

# Management innovation

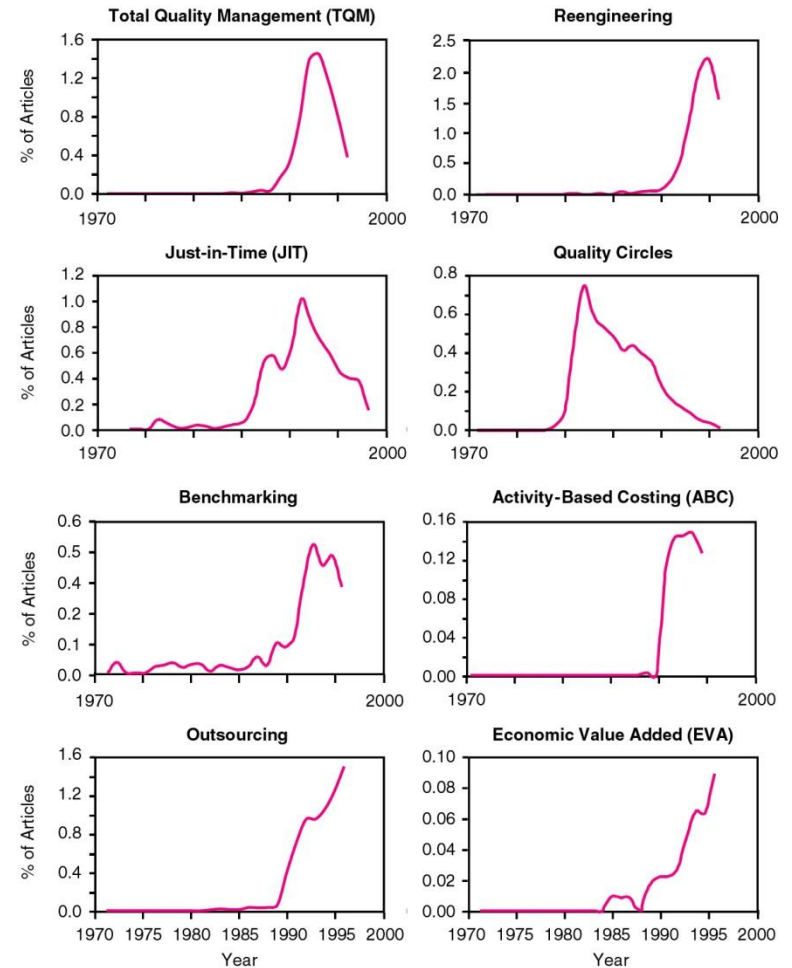
## ▶ Organizational structure

- Joint-stock company
- M-form corporation
- Franchise system
- Venture-funded startup
- Network organization

## ▶ Management practice

- Examples
- Problem of the quick fix
- “Hawthorne effects”

## ▶ Imitation, diffusion, and competitive advantage



# Management innovation II

## ▶ The demand for management innovation

- Rational response to obsolescence, e.g.
  - ▶ Change in technology
  - ▶ Increasing global competition
- Examples: TQM, reengineering, JIT, outsourcing
- Alternative explanation: experimentation and learning

## ▶ Why management innovation often fails

- Marketing
  - ▶ inappropriate expectations
  - ▶ quality is not free
- Does the expected rate of return justify the investment associated with changing the organization?
- Underestimating costs of change
- Failure to consider other aspects of organizational design

# Management innovation III

## ► Takeaways

- If it ain't broke, don't fix it
- One size doesn't fit all
- Make sure to balance other elements of organizational design
- Focus on one thing at a time



# Review questions

- ▶ Distinguish between “comparative static” and “dynamic” explanations for organizational change. What does each assume about the “optimality” of firm behavior?
- ▶ Name some important aspects of leadership.
- ▶ Define and explain
  - Nash equilibrium
  - Coordination game
  - First-mover advantage
  - Credible commitment

# Why innovation matters

- ▶ **Innovation:** something new, or the process of making new things
  - Technological (new products or production methods)
  - Managerial/organizational
- ▶ **Innovation and the firm**
  - Innovation as a source of competitive advantage
    - ▶ Schumpeter: most important form of competition not price or quantity, but new products, new technologies, new forms of organization
  - Innovation and knowledge
- ▶ **Innovation and the economy**
  - Short-term fluctuations versus long-term economic growth
  - Capitalism and creative destruction

# Schumpeter and creative destruction

The opening up of new markets and the organizational development from the craft shop and factory to such concerns as US Steel illustrate the process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. . . . [The process] must be seen in its role in the perennial gale of creative destruction; it cannot be understood on the hypothesis that there is a perennial lull. (Schumpeter, *Capitalism, Socialism, and Democracy*, 1942)



