

# The External Learning and Management Innovation: Evidence from China

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**Abstract** – Building on organizational learning and management innovation theories, this study examines how firms in emerging economies realize management innovation. The relationship between external learning and management innovation is investigated. The propositions that market exploratory and exploitative learning both have a positive effect on the management innovation are proposed. The paper contributes to organizational learning and management innovation theories by explaining through external learning how firms in emerging economies realize management innovation.

**Keywords** – Management Innovation, Market Learning, Emerging Countries.

## I. INTRODUCTION

As competition intensifies and the pace of change accelerates, firms need to keep sustainable competitive advantage. To create new value, firms may not only rely upon technology-related innovation, they also need to make innovations in non-technological areas. For instance, scholars regarded that the fundamental reason for the success of GE, DuPont, and P&G is *management innovation*, which made them stand out in industries. Management innovation is defined as a marked departure from traditional management principles, processes, and practices or a departure from customary organizational forms that significantly alters work of management is performed [1]. Management innovation may help firms enhance the efficiency of resource allocation, guide them to set direction, make decision and improve the management processes [2]. Therefore, the management innovation can create sustainable competitive advantage for firms due to its context-specific nature.

However, the resource allocation and processes underpin the existing management practices may become inertia, which prohibits the innovation. And, unlike technological innovation, management innovation emerges without a dedicated lab, and is relatively abstract and intangible, which makes it potentially complex and ambiguous. To overcome the inertia and to reduce ambiguousness, firms need to access the market knowledge which provides them with information about those management innovation practices adopted by other firms and the additional input to such innovation. Some authors have stressed the role of market-based sources of knowledge (e.g., through external learning) as the primary driver of new management practices. Therefore, external learning may play a crucial role in the management innovation [3].

External learning refers to the acquisition and use of information and knowledge from outside a firm's boundary. External learning is an important source of

management knowledge, which creates the opportunities that expose firms to a much broader set of management approaches and methods. Through external learning, firms can understand advanced management fashions and directly adopt the advanced management methods or processes. Besides, firms can integrate the external knowledge with their existing knowledge base to implement management practice update and innovation. In extant literature, external learning has usually been classified into two dimensions: exploratory and exploitative. Exploratory learning refers to the learning of external knowledge and process development skills that are entirely new to the current experiences of the firm. In contrast, exploitative external learning refers to the learning from the knowledge and skills that are familiar with the firm's current experiences. These two dimensions pay attention to different information and knowledge about the market, customers, and competitors, which are implemented by the use of existing rather or new organizational routines. Thus, exploratory learning and exploitative learning may have different influences on management innovation. Nonetheless, in extant literature the effects of external learning on management innovation are unexplored.

The purpose of this study is to shed new light on the factors that facilitate or impede management innovation. We posit that both explorative and exploitive learning drive the management innovation. By doing so, our study makes the contribution to the literature. First, we investigate external learning as a key antecedent of management innovation. This extends the organizational learning theory which proposes that internal knowledge can enhance the management innovation. The external learning from customers and competitors creates the opportunities to acquire the management knowledge and break the extant inertia in innovation processes.

## II. THEORETIC BACKGROUND

### *The Management Innovation*

Scholars have directed their attention towards management as a fertile ground for innovation. Management innovation have been argued to be very ambiguous and hard to replicate, hence more likely to lead to sustainable competitive advantage. Management innovation constitutes the rules and routines by which work gets done inside the organization. The famous, typical examples of the management innovation include industrial research Lab of GE, the capital-budgeting techniques of Dupont, total quality management (TQM), just-in-time production, quality circle, cost accounting, 360 degree feedback, and so on. These firms created

management innovation through the change of organizational structure, processes and IT application. Specifically, change in organizational structure can increase the productivity of labour in the process of production. Change in organizational processes can reduce the amount of capital needed in the work-in-progress. In service industries, integration of IT into processes reflects the use of new knowledge management and office automation to advance efficiency of managerial processes and systems.

Management innovation is bounded by the extant structure and coordination, and it may experience pressures from organizational inertia. Organizational inertia refers to the stability in products, processes, and policies that underlies the inadequate adaptation to changing environments. The inertia leads firms to pursue the maximizing efficiency of extant managerial processes and systems, and ignores the managerial innovation. Firms accumulate managerial knowledge, and then become more competent in managerial operations in similar fields due to the positive feedback between knowledge and needs. This self-reinforcing nature makes firms more efficient in focusing on existing managerial processes and routines. Moreover, firms often establish organizational routines to maximize the efficiency of their resource allocation for operations. When inertia is gradually embedded into organizational practices over time, firms automatically react based on past experience and shows strong internal resistance to management innovation. Routinization and systematization of organizational conditions result in organizational momentum and traditions which create resistance to change. Implementation of new management practices must overcome such resistance to change in an organization. The firms cannot get rid of the resistance only with their internal knowledge and experience. Outside-in knowledge (i.e., externally acquired knowledge) allows them to provide additional inputs to their management. Therefore, external learning may play a crucial role in the management innovation.

