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*There is an abundance of ideas in organizations, but they tend to fail at implementation.*

# Barriers for innovation implementation: the middle managers' obstacle course in the financial services sector

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*...this is for you. I do not know who you are yet, how you will look like or how you will be, the only thing I know is that you will be here in April of 2017.*

## Abstract

This inductive, qualitative research looks at the implementation of innovations within the Dutch financial services sector. Most organizations struggle to successfully implement innovations. The focus in this thesis is on the obstacles encountered at middle management level when innovations are implemented. This research groups obstacles by three aggregate dimensions: (1) managerial implementation skills, (2) innovation context and (3) individual attitudes towards innovation. As most innovations studies tend to provide a rather normative description of the ideal circumstances for innovation, gaining a more profound insight in prevailing obstacles can give guidance on which issues need to be addressed first, to give innovation a better chance.

**Keywords:** innovation, implementation, middle management, obstacles, financial services sector, management innovation

## Index

## 1. Introduction

For most companies coming up with ideas is not the hardest part. They however do struggle with the successful implementation of innovations (Vermeulen 2004; Verganti 2016; Levitt 2002). Organizational analysts are increasingly viewing implementation failure and not general innovation failure as the reason why organizations do not reap the full benefits of an innovation (Klein and Sorra 1996). Implementation failure means that innovations are not widely adopted throughout the organization (Gopalakrishnan and Damanpour 1997; Klein and Sorra 1996; Damanpour 1991, Damanpour 1996). The 'ability to innovate effectively is increasingly considered as a strategic resource' (Gopalakrishnan and Damanpour 1997, p. 22). Although much has been written about innovation, there is a lack of insight why innovations fail at implementation.

We will limit our analysis to the middle management level of an organization. Middle managers are widely recognized as having a crucial role in promoting, realizing or stifling innovations (for example: Huy 2001; Hornsby et al. 2002; Floyd and Wooldridge 1992; Nonaka and Takeuchi 1995; Quinn 1985). Several obstacles can however make middle managers less willing or able to facilitate innovative behavior (Hornsby et al. 2002). Middle management is crucial to innovation as they reconcile top-level perspectives with implementation issues at lower organizational levels (Kuratko et al. 2005). Middle management should function as a permeable layer between the ideas of top level managers and operational level (Volberda and Bosma 2011).

This research is conducted in the financial services sector. Western economies depend heavily on the service sector (Nijssen et al. 2006; Flikkema et al. 2007; Dobbs et al 2015). The large market capitalization, strong competition and the drivers of innovations in financial services make it a fine exemplar for innovations in a broader service context (Lyons et al. 2007). The financial services sector includes banks, building societies, insurance companies, securities dealers and trust companies (Drew 1995; Oke 2007). The financial services sector has had a rough decade with the global financial crisis. The crisis led to stricter supervision and more meddling by regulators. The financial crisis has given financial service organizations a bad reputation and has left consumers dissatisfied and more open to trying alternatives (Krawcheck 2012; The Economist, august 2015). Furthermore, customers are better informed than ever due to the digital revolution (Thaler and Tucker 2013). This significantly changed the relationship between the financial service organization and their client. Finally, the financial service sector is increasingly feeling the pressure of new competitors from different angles like PayPal, Google Bank and Apple Pay but also from smaller peer-to-peer lending platforms and robo-advisors (The Economist, June 2015). These parties have different rules and have an agility and aggressiveness that large organizations struggle to reach (Dobbs et al 2015). Especially the millennials (aged 18-34) are increasingly looking at alternatives for the traditional bank that better suits their needs. All this

means that the financial services sector needs to reinvent itself and create better customer value (Sull 2010; Volberda et al 2013A; Edelman and Singer 2015; Bertoloni et al 2015).

Although it is clear that innovation is important to the financial services sector, the sector tends to score below average on innovativeness (Volberda and Bosma 2011). They do try to innovate but insufficiently succeed. Recently one Dutch bank started a start-up platform to better capitalize on innovative ideas inside and outside the organization and another bank started a similar platform with Google. Expectations are high but the question is if these platforms will indeed bring the necessary change? This was the trigger to take a closer look at how innovations are implemented in financial service organizations. Why do these financial service companies rely on a separate organizational construct to improve innovation? Are the current organizational structures and systems not capable of meeting innovation needs?

The objective of this research is to understand the obstacles that are encountered at middle management level when implementing innovations. An inductive qualitative study within a large financial services organization was conducted. In which five middle managers, one operational manager, two innovation managers and one contributor to the startup platform were interviewed. Innovation is an important strategic theme within this particular organization. A theme which is associated for them with multiple challenges on operational and strategic levels. The interviews were aimed at getting a better understanding of the innovations that are pursued and the problems they encounter at middle management level while implementing these innovations.

The first challenge in this research was to find out which type of innovation financial organizations are currently pursuing. Innovation can be categorized on the basis of different dimensions (Volberda et al 2013A). There is a distinction between radical and incremental innovation (Dewar and Dutton 1986; Ettlie et al 1984), product and process innovation (Utterback and Abernathy 1975) and management innovation and technological innovation (Daft 1978; Emery and Trist 1960; Volberda et al 2011, 2013A, 2013B; Jansen et al 2006; Birkinshaw et al 2008). It was eminent from the interviews that the main focus is on management innovation. Secondly, this paper develops insights into the obstacles that are encountered at middle management level with implementation of innovations. The obstacles are divided into three aggregate dimensions: managerial implementation survival skills, innovation context, and individual attitudes toward changes.

The structure of this thesis is as follows. The next section of this thesis introduces the theoretical background and outlines the challenges at middle management level for the implementation of innovations in service organizations. The methodology provides a representation of the results in the light of existing theory and finally limitations and suggestions for future research will be discussed.

## 2. Theoretical background

### *2.1. Innovation in services*

There are a lot of different definitions of innovation but all agree that innovation usually involves 'something new' (Vermeulen 2004). My personal view is that innovation includes the generation of new and useful ideas as well as putting these creative ideas in practice (implementation). This is in line with the definition of innovation used by Lyons et al (2007) and Klein and Sorra (1996). The focus is on the perspective of the user (i.e. Klein and Sorra 1996), from the user's awareness for a need to change till the consistent and committed use of the innovation by organizational members. To not limit the research, we include ideas that are new to the organization, new to the industry and new to the world. Most managers use 'new to the organization' as criterion for innovation (Cobbenhagen 1999). Innovations that are new to the industry or new to the world are more scarce (Flikkema et al 2003).

Innovation in service organizations has some unique characteristics. Innovation in service organizations is largely market-driven (Sundbo 1997) due to the close relation to customers (Gadrey 1994). Service organizations typically do not have large R&D departments or high R&D expenditures (Nijssen et al. 2006; Sundbo 1997). Innovation and development activities are less formalized (Oke 2007; Sundbo 1997) and innovations are less scientifically based (Sundbo 1997). Ideas for innovation come from all parts of the organization instead of a specialized department (Lyons et al. 2007) and from competitors and the overall external network of the firm (Sundbo 1997; Oke 2007). Innovations in service organizations tend to be more incremental and fluid (Sundbo 1997; Lyons et al 2007; Oke 2007).

Research on innovation in service organizations tends to focus on new service development (NSD) (Nijssen et al 2006; Drejer 2004; Coombs and Miles 2000, Oke 2007; Sundbo 1997). New service development refers to new developments in the core offerings of service organizations (Oke 2007). It is product innovation taking into account the specific characteristics of services like intangibility, co-creation with customers, perishability, heterogeneity and simultaneity of service production and consumption (Oke 2007; Nijssen et al. 2006; Flikkema et al 2003; Vermeulen 2004) that affect the development process of services. Due to the 'real-time production of new services' new service development usually goes hand in hand with changes in the service delivery process and the skills of frontline employees (Nijssen et al 2006, p 242). In service organizations product innovation and process innovation often coincide, blurring the boundaries between the two (Van der Aa and Elfring 2002). Front- and backoffice typically work closely together in service organizations. While frontoffice is more focused on satisfying customer needs, backoffice emphasizes more on maximizing efficiency and output (Menor et al 2002). This tension in objectives is also present in NSD, suggesting that organizational inertia can seriously hinder new service development. For NSD it is therefore especially

critical to have a clear vision and commitment, good communication and coordination and minimal intra-organizational conflict and struggle of power (Nijssen et al 2006).

