Building an Organizational Culture that Promotes Innovation in IT Firms: A Conceptual Framework

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ABSTRACT

Conceptually, new technologies have affected individuals and organisations resulting to the rethinking of all the fundamental operating assumptions of many organisations and the roles in them. Organisations exist in a rapidly changing environment, necessitating responsive and often radical strategic capabilities. This strategic move has allowed organisations to create new demand, open up new market space, apply creative solutions to problems and exploit opportunities to enhance or to enrich people’s lives - innovation. The Information Technology (IT) industry is competitive by any market criteria used. Unlike its counterparts from traditional manufacturing industries, IT products have short shelf-lives (Mody et al., 1987) and appeal for customers and consumers. Survival for IT firms thus depends on a constant stream of new products and/or incremental efficiencies of existing products from the firm’s innovation assembly line. Within the technology industry, the market for IT products is perfectly competitive with little or no barriers to entry. This paper focuses on investigating why matured stage IT firms finds it so difficult to innovate. It will also assess some relevant growth strategies and further review related literature on how matured IT firms can build an organisational culture that promotes innovation. A new conceptual framework necessary to formulate strategies for surviving will also be developed and diagrammatically represented.

Keywords: Framework, Information Technology, Innovation, Organisational Culture, Strategic

1. INTRODUCTION

According to a report by Deloitte, a big accounting consultancy, “Today’s global technology executives face an intense new set of strategic challenges, characterized by an increase in disruptive, non-traditional competition, dramatic shifts in global markets, and growing dominance of the consumer. These, plus the ever increasing cadence and deployment of new technologies, make it even more difficult to stay on top” (Deloitte, 2007, pg. 2). This coupled with international standardization that makes product interoperability (Bonino et al., 1999)
and switching costs less of a barrier to both buyers and sellers of technology products (Jung et al., 2005; Porter, 1980; Beggs, 1989), make IT start-up firms get to speed quickly thereby making a dent in the market share of incumbent IT firms with little investments in capital.

In response to these challenges, there has been an increase in mergers and acquisitions activities in the IT industry as firms see that as an avenue for growth or the acquisition of new strategic assets to stay afloat. This restricts the problem to the strategic and more macro-level dynamics of the industry which like any other industry are periodic evolutionary episodes that drive consolidation and realignment as profits thin leading to exits from parts or whole segments of the industry.

2. REVIEW OF RELATED LITERATURE

In any entrepreneurially managed organisation there is the desire to grow the organisation and at an increasing pace. Entrepreneurially managed organisations provide an organisational culture that encourages employees to generate ideas, experiment, and engage in other tasks that might produce creative output. However, traditionally managed organisations prefer the growth to be more manageable so it does not unsettle the organisation by putting at risk the resources that the organisation controls as well as the jobs and power of top management.

2.1. Organizational Life-Cycle and Innovation

Organizational lifecycle theory has been used by organizational theorists to explain the evolution of firms (Greiner, 1972; Chandler, 1962). Haire (1959) modeled organizational development using the biological metaphor of living organisms transitioning through the stages of birth, growth, maturity, decline, and death. For organizations, he used the four stages of start-up, growth, maturity, and decline.

The startup stage usually involves entrepreneurs who, typically in the technology industry, are backed by venture capital (Hellman & Puri, 2002; Davila et al., 2002). At this stage companies source startup capital, hire workers, and start developing their products or services. Entrepreneurship represents a unique and distinct way of managing existing organisations as against traditionally managed organisations. The transferability of entrepreneurial orientation to contexts in which the task and business environments may be vastly different remains in question (Adler, 1991; Thomas & Mueller, 2000). Entrepreneurship and strategy have important implications on the performance and growth of the any organisation. Entrepreneurs face a lot of obstacles penetrating and establishing their footprint in the market dominated by incumbents. As a result they have to compete on the basis of innovative products and superior offerings with attractive propositions for their clientele. Failure of any key product at this stage spells doom for these new firms (Almus & Nerlinger, 1999). Towards the end of this stage, companies often experience rapid growth and hire a lot more employees in order to cope with the rising business opportunities.

The expansion at the startup stage continues into the growth stage where the firms ramp up their workforce and resources dramatically. Additional financing is usually needed at this stage to keep up with the rising expansion. Revenues also grow as companies penetrate the market and start taking market share from incumbents and/or carve a niche for their innovative products. In the technology industry the firms at this stage are likely to go public in order to cope with the financial resource needs or for the venture backers to cash out their investments. This public listing has enormous implications for the future survival of the firm. Firms now have to abide by rules of corporate management structure and governance including financial reporting and compliance rules (Carney, 2006). Management which hitherto has been fairly flat to speed up decision-making becomes hierarchical with the first possible signs of bureaucracy showing up (Rainey, 1983; Adizes, 1989). Employees are unlikely to notice a sudden change in the internal workings of the firms immediately as most...
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