

Integrated Approach to the Emerging National Management Models as Innovative Systems in the Context of Socio-Economic Transformation: Building on Cultural and Institutional Perspectives

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Extended Abstract

The processes of globalization and knowledge economy influence the development of national innovation systems. The focus on innovations highlights the importance various elements: firms' absorptive capacity, individuals as knowledge agents, and infrastructure for knowledge distribution. Various researchers (Whitley, 1992, 1998; Hall and Soskice, 2001; Hampden-Turner and Trompenaars, 1993; Anderson, 1997; Lundvall, 1992; Sorge, 1991, 1995; Clark, 2000) increasingly claim that national competitive advantages are determined by the specific patterns for managing the innovative processes, based on the society's cultural values and its institutional environment. As the globalization brings about a degree of incremental change even in the consolidated Western innovation systems, the developing countries as well as the countries undergoing the fundamental socio-economic transformation (e.g. post-Soviet Eastern Europe) are facing the challenge of unsettled institutional environment as well as underdeveloped social capital undermining their innovation processes. However, to succeed in global competition, these countries need to develop specific patterns for innovative activities by achieving an effective fit between the cultural and institutional aspects of their domestic systems.

Research problem:

The comparative studies in international management and innovation systems have so far been dominated by two major perspectives – *cultural* and *institutional*. The authors representing the *cultural* perspective (Hofstede, 1991; Trompenaars, 1993; Laurent, 1983, 1986) consider the national management/innovation systems to be primarily a product of value systems residing in the societies. Whereas the researchers supporting the *institutional* perspective (Maurice et al., 1982; Whitley, 1992; Hall, Soskice, 2001) regard the varieties of national management and innovation systems as derivatives of different *legal-institutional* settings. Both perspectives are criticized for their over-reliance on a historic discourse, *ad hoc* rationalization, and unclear causal links between the *structure* and *agency* (O'Reilly, 1996; Wilkinson, 1996). Neither of them is an effective instrument for evaluating the emerging national management and innovation

systems in the “newcomers” to globalization, such as the post-Soviet Eastern European countries. These countries are undergoing fundamental *institutional* restructuring, which, to become effective, needs to be accompanied with a corresponding change in *cultural* values. The traditional *cultural* and *institutional* methodologies, both stemming from the analysis the consolidated (mainly Western) innovation systems, fail to provide explanations to the dynamically changing environments. There has been very little attempt so far to bridge the gap between the two perspectives (Jaffee, 1999) or it was partially achieved only in the specific areas (O’Reilly, 1996).

Thus, the **research objective** is to propose the approach integrating the cultural and institutional perspectives for the analysis of the emerging innovative systems.

The research **methodology** is based on the concept of *triangulation* and combines the *descriptive analysis* with *surveys*, and *expert evaluations*. The integrated approach is constructed on the basis of the existing methodologies (Hofstede, 1980; Trompenaars, 1993; Whitley, 1992; Hall and Soskice, 2001; Lindell and Arvonen, 1996), while adjusting them for the purposes of this research.

Theoretical model and findings

A four-level model integrating the national management models as innovative systems has been proposed. First of all, it is based on the precondition that certain institutional environments, supported by corresponding values, lead to the specific patterns of innovative activities (Hall, Soskice, 2001; Lessem, Neubauer, 1994). Secondly, it is assumed that under conditions of institutional (and cultural) continuity, an organization’s performance and innovative processes are positively affected by its embeddedness in a wider (national) institutional (and cultural) context (DiMaggio&Powell, 1983; Newman, 2000).

On the *institutional* level, our research has shown that is practically impossible to use assess the newly emerging innovative systems by using the traditional dichotomies of economic governance, such as *market-hierarchy* (e.g. Whitley, 1992) or *market-network* (e.g. Hall, Soskice, 2001). We also suggest the distinction between at least two types of networks – *horizontal functional network* (acknowledging the importance of professional associations and grouping, e.g. in Germany) and *vertical clan network* (acknowledging the collectivist, personal authority-based systems, such as Japanese *keiretsu* or Korean *chaebol*). These generalized typologies of institutional systems are based on the traditional institutional parameters, such as: corporate governance, industrial relations, vocational training, inter-company relations.