More recent studies stress the importance of organizational innovation (Van der Aa and Elfring 2002), management innovation (Hamel 2006; Mol and Birkinshaw 2006, 2008 and 2009; Damanpour and Aravind 2012; Volberda et al 2013B) or *'sociale innovatie'* (Volberda and Bosma 2011; Volberda et al 2013A). Organizational innovation is the development and implementation of new organizational formulas (Van der Aa and Elfring 2002). Management innovation refers to new management practices, processes and structures (Birkinshaw et al 2008). Volberda et al (2013B) add to this definition of management innovation by stating that this type of innovation leverages the organization's technological knowledge base and its performance in terms of innovation, productivity and competitiveness. This definition is congruent with *'sociale innovatie'* (Volberda and Bosma 2011; Volberda et al 2013A). Organizations striving to offer new products and services, should first change their organization, management and way of working (Volberda et al 2013A). To gain a sustainable competitive advantage, service organizations should be willing to fundamentally change their way of working (Volberda and Bosma 2011). Innovation of products and services alone no longer suffices, as these can be more easily copied by competitors (Volberda et al 2013A). Commoditization is a greater danger in services than in physical products as innovations are easier to copy and there are generally fewer patent protections, lower front-end capital investments and shorter product cycles (Lyons et al 2007; Sundbo 1997). Management innovation is hard to imitate and contributes to a more sustainable competitive advantage (Volberda et al 2013A; Birkinshaw and Goddard 2009; Mol and Birkinshaw 2009). Its success is highly dependent on the interpretation within the specific organizational context. Innovation success is largely determined by social factors like management capabilities, experience and skills of employees, organizational structure, intra-organizational cooperation and way of working and only partially by technological innovation (Volberda and Bosma 2011). Success is measured in terms of increased productivity, innovativeness, market share, revenues and profit. But it also contributes to non-financial measures like employee satisfaction, retention and involvement (Volberda et al 2013A).

Innovation does not happen spontaneously, even when ideas are present (Grant 2016; Flikkema et al 2003; Volberda and Bosma 2011). Innovation in service organizations is stimulated by an innovative climate (Flikkema et al 2003; Volberda and Bosma 2011). An innovative climate provides leeway and appreciation for innovative activities, ensures support and resource allocation to innovation efforts and keeps managers and employees innovation-minded. Trust, openness, interest, curiosity, respect and margin for error are important for an innovative climate (Volberda and Bosma 2011). There is some overlap here with the construct of 'service innovation culture' (Lyons et al 2007). Service

innovation culture is defined as 'the consistent, coherent, and comprehensive presence of values and norms that promote fresh thinking and swift execution in service firms' (Lyons et al 2007, p 175). The innovation culture is promoted by organizational structures and processes, including formal and informal incentives, socialization, role modelling and possibilities for sharing information (Lyons et al 2007). Cultural norms can be a powerful way of stimulating innovation by 'attaching social approval' to activities that support innovation (Lyons et al 2007, p179). Services is the work of people, making monitoring quality and delivering consistency more difficult (Lyons et al 2007; Oke 2007). Managers have to trust they hired the right people, give them latitude to do their jobs and hold them accountable for their decisions in the light of long term strategic objectives (Lyons et al 2007). Strong norms and values and access to the best information and tools help to guide behavior towards quality, consistency and reliability.

### *2.2. Implementation of innovations*

Most studies define innovation as a process starting with ideation or idea generation ultimately leading to diffusion or implementation to put these ideas in practice (Tushman 1977; Hansen and Birkinshaw 2007; Vermeulen 2004; Oke 2007; Gopalakrishnan and Damanpour 1997; Pierce and Delbecq 1977). Although innovation is often depicted as a linear process, innovation in service organizations usually does not follow a simple linear sequence of stages and sub-stages but is rather a complexity of 'innovation ideas and divergent paths of activities by different organizational units' (Van de Ven 1995 p275). Furthermore, service organizations often do not have a formal process in place for implementing new ideas (Oke 2007). Innovations in service organizations tend to take on a life of their own, although it is argued that the implementation phase can be managed more rationally (Sundbo 1997).

For most organizations idea generation is relatively easy, but they do struggle with the successful implementation of ideas (Vermeulen 2004; Verganti 2016; Levitt 2002; Huy 2001). Many organizations are confronted with an abundance of ideas but struggle to identify and capture big opportunities (Verganti 2016; Levitt 2002). Selection and portfolio management is about efficiently selecting the best ideas for implementation from the many ideas that are generated (Oke 2007). Organizational analysts are increasingly viewing implementation failure and not general innovation failure as the reason why organizations do not reap the full benefits of an innovation (Klein and Sorra 1996).

Goffin and Pfeiffer (1999) argue that successful innovation management requires good and integrative performance in innovation strategy, creativity and idea management, selection and portfolio management, implementation management and human resource management. Organizations successful in innovation tend to have a "strong commitment to innovation", "well-structured innovation efforts" and "substantial resource allocation to their innovation efforts" (Nijssen et al.

2006, p 242). There is a high top management involvement in innovation and high quality staff and other resources. Drew (1995) identifies a set of factors that accelerate the pace of innovation, which are an organizational climate with a strong commitment for innovation, strategic planning for innovation, linking rewards to innovation use and skill development, hiring new skills, separate innovation department, proactive approach, involving employees and customers in innovations for a strong market orientation and setting the right goals and targets.

Implementation is where the new ideas are turned into new products, services or processes (Oke 2007). Innovation implementation is 'the process of gaining targeted employees' appropriate and committed use of an innovation' (Klein and Sorra 1996, p 1055). Sustained implementation means that the innovation is completely assimilated into the organization (Gopalakrishnan and Damanpour 1997; Klein and Sorra 1996; Damanpour 1991, Damanpour 1996). Success of implementation is measured by 'the extent of integration of the innovation into the organization and its contribution to organizational conduct and outcome' (Gopalakrishnan and Damanpour 1997, p 17). Since organizations do not operate in a vacuum, the speed-to-market (Drew 1995) or the timing of innovations (Gopalakrishnan and Damanpour 1997) also becomes an important measure for successful innovations. Implementation failure occurs when, despite a decision made by management to implement a certain innovation, the innovation is used less frequently, less consistently or diligently by employees than is required to get the full benefits from the innovation at hand (Klein and Sorra 1996).

Implementation effectiveness is determined by both the strength of an organization's climate for implementation and the perceived fit of the innovation to targeted user values (Klein and Sorra 1996). A strong implementation climate fosters the use of an innovation through (1) ensuring user skills, (2) providing rewards for the use of the innovation and penalties for those who avoid using the innovation and (3) removing obstacles to innovation use. When innovations fail to fulfill values of the user, implementation will cause opposition and resistance from employees. A good fit in combination with a strong implementation climate however is proposed to lead to a committed, consistent and creative use of the innovation. Implementation effectiveness combined with the quality and strategic fit of the idea itself determines the success of the innovation and the benefits achieved by the organization. Innovation success refers to the benefits for the organization that result from implementing a specific innovation, for example in profitability, productivity, customer service or morale (Klein and Sorra 1996).

Service companies have a strong tendency to source and capture ideas externally (Oke 2007). Competitors (Oke 2007) and external agents (Birkenshaw et al 2008) are important sources for new

ideas, since ideas are mostly easy to copy. Volberda and Bosma (2011) warn that externally acquired knowledge can only be fully utilized when the organization has the key levers for management innovation in place: dynamic management, flexible organizing and working smarter. The external knowledge will otherwise not be absorbed by the organization to reach its full potential.

Since leadership plays an important role in innovation in a service context, our attention is now turned to the challenges that are encountered at middle management level with implementing innovations.

