

18. Cross-cultural transfer of organizational innovations¹: Outline of a comparative study

Abstract

In this paper we argue that organizational innovations are an important driving factor behind economic development. Why do firms and public administrations then have such difficulties in innovating their ways to organize if there is so much to gain? An international comparative study has been designed to provide some answers to this question. Existing ways for organizing important activities in the different countries are compared to the most innovative way we have detected. We then investigate the extent to which historical, economic, institutional, cultural, or management factors can explain the difficulties of transferring good ideas about organizing.

Background

The idea to be tested in this project is that the way an activity is organized has farreaching consequences both for the efficiency of that activity and for the quality of work for the people

involved. The integration of the European and the North American markets, technological development, more accentuated scarcity of resources in the public sector, deregulation and international competition are factors that require businesses enterprises and public agencies to organize in a more effective way. The elimination of some non-monetary barriers to international trade and the harmonization between countries of various regulations can be expected to diminish the possibility for an ineffectively organized activity to continue. On the other hand, there are increased possibilities for foreign competitors to expand on hitherto protected national markets. Among the means of competition an expanding firm could use is a superior way to organize. There are indications that Swedish enterprises are no longer as good as they were at adapting their organizations to new technology. This could mean a growing comparative disadvantage both when it comes to expand international activities and to defend positions in the home market, for example against aggressive international service firms.

The existence of inertia is one of the best-documented organizational phenomena (Freeman and Hannan, 1975). Inertia could explain why enterprises have such a difficulty to adapt their organization rapidly and smoothly to new circumstances. However, it is also well-documented that *organizational innovations* occasionally appear at different places in the world (assembly line, divisionalization, lean production). By innovating a firm may get an advantage in relation to more traditionally organized activities (MacDonald in the restaurant industry, Leidner, 1993). Our hypothesis is that such organizational innovations represent a set of knowledge which in suitable parts is transferable to other, similar activities both in other firms and across national borders. Looked upon this way, an organizational innovation would have many of the characteristics which are commonly associated with technological innovations. For example, few would argue against the idea that technological innovations are one major driving force behind economic development. We want to investigate whether our hypothesis that organizational innovations have similar characteristics as technological

¹ This paper is produced as part of an international comparative study. The research team consists of Juan-Ramon Figuera, Madrid; Harvey Kolodny, Toronto; Paul Lillrank, Helsinki; Michel Liu, Paris; Rami Shani, San Luis Obispo and the present author – see Kolodny, H. et al., 'Organizational Innovation in the International Arena' (unpublished draft).

ones, is tenable. Also, we want to study institutional and cultural factors that may hinder or facilitate diffusion of organizational innovations.

The countries involved are Canada, France, Spain, Japan, Sweden and the United States. From each country we will select one or two cases of an important activity which is well-organized in an innovative way. Each case will be described in some detail. We will also gather some information about how the corresponding activity is organized in the other participating countries.

The scientific value of the study lies in shedding light on the question of transferability of organizational innovation. If support for the hypothesis of organizational innovations as an exogenous factor of economic development could be found, there would be further reason to question the relevance of contingency theory. Much management teaching and literature is based on contingency theory which presumes that the way an activity is organized is dependent on, and can be predicted from, the various contextual factors that prevail for the individual firm. However, if the number of alternative ways of organizing activities is constrained only to a small degree by contextual factors, processes of change and innovation would become crucial in understanding the way various activities are organized. The capacity to imitate successful innovations could be a more important explanatory factor than the ability to obtain a fit between the structure of the firm and the structure of its environment.

From a more practical economic point of view, it would be of great interest if it could be shown with some credibility that adopting another form of organization would lead to higher productivity and a better economic performance for virtually any given activity. Also, the mere description of how the successful organizational forms from different countries would have a value of its own.

Seen from the perspective of employees it is of interest to know if organizational forms that permit a higher quality of working life could be imitated from other firms and countries. A common argument for not imitating ways to organize that take the worker's health and

satisfaction more into account is that it would cost too much. Thus better working conditions would be found mainly in countries where the marginal productivity of labour is high as well as incomes. But if it could be shown that obstacles to more humane working conditions are not only related to relative labour cost and that obstacles are surmountable through the application of good methods of change, knowledge about a possible avenue for the improvement of working life would have been gained.

What is an organizational innovation?

