in that it gave individuals on the production line responsibility for problem solving and process improvement, which was a radical departure from the principles of mass production.

This framework serves two useful purposes. First, it helps us to classify the vast number of management innovations into meaningful sub-categories. Second, it provides a way of making sense of the potential linkage between management innovation and firm-level competitive advantage. The resource-based view of the firm (RBV), which is probably the dominant conceptual paradigm in the field of strategic management today, characterizes the firm as a bundle of heterogeneous resources, and specifies the conditions under which these resources can potentially lead to sustainable competitive advantage. In simple terms, resources should be rare, valuable, non-substitutable and hard-to-imitate if they are to provide the basis for competitive advantage (Barney, 1991). Key attributes that make a resource hard to imitate are the existence of time

compression diseconomies in the development of the resource (Dierickx and Cool, 1989), ownership of enforceable property rights (Lippman and Rumelt, 1982), complexity, particularly with regard to social resources such as trust and reputation (Barney, 1991), and causal ambiguity, which refers to the ambiguous linkages between a set of resources and competitive advantage (Lippman and Rumelt, 1982; Reed and DeFillippi, 1990).

Using the language of the RBV, management innovation is a process that results in the development of new firm resources (and capabilities). These resources are likely to be rare (because they were developed through innovation) and if the innovation is successful, they are likely to be valuable. The critical question, then, is the extent to which the resources developed through management innovation are susceptible to imitation (cf. Godfrey and Hill, 1995). Considering the two dimensions of figure 1, we would argue that *broad* management innovations will exhibit high levels of causal ambiguity, because of the scope and complexity of the linkages between the parts of the system, while *deep* management innovations will be characterized by time-compression diseconomies on the part of would-be imitators, because of the deep-seated nature of the change in operating principles they entail. By way of example, Toyota's lean production system is both broad (in terms of the number of functional areas it covers) and deep (in terms of its impact on the firm's underlying management principles). Despite the best efforts of competitors such as Ford and GM, it has not been effectively imitated and is still thought by many

to form the basis of Toyota's competitive advantage in the auto industry.

In sum, broad and deep innovations appear to be the type of management innovation that are most promising from the perspective of sustainable competitive advantage.

Proposition 1. The greater the breadth (in terms of functions covered) and depth (in terms of its impact on the underlying management principles of the firm) of the management innovation, the greater its potential impact on firm competitive advantage.

CAUSES OF MANAGEMENT INNOVATION

The second part of this paper addresses the question: what is the process through which management innovations emerge? As the review above indicated, research has tended to shy away from this question, perhaps because it is very difficult to answer, and instead has focused on the patterns and processes of innovation diffusion, generally by investigating diffusion of one management innovation at a time. Our purpose here is to offer a first attempt at conceptualizing the early-stage development of management innovation, with a view to encouraging further conceptual and empirical work in this area.

Limitations to the market for management fashion

In this section we develop a theoretical model of the process of management innovation. Building on Abrahamson (1991, 1996; Abrahamson and Fairchild, 1999) and others (Benders and van Veen, 2001; Carson, Lanier, Carson, and Guidry, 2000; Zbaracki, 1998), the starting point for our investigation is the notion of a market for management practices and ideas, with suppliers on one side and users on the other. The suppliers include gurus, mass media organizations, consultants and academics. They supply both unproven management ideas and tried-and-tested management techniques/practices, with academics typically focusing on ideas, and consultants typically focusing on techniques/practices. It should be noted that we do not follow Abrahamson (1996) in depicting these actors explicitly as “management fashion setters”. While they often fulfill this function, we prefer to develop a more general model in which the supply of ideas and practices may or may not result in new management fashions emerging. This should become clearer as the argument develops.

The users are the organizations (typically businesses) who are seeking to further their goals by developing, adapting, or adopting new management practices. These organizations face a complex set of pressures as they strive to further their goals. As argued by Abrahamson (1996) they are likely to adopt management practices that are perceived as progressive, in order to conform to the norms of rationality within their institutional field. At the same time they are

also seeking to respond to the economic and technical pressures to improve their performance, so they are likely to adopt management practices that meet their criteria for performance improvement. However, users do not naively consume whatever ideas or practices are supplied to them (Benders and van Veen, 2001). Moreover, because of the complexity and ambiguity of the relationship between new management practices and performance, these twin pressures will not necessarily be in alignment with each other, and it is an empirical question as to which ends up dominating.