### *2.3. Middle management and the implementation of innovation*

Middle managers tend to have a bad reputation as being unimaginative and resistant to change (Huy, 2001). Middle managers tend to be more conservative than top managers (Volberda and Bosma 2011). Middle management is often depicted as an impermeable layer where ideas from top to bottom and vice versa get stranded. Managers using their authority in their own interest and killing or modifying new ideas impede innovation (Hamel 2011). To foster innovation, the middle management level should be a permeable layer (Volberda and Bosma 2011).

Several studies emphasize that it is middle management that is crucial to the success of innovation processes, because of their central organizational position (Nonaka and Takeuchi 1995; Kanter 1982; Hornsby et al. 2002) and their influence on culture and climate (Volberda and Bosma 2011; Lyons et al 2007). Top managers set the strategic framework for innovation, but are generally not the innovators nor the driving force in the innovation process (Sundbo 1997). They are too isolated from day-to-day operations (Hamel 2011; Quinn 1985). Middle-management on the other hand has the knowledge of the external environments and internal operations and are in a better position than top-management to assess the viability of alternative strategies (Hutzschenreuter and Kleindienst 2006; Rouleau and Balogun 2011; Floyd and Lane 2000; Burgelman, 1983; Wooldridge and Floyd, 1990). Middle managers are expected to propose and interpret entrepreneurial opportunities that might create new business or improve competitiveness in current business domains (Hornsby et al 2009). Thanks to their position close to operations and customers, middle management can “conceive, suggest and set in motion new ideas that top-management may not have thought of” (Kanter 1982 p152) and thus be crucial for innovation (Huy 2001). Innovation flourishes under the right climate, mentality, atmosphere and culture. Middle management is the driving force for creating this innovative climate (Volberda and Bosma 2011).

Following Kuratko et al. (2005) this research divides managers into three categories: top-level managers, middle-level managers and operating-level managers. In general, the role of top-level managers is mainly strategic (Kuratko et al. 2005) whereas the role of middle-level managers is more concerned with the implementation of strategic actions (Fulop 1991). Middle managers have a central

position in information flows between top-level and operating-level managers (Kuratko et al. 2005). Operating-level managers are concerned with the day-to-day operations and absorb external information (Kuratko et al. 2005).

Middle managers have a diverse role (Northouse 2013), with innovation only one of the themes on their plate. Middle managers have the challenging task of balancing continuity and change to prevent organizations to end in either inertia or chaos (Huy 2001; Tushman and Romanelli 1985). Middle managers are responsible for keeping the organization working efficiently. The focus is on improving efficiency and productivity, in other words exploitation (Volberda and Bosma 2011). With an increasingly important role in innovation and knowledge creation or exploration (Volberda and Bosma 2011) middle managers need to balance their energy to find the right mix of the two (Huy 2001). This is a popular theme in recent studies and refers to ambidexterity (Volberda and Bosma 2011; Volberda et al 2013A). This balancing act, or 'tightrope artist' as it is called by Huy (2001), is a great challenge for middle managers nowadays (Volberda et al 2011). Some organizations divide exploration and exploitation between different business units (structural ambidexterity) or over time (temporal ambidexterity) (Volberda and Bosma 2011), making it possible for middle managers to focus on either exploration or exploitation. Increasingly scholars recognize that exploitation and exploration should be balanced simultaneously, which is referred to as contextual ambidexterity (Gibson and Birkinshaw 2004, Lavie et al 2010). This means that middle managers have to divide their attention between the two and stimulate ambidexterity among lower levels (Gibson and Birkinshaw 2004). The financial service sector as a whole tends to score rather low on ambidexterity (Volberda and Bosma 2011).

Middle managers in a service context are instrumental in creating and fostering a climate and culture that encourages innovation (Lyons et al. 2007; Hornsby et al. 2002; Volberda and Bosma 2011), managing for example incentives, open information flows and risk perceptions. Dynamic management is a way to contribute to the ability of an organization to change (Volberda and Bosma 2011). Through informal management, dynamic managers are able to develop a collective ambition, common values and identity that drive innovation and stimulate the horizontal development of knowledge that transcends the boundaries of the own business unit (Volberda and Bosma 2011). This promotes mutual trust and understanding to transform ideas and knowledge into innovations. By exhibiting consistent and integer behavior, delegating tasks and clear communication, managers play an important role in creating, fostering and increasing the level of mutual trust. The dynamic manager respects the autonomy of employees and fosters their involvement with an active, charismatic and inspiring management style. Instead of telling employees what to do, dynamic managers constantly communicate the organizational vision and objectives for innovation to guide behavior (Nagji and Tuff 2012; Hamel 2011; Volberda and Bosma 2011; Hamel and Prahalad 2005). Employees are held

accountable for the decisions they make in the light of organizational objectives (Volberda and Bosma 2011). By giving employees more authority to act and also give them the recognition when initiatives for innovation are successful, employees will take more initiative and take more responsibility (Hamel 2011; Birkinshaw and Goddard 2009; Amabile 1998). Employees understand that it is also their responsibility to take the lead in innovation instead of waiting for what comes from above (Hamel 2011). Dynamic managers stimulate high level learning with a reflective management style leaving room to learn from mistakes (Volberda and Bosma 2011). A strong culture is still open to external influences (Volberda and Bosma 2011; Birkinshaw and Goddard 2009) and encourages debate and conflict (Lyons et al 2007).

Middle managers have an important role in synthesizing, disseminating and sharing critical information openly, consistently and transparently due to their central organizational position (Kuratko et al 2005; Lyons et al 2007). Employees are more likely to generate useful ideas and make the right decisions when they 'feel confident that they are well informed and aware of top strategic aims' (Lyons et al 2007, p186). Middle managers champion ideas and facilitate information flows from lower levels to top-level as well as sell the potential of top-level ideas and translate top-level perspectives to the primary implementers, being first-level managers and the employees directly below (Kuratko et al 2005; Hornsby et al 2002; Kanter 1982; Nutt 1987; Schendel and Hofer 1979; Walsh 1995; Nonaka and Takeuchi 1995; King et al 2001). Next to the lower level and top-level ideas, middle managers can also be a source of ideas themselves (Huy 2001). Furthermore, middle managers also acquire external ideas and knowledge by building alliances with external stakeholders (other organizations, research institutes, clients, suppliers) (Volberda and Bosma 2011).

Management is paramount to drive innovation efficiently and effectively (Oke et al. 2009). Managing innovation involves managing idea generation, selection and portfolio management and implementation management within an overall innovation strategy (Goffin and Pfeiffer 1999). Managing idea generation is about stimulating and capturing useful ideas. Selection and portfolio management is choosing the most promising ideas for implementation (Goffin and Pfeiffer 1999) and kill of the rest (Nagji and Tuff 2012). Middle managers choose which ideas to support from top-level and lower level (Kuratko et al 2005). This calls for a strong absorption capacity enabling them to quickly asses if and where change is needed (Volberda and Bosma 2011). Since the idea generators feel a sense of ownership and pride in their ideas, it is important for the middle manager to clearly communicate with them what is being decided, by whom and why to keep everyone involved and enthusiastic (Nagji and Tuff 2012). Implementation is turning new ideas into new products, services or processes. Middle managers identify, acquire and deploy the resources needed to realize the innovation (Kuratko et al 2005). They make the decision to redirect resources from existing operations

towards new and promising innovations. They coordinate operational activities to steer different contributions towards one innovation (Hamel 2011; Birkinshaw and Goddard 2009). Implementation demands effective coordination and problem solving across functional areas (Morton 1971). Successful implementation requires clear and compelling communication throughout the organization (Huy 2001). It is important to get informal networks on board. Middle managers usually have better connections to these informal networks than top level managers (Huy 2001; Hornsby et al. 2002). The persistence of middle managers is needed to maintain the energy and enthusiasm from idea generation to realization and diffusion of an innovation (Waldman and Bass 1991). They address risks associated with innovation at both the organizational levels as well as the individual level (Lyons et al. 2007). They address the emotional well-being of employees during change. They overcome resistance and fear to ensure that innovations don't lose momentum during implementation (Huy 2001). Managers make sure that employees possess the right skills for the skillful, consistent and committed routine use of an innovation (Klein and Sorra 1996). By helping employees see the benefits of an innovation and the fit with their values middle managers can ensure more commitment (Klein and Sorra 1996). As innovations progress, the role of middle managers changes from a nurturing role encouraging creativity and idea generation to a more structuring role to implement innovations (Waldman and Bass 1991).