#### *External learning and management innovation*

The organizational learning theory has stressed the role of market-based sources of knowledge as the primary driver of the uptake of new management practices. External learning serves two key functions. First, it provides the managerial benchmark by which the focal firms evaluate themselves. The firms are uncertain about both their goals and the efficiency of innovations. The external learning helps firms to address their problems or managerial gaps with the firms which innovated and implemented the managerial innovation. Second, external learning creates the opportunities to acquire a range of managerial experiences and knowledge. Through external learning, the firms assimilate the managerial knowledge held by the customers, competitors, suppliers as well as consultants in market. Thus, the firms mimic their competitors by integrating the managerial knowledge with extant knowledge to innovate the management practices. The knowledge from market and professional source can enable the management innovation. For the example, knowledge from customers encourages firms to adopt new

management practices. Knowledge from suppliers pushes management innovations down the value chain, and consultants provide the knowledge to promote management innovation.

The organizational learning theory asserts that firms engage in two forms of external learning: exploratory and exploitative [4]. Exploratory learning and exploitative learning have different features. Exploratory learning refers to the learning of process development skills that are entirely new to the current experiences of the firm. The keywords in exploratory learning activities are “search, variation, risk taking, experimentation, play, flexibility, discovery, and innovation” [5]. In contrast, exploitative learning refers to the learning from the knowledge and skills that are familiar with firms’ current experiences. It focuses on “the refinement and extension of existing competencies, technologies, and paradigms exhibiting returns which are positive, proximate, and predictable”. The exploratory and exploitative learning may have different impacts on the management innovation. Specifically, the two dimensions of external learning require the different adaptation of organizational structure, processes and routines, which may lead to different managerial changes. So whether or not exploratory learning influences the generation and adoption of management innovation more than exploitative learning is unclear.

### III. HYPOTHESIS DEVELOPMENT

This paper argues that the external learning can lead to the adoption or generation of new management practices to the firm. First, the external learning can be impetus for the attention of the focal firm to management innovation. Learning management knowledge can trigger a shift in organizational mindset. Through learning successful management practices from the rivals or customers, the focal firm is able to identify deficiencies or even mistakes in its current management routines or mindset. For example, engaging with customers may provide the firms with knowledge about industry-specific standards. Interactions with consultants may also enhance the understanding of competitors’ management processes, organizational designs, and resource allocation systems, which make the firm finds the managerial deficiency. Second, the firm can directly adoption the current popular managerial processes and practices which are the new to the focal firm. From the fashion perspective, firms can understand the most popular and advanced management practices through the external learning. Firms mimic their competitors by copying management practices that appear progressive. For example, firms adopts the ISO, QC and IT application systems. The adoption of management practices can give rise to the change of managerial processes and routines. The characteristic of management techniques emphasize on operational and transactional efficiencies, so firms need to adopt the new organization form or IT tool, which means the management innovation. Thirdly, this external learning offers the firm’s opportunities to management innovation by integrating the

new knowledge with extant management practices. Firms can integrate the knowledge from customers and competitors to generate the new managerial practices. To implement the management innovation, firms have to facilitate the legitimization of organizational changes works through implementation of institutional programs. The firms have to make the responding structure or organizational forms adjustment, which virtually leads to the improvement or invention of existing managerial processes and practices. The innovation also leads to the change of the routines underpinning the decision to allocate resources. Thus,

**H1: Exploratory learning is positively related to management innovation.**

**H2: Exploitative learning is positively related to management innovation.**

Exploratory learning requires a firm to engage in the pursuit of very new and radical information going beyond the current knowledge domain. In so doing, exploratory learning helps to maintain a variety of strategic choices that provides the firm with greater environmental adaptability. It motivates a firm to pursue variance of performance instead of mean performance to obtain primacy in competitive settings.

Consequently, this learning results in management innovation with distinctive and unique feature not obtainable from the previous related processes [6]. Exploitative learning emphasizes the thorough and detailed processing of the information that has already been acquired and is currently available to the firm [7]. As exploitative learning leads to a decision to allocate resources based on the apparent best current alternatives, its focus is naturally on the improvement of short-run task cycles and the benefit to the firm. In addition, exploitative market learning strives to enhance job quality and efficiency through continuous improvement.

**H3: Exploratory learning is more positively related to management innovation than Exploitative learning.**

#### IV. CONCLUSION

Based on the findings of this investigation, we extracted the following managerial implications. In transition economies such as China, due to the highly uncertain environment, firms should pay attention to developing management innovation that aims to influence the soft power of the firms. By exploratory and exploitative learning, regarding the customers and competitors as the source of knowledge, firms can find the management gap and acquire the knowledge for management innovation.

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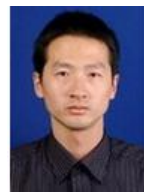
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