The demand for new management ideas and practices is driven by a perceived shortfall between the organization's current and potential performance (Barley and Kunda, 1992; Cyert and March, 1963). Individual managers in an organization identify a specific problem vis-à-vis their existing management practices. They engage in a problemistic search process that begins with existing contacts. And once a satisfactory solution has been found, the search is terminated and the solution is implemented. In cases where the individuals choose to look outside their own organization for a solution, they are confronted with what Abrahamson (1996) refers to as a "management fashion-setting community", who both shape the belief systems of users as to what is rational, and peddle their particular solutions to users problems. If for example, a human resources manager says she needs a new performance evaluation system, she will find hundreds of consultants, gurus, and academics who believe they can help to solve her problem.

When faced with so many choices, how do individuals choose which one to adopt? Again, Abrahamson (1996) provides a clear answer: individual users will tend towards adopting the solution they perceives as progressive and legitimate. Constrained by both the pressure to conform to the norms of rationality of the organization's institutional field, and by the enormous costs of evaluating multiple competing offers, the usual course of action is to adopt the practice which appears to be the most progressive and legitimate. This is the process through which management innovations become management fashions.

There is however a problem with this argument, namely that it does not help us to understand the *source* of the management practice that gets adopted as a management fashion. Abrahamson (1996) argues that management innovations emerge when fashion-setters respond to emerging forces external to the fashion-setting market. However, he also observes that fashion setters do not develop their innovations in a laboratory setting. Rather, they typically observe and distill "best practice" as observed in the field, and package that as a new idea or practice. In other words, most if not all management innovations emerge in organizations through a process of internal experimentation. The key issue, then, becomes one of understanding *why certain individuals choose to solve their problems through internal experimentation rather than by purchasing one of the many solutions offered by consultants, gurus, or*

academics. The management fashion process depends on users buying the solutions offered by “fashion setters”. But if we are to understand where management innovations come from, we have to explain the opposite behaviour: the decision by individuals in an organization to deviate from the norms of rationality of their industry, and to potentially “appear irrational and retrogressive” (Abrahamson, 1996: 263).

Why would an organization choose to create its own management practice, rather than adopt one that is already proven and accepted? There are several scenarios where this behaviour would be expected. One is where the problem facing the organization is genuinely new, or framed in such a way that the solutions proposed by fashion setters are unacceptable. Under such conditions, the organization would have no choice but to develop its own solution. In the early 1970s Shell had to develop scenario planning and needed to incorporate the outcomes of various scenarios into its decision-making because hitherto stable oil prices suddenly started swinging wildly. A second scenario is where the problem is not new, but the criteria by which decision makers evaluate the possible solutions on offer are sufficiently rigorous that the existing solutions fail to meet acceptance. Again, the organization would then be left with no choice but to develop its own solution. For example Activity Based Costing did not address a particularly new problem but did provide a more effective means of analyzing products that were largely dependent on indirect costs. A third scenario is one in which the pressure to conform to external norms is *less* than

the internal pressure to adopt an existing internal practice or try something new. This is commonly seen in multinational corporations, where the foreign subsidiary will often adopt the practices of the parent company despite evidence that those practices are not currently legitimate in the host country (Rosenzweig and Singh, 1991). There are also certain firms that have developed sufficiently strong cultures of their own, and track records of success in performing at a high level, that individuals feel comfortable developing their own solutions to problems rather than seeking out legitimate existing solutions from third parties. GE and Procter and Gamble, for example, both have long records of management innovation.