It is important to understand why middle managers engage in innovative behavior and what motivates them to keep it up (Kuratko et al. 2005). Top management support, autonomy, appropriate rewards, time availability and organizational boundaries influence the extent of innovative behavior displayed by middle managers (Kuratko et al. 2005). Hornsby et al (2002) mention appropriate rewards, top management support, resource availability, supportive organizational structure and tolerance for failure in risk taking as the main organizational factors that influence whether or not middle management participate in the development and implementation of new ideas. The extent to which middle managers feel that their behavior has a direct impact on the outcomes of the organization could also affect their motivation for innovative behavior (Kuratko et al 2005). In contrast middle managers also face challenges that limit their willingness and ability to show and facilitate innovative behavior (Hornsby et al. 2002). We will discuss a few of these limitations in the section below.

### *2.4. Obstacles at middle management level with implementing innovations*

This research focusses on the challenges middle managers face during the implementation of innovations. As discussed earlier, innovation implementation 'is the process of gaining targeted employees' appropriate and committed use of an innovation' presupposing that the decision for a particular innovation is already made (Klein and Sorra 1996). The challenges faced at middle management level can make innovation lose momentum (Waldman and Bass 1991) and stifle the use

of an innovation and consequently the effect on organizational performance (Klein and Sorra 1996). Implementation highly depends on the management's ability to overcome these obstacles (Hornsby et al 2002). If obstacles are hard to overcome, they can demotivate middle managers, making them less willing or completely unwilling to participate in implementation. This puts the viability and survival of an innovation project on the line (Hornsby et al 2002). Middle managers are less likely to engage in innovation if they perceive that the outcomes will not meet or exceed their expectations and if they feel that their efforts do not affect performance (Kuratko et al 2005).

Possible obstacles at middle management level are lack of middle management involvement in selecting the innovation (Klein and Sorra 1996), time and resource restrictions (Hornsby et al. 2002; Kuratko et al. 2005; Klein and Sorra 1996; Floyd and Lane 2000), lack of autonomy (Kuratko et al 2005), lack of top-level support (Hornsby et al. 2002; Currie and Procter 2005; Lyons et al 2007; Nijssen et al 2006; Drew 1995), inadequate skills of middle managers (Dutton and Ashford 1993; Verganti 2016; Cohen and Levinthal 1990), fear and resistance (Abrahamson 2000; Lyons et al 2007; Huy 2001; Klein and Sorra 1996) and organizational politics and inertia (Hornsby et al. 2002; Nijssen et al 2006; Vermeulen 2004; Drew 1995).

Important to the innovation climate is management's support for a particular innovation. In an innovative climate middle managers and employees are involved in generating and selecting ideas (Volberda and Bosma 2011, Nagji and Tuff 2012), but this may not always be the case (Guth and MacMillan 1986; Klein 1984). Innovations are then selected at company headquarters without participation or input of middle managers, making it difficult for them to feel a sense of ownership and commitment. It could also mean that middle management is confronted with an innovation about which they lack an in-depth understanding making it difficult for them to deliver the right support (Klein and Sorra 1996). Some innovations are simply implemented because of a hype in the business world (Abrahamson 1991,1996). If management and employees are not convinced by internal and external change agents of the legitimacy of the innovation for their organization, they will not support it and the implementation will not bring the success top management had anticipated (Suchman 1995).

Time and resource restrictions can seriously hinder implementation. A large innovation ambition has to be backed by investments and resources otherwise it is all talk and no action (Birkinshaw et al 2008). Time can be an issue, making middle managers simply too busy to leave any time for innovation (Hornsby et al. 2002; Kuratko et al. 2005). The diversity of the middle management role makes it difficult to juggle the different expectations of their role (Floyd and Lane 2000). Next to that, resources for innovation can be scarce and difficult to obtain (Hornsby et al. 2002). Time and effort can also be

lacking at the targeted user group especially when simultaneous implementations are competing for the same user (Klein and Sorra 1996). Target users may not possess the right skills for the consistent and appropriate use of an innovation and training is not available (Klein and Sorra 1996). Employee turnover with key skills leaving the firm can also restrict the (human) resources available (Drew 1995). To be successful, innovation implementations should be strategically planned (Drew 1995), but especially in a service context, they often occur in an ad hoc fashion (Birkinshaw and Mol 2006).

A (perceived) lack of autonomy can also be an important barrier (Kuratko et al. 2005; Hornsby et al 2009). If middle managers have little autonomy they will regularly need to get approval from higher levels for decisions that need to be made. Lengthy approval processes and slow decision making can cause serious delays (Drew 1995). Too many people are involved in decision-making regarding innovation (Volberda and Bosma 2011). Implementation rates decrease when organizations fail to give middle management decision-making latitude, when they use excessive oversight and when they do not delegate authority and responsibility to lower levels (Hornsby et al 2009; Hornsby et al 2002).

It can be hard to get top-level attention, commitment and support (Hornsby et al. 2002; Currie and Procter 2005; Lyons et al 2007; Nijssen et al 2006; Drew 1995; Kuratko et al 2005). Top management support refers to 'the extent to which one perceives that top managers support, facilitate and promote entrepreneurial behavior, including the championing of innovative ideas and providing the resources people require to take entrepreneurial actions' (Hornsby et al 2009, p 238). Without top management support, innovation can slow down and resources can be harder to obtain (Drew 1995). It makes it difficult for middle managers when (they perceive that) top managers are not receptive to their ideas and suggestions, when top management keep to rigid rules and procedures and when top level does not get involved in innovation processes (Hornsby et al 2002). The exact position in the organization influences the structural ability to use top level support. The closer a middle manager is to top management, the greater the awareness is of the nature of that support (Floyd and Lane 2000). Not exactly knowing the bounds of the support makes it more difficult to utilize it to the fullest (Hornsby et al 2009).

Middle management may also lack the necessary skills for successfully managing implementations. The following examples are discussed in more detail. Managers may not possess the necessary persuasive skills needed to champion new ideas and get the attention of upper management (Dutton and Ashford 1993). Others suggest that managers may lack the ability to capture the most promising ideas (Verganti 2016) or have little absorptive capacity (Cohen and Levinthal 1990). Change-minded middle managers are better equipped to facilitate innovation implementation (Abrahamson 2000).

The uncertain nature of innovation can lead to fear and resistance among the targeted users in the organization (Abrahamson 2000; Lyons et al 2007; Huy 2001; Klein and Sorra 1996; Dyer et al 2009; Birkinshaw et al 2008). Fear and anxiety can make people shut down completely (Judge et al 1999, Huy 2001). Innovation is inherently risky and uncertain for individuals and organizations especially when new ideas are put into practice for the first time (Dewett 2006). The degree, size, complexity and novelty of an innovation influences the perceived risk and uncertainty (Drew 1995). More radical innovations tend to cause more anxiety and ambiguity (Birkinshaw et al 2008; Huy 2001). Management innovation requires organizational change (Birkinshaw et al 2008) and as such is the most formidable stressor in organization life. The size and complexity of management innovation is intimidating for most employees (Zbaracki 1998) and can even be too overwhelming for the capabilities and resources currently available in the organization (Simanis and Duke 2016). Employees find it difficult to grasp the potential benefits of a management innovation (Birkinshaw and Mol 2006) and tend to associate organizational change with negative outcomes such as job loss, reduced status, conflict at work and home and threats to their psychological well-being (Judge et al 1999; Ashford 1988; Schweiger and Denisi 1991). Management innovation causes high ambiguity and uncertainty among employees (Birkinshaw et al 2008). As most employees are ambiguity-averse (Ellsberg 1961; Einhorn and Hogarth 1986; Viscusi et al 1991) this could lead to anxiety and resistance (Bier and Connell 1994). An innovative climate built on trust can reduce fear and resistance (Volberda and Bosma 2011). Employees need to know that they will not be penalized if implementation efforts are not an absolute success, but are rewarded for their contributions to innovation (Volberda and Bosma 2011; Lyons et al 2007). They should feel save to make mistakes and come up with suggestions without being afraid of negative consequences.

