

THE PLACE OF INNOVATION MANAGEMENT IN THE LIFE OF ECONOMIC ENTITIES

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Abstract

The innovation management -changing the way organizations work- plays a crucial role in the sustainability and competitiveness of economic entities. This paper explores the place of innovation management within organizations through a comprehensive literature review, examining its definition, evolution, and drivers. The utility of innovation management is discussed in terms of improving organizational agility, enhancing employee engagement, and reducing costs. The paper also identifies key targets of innovation management, including organizational structures, leadership practices, and work processes. Finally, the reasons why organizations should pursue innovation management are explored, highlighting the need to adapt to technological change, address shifting workforce dynamics, and respond to globalization. By embracing innovation management, organizations can foster a culture of adaptability and creativity, ensuring long-term growth and competitive advantage.

Keywords: innovation management, organizational structure, technological change, competitive advantage, work processes, economic entities.

JEL Classification: M00; M10;

1. Introduction

Innovation management is an evolving concept in the landscape of organizational behavior and economics. While product and technological innovations often dominate the conversation, innovation management -the introduction of new management practices, processes or structures that fundamentally change how an organization operates- has emerged as a crucial driver of sustainable competitive advantage. It refers to changing the way organizations work, encompassing innovative approaches to leadership, strategy, employee engagement, and decision-making. This paper provides an overview of the role of innovation management in economic entities through a literature review, explores its utility, defines its targets, and examines the reasons why organizations should embrace it to remain competitive in dynamic markets.

2. Literature review

Defining Innovation Management: The concept of innovation management was first systematically explored by scholars like Hamel (2006), who defined it as the implementation of new managerial processes, practices, and organizational structures that fundamentally alter how an organization is managed. This type of innovation does not pertain to new products or technologies but rather focuses on changing "how we work." It addresses aspects such as leadership, decision-making frameworks, organizational culture, and human resource management.

Management innovation differs from technological innovation in that it does not necessarily involve new tools or equipment but instead emphasizes reshaping internal processes and behaviors to increase productivity and adaptability (Birkinshaw & Mol, 2006). It is considered essential for organizations aiming to foster long-term growth and sustainability, especially in fast-changing markets.

*The evolution of innovation management:*Historically, management practices have evolved in response to changes in business environments. Early examples include Henry Ford’s introduction of assembly line production and Frederick Taylor’s scientific management, both of which revolutionized productivity. The 20th century saw the rise of Total Quality Management (TQM), Lean Manufacturing and Agile project management, all of which represent significant leaps in management innovation.

In recent years, with the rise of the knowledge economy and digital transformation, innovation management has focused more on human-centered practices, such as employee empowerment, flat organizational structures, and inclusive leadership (Volberda et al., 2013). Firms are now experimenting with "open innovation," where boundaries between the organization and its external environment are blurred, facilitating cross-collaboration with external stakeholders.

*The Drivers of Management Innovation:*Several key factors drive management innovation in organizations:

- *Technological Advances:* The rise of information and communication technologies (ICTs) has transformed how organizations manage communication, workflow, and knowledge sharing, thereby driving the need for new management practices (Schilling & Shankar, 2019).
- *Globalization:* The need to operate in diverse and rapidly changing global markets has prompted firms to adopt more flexible management structures that allow for quicker decision-making and better responsiveness to global opportunities. An Indian specialty, the business leaders are known for creating growth by combining innovation with a deep commitment to social values (Cappelli, 2010).
- *Changing Workforce Demographics:* As organizations grapple with multi-generational workforces and changing employee expectations, management innovation becomes necessary to ensure employee satisfaction, engagement, and productivity (Cappelli, 2014).
- *Increased Competition:* In highly competitive markets, traditional management structures often become obsolete. Innovation in management helps organizations stay agile and responsive to market changes, providing a competitive edge (Hamel, 2006).

3. Utility of management innovation

Enhanced Organizational Agility: One of the core utilities of innovation management is the enhanced ability of organizations to respond quickly to changes in the business environment. Agile management structures, such as decentralization and cross-functional teams, allow companies to react to market shifts, customer needs, and technological advances more rapidly than their competitors (Birkinshaw, Hamel, & Mol, 2008). This ability to pivot quickly is especially critical in industries like technology, where disruption is constant.

*Improved Employee Engagement and Productivity:*Management innovation often leads to the development of practices that empower employees and improve their engagement. Techniques such as participative decision-making, transparency in leadership, and flatter organizational structures increase employees' sense of ownership and responsibility, which in turn can enhance productivity (Volberda et al., 2013). Empowered employees are more likely to be innovative themselves, contributing to an organization’s overall ability to sustain innovation.

Cost Reduction and Efficiency: By streamlining management processes and eliminating redundant or inefficient practices, innovation management can reduce operational costs. Innovations such as Lean management or continuous improvement models like Six Sigma have demonstrated how process optimization can lead to significant savings (Schilling & Shankar, 2019). Furthermore, improved collaboration and knowledge sharing through better management practices reduce the costs associated with miscommunication and organizational silos.