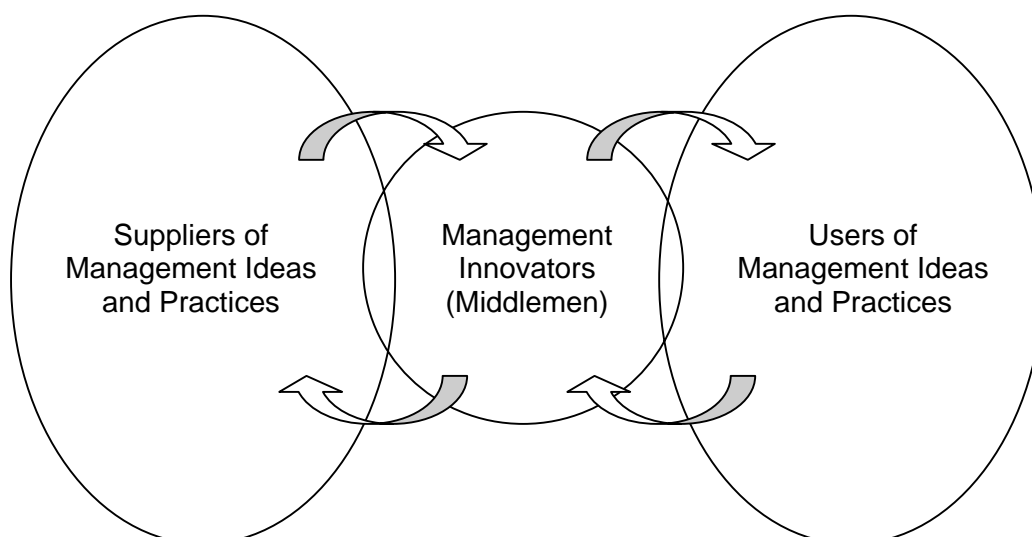
There are, in other words, a number of logical explanations for why an organization would choose to break free from the fashion-following process described by Abrahamson (1996) and instead choose to develop its own management innovation. To better understand *how* this process works, we need to extend Abrahamson's model to incorporate *three* sets of actors: (1) the suppliers of management ideas and practices, (2) the users of management ideas and practices, and (3) the middlemen who broker and arbitrage between the suppliers and users of ideas and practices (see figure 2 below), who we call *Management Innovators*. The novelty of this model lies in the entrepreneurial role played by these middlemen in driving management innovation. The role of the middleman in many markets is simply to bring suppliers and users together. In the market for management practices we argue that the middleman is also an

entrepreneur: he or she will pick up ideas and practices from suppliers, and will extend, reshape and adapt them so that they are acceptable and appropriate to the needs of users. These management innovators can be employees of the user organization or they can be independent, but by their nature they are boundary spanners who are able to bridge between the suppliers and users of management practices. Davenport, Prusak, and Wilson (2003) refer to these individuals as “idea practitioners.”

The market for management practices

Let us now develop our model of the market for management practices, as a means of elucidating the process by which management innovations emerge. The market has three sets of players: users, suppliers and middlemen.

Figure 2. A Model of Management Innovation



Users of management practices

Users are individuals in organizations who have responsibility for defining the practices, processes and structures adopted inside the organization. Users are boundedly rational (Cyert and March, 1963) and when faced with a performance shortfall in the activities they are responsible for they will engage in a problemistic search process to close their performance gap. In the context of this paper, the development of new practices, processes or structures are all potentially relevant solutions to the problem the user is attempting to solve.

As observed earlier, users are portrayed as highly susceptible to pressures to conform, and they are likely therefore to adopt management practices that are thought to be rational and progressive (Abrahamson, 1996). If this is so, the critical question then becomes to understand the conditions under which users are both willing to shed their orthodoxies and able to break free from the pressure to conform. We suggest there are two key factors.

The first is the presence of genuinely novel problems to solve. Every organization faces its own unique task environment, but the extent to which that task environment is itself in flux will have a significant impact on the likelihood that the organization will have to develop a new practice, process or structure. Many organizations engaged in management innovation during the dotcom boom because it presented them with an array of new problems that the suppliers of management ideas and practices did not have ready

answers to. And certain organizations, including Google and eBay, have broken new ground in terms of their management philosophy or business model, so they have faced a larger number of novel problems that required management innovation to solve.

Many organizations, in contrast, face relatively placid or stable task environments, so the likelihood that they will engage in management innovation is much lower. However, the social nature of change in large organizations makes it possible for an executive to create the need for management innovation through the approach he/she uses to frame the problem. For example Lars Kolind at Oticon and Ricardo Semler at Semco both faced relatively stable task environments, but they were able to push through dramatic innovations in the way their organizations were run, in part through the way in which they framed the problems they faced (Lovas and Ghoshal, 2000; Semler, 1992).

Proposition 2. The greater the perceived novelty of the problems facing the organization, the greater the potential for the organization to engage in management innovation.

The second key attribute of the user organization is the rigour of its approach to evaluating options, making decisions, and rewarding or punishing executives on the basis of those decisions. As discussed earlier, one of the

problems with implementing new management practices is that their effect on overall performance is extremely hard to measure. In comparison to a product or technology innovation for example, a management innovation will typically affect performance in an indirect way, and over a long time-frame. As a result, criteria based around legitimacy and the appearance of progress are likely to be more heavily weighted than criteria that focus narrowly on the technical or economic value of the innovation.

