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Innovation in entrepreneurial organisations: A platform for contemporary management change and a value creator

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ABSTRACT

Purpose: This article examines the significance of innovation to organisations following strategies of entrepreneurial orientation. In particular, the study looks at the significance innovation adds to the implementation of contemporary management control systems (MCSs) and to improved performance in these organisations.

Design/methodology/approach: A quantitative analysis was conducted based on a random sample of Australian manufacturing companies. A structural equation modelling approach was adopted to test the study hypotheses.

Findings: Results suggest that innovation mediates the relationships between entrepreneurial strategy and each of participative budgeting, the balanced score card (BSC), total quality management (TQM), just in time (JIT), and organisational performance. The study does not indicate a significant relationship between entrepreneurial strategy and activity based costing (ABC), even when innovation is in place.

Originality/value: The study empirically tests the vital role of innovation in the organisational adaptive cycle to entrepreneurial strategies, described earlier by Miles and Snow (1978). Further, the study validates a multi-dimensional strategy model first suggested by Langfield-Smith (1997).

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1. Introduction

Contemporary management accounting research emphasises the importance of organisational strategy, management control systems (MCSs) and performance and indicates the need for better understanding of associations spanning these factors.

While there appears to be a connection between strategy, MCS and performance, the picture obtained from the literature is not a complete one (Langfield-Smith, 1997, 2005; Marginson, 2002; Shields, 1997). Specifically, Langfield-Smith (1997, p. 228) argues that the findings of prior studies have been 'fragmentary, providing limited knowledge about the forms of management systems that suit particular strategies and in fact, were incompatible and sometimes conflicting'. Since that call of Langfield-Smith (1997), investigation on the relationship between organisational strategy, management control systems, and organisational performance has produced some award-winning papers (e.g., Cagwin & Bouwman, 2002) as well as some other recent investigations (e.g., Banker, Bardhan, & Chen, 2008).

Despite this wealth of research, clear mechanisms of how certain management systems can serve particular organisational strategies and how these strategies can link to performance have not been empirically demonstrated. It is this shortcoming

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this paper is intending to address through an investigation of how entrepreneurial strategies may link to contemporary MCS and organisational performance.

This study tests the mediating role innovation plays in the relationship between entrepreneurial strategy and contemporary MCS as well as in the relationship between entrepreneurial strategy and performance. This can be viewed as an application of the 'strategy adaptive cycle' described in Miles and Snow (1978), where innovation is highlighted as a key component of entrepreneurial oriented strategies.

A further enhancement to previous research that this study presents is the provision of common characteristics to classify strategy through the validation of a multi-dimensional strategy model first suggested by Langfield-Smith (1997). MCSs included in the study are selected from different areas representing different aspects of contemporary management approaches. The use of Structural Equation Modelling (SEM) allows concurrent analysis of the multiple relationships tested.

The structure of the paper is as follows: firstly, on the basis of the strategic management and management accounting literature, the extant knowledge of the strategy–management systems–performance relationship is drawn on to generate two main hypotheses. These hypotheses are tested using structural equation modelling. The final part of the paper draws conclusions and identifies implications for existing theory and for improved practice.

2. Background

Entrepreneurial organisations are those firms in which the top managers have entrepreneurial management styles, as evidenced by the firms' strategic decisions and operating management philosophy. This remains valid since entrepreneurship is defined (Miller, 1983) based on levels of risk taking, innovativeness and proactiveness in the process by which organisations renew themselves and their markets. Entrepreneurial organisations tend to emphasise flexibility, high degrees of innovation and risk taking. Strategies pursued by entrepreneurial firms tend to be aggressive or proactive and these firms compete mainly by engaging in substantial new product and latest technology development. On the other side of the entrepreneurship continuum are conservative organisations in which the top management style is categorically risk-averse, non-innovative, and reactive. Conservatives are characterised as specialising in highly standardised products, emphasising efficiency, avoiding risk and performing little innovation. Strategies pursued by conservative organisations seek to derive strength from efficient production and from competition based on lowest possible prices within high quality standards (Covin & Slevin, 1989; Karagozoglu & Brown, 1988).

Due to their different objectives, dominant strategic orientations and functional strengths (Covin, 1991), entrepreneurial and conservative firms naturally differ in their preferences as to task environments. Therefore, management in entrepreneurial firms tends to seek uncertain and dynamic task environments, while conservative firms' management tends to seek predictable and stable task environments (Karagozoglu & Brown, 1988; Miles & Snow, 1978).

Organisational strategic posture can be broadly defined as a firm's overall competitive orientation that is particularly beneficial (i.e., appropriate) in their relative environments. A firm's conservation-entrepreneurial orientation is indicative of its strategic posture. In other words, organisational competitive strategy can be viewed as a firm's positioning along a continuum ranging from conservative to entrepreneurial (Covin & Slevin, 1989). Accordingly, and based on the argument of Miller (1983) of a three-component strategic posture, firms with entrepreneurial competitive strategies are risk-taking, innovative, and proactive. On the other hand, firms with conservative competitive strategies are risk-averse, non-innovative and reactive (Covin & Slevin, 1989).

Management scholars have proposed various strategy-related typologies by which the concept of strategic posture is described and operationalised (see, for example, Gupta & Govindarajan, 1984; Harrigan, 1980; Miles & Snow, 1978; Mintzberg, 1973; Porter, 1980; Woo & Cooper, 1981). All of these typologies are useful in that they provide a basis for understanding overall firm-level behaviour and organisation–environment relationships (Covin, 1991). However, arguments of Miller and Friesen (1982), Karagozoglu and Brown (1988) and Covin and Slevin (1989) suggest that strategic variance contained within these typologies is broadly captured by the conservative–entrepreneurial firm dimension. For instance, conservative organisations are said to be strategically similar to Mintzberg's (1973) 'adaptive', Miles and Snow's (1978) 'defender', Porter's (1980) 'cost leadership' and Gupta and Govindarajan's (1984) 'harvest' firms. Entrepreneurial firms are similar in many aspects to Mintzberg's (1973) 'entrepreneurial', Miles and Snow's (1978) 'prospector', Porter's 'differentiation' and Gupta and Govindarajan's (1984) 'build' firms. As such, the conservative–entrepreneurial continuum provides a concise and theoretically meaningful alternative to the aforesaid typologies. Further, the potential explanatory value of the conservative–entrepreneurial firm typology is demonstrated by Miller and Friesen (1982), Karagozoglu and Brown (1988) and Covin and Slevin (1989). The conservative–entrepreneurial dimension appears in these studies to be useful in testing theories and models that depict major interrelationships among strategic, organisational and environmental constructs (Covin, 1991).

Arguments on entrepreneurial strategies suggest that such strategies require firms to adopt a stronger customer orientation to provide products and services that suit customers' particular needs. Accordingly, from a contingency viewpoint, entrepreneurial firms may develop control systems that can explicitly help the company to achieve its quality and delivery targets. Agency discussions also assume that the availability of systems with such larger information-processing and interactive capability provides information to act in an environment of intense competition and to maintain uniqueness in the marketplace. Hence, questioning the sufficiency of traditional management control practices to serve the entrepreneurial orientation in organisational strategy is commonplace in previous studies (see the arguments of Abdel-Kader & Luther, 2008; Abernethy & Brownell, 1999; Baines & Langfield-Smith, 2003; Chenhall & Langfield-Smith, 1998; Gosselin, 2005).

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