Resistance can also arise when users in the organization feel that innovations do not fit their own values but are forced to implement them anyway (Klein and Sorra 1996). A better fit can be stimulated by employee involvement in idea generation and selection and by educating employees about the need and value of an innovation for the organization. If innovations are implemented effectively and fit user values but their use doesn't enhance organizational performance, managers and employees are disappointed and may become pessimistic regarding future implementations making them more resistant to change in the future (Klein and Sorra 1996). Middle managers and employees alike can also become overwhelmed and change-fatigued if innovations follow each other too quickly (Abrahamson 2000; Volberda et al 2013B; Judge et al 1999; Ashkenas 2015).

Organizational inertia is another important obstacle for change and innovation and refers to managers' tendency to conform to corporate history, traditions, rules and procedures (Nijssen et al 2006; Drew 1995). Vermeulen (2004) argues that organizational trajectories are taken for granted and

are not questioned. People have a tendency to stick to old certainties (Vermeulen 2004). Especially with management innovation, organizations can be reluctant to change as this could mean a threat to existing and established trajectories (Pfitzer et al 2013). Organizational politics, functional divisions and territories hinder the open flow of communication and organizational learning, make employees and managers lose their enthusiasm and pose a substantial roadblock for middle management (Hornsby et al. 2002; Drew 1995; Volberda and Bosma 2011; Amabile 1998). Bureaucracy, formalization, dominance, control and punishment decrease innovativeness (Volberda and Bosma 2011). Most people are quite capable of novel thinking if only their organization would stop 'pounding them into conformity' (Grant 2016, p 88).

It is important to note that this discussion posits possible obstacles for innovation implementation at middle management level, without presuming to be complete. This research does not have the intention to develop a framework with hypotheses to test if middle managers experience all these obstacles. This research is inductive in nature and builds theory based on the obstacles that middle managers perceive in the financial service sector.

## 3. Methods

The purpose of this thesis is to gain more insight in the obstacles experienced at middle management levels when implementing innovations. To gain more insight we have to obtain experiences from the individuals that are concerned with implementing innovations.

### *3.1. Research design*

Innovation has been a broadly studied subject. Most of the literature focuses on the broad process of innovation and the problems accompanied with this. Little is written about the specific obstacles that are encountered when implementing innovation, especially those experienced on middle management level. To contribute to the field of innovation this research focusses on the obstacles that are encountered at middle management level within the financial services sector when innovation is implemented.

Innovation is part of a complex social process (McCabe 2002). It is 'interrelated to ways in which individuals interpret, act and describe the meaning of the world' (McCabe 2002 p.509). To conduct an empirical analysis of the obstacles encountered at middle management level in the financials service sector when implementing innovations an interpretative paradigm (Burrell and Morgan 1979) is used in which an organization is seen as a socially constructed product or in other words a 'a label used by individuals to make sense of their experience' (Bryman and Bell 2015, p35). This research further makes the choice for a regulatory assumption (Burrell and Morgan 1979) about the purpose and function of organizational research. This means that the purpose of business research is to describe what is going on in organization to improve them but not to make judgements (Bryman and Bell 2015). The interpretative stance focuses on the conceptions of the social actors and it implies that understanding must be built on the experiences of the individuals that work within the organization (Bryman and Bell 2015).

To get a better understanding of what is really happening within the social process concerning the implementation of innovations at the middle management level within financial service organizations, for this research an inductive qualitative research design (Eisenhardt 1989; Bryman and Bell 2015) in the form of a case study is chosen. Furthermore, to fit the concept of innovation described by McCabe (2002) this research will adopt a constructionist framework in which the process of innovation and implementation can be seen as social constructions that are contingent on a series of experiences and other individuals who influence this process at middle management level (Bryman and Bell 2015), as has also been done by Thomas and Linstead (2002).

### *3.2. Research setting*

The research setting was a large Dutch financial services firm. The total assets of the organization are valued at €670 billion, ranking them in the Fortune Global 500 in terms of total revenue. This financial

services organization has branches in various countries. These branches exist of different organizational units which provide products and services that consist of asset management, loans, mortgages, savings, insurances, equity participation, corporate banking, investment banking, bank syndicates, informal investing and (recently started) crowdsourcing. Each organizational unit has its own management team.

The case within this research is deliberately chosen and is not random (Bryman and Bell 2015). Stake (2013) distinguishes instrumental and expressive case studies. This case study is an expressive case study because it is carefully selected based on the following criteria. First, the organization is an active player in the financial services sector. Second, the organization is large enough to have a clear middle-level management. Third, innovation is an important subject on the agenda of the organization.

In this research the case is a single organization (i.e. Martin 1992; Born 2011) that is a large player within the financial service sector. To ensure the best access to high quality data, in-depth insights and the best opportunities to learn, interviews are held at the large financial service organization in the Netherlands where I am professionally active. Because of the professional position of the researcher and the help of a top-management advisor it was possible to get access to exclusive data providing the best opportunity to learn (Stake 1995).

### *3.4. Data collection*

'The unit of analysis is the entity that forms the basis of a sample' (Easterby-Smith et al. 2013 p 65). In this research the unit of analysis is the phenomena that is described as the barriers that are experienced at middle management level with the implementation of innovation.

This research will use individual semi-structured interviews in which the interviewee is asked to reflect upon the type of innovation and the challenges experienced at middle management level when implementing innovations in the financial services sector. With open questions the interviewee is invited to elaborate on these topics. The reflective and recursive stories will be used as data. These semi-structured interviews serve as the primary method of data collection. In the end thirty people were invited to participate in the research, among the invitees were middle managers, operational managers, innovation managers and employees that participated in the start-up platform projects. These thirty people were handpicked by the top-management advisor based on their knowledge of innovation, experience with innovation and their perceived willingness to talk about this subject. Eventually nine respondents were willing to participate. The semi-structured interviews were conducted with five middle managers, one employee who championed an innovative idea in the organization and got the chance to execute this, one operational manager and two innovation managers. This way preliminary insights are obtained from different perspectives into the

implementation process and the possible obstacles at middle management level during implementation. In every interview the interviewee was requested to tell something about their current position within the organization to determine in which layer of the organization the individual is active. The background information they provided is used to establish respondent characteristics. After each round of interviews the collected data is validated with organizational documents like job descriptions and descriptions of formalized innovation procedures.

All interviews are recorded and transcribed verbatim to ensure reliability. To ensure confidentiality the name of the interviewee is not revealed. At the beginning of each interview the interviewer is introduced and a short introduction is given on the research subject and the structure of the interview. For consistency this introduction was typed and used at each interview (Appendix 1). In this way the same clarity is constantly provided regarding the research subject. In the introduction the subject was summarized as innovation and challenges at implementation to keep them as open-minded as possible. No explanation was given why the focus is on implementation. Rather it was asked as a control question where they felt innovations stagger. This eliminates any prejudice or preconceptions that might be present. The interviews are conducted in neutral meeting rooms, to limit distraction. This way a good, safe and secure environment for the interviewee is created. Documentation such as job descriptions, documents about innovations for similar cases from intranet and internet, procedures and reports are reviewed to verify the answers given during the interviews. Finally, after each interview a predetermined list is completed with a review of: the ambiance during the interview, the attitude of the interviewee and non-verbal expressions. This way the context of the interview is taken into account.