Sustaining Competitive Advantage: Innovation management provides a more sustainable competitive advantage compared to product or technological innovations, which can often be

copied by competitors. For example, management practices like Google's model of data-driven management decisions, or Zappos' emphasis on employee culture, are unique and harder for competitors to replicate (Hamel, 2006). This form of innovation becomes embedded in the culture and operational fabric of the organization, creating a lasting impact.

4. Target of management innovation

Innovation management targets multiple levels within an organization, from internal operations to customer-facing roles.

Organizational Structure: Many firms target their internal structures for innovation by moving toward flatter, less hierarchical models. Flatter organizations facilitate faster decision-making and greater collaboration across departments. Companies like Valve, a video game company, famously operate without any formal hierarchy, allowing teams to form and dissolve as needed to respond to projects efficiently (Bernstein et al., 2016).

Leadership Practices: Innovation management also targets leadership styles, promoting adaptive, transformational, and inclusive leadership models. Traditional top-down leadership is being replaced by more collaborative leadership practices, where decision-making is decentralized, and leaders act as facilitators rather than directors. This shift fosters a more inclusive workplace culture that values diverse perspectives and innovation (Volberda et al., 2013).

What happened when Zhang returned from Germany is one of the most famous stories in Chinese business. He pulled all the defective refrigerators out of his inventory, brought them to the front of the factory floor, and had the employees smash them with sledgehammers (Useem, Singh, Liang, & Cappelli, 2017).

Work Processes and Collaboration: Work process management is a key target of innovation, particularly in areas such as project management, supply chain management, and customer relations. Innovations like Agile and Scrum methodologies allow companies to improve their workflow processes, manage resources better, and increase the speed of product or service delivery. These management innovations also foster collaboration by encouraging transparency, iterative development, and continuous feedback.

The reason why ideas about managing employees better fade despite evidence they are more efficient is that they do not fit with financial accounting and the now prevailing orthodoxy of business leaders (Cappelli, 2023).

5. Reasons for management innovation

The necessity for management innovation arises from a variety of internal and external pressures on organizations. Here are the key reasons organizations pursue management innovation.

Adapting to Technological Change: As technology rapidly evolves, organizations must adapt their management practices to stay relevant. AI, big data, and automation are reshaping how businesses operate, requiring new management practices that emphasize agility, data-driven decision-making, and technology integration into day-to-day operations (Schilling & Shankar, 2019). Failing to innovate management structures in response to technological changes may leave firms vulnerable to disruption. After a year and a half of offices being shut down and employees working from home because of the COVID-19 pandemic, white-collar work all over the world is facing a fundamental inflection point for its future (Cappelli, 2021).

Addressing the Changing Nature of Work: The gig economy, remote work, and freelance work models are challenging traditional employment and management paradigms. Organizations must innovate how they manage human resources, balancing flexibility with productivity while ensuring compliance with labor laws and maintaining corporate culture (Cappelli, 2014). As workers demand more autonomy and flexible working arrangements, management innovation becomes necessary to keep up with these demands. We found that the traditional methods of

managing employees and developing skilled workers inside companies are breaking down (Cappelli et al., 1997).

Responding to Globalization: Globalization has increased the complexity of managing multinational organizations, with diverse teams spread across geographies and time zones. Innovations in management practices, such as virtual teams, global leadership models, and cross-cultural management training, allow companies to respond to the challenges of operating in a globalized economy more effectively (Birkinshaw & Mol, 2006). These innovations help organizations stay agile while maintaining cohesion across borders.

Fostering Innovation Culture: Organizations seeking to foster a culture of innovation must first embrace management innovation. A company's ability to innovate in products or services is often tied to the flexibility, openness, and creativity embedded in its management structures. Companies like Google and Apple, known for their innovation, also foster environments where creativity is encouraged at all levels of the organization (Hamel, 2006). Management innovation is essential for creating a culture that supports ongoing experimentation and risk-taking.

6. Conclusion

The innovation management is essential to the sustainability and growth of economic entities in an increasingly competitive and dynamic global market.

Cappelli, defines it very well, managing employment relations has become an issue of huge strategic importance as businesses struggle to respond to the pace of change in management systems and working practices (Cappelli, 2008).

By focusing on changing “how we work,” management innovation offers firms the ability to enhance agility, improve productivity, reduce costs, and sustain a competitive advantage that is harder for competitors to replicate. As industries undergo rapid technological advancements and globalization intensifies, management innovation becomes not just a choice but a necessity for organizations seeking to adapt and thrive. The utility of innovation management in targeting organizational structures, leadership, and work processes, alongside the reasons for embracing it, illustrates its critical role in shaping the future of economic entities.

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