Management’s devotion to innovation, not mergers, key to success of tech firms

Orient your firm towards innovation, then target smaller firms to bring in further creativity and innovative cultures. PHOTO | FOTOSEARCH

IN SUMMARY

Innovation stands as a desirable organisational outcome that critically boosts short-term and long-term organisational outcomes such as customer growth, market penetration, client satisfaction, and firm revenue growth.

In 2001, tech giants Hewlett-Packard Company and Compaq Computer Corporation, both publicly traded firms on the New York Stock Exchange, shocked the technology world by announcing their merger to create an $8.7 trillion technology behemoth.

The two firms operated similar business lines and endeavoured to maximise on efficiencies by reducing staff and benefiting from shared resources to form the then largest server, personal computer, imaging, and printing company in the world.

Hewlett-Packard stood as the dominant player in the merger. Its executives recognised that it struggled with creativity and innovation. Therefore, the entity strategised over the fastest way to bring an innovative culture to the company.

The board settled on acquisition as the best course of action and identified its target. Compaq, in contrast, thrived as an innovative leader in the technology industry. The firm benefited from creativity along its supply chain, processes, human resources, and products at the time. The two companies’ boards agreed to a merger.

Unfortunately for the new combined organisation, the entity did not realise gains in innovation. As research conducted by Scott Helm and Fredrik Andersson confirm, a corporate culture allowing and championing risk taking by staff and fostering proactiveness stand as key antecedents, or causes, of innovation within a firm.

Claus Langfred further researched the role of individual and team autonomy positively influencing innovation and organisation performance. The new Hewlett-Packard placed their own trusted managers in charge of most company departments. It hoped that Compaq employees would diffuse their innovative and creative practices into the Hewlett-Packard dominated infrastructure.

Such approaches did not work. Retaining the bureaucratic rigid management overseeing formerly creative employees kills risk taking, eliminates rewards for proactiveness, and stifles autonomy through too much oversight and mountains of approvals.

Numerous Business Talk articles in the Business Daily highlight the positive impact that innovation holds on firm performance. Innovation stands as a desirable organisational outcome that critically boosts short-term and long-term organisational outcomes such as customer growth, market penetration, client satisfaction, and firm revenue growth.

Google acquired dozens of smaller technology firms in the past 15 years including Android in 2005, YouTube in 2006, Motorola Mobility in 2011, and QuickOffice in 2012.

Researchers Michael Hitt, Robert Hoskisson and Duane Ireland specifically look into the gains that parent companies may gain from acquisitions or dominant firms from mergers. Do the outcomes warrant the acquisition effort unlike in Hewlett-Packard and Compaq? The answer? It depends on the managerial commitment to innovation. If an arguably historically lethargic firm like Xerox would buy Snapchat, as an example, then Xerox would need its executive and mid-level management committed to innovation or else the benefits of Snapchat’s corporate culture of creativity would get lost in the newly combined entity.

Similarly, if formerly innovative but declining firms and departments like Twitter, MySpace, or Polaroid merged with Forbes magazine’s most innovative companies Apple, Amazon, or General Electric, managerial buy-in towards innovation and creativity must occur or the new culture could kill-off performance of both units in the combined firms.

How might a firm ensure managerial commitment to innovation? The resulting conditions following completion of an acquisition affects managerial intent. If a board of directors utilises acquisition as a substitute for developing innovation internally, then the results of the purchase would become lackluster. Boards must watch out for a decrease in innovation following an acquisition in most instances.

Negative relationship

Acquisitions result in larger combined organisations. Innovation often exists in a linear negative relationship with firm size. The larger the company then the lower the potential for innovation without intentionality. Organisations pass through various degrees of organisation. Larger firms typically become over-organised. Instead of few approvals required in smaller firms, larger firms usually introduce multiple processes, policies, and procedures in order to standardise and control every aspect of firm activity.

Firms like Google famously buck the over-organised trend for large companies by intentionally building in autonomy and eliminating bureaucracy at all levels of the organisation. Employees even famously can control 20 per cent of their own work time to focus on any project they choose. Google birthed some of its most impressive innovations through 20 per cent time such as Google Maps, Gmail, and Google News.

So, orient your firm towards innovation. Then, target smaller firms to bring in further creativity and innovative cultures to your organisation. Should large Kenyan technology firms such as Craft Silicon or Safaricom buy smaller innovative technology companies like TracoPay or Djuaji? Should the large players buy one of the business incubators or shared spaces to benefit from new innovative technology thinking that may come from NaiLab, mLab, or iHub?

Take a look at your own firm. What is your propensity towards innovation? Does your firm retain a solid history of first-in-market processes or products? Which Kenyan companies do you find might make logical merger targets?

Discuss innovation with other Business Daily readers through #KenyanInnovation on Twitter.

Scott may be reached on scott@ScottProfessor.com or on Twitter: @ScottProfessor