### *3.5. Data analysis*

Each interview lasted approximately 50 minutes and was verbatim transcribed after the interview by the interviewer by using the recordings. After transcribing the interviews were sent back to the interviewee in order to give the interviewee the opportunity for factual corrections (i.e. Vermeulen 2004; Vermeulen et al 2007). In this research, grounded theory approach is used to analyze the data (i.e. Byron and Laurence 2015). This involves an iterative process of data collection, coding and analysis (Strauss and Corbin 1998). At first open coding (Easterby-Smith et al. 2013; Bryman and Bell 2015; Corbin and Strauss 2008) is used for conceptualization and thematic analysis of the data. The interviews were independently coded to create first-order codes. After each three interviews, the codes were compared to look for a common theme. This process was repeated until all interviews were coded. After this stage a code-dictionary was created to define the codes. This was followed by axial coding, during which connections are sought between the different labels that followed from open coding (Corbin and Strauss 2008). For each label it is analyzed who mentioned it, how many

times it was mentioned and what statements have been made. This way the data is clustered and counted. Eventually a conceptual model is created which linked the categories from axial coding to aggregate dimensions. This method of modelling is based on data-structure diagrams in other studies (i.e., Tippmann et al 2012; Byron and Laurence 2015; Vuori and Huy 2015; Corley and Gioia, 2004; Gioia et al 2013; Andriopoulos and Lewis 2009).

### *3.6. Validity*

Validity is 'the extent to which measures and research findings provide accurate representation of the things they are supposed to be describing' (Easterby-Smith et al. 2013, p347). The main concerns with case study researches are construct validity and internal validity. To ensure construct validity researches look for multiple sources of evidence for each of the elements in the propositions. Triangulation is therefore important (Stuart et al 2002; Denzin 1978; Jick 1979; Fielding and Fielding 1986; Bryman and Bell 2015). Before starting the actual research two pilot interviews were conducted: one with a fellow student and one with an operational manager. Their feedback was used to improve the interview protocol. The transcript of the interviews was sent back to the respondent (Vermeulen et al. 2007; Vermeulen 2004) in order to give the respondent the opportunity for factual corrections. Next to that, extra control questions were asked during the interviews and the interview was reviewed in a short spoken summary at the end of the interview. This way the interviewee can respond immediately where applicable. Furthermore, triangulation is performed by using multiple data collection methods. Internal validity is obtained by looking at alternative explanations for findings and observed patterns.

## 4. Results

The topics discussed in the interviews were: 1. The type of innovation the interviewee was working on; 2. The moment in the innovation process where they feel innovations tend to lose their momentum; 3. The role they see for middle managers in innovation and 4. The obstacles at middle management level during implementation. The key findings are summarized in table 1. The key findings are now discussed in more detail.

### *4.1. Innovation type and momentum*

A general consensus among all respondents exists that there is an abundance of ideas in the organization at all levels, but the organization is unable to capitalize on these ideas. The ideas are there, but the organization does not utilize them enough. As one middle manager puts it: *"People on the shopfloor have a lot of good ideas and understand what they are doing, but they are not listened to".* Another middle manager adds: *"I think that a lot of potential from our employees is not utilized".* The operational manager says: *"Think about what you do today and how this can be improved tomorrow. We even have forms and procedures in place to monitor how many ideas are suggested. But nothing is done with the ideas".* And: "*Give something back to the 125 people that enthusiastically make suggestions to give them at least the idea they are heard".* This is congruent with our theoretical background that organizations struggle with the implementation of new ideas (Vermeulen 2004; Verganti 2016; Levitt 2002).

It also shows that lower levels in this organization are hardly involved at idea generation and selection and portfolio management. Mostly middle managers are just told to implement a certain innovation. Innovation are 'sold' by higher levels in the organization or an external consultant. As the operational manager says: *"The sales-talk about the innovation was better than the innovation itself".* And: "*Employees say if you would have gotten me involved sooner I could have told you that it wouldn't work. It's a pity you did not think of this, but then the ship has already sailed".* Or as a middle manager states: *"Our innovation department is a Black box. I believe that the ideas for the internal startups could be very good, but I don't know. I think they should spread the word, make it an open platform so more people could be involved and think with them on these ideas. Why are you not allowed to contribute to the idea of somebody else?".*

Although some refer to service innovation when asked about the innovation they are working on, all respondents emphasized the importance for their organization to become more innovative. There is a common awareness among the interviewees that innovation is much needed. In order to reap the full benefits from the ideas that are present in the organization, the organization has to change its procedures, work methods, mentality and culture to stimulate and facilitate innovation.

An innovation manager states: *"The existing procedures will kill every initiative".* And: *"Top level sees the need for innovation. Operations has a passion for working on innovation and are willing to change. Middle management had a bad reputation internally of being a brick wall that obstructs change".* A middle manager adds: "*I think it is amazing when people approach me with ideas. I think it is refreshing and enlightening. But then when we have to obtain resources and write an email to someone in an influential position and we never hear about it anymore.* And: "*As an organization we all want innovation, but then we really should listen more to what is happening in the organization. It would be amazing if we could bring together some free-thinkers and innovative minds within our organization, give them some money and let them go at it. How do we get this creativity out of the people? That can only be done if we facilitate it".* The operational manager adds that implementation cannot be done without the help of an external consultant: *"The external party was crucial for coming up with and implementing the innovation and for getting the result".*

This change in the way of working with a clear focus on improving the innovativeness of the organization fits the definition of management (or *'sociale'*) innovation (Volberda et al 2013B; Volberda and Bosma 2011; Volberda et al 2013A). The current organizational context is unable to bring successful innovations about. Even when knowledge is brought in from external parties as is the case within this particular organization, Volberda and Bosma (2011) warn that this will only be effective when all three levers of management innovation (dynamic management, flexible organization, working smarter) are in place. In other words, the internal organization needs to have a supportive innovative climate for external knowledge to be used profitably and productively.

| | Position | Innovation type | Phase where innovations lose momentum | Role middle manager | Obstacles for implementation |
|---|---|---|---|---|---|
| 1 | Middle manager | Management innovation | Implementation | Driving force innovation, challenging status quo | Time limitations, inadequate innovation use, falling back in old routines, fear employees. |
| 2 | Middle manager | Management innovation | Implementation | Idea generator, supervisor during implementation | Lack of ownership for ideas, lack of transparency in selection and portfolio management, inflexible IT systems, resistance and fear, not respecting decisions and deadlines, organizational inertia, no sense of urgency. |
| 3 | Innovation manager | Service innovation, management innovation | Implementation | Motivator, guardian innovative mindset among employees | No priority for innovation, limited resources, organizational inertia. |
| 4 | Operational manager | Management innovation | Implementation | Fostering ambidexterity among employees | Legislation overrules all other criteria in selection and portfolio management, difficult to gain middle management support for ideas, resource limitations, lack of involvement and commitment among employees, ambiguity among employees, lack of proper training during implementation, middle manager do not lead by example, internal lack of implementation skills (need for external consultants), organizational inertia, innovation use does not enhance performance, lack of guidance to the end of the implementation. |
| 5 | Middle manager | Management innovation | Implementation | Idea generator, inspirer | Employees not willing to invest in learning new skills, lack of cross-divisional communication and collaboration (silos), no common goals (everyone for their own), lack of top level support cause delays in implementation, limited resources, lack of ownership for ideas. |
| 6 | Middle manager | Management innovation | Implementation | Driving force for innovation | Lack of top level support especially when innovations are not aimed at improving customer satisfaction, no sense of urgency at top level, organizational inertia at top level, lower levels are reluctant to act as first movers, employees falling back in old routines. |

| | | | | | |
|---|---|---|---|---|---|
| 7 | Innovation manager | Service innovation, Management innovation | Implementation | Creating innovative climate | Inadequate means for selection and portfolio management, functional fixedness, no customer involvement during innovation projects until the very end, lack of contextual ambidexterity, strict external regulations constrain corporate entrepreneurship, limited resources available for innovation, focus on efficiency at middle management level comes at the expense of innovation, middle management is reluctant to change the status quo and is unable to champion ideas to lower levels, middle managers are unable to create an innovative climate with room for failure. |
| 8 | Middle manager | Management innovation | Implementation | Creating innovative climate | Poor customer orientation, strict external regulations constrain corporate entrepreneurship, middle and top management are not perceptive to ideas from employees, new ideas have little to none succession, lack of cross-divisional communication and collaboration (silos), middle management is reluctant to change and unable to inspire change under their employees, too many people involved in decision-making regarding innovation, organizational politics and sacred cows, fear at middle management level of losing their position, innovation is centralized in one department (black box) with little involvement from others in the organization, lack of corporate entrepreneurship because of unjustified fear for regulators. |
| 9 | Start-up contributor | Service innovation, management innovation | Implementation | Supporting and facilitating new ideas from lower levels | High level of uncertainty and ambiguity due to the newness of the start-up platform, high pressure for success from top level, low knowledge awareness in the organization, organizational structure does not fit the demands of the start-up platform, lack of cross-divisional communication and collaboration (silos), lack of innovative culture and climate, decision makers do not possess the right knowledge, unrealistic targets and time horizons, middle management tunnel view. |

