Innovation and Change
— DISCUSSION QUESTION —

Innovation Culture
Week 2

Matthias Nott

Contact	:	m.nott@liverpool.ac.uk
Student ID	:	H00023837
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1   Introduction

What is required—and why—to establish a balance between flexibility and stringent order to enable a company to be receptive to innovation? And what focus areas should be considered for implementing such change?

This paper is organized as follows: section 2 contextualizes innovation with organizational culture, innovation and change, the findings of which section utilizes to explore why and how to allow for flexibility and change. Section brings in some of the author's own experiences, and section concludes.

2   Literature Review

2.1   Culture

According to Sinek, "a company is, or should be, a group of people with a common set of values and beliefs." (Sinek, 2011) Johnson extends on that introducing a paradigm as "a core set of beliefs and assumptions which fashion an organisation's view of itself and its environment … which is more or less collectively owned, … likely to be hedged about and protected by a web of cultural artefacts," (1992, pp. 30–31) and is "if gradually, evolving." (1992, p. 31).

2.2   Innovation

In contrast to that, innovation, as defined by the University of Liverpool, "is about doing something new or different, and this requires an environment that welcomes the unknown." (2014, p. 4) And while Weick and Quinn quote Lewin saying "you cannot understand a system until you try to change it" (1990, p. 363), for a number of external as well as internal factors such as outlined by Franken, Edwards, and Lambert, innovation specifically is all about the culture of an organization changing to stay aligned with its environment and to avoid strategic drift.[1]

2.3   Change

This inherent resistance to change has been described by Sull as "active inertia—an organization's tendency to persist in established patterns of behavior" because "strategic frames become blinders; processes harden into routines; relationships become shackles; and values turn into dogmas." (2002, pp. 83–84)[2]

This is typically an ongoing, continuous process, and according to Kotter, failing to recognize it as "a *process*, not an event" (2010, 1018, emphasis his), is the primary reason for failure.

2.4   Learning

As a result, organizational culture itself, according to T. Patel and C. Patel, is not a given, but "transactional" and "can be created and recreated through active social interactions." (2008, p. 234)[3] Aligning different learning strategies to each phase of an innovative process,

the authors recommend firms to "encourage hierarchical learning strategies during the radical phase, egalitarian learning strategies during the transition phase and competitive learning strategies during the incremental phase of the innovation process." (2008, p. 246)

3 Application

3.1 Allowing for Flexibility

As Christensen demonstrates, most innovations happen gradually themselves, and rather have sustaining character, following one given growth curve of incremental improvements (1997, p. 25) while perfectly matching, in the most stringent way, the current customers' requirements: "when the best firms succeeded, they did because they listened responsively to their customers." This level of innovation can perfectly be accommodated for by organizations carrying a strong focus on efficiency, and the focus on customers' current requirements results them in being "held captive by customers" as well as their own "fear of cannibalizing sales of existing products" (1997, p. 32) by investing into emerging technologies[4] which typically are on a much steeper growth curve and able to meet not only existing demands, but also to enter entirely new domains.

As a result, "the decisions that led to failure were made when the leaders in question were widely regarded as among the best companies in the world," (1997, p. 8) which means that "many of what are now widely accepted principles of good management are, in fact, only situationally appropriate." (1997, p. 9)[5]

3.2 Analyzing the Structure of the Organization

Balancing the need for efficiency with that for flexibility requires an analysis of the structure of the organization, to ultimately come up with recommendations for how to instill, ahead of time, the flexibility required for organizational change. The methods to suggest are contingent on the predominant structure—whether it is a "task culture", a "role culture", a person culture" or a "power culture" (Brooks, 2009, pp. 266–267). A networked, task oriented culture is likely to have gone through a process of cultural opening through cross cultural co-operations already, and hence can be expected to be more open to innovation than other structures.

3.3 Implementing Organizational Change

As discussed in section 2 on the facing page, organizational change typically has to deal with cultural change of the underlying paradigm that contains artefacts from (see Johnson, 1992, pp. 31–32) *stories and myths* embedding the history of the organization and resulting in *rituals and routines* which provide a way for members to respond to situations, scrutinized by *control systems* of checks and balances as well as incentives, limited by *organizational structures* defining the environment and rules to comply with, controlled by *power structures* executing those checks and balances, bestowing symbols or signals (Shehabuddeen, 2007, p. 23) as a short-hand notation of the nature of the organization and the individual's compliance and success therewith.