On the *cultural* level, we take the classification proposed by Hofstede (1991, 2002) who, using his classical cultural dimensions (mainly – *power distance* and *uncertainty avoidance*), sets out four modes of economic organization: (1) “*village market*” – oriented to spontaneous and unstructured organizational solutions (associated with *market* institutional system and *radical* innovations), (2) “*pyramid of people*” – oriented to formal, hierarchical, *dirigiste* mode of governance (associated with *hierarchical* institutional system and *strategic*, sometime *adaptive*, innovations), (3) “*well-oiled machine*” – with an emphasis on functionally structured, bureaucratic organizational solutions (associated with *horizontal functional network* institutional system and *incremental* innovations), (4) “*family*” – with an emphasis on the collectivist and

informal vertical controls (associated with *vertical clan network* institutional system and *strategic, incremental* innovations)

The third and fourth level in our model regard the *managerial orientations*, which though closely related to *institutional* and *cultural* layers, may act as the specific situational variables in a dynamic transition environment. Thus, the methodology as proposed by Lindell and Arvonen (1996) has been integrated into our four-level model. Their research has shown that managers in South European countries tend to be more *task-oriented*, while the North European managers show more *orientation to employees*. An important finding of the study is that in the surveyed developed economies the managers in different countries possessed a similar level of *orientation to innovations*. So, in the context of our research, whereas the *task-orientation* and *employee-orientation* can be associated with certain national management and innovation systems, the *orientation to innovations* stands at the core of any functioning national innovative system.

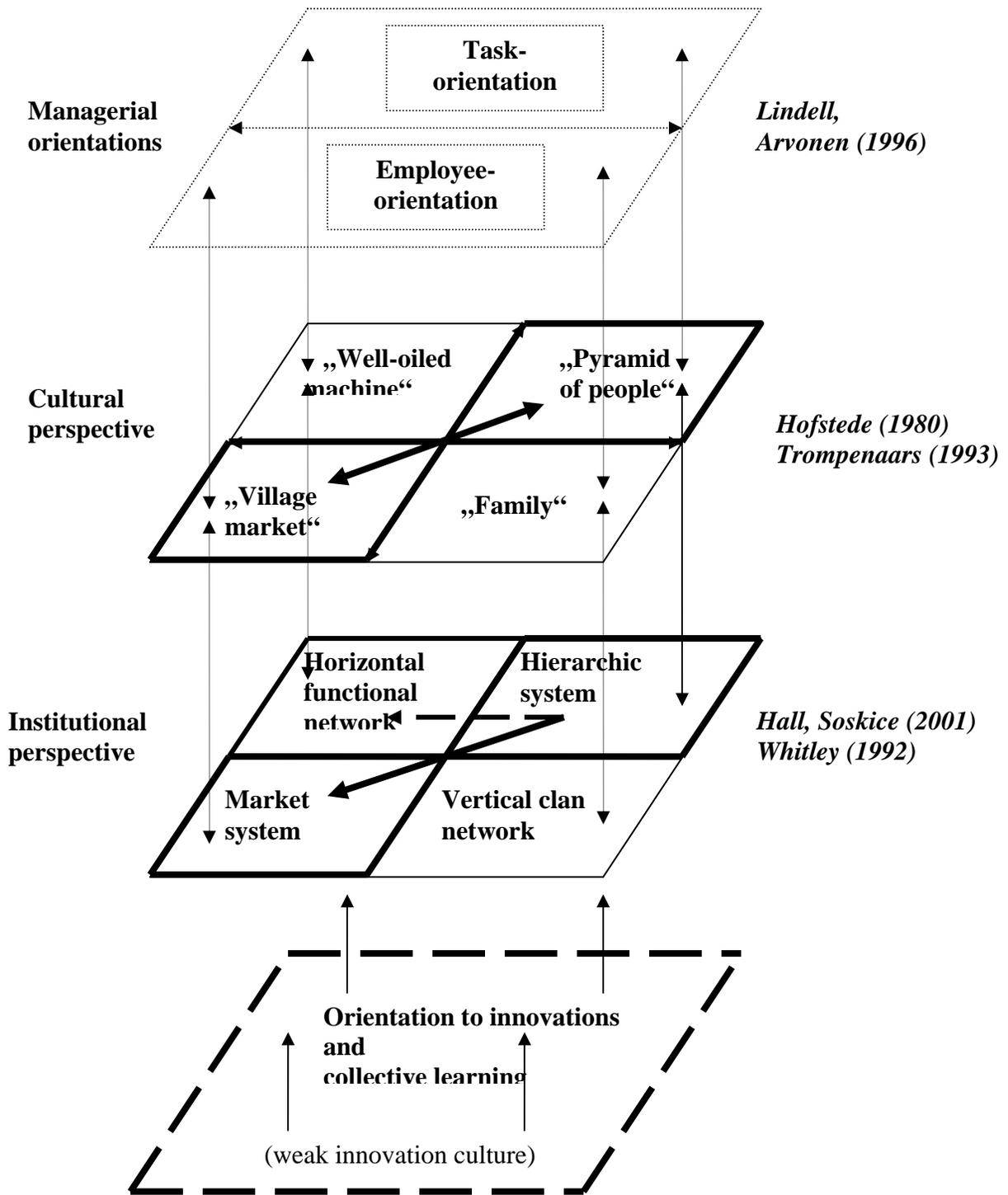
The constructed theoretical model was then used to evaluate the development of innovative systems and their patterns in a dynamic transition environment. The research was carried out in Lithuania that is a post-Soviet Eastern European country in transition as well as, recently, a new EU member state, and can be considered as a relatively successful case of the socio-economic transformation, which is still far from being over. The survey carried out inside the country has covered over 4000 respondents, and covered the samples of both *innovative* and more *traditional* parts of the society/organizations.