However, while it is clearly difficult to evaluate a potential management innovation against alternative approaches, and to assess its contribution to economic performance, it is not impossible. Some organizations take a more methodical approach to making complex and ambiguous investments of this type than others, and our argument here is simply that those organizations that take the evaluation process seriously are more likely to engage in management innovation. In other words, rather than accept an “off the shelf” solution to a problem, as put forward by a consulting company or as used by a competitor, the organization will actively consider the option of implementing its own solution to that problem. And the more explicit and thorough the criteria by which the decision is made, the greater the likelihood that the end result will sometimes be an internally-generated management innovation.

Proposition 3. The more rigorous the decision-making process in the organization, and the greater the level of individual accountability for their

decisions, the greater the potential for the organization to engage in management innovation.

Supply of management ideas and techniques

The supply side of the market for management ideas and techniques includes consulting firms, business school academics, mass-media publications, and gurus (Abrahamson, 1996). Organizations are exposed to a vast range of ideas, insights, and practices that they might potentially adopt, through the journals they read, the conferences they attend, and the meetings they have with individuals in this group.

In Abrahamson's (1996) model of the management fashion process, the market works fairly efficiently, by which he means there is a ready supply of relevant and appropriate offerings from which management fashion users can buy. In our model, the market for management techniques will sometimes fail, by which we mean the offerings of suppliers do not readily match the needs of users. This does not mean the offerings put forward by suppliers of management ideas and techniques are irrelevant or wrong; rather, it means some adaptation or innovation is required before those ideas or techniques can be implemented in the user organization.

To make sense of the process of adaptation, it is important to distinguish between suppliers of management *ideas* and suppliers of management

techniques. As noted earlier, an idea is a conceptual breakthrough that may (or may not) lead to the development of new practices. For example “Theory Y” was a management idea, which led to innovative practices around job enlargement, performance-related pay, and employee assessment. A management idea is fungible – it can readily be adapted to any number of different contexts. A management technique, in contrast, is relatively clearly defined and will often work only in a certain organizational context. Suppliers’ offerings fall anywhere on the spectrum from pure conceptual idea through to detailed operational techniques. Most academics and gurus operate on the idea end of the spectrum, and most consultants operate on the technique end.

What is the best combination of suppliers’ ideas and techniques for management innovation to occur? We have already established that management innovation does not occur in a vacuum. Every innovation builds to some extent on past ideas and past practice, typically in combination. However, our expectation building on the foregoing argument is that exposure to management *ideas* will provide a more fertile environment for management innovation than exposure to *techniques*. The logic here is fairly straightforward: executives are boundedly rational in their decision making processes, and often do not have the training they would need to make sense of the theoretical underpinnings to the techniques put forward by consultants or other suppliers. Thus, when confronted by a number of alternative techniques, executives are likely to simply adopt one of the alternatives on offer. Furthermore the suppliers

of techniques will be keen on selling their specific technique with as little adaptation effort as possible. In contrast, when exposed to an array of new management ideas, executives are forced to develop their own application of that abstract idea to their practical needs. This involves, by necessity, a certain amount of management innovation.

Proposition 4. The greater the exposure of individuals in the organization to new management *ideas*, and the lesser their exposure to new management *techniques*, the greater the potential for the organization to engage in management innovation.

Middlemen: The Management Innovators

At the heart of our model sit the management innovators, who broker and/or arbitrage between the suppliers and users of management practices. We define a management innovator as an individual or small group of individuals who take the initiative to experiment with a new management practice, process or structure in a way that appears arational or retrogressive to those around him/her. In other words, rather than choosing to adopt the rational and progressive practice that would be expected in Abrahamson's (1996) world, the management innovator deliberately does something different. By definition, such an act is risky and uncertain in its outcome.

The role of the management innovator in our model is to bring the two sides of the market together. He or she understands both the new management ideas and practices being put forward by suppliers and the real-world problems faced by users, and is in a position to make connections that others cannot. The role requires a wide knowledge of both sides, an ability to create novel combinations of ideas and practices from the supply side, and an ability to contextualize and apply existing ideas and practices to the specific needs of users.