A recurrent activity has to be organized in order to be performed with some efficiency. The work processes have to be supported by certain structural arrangements, resources have to be allocated to different tasks and the tasks have to be coordinated (Stymne, 1971). We use the verb 'organize' to describe all this structuring and coordination of processes. Much of the organizing takes place in a very informal way through the stabilization of mutual expectations which takes place between actors engaged in mutual exchange. 'Organization' is therefore much more than what is expressed in formal charts and descriptions. However, formal descriptions and conscious attempts to influence the way work is carried out could be an important source of organizational change.

Usually certain patterns of organizing develop in an industry. When such patterns are broken, we can talk about an 'organizational innovation'. Jetro's advice to Moses (Exodus, ch. 18) to facilitate his leadership task by delegating the responsibility for different parts of his followers to stewards of thousands, hundreds and tens is a classical example of an organizational innovation. Other examples is the line and staff organization (Alexander the Great), the assembly line (the arsenal of Venice), the industrial engineering department (Taylor), the divisionalized organization (Sloan at General Motors), the autonomous work group (Tavistock) and lean production (Toyota). Eleanor Westley (1987) tells about how Meiji Japan successfully imported specific organizational forms from the west. Organizational innovations do not

have to be as conspicuous as these examples. The bipartite 'work environment committee' could perhaps be seen as an innovation peculiar to the Swedish labour market. Erling Persson's idea of buying clothes from the producers more than the traditional once a year is a seemingly minor organizational innovation which nonetheless has helped in creating the successful 'H&M' retail chain (Stymne, 1989).

Competition and organization

The way an activity is organized is related to a firm's effectiveness, i.e. its productivity and its capacity to provide value to its customers. One way to improve an activity is therefore to find and implement new organizational solutions, e.g. by fetching ideas from successful firms both from one's own country and internationally. There are many examples of activities which have become more efficient through organizational innovation and the subsequent diffusion of these innovations. One of the best known examples is divisionalization which started in the USA in the 1920ies (Chandler, 1962). Another example is the Toyota system which is at present serving as an organizational model for many firms under the name of 'Lean Production' (Womach et al., 1991).

In spite of the examples of successful transfer of organizational innovation, the dominating impression one gets from reading the literature and from talking to practitioners, is that existing organizations exhibit many mystifying traits. Experience clearly shows that organizational traits are difficult to change (Child 1972, Philips and Stjernberg, 1982). To mention one example: There has been little diffusion of so called sociotechnical organizational designs in spite of the fact that such organizational solutions have achieved levels of productivity in American factories which are twice the industrial average or more.

Of course there is no way of organizing work which is preferable in all situations and at all points of time. The way an activity is organized should rather be seen as a solution to the problems that the activity is facing. These problems are related to the demands of the clients, the

actions of the competitors and the needs and the influence of the employees (March and Simon, 1956). New technology for products and processes requires an adaptation of the organization in order to be successfully exploited (Löwstedt, 1989). The adaptation of the organization to changed circumstances occurs neither rapidly nor smoothly. As a consequence many activities are organized in a way which is a roughly adequate answer to circumstances prevailing a number of years ago. On the other hand, the organization is badly adapted to present day circumstances. As a consequence, productivity growth and efficiency become less than what would be possible with more adequate organizational solutions (Hörnell, 1992).

The degree of misfit between the environment and the organization and the time lag in the adaptation process are not equally bad in all activities. Companies which have somehow managed to organize in a better way get a competitive advantage. The system of 'Just-in-Time' can be seen as an organizational innovation which gave Toyota an advantage in relation to their larger competitors. Eventually this innovation propelled Toyota to a leading position in the car manufacturing industry. It seems like Japanese car manufacturers have gained a competitive advantage in terms of productivity because companies in the west have shown a lack of capacity to assimilate the knowledge stemming from the Toyota system. Not only the solutions of industrial practice lag in relation to the demands of the present day context. Management theories and models are to a great extent descriptions of existing practice and philosophies in industry. Certainly, management literature and management training contribute to diffuse knowledge about good management practice. However, when it comes to contributing to change, management literature can be suspected to exert an often conservative influence. Organizational research could become more of a mediator of change if it described emerging innovative organizational innovations at an early stage. We hope that the proposed study will be of use also in providing some such descriptions.

Organizational innovation imply both designing the new organizational solution and

managing the implementation and change process. It may very well be that difficulties in innovating have their roots in the lack of knowledge of management and competence of handling change (Liu et al., 1990, Stymne et al., 1986).

The increasing scope for organizational innovation

During the last two decades a good deal of research has been published indicating that similar activities are very differently organized in various countries (Maurice et al., 1980, Child and Loveridge, 1990). From economic theory we could expect that the way activities are organized is much dependent on relative factor prices. In countries where relative labour costs are low, one could expect that activities are organized in a less capital intensive way than in countries with high labour prices. However, comparative studies of organizing in different countries show that these types of relationships do not provide the whole explanation. Many activities seem to be organized in a peculiar way.