The research findings indicate an extremely institutionally and culturally complex transition environment. First of all, the research has proven the validity of adopted *integrated* approach as none of the traditional Western methodologies taken apart could effectively answer the research questions. The research has revealed a substantial degree of cultural and institutional diversity inside the country in transition that can be described as persisting cultural and institutional *path dependence*. Although it is hard to claim the presence of consolidated national innovation system, the findings indicate the co-existence of *hierarchy* and *market*-based forms of economic organization, both culturally and institutionally. The old *hierarchical* institutions have not been fully replaced by the more decentralized *market* institutions (meaning not the basic institutions of the market economy that are in place, but more advanced institutions underlying the productive activities, e.g. corporate governance system). The cultural values in a society-in-transition are quite polarized, and there is a gap based on the age and education of the respondents (younger, more educated respondents favoring *market* solutions, older, less educated – preferring *hierarchies*). However, from innovation perspective, neither *hierarchy*-, nor *market*-based system is likely to produce the types of innovations that meet the expectations of the “latecomers” in global economy (Storper *et al.*, 1998), such as the Eastern European countries. There is little scope for the *radical/basic* (embedded in *market*-based system) and *strategic* innovations (embedded in *hierarchy*-based system) in the given institutional and cultural environment. Given the limited existing knowledge-base and physical-financial resources, it is far more prospective to build upon the existing competences/strengths than to seek *fundamental* improvements in products and processes. However, the *incremental* innovations are dependent on the degree of cooperation and trust in the socio-economic system that obviously lack in a transition environment. There is still a significant gap between *de jure* and *de facto* situation – the formal institutions envisaging cooperation and social dialogue are established, but they

remain unsupported by the social conventions and cultural values. Given a still persisting cultural support to the *hierarchical* solutions, the innovation policy makers risk to impose the bureaucratic regulatory mechanisms impeding rather than promoting innovative activities. According to the research findings, the managers are much less innovation-oriented than they are oriented to the task or their employees, which is another source of concern. However, the transition environment must be treated in all its complexity – people in Eastern European countries place much higher emphasis on the *materialist* values; they are more eager to accept the new organizational methods that bring extra economic value; the increased cultural diversity implies a wider “cultural repertoire” for both innovative and traditional organizations to choose from. The existing diversity and paradoxes in the context of innovations are further revealed and elaborated in the paper.

The overall model representing the integrated approach to the emerging national management models as *innovative* systems in the context of socio-economic transformation (encompassing *cultural* and *institutional* perspectives) is presented in the Picture 1.

The paper is based on the research and findings of author’s doctoral research carried out at Kaunas University of Technology (Lithuania), Lund university (Sweden), European University Institute (Florence, Italy).



1 Picture. Integrated approach to innovative systems in a transition environment

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