Underlying these levels of symbols to work with, as cultural change directly deals with values and beliefs, it is most important to create a culture of trust "that recognises and accepts failure as an inevitable part of innovation. Failure does not always have to be associated with incompetence or lack of effort." (University of Liverpool, 2014, p. 5)

4 Practical Experience

From the author's background, very recently, his company, SAP, has publicly reduced profitability expectations significantly for a limited amount of time, transferring the organization to a disruptive, new, subscription based, cloud economy compatible licensing model. Says Bill McDermott, CEO SAP: "You can make decisions quicker and move faster; especially in the cloud world, when you're competing against the California companies, you have to be quick." (2014, January) These measures are thoroughly backed by significant internal realignments towards these new technologies in terms of training, incentives, as well as a pervasive roll-out of design-thinking methodologies.

5 Conclusions

Changing the culture of an organization is both a matter of survival as it is a concerted action of leadership, strategy implementation, learning, and most predominantly trust building as it directly touches the core values and beliefs of the organization.

Notes

1. Johnson defines strategic drift as follows: "Over time, the phenomenon of 'strategic drift' will occur: that is gradually, perhaps imperceptibly, the strategy of the organization will become less and less in line with the environment in which the organization operates." (1992, p. 33) While at first (Mode 1) an incremental, barely noticeable strategy modification will take place, these modifications rather strive for preserving the status quo and possibly even reconfirming the paradigm due to some short-term performance gains. This phase is very much in line with the stage of denial (Kübler-Ross, 1969). When the misalignment between strategy and environment becomes obvious (Mode 2), a "period of flux" usually reached that lacks clear direction and provides for the opportunity to re-evaluate strategy. As a result of the lack of direction, performance is usually negatively affected up to a point where a radical change in strategy (Mode 3) happens and the organization is realigned with its environment.

2. Overcoming that inertia (Durand, 2006, p. 64) within the boundaries of the firm (Coase, 1937; Holström and Roberts, 1998) is likely met with high levels of organizational resistance. Overcoming these requires a framework on change management. Following Weick and Quinn, "motors of change" can be classified according to two orders of change, each of which expresses two cycles of steps as part of the analytical framework utilized to make sense of them (1990, pp. 364–365):

   1. First-Order Change

      (a) *Live-Cycle Theories*: start-up, grow, harvest, terminate

      (b) *Evolutionary Theories*: variation, selection, retention, namely Campbell's "VSR" Model (Durand, 2006, p. 60)

  2. Second-Order Change

      (a) *Teleological Theories*: set/envision goals, implement goals, dissatisfaction, search/interact

      (b) *Dialectical Theories*: thesis/antithesis, conflict, synthesis

In addition to that, Weick and Quinn talk about an emerging "Third Order of Change ... that basically questions the adequacy of schemas themselves and argues for direct exposure to the 'ground for conceptual understanding'." (1990, p. 368) The author of this paper challenges Weick and Quinn's terminology: Weick and Quinn refer to Bateson who does not discuss change as contextualized by Weick and Quinn, but "double-loop learning" as applied to the organization by Argyris and Schön (1978, p. 18)—who, themselves, refer to Bateson (1972, p. 199) and his transfer of the psychological concept of "double-bind" to a concept of first- and second order change. While Bateson clearly relates learning and change, the "double-bind" is used by Bateson entirely in the context of learning, and not, as Weick and Quinn understand, in the context of change. These concepts are of different conceptual levels and kinds, and only losely related through Bateson's work on systems theory.

3. T. Patel and C. Patel reject the idea of a corporate culture being homogenous, and a given and discuss "four kinds of learning cultures and the role they play during each phase of the innovation process." (2008, ibd.)

4. While these technologies may be technically straightforward for the established firms, they are efficient at an upward vision sustaining high performance and high margins and fail at a downward vision on disruptive innovations that are typically cheaper, provide for lower margins and do not meet the current customer's requirements until it is too late (Christensen, 1997, p. 12).

5. Independent of an actually innovation at hand, these findings provide, on a meta level, for a sufficiently strong "sense of urgency" (Kotter, 2007, p. 97) to engage in an organizational change process—e.g., following Kotter—that transforms the company in a way that it allows for greater flexibility *because* that has been sufficiently demonstrated to be the only sustainable way for firms to survive in a context of disruptive innovation.

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