In the area of management theory, the so called contingency-school claims that the way an activity is organized is dependent on the demands from the context in which this activity is to be carried out (Thompson, 1967, Burns and Stalker, 1961, Lawrence and Lorch, 1967). The explanations provided by contingency theory have however been difficult to verify and sustain (Löwstedt, 1985). Other explanations of how differences in the way the same activity is organized have to be sought. One explanation which has got some support is that different cultures (Hofstede, 1980) and different institutional arrangements induce different organizational solutions. In addition, there is reason to assume that various restrictions on competition allow that resources are combined and used in non-optimal way. Under the protection of monopolies, regulations and other restrictions on competition all types of organizational solutions may thrive.

At present, both North America and Europe are experiencing a process of economic inte-

gration. This process involves a conscious effort to harmonize the rules for competition and of the institutions that regulate and influence economic activity. This will eventually increase the competitive pressure and diminish the room for activities carried out by non-optimal resource combinations. Enterprises which have been protected through technical barriers of trade will be exposed to competition from more effectively organized foreign establishments. This development will increase the importance of organizational change and innovation. How to organize may become more important as a competitive factor when the institutional differences between different countries become smaller.

In addition to the European and North American economic integration there are other important reasons why organizational innovations should grow in importance. New technology seems generally to become of greater importance as competitive factor. As a consequence it becomes more important to find organizational forms which permit that the potential of this new technology is utilized to the full extent (Gerwin and Kolodny, 1992). There are clear indications that the ability of Swedish industry to organize for new technology has declined in relation to competitors from some major industrial nations (Vinell and Ohlsson, 1987). It is an important research task to understand why different countries have a varying ability of organizational innovation. Still another reason for the importance of organizational innovation is the growing scarcity of resources in the public sector. For example little, if any, productivity increase has taken place in the Swedish public service sector. There has been little pressure for organizational innovation. However, when, as the case is in Sweden at present, public incomes decrease due to both a reaction towards high taxation and contracting economy the imperative to innovate may grow.

Recently, a good deal of productive resources in the Nordic countries are being destroyed because of bankruptcies and unemployment. In order to this distraction to become what Schumpeter calls 'creative' new ways to combine the thus liberated resources are needed. Organizational innovation may be regarded as

one form for accomplishing new resource combinations.

Organization of the study

The study is organized as an international comparative study. One (or perhaps two) innovative organizational solution(s) is(are) selected from each one of the participating six or seven countries. Each innovation should concern the organization of an important activity in society. A description of the solution and its application is made. Then an investigation is made to find out if this solution would be effective also if it were applied in the other countries. Thereupon factors that hinder or facilitate transfer are investigated and ways to overcome obstacles are sought. Our experience from earlier international comparative studies are utilized in planning and carrying out the analysis (IDE, 1981, Child and Loveridge, 1990, Löwstedt, 1989, Liu, 1988, Kolodny et al., 1994).

The initial description of organizational solutions will be made of experienced organizational researchers living in each country. The analysis is carried out through detailed joint discussions between the participating researchers. The researchers' deep knowledge of their own country and its institutional setup will be utilized in addition to the material gathered. The often implicit knowledge one has about one's own country will effectively be made explicit when the researchers are required to explain to each other why certain organizational and institutional arrangements are prevailing in their country. The analysis is also facilitated by the fact that the researchers all have considerable knowledge from working in different countries and have good knowledge of different languages. In addition to providing insights into the question of transferability of organizational forms, the analysis is expected to give an understanding of how change can be brought about and institutional and cultural barriers be overcome.

Organizational innovations to be explored

The examples below have been discussed as possibilities for organizational innovations to be studied. Some preliminary work of gathering information about these cases has already begun. However, the final list of examples has not been decided as yet. In fact, there is no need to decide on all examples already at the beginning of the study but some cases can be selected at a somewhat later stage.

- I. Government sponsored programs to transfer technical and scientific knowledge to small and middle sized companies (example of an innovative approach: IRAP in Canada).
- II. The deliverance of social service. (Example of innovative ways to organize this activity: A new system for providing integrated service in the French 'prefecture'; 'Citymail' – a private alternative to organize postal services in Sweden).
- III. International exploitation of a business idea developed in one country (example: Tetra Laval's system for international marketing of industrial process equipment).
- IV. Continuous improvement, i.e. engaging personnel in development work parallel to their operative task (example: the 'Work-out' system of General Electric in the USA and the quality circles in Japan).