Joseph A. Schumpeter  
(1883–1950)

# Broader context: static and dynamic issues in strategy

## ▶ Static issues

- Profit maximization (neoclassical model of the firm)
- Optimal moves in a strategic game
- Optimal firm boundaries and internal organization

## ▶ Dynamic issues

- Changing firm boundaries (M&A) and internal organization
- Introducing new products, markets, and production methods
- Changing management practices

## ▶ Entrepreneurship as dynamic strategy



# Concepts of innovation

## ▶ Innovation versus invention

- Schumpeter's definitions of economic innovation

- ▶ Introduction of a new good or a new quality of a good
- ▶ Introduction of a new method of production
- ▶ Opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered
- ▶ Conquest of a new source of supply of raw materials or half-manufactured goods
- ▶ Carrying out of the new organization of any industry, like the creation of a monopoly position or the breaking up of a monopoly position

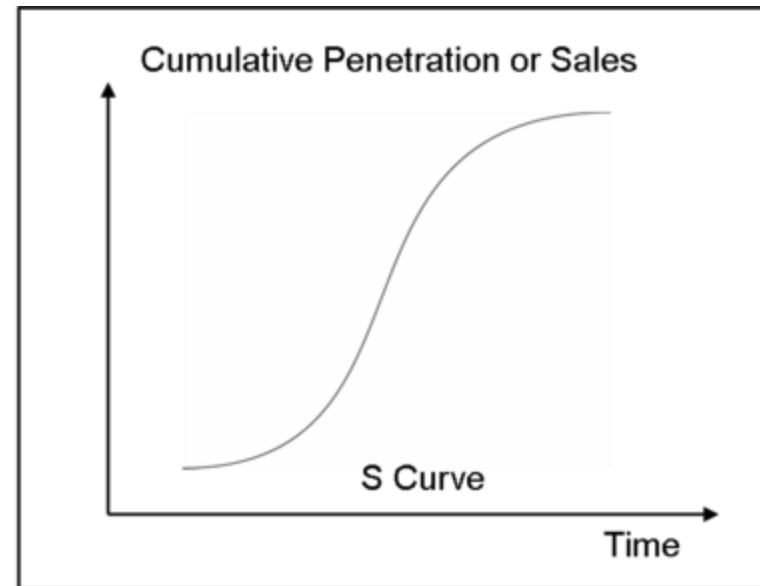
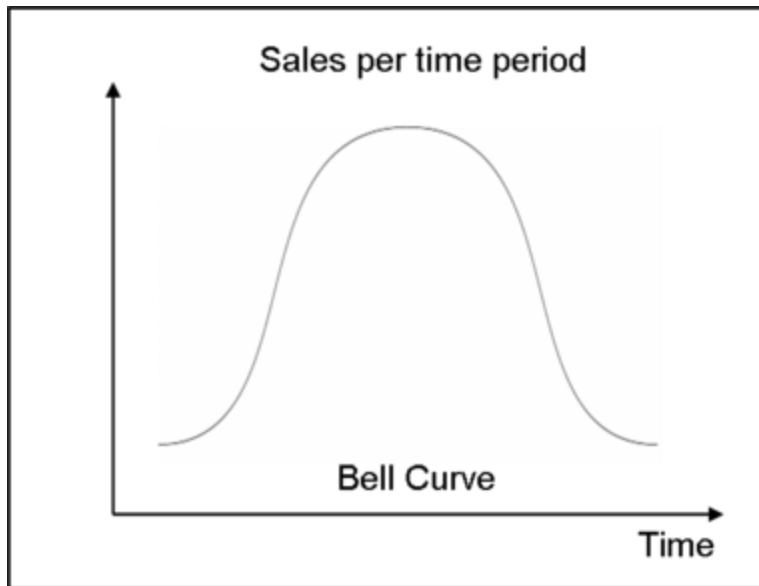
## ▶ Incremental versus systemic/disruptive innovation

- Strategic implications

## ▶ Diffusion of innovation (next slide)

# Diffusion of innovation

- ▶ Rogers's (1962) S-curve



Shape depends on number of initial adopters and the speed of later adoption

# Technological innovation

## ▶ Benefits

- New or improved products, new markets, leading to higher revenues
  - ▶ **Spillover problem:** note on market structure and intellectual property
- Lower production costs

## ▶ Costs

- R&D investment
- Transition costs
- Potential loss of scope economies (more important, obviously, for multiproduct firms)
- Replacement effect