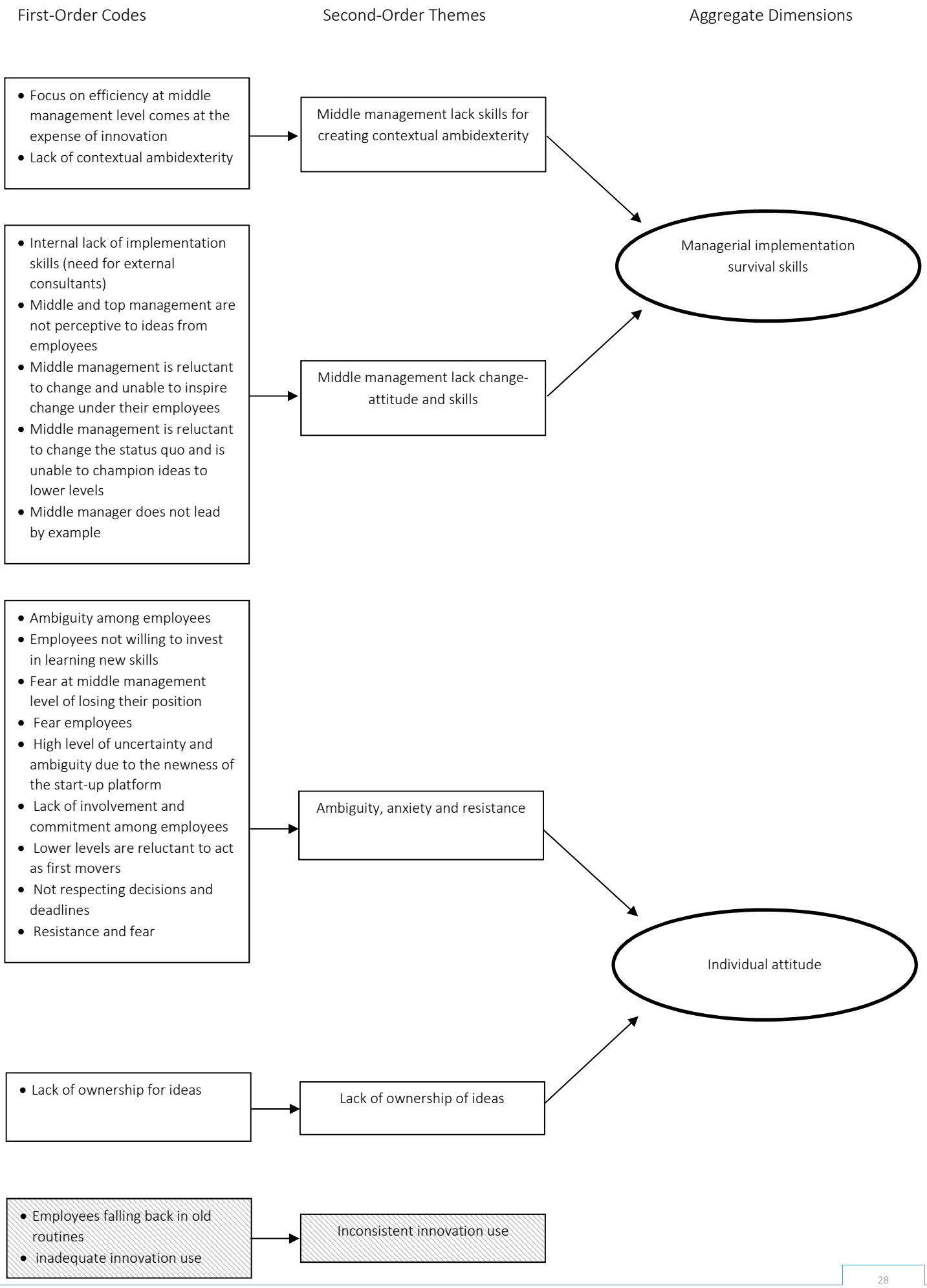
Figure 1: Interview Results

### *4.2. Role of middle manager for innovation and implementation*

When asked about the role of middle management in this organization, there is a discrepancy between reality and the ideal world. All interviewees agree that middle management should have an active role in innovation driving innovations forward (inspirer, idea generator, supervisor, motivator, supporter and facilitator). Middle managers also have an important task as guardians of an innovative climate. The middle managers that were interviewed all claim to take this active role very seriously and feel they have an important task to make implementation of innovations successful. The innovation managers, operational manager and start-up contributor all agree that middle management should have this role, but also stress that middle management still has a long way to go. One even compares middle management with an impenetrable layer or brick wall. Middle management is not perceptive to ideas from lower levels and fails to support new initiatives.

As one innovation manager says: "*Middle management should create room for innovation. That is a crucial factor, one that middle management should be judged on. In reality middle managers are ordered to reduce costs and improve efficiency. Those two messages conflict, and as KPIs at middle management level focus on efficiency, innovation doesn't get the attention it deserves. There are middle managers that do focus on innovation, but they do this based on their own conviction that innovation is important".* A middle manager says*: "Middle managers should come up with ideas to inspire others but also stimulate employees to come up with ideas. The most important task for middle managers is to communicate a clear vision and to lead by example".* Another middle manager explains: *"I am a driving force behind change, stimulating others, but I cannot do it alone".*

It is important to note that the interviewees were not randomly chosen, but rather handpicked by the top-management advisor. There are hundreds of middle managers at this financial service organization of which only a small selection was approached to cooperate in this research. This could explain the difference in self-image of the middle managers that were interviewed and the general opinion about middle management of the other interviewees. It is fair to assume that the middle managers that were interviewed are more innovation-minded than the rest of the pack.


First-Order Codes
Second-Order Themes
Aggregate Dimensions
• Focus on efficiency at middle management level comes at the expense of innovation
• Lack of contextual ambidexterity
Middle management lack skills for creating contextual ambidexterity
• Internal lack of implementation skills (need for external consultants)
• Middle and top management are not perceptive to ideas from employees
• Middle management is reluctant to change and unable to inspire change under their employees
• Middle management is reluctant to change the status quo and is unable to champion ideas to lower levels
• Middle manager does not lead by example
Middle management lack change-attitude and skills
Managerial implementation survival skills
• Ambiguity among employees
• Employees not willing to invest in learning new skills
• Fear at middle management level of losing their position
• Fear employees
• High level of uncertainty and ambiguity due to the newness of the start-up platform
• Lack of involvement and commitment among employees
• Lower levels are reluctant to act as first movers
• Not respecting decisions and deadlines
• Resistance and fear
Ambiguity, anxiety and resistance
Individual attitude
• Lack of ownership for ideas
Lack of ownership of ideas
• Employees falling back in old routines
• inadequate innovation use
Inconsistent innovation use