Unfortunately, very little is actually known about the work of management innovators. Of the few case studies that have been written, most focus on the chief executive of the company as the management innovator, such as Alfred P. Sloan who famously created the M-Form organization at General Motors, or Lars Kolind who developed the Spaghetti Organization at Oticon. Our suspicion, however, is that such cases are actually rather rare, and that management innovators are more commonly found on the fringes of large organizations as boundary spanners between the worlds of business, consulting and academia. Davenport, Prusak, and Wilson (2003), for example, describe a number of these individuals in detail. These people are typically senior staff employees working in organizational development, corporate strategy, or information technology. They see their role as identifying new trends in management thinking, and looking for ways of applying them inside their organizations. One could also imagine that management innovators sit in a number of different positions: some could be independent consultants who

help users to pick up on and experiment with new ideas, as was the case with Frederick W. Taylor and the development of Scientific Management. They could also be line managers inside large organizations who, for whatever reason, choose to experiment with ideas they have picked up elsewhere.

There is clearly a need for additional research to be done on the detailed roles and behaviours of management innovators, but for the purposes of this paper it is possible to make some progress by identifying the conditions under which these individuals are likely to emerge. In other words, rather than simply argue that the presence of management innovators increases the likelihood of management innovation (which is tautological), we can identify some of the attributes of user organizations that are likely to be conducive to the emergence of management innovators.

Two attributes in particular are likely to be important. One is a culture of openness to diverse ways of thinking. Some organizations operate under a strong dominant logic (Prahalad and Bettis, 1986) that filters out deviant or alternative ways of working; others allow the coexistence of many different practices and processes. The latter will clearly be more supportive of management innovators. The second is a reasonable degree of organizational slack (Bourgeois, 1981) to accommodate the process of experimentation and adaptation involved in developing a new management practice. Of course, too much slack is also known to be detrimental to performance for a number of

reasons, but for the purposes of understanding the likelihood of an organization engaging in management innovation, it is likely that slack will help because management innovation is an activity that relies on exploration much more than it relies on exploitation. Thus:

Proposition 5. The more open the culture of the organization to new ways of thinking, and the higher the level of organizational slack, the greater the likelihood that management innovators will emerge, and the greater the potential for the organization to engage in management innovation.

Finally, it is worth considering how these three elements fit together. Propositions two to five above all represent facilitating conditions that are likely, on average, to be associated with management innovation. However, for management innovation to actually transpire these conditions have to come together at the same time, and there has to be –in addition- some sort of “spark” to set the process off. Again, empirical research is needed before we can fully understand the trigger process, but it is useful at this stage to make the observation that all three elements (users, suppliers, management innovators) have to be present for management innovation to occur. Without the management innovators (the middlemen) the user is likely to end up with an ill-fitting solution to its problem that has not been appropriately contextualized to its needs; without suppliers of novel management ideas, the user is likely to end up with an incremental improvement to its existing practice rather than an

innovative one; and without users who are able to frame their problems there is unlikely to be any change at all – instead, the status quo will be perpetuated, or the “user” will simply follow management fashion without assessing whether that is appropriate or not. Thus:

Proposition 6. For management innovation to transpire, all three sets of facilitating conditions (problem-focused and disciplined users, idea-oriented suppliers, and a culture that supports management innovators) have to come together around a particular problem facing the organization.

A RESEARCH AGENDA

In this paper we discussed first what management innovation is and then put forward a way of categorizing the many different types of management innovation. We then developed a model of management innovation to identify the conditions under which it takes shape. However, this paper just scratches the surface of an important and understudied topic in the field of management, so in this final section we would like to sketch out some of the directions we believe further research should take to develop our understanding of management innovation. Three broad areas, in particular, deserve careful attention.

The process of management innovation

A central theme in this paper has been a concern that the origins of management innovation are not well understood. Although the fashion and diffusion literature has repeatedly noted how management innovations go through a series of adaptations as they diffuse across and between populations (e.g. Strang and Kim, 2004) it has not attempted to describe in any detail how such adaptations take place at the organizational level. Even more worrisome, most of the fashion and diffusion literature treats the initial creation of management innovations as a black box and as something that occurs in the ‘organizational laboratories of lone creative geniuses like gurus’ (Clark, 2004). This clearly raises the need to gain an increased and more in-depth understanding of the processes through which organizations create management innovations. We have here attempted to start unpacking these processes. By developing our theoretical argument in the way we have, it has been possible to focus our attention on the role of the “management innovator” or idea practitioner in driving management innovation, but this still leaves an enormous gap in our knowledge with regard to the roles, behaviors, and motivations of these individuals.