Questions to be asked about the innovative organizational solutions

The innovative examples of organizational designs chosen from each of the countries will be described in a detailed case study. The following questions indicate the focus of the case study:

- a. Which function/service is performed by the activity which has been organized in an innovative way?
- b. How are activities in the country traditionally organized which perform the same function as the chosen innovative example?

- c. How effective is the innovation in relation to traditional organizational designs?
 - d. Which consequences does the organizational innovation have for the employees commitment to work, their well-being and their possibilities for competence development? (More traditionally organized activities can be used as reference point.)
 - e. To what extent has the organizational innovation been associated with the introduction of other innovative ideas in the organization studied, for example new products and services?
 - f. In which way has the innovative organizational solution been associated with the introduction and use of new and more efficient technology?
 - g. Which institutional and cultural characteristics of the national context have contributed to the appearance of the organizational innovation?
 - h. To what extent has deregulation, increased competition or other changes in the environment of the activity contributed to the appearance of the innovative way of organizing?
- c. How effectively does the focal organization perform its function in relation to the best organized activity in your country?
 - d. If the focal organizational innovation were introduced in your country, would it then lead to a higher degree of effectiveness, a better working environment and more commitment to work?
 - e. Would an introduction of the focal organizational innovation mean that also other innovative ideas would be more easily adopted also in your country?
 - f. Would the way in which new technology is used in the focal organizational innovation be applicable also in your country?
 - g. Would the contextual conditions which mediated the appearance of the focal organizational innovation prevail also in your country?
 - h. Is the type of deregulation which contributed to the appearance of the focal organizational innovation happening also in your country? Is a similar type of competitive situation developing?
 - i. Do institutional, cultural or political obstacles in your country make a similar organizational innovation difficult or impossible? In which way could such potential obstacles be overcome?

Analysis of the possibilities of international transfer of the organizational innovation

The analysis of the possibilities for transfer will be carried out in sessions in which at least one researcher from each country participates. The innovative organizational solution from one country will be compared with how the activities aiming at performing the corresponding function in other countries are organized. The preparation for the sessions will therefore include some field work also in the other countries in order to describe how the function in question is performed. The following questions will guide the analysis:

- a. How is the activity corresponding to that one of the focal innovative organization usually performed in your country?
- b. Are there innovative solutions also in your country for how this function can be performed?

The analysis will be informed by available theories about organizational design and about the relationships between organizational design and national culture.

Similar to an earlier study we have performed (Kolodny et al., 1991) we are intending to structure the analysis according to a matrix format. One set of matrices will be devoted to each focal organizational innovation in each country. The columns will show the most important characteristics of the innovative design. The rows will contain factors which according to contingency theory, economic theory, institutional and cultural theory, are supposed to influence the appearance and implementation of the focal innovation in the country. Another set of matrices will be used for analyzing and explaining differences between each comparative case and the focal organization.

Practical and theoretical implications

An important theoretical contribution which the study may provide is a test of the hypothesis that organizational innovations can be regarded as an independent factor in economic and social development. Such an explanation is different from the ones provided both by traditional contingency theory and by post modern organizational theory. The traditional management theory tends to see the organization as deterministically preconditioned by given technological and contextual factors. On the other hand, post modern theory tends to see the organization as socially constructed and as an outcome of a game and negotiations between different actors. We are not claiming these two types of theory lack explanatory value. However, our aim is mainly to test whether organizational innovations can be regarded as being similar to technological innovations. It is widely recognized that technological innovations can trigger far reaching changes both in competitive conditions and in the conditions of work.

In addition we hope that we will be able to contribute to both organizational design theory and to the theory of organizational change (Stjernberg, 1993). The role of national culture is a much debated question in both these theoretical areas. Is national culture a factor hindering international transfer of organizational innovations or is it more a question of adapting organizational innovations to the specific culture of a certain country?

From a practical point of view, the study will contribute knowledge about organizational innovations that are available in some important areas of activity. In addition, the study aims at producing useable knowledge about hindering and facilitating factors when it comes to implementing and implementing organizational innovations.

We are explicitly choosing successful organizational innovations for study. Such innovations tend to be found in expansive and successful lines of activity. In addition, it is likely that the chosen organizations are good at putting new technology to work. In order to attract personnel competent enough to handle the new

technology, these organizations can be expected to have created a stimulating and positive work environment. The project should therefore be able to provide knowledge about organizational solutions which are interesting from the perspective of quality of working life.

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