Future research should give this issue attention as a matter of priority. Several specific questions are suggested. For example, what combination of personal traits, theoretical and practical insights, emerging problems and organizational capabilities tend to produce novel and valuable advances in management

practice? Why do some management innovations gain immediate traction while others do not (if, indeed, this is the case)? And in what respects is the process of management innovation different from the process of product or technological innovation?

Understanding the consequences of management innovation

A second set of issues that we gave relatively little attention to in this paper is the consequences of management innovation. We argued in Proposition one that certain types of management innovation were more likely to drive competitive advantage than others, but this argument remains open to empirical testing, and the current evidence to support it is anecdotal at best. The consequences of management innovation are complex because so many different stakeholders are potentially affected. It is necessary to separate out at least three different sets of consequences – the impact of management innovation on the performance of the innovating firm; the impact on the performance of those organizations that subsequently adopt the innovation; and the benefits of management innovation to society as a whole, in terms of improvements such things as productivity and employee satisfaction. In the field of management innovation per se, it has been claimed that later adoptions of existing techniques do not result in significant improvements in performance (Staw and Epstein, 2000). This should not be a surprise because even if such techniques are valuable for the initial creator, they will at best put later adopters at competitive parity with those firms that first introduced them. In addition the

criticism has been levied towards neo-institutional accounts of diffusion that researchers ought not to focus on the media hits or citation counts that management innovations generate but instead on real implementations, as these may be decoupled from the rhetoric surrounding the innovations (Benders and van Veen, 2001; Westphal and Zajac, 2001). This raises the question whether performance improvements can be found when implemented innovations, rather than intended innovations, are the independent variable. Of course this issue needs ultimately to be solved through empirical testing.

The more interesting issues, from our perspective, are the long-term improvements in performance that may be gained by organizations that are consciously innovative vis-à-vis their management practices, and the societal benefits that accrue from the development of new and better ways of working. Thus, specific questions that might be addressed include: Do some management innovations take much longer to yield dividends than others (and if so, why)? Do some management innovations spur waves of related innovation (and if so, why and how does this happen)? How often, and under what circumstances, does management innovation create firm-specific competitive advantage? And are there some companies that have proven themselves to be serial management innovators? If so, how did such a capacity evolve in these firms?

The role of management scholars in furthering management innovation

Finally, and perhaps most important of all, it is worth considering the role of management scholars in influencing the process of management innovation. To what extent have management scholars helped to invent new management practices in the past? And how might that role be better supported in the future? Answers to these questions are not just relevant to organizational theorists. We believe management innovation is one of very few topics with the potential to unite the various functional areas upon which business schools are built and around which the academic business research community is organized. As we have shown through the examples presented here that ranged from organizational behavior through operations management and accounting to strategic management, management innovation transcends the barriers that have long existed between these areas. Management innovation, then, presents scholars of different backgrounds with a cross-functional agenda of substantial magnitude.

The history of management thought documents many examples of management innovations that were stimulated, and even led, by management scholars. Individuals such as Elton Mayo, Frederick Herzberg, Elliot Jacques, Kurt Lewin and Ed Schein became known not just for their groundbreaking ideas but also for their ability to put those ideas into practice. However, the level of influence scholars have had on management innovation in recent years

appears to have declined, while other parts of the “fashion setting community” have become more influential. One can still identify recent cases where the role of the management scholar was instrumental in shaping an innovation – examples include Robert Kaplan’s elaboration of the Balanced Scorecard, Thomas Davenport’s work on business process re-engineering, and Gary Hamel’s work on methodologies for business innovation. However, these are the exceptions rather than the rule, and in all three cases these were boundary-spanners operating at the interface between theory and practice rather than central members of the academic community.

While it is beyond the scope of this paper to develop this line of thinking very far, our belief is that management scholars need to become more active in shaping the process of management innovation. Like Abrahamson (1996) we feel scholars need to take an active part in shaping the management agenda. We would also go further, and suggest that scholars need to develop a more experimental mode of interaction with the organizations they study. There is a great deal of recent literature contrasting the descriptive and objective “Mode I” approach to academic research with the interactive and more subjective “Mode II” approach (Van de Ven and Johnson, 2005; *British Journal of Management* special issue). We subscribe fully to the need for more Mode II research in which the objective is at least in part to help organizations to develop their own management innovations. Clearly such an approach to research challenges many of the traditional orthodoxies of the profession, and it involves new

methodologies that are unproven and hard to implement. But it offers the potential for management scholars to reclaim their previously influential role as creators of both new *and* useful management knowledge.

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