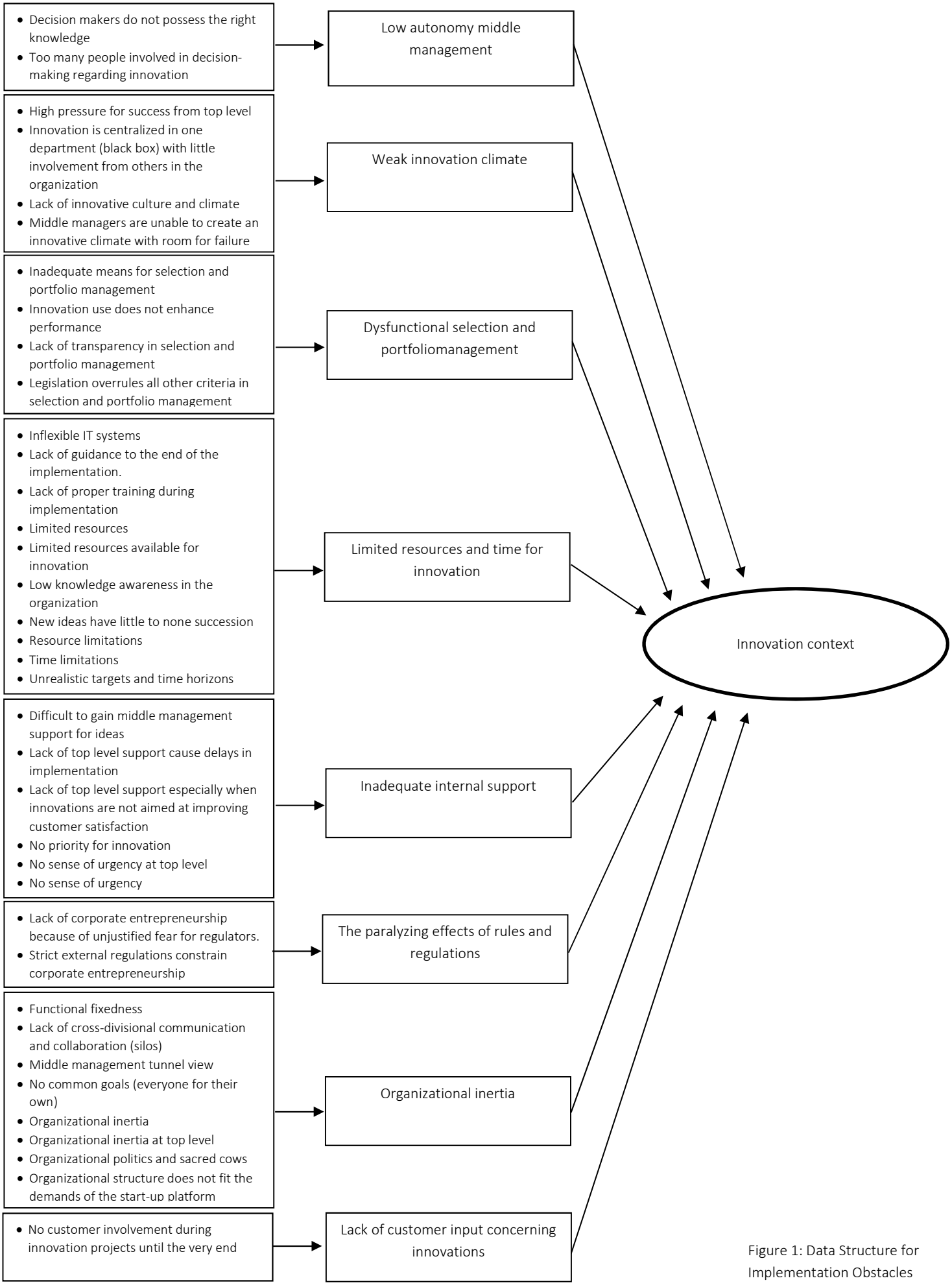



Figure 1: Data Structure for Implementation Obstacles

### *4.3. Obstacles at middle management level during innovation implementation*

Figure 1 provides an overview of the obstacles at middle management level with innovation implementation as mentioned by the respondents. The identified obstacles are grouped and categorized, resulting in three aggregate dimensions: managerial implementation survival skills, innovation context and individual attitudes towards innovation. Consistent innovation use, although mentioned as an obstacle by some, was dropped from the final list as it is a result of poor implementation (Klein and Sorra 1996) and not an obstacle for implementation.

#### Managerial implementation survival skills

During the interviews I came to see the innovation journey as an obstacle course for the middle manager. If middle managers are unable to maneuver around these obstacles and solve problems, the enthusiasm and momentum for the innovation is lost and implementations fail or do not reach their full potential. Middle managers are vital as inspirers and motivators, which is well demonstrated in both the interviews and the theoretical background. If an organization really wants to innovate, management should want it, believe in it and understand it. This is more powerful than the organizational structure or the instruments that are used (Volberda and Bosma 2011). It is the middle manager that needs to be smart and fully utilize the resources he has to overcome any obstacle the organization throws at him. To give recognition to the persistence and stamina that middle managers should have, this dimension is labeled as 'managerial implementation survival skills'.

Several interviewees point out that middle management in this organization lack the basic skills and attitude that are needed to bring about change. Middle managers are reluctant to change, not open to ideas from lower levels and need the help of external consultants for implementation. Middle managers think that no good can come from change or as one innovation manager puts it: "*let's change as little as possible so we know nothing can go wrong*". To be a true inspiration, managers should believe in innovation and lead by example which is clearly not the case for the 'brick' middle management layer at this organization (with some exceptions to the rule). If managers do not see the benefits of an innovation they certainly will not be able to champion and explain the new idea to their employees. If employees don't see or believe their leader supporting a change initiative, they won't change (Sirkin et al 2005). "*You said to people you need to change, but you are not changing yourself, what do you think that the other people will do".* Some reluctance to support a particular innovation can also stem from the dysfunctional selection and portfolio management in this organization. If middle managers are simply told which innovation to implement without prior involvement in either idea generation or the selection process, then it becomes very difficult for them to 'sell' the innovation to their employees. For example, a hype like 'Lean' is now implemented, but is not widely supported in the organization.

There is an emphasis on efficiency in this organization that comes at the expense of innovation. Most middle managers are unable (or unwilling) to find the right balance between daily operations and innovations. Only middle managers with a strong internal motivation for innovation will put it high on their agenda. As one middle manager says: "*I only have limited resources available, I have to decide for which innovations I will use them".* An innovation manager adds: *"most often innovation is at the end of the list"*. For the most part, the priority for innovation is low and employees' efforts are mostly directed towards daily operations and efficiency.

### Innovation context

The second dimension is labeled 'innovation context'. Innovation context refers to all obstacles present in the internal and external organizational context that have a detrimental influence on innovation and its implementation. Deliberately context is used and not climate. Climate is defined by shared employees' perceptions of events, practices, procedures and expected behaviors in a particular setting (Schneider 1990). Context can be seen as the organizational environment which is shaped by management practices, organizational policies and structures (Ghoshal and Bartlett 1996). Context in turn, influences the actions and behaviors of organizational members (Ghoshal and Bartlett 1996). Context is better suited than climate to include not only the obstacles in the organization itself but also the broader external environment of the organization. Unique to the current financial services sector is the strong influence of its institutional environment with regulators prescribing certain innovations. For example, the Basel Committee on Banking Supervision (2013) prescribes new risk reporting principles and methods that banks should implement. The institutional environment changes the priorities of innovation projects or as the operational manager puts it: *"Innovations that are driven by regulations and laws will take up the entire budget and capacity".* The scrutiny of the regulators had a paralyzing effect on corporate entrepreneurship within this organization. People are afraid to do anything they think might get them in trouble with the regulators.

Innovation context includes the following obstacles: low autonomy middle management, weak innovation climate, dysfunctional selection and portfolio management, limited resources and time for innovation, inadequate internal support, the paralyzing effects of rules and regulations, organizational inertia and lack of customer input concerning innovations.

Several interviewees refer to lack of top level support and the low autonomy for middle management as important obstacles. For innovations to run smoothly authority should be delegated low in the organization (Volberda and Bosma 2011). Top level should put its middle managers in the saddle and trust on their judgement. It now takes too much time for middle managers to fight for their ideas and the resources they need. Next to the demotivating effect this has on managers, it also simply takes

time away from their other tasks in innovation implementation like inspiring and motivating employees and providing guidance and support.

The dysfunctional selection and portfolio management within this organization is also an important barrier to implementation success. Employees and managers are hardly involved during idea generation and selection, which weakens commitment for an innovation. The selection process is a black box and employees and managers alike have difficulty understanding why certain innovations are chosen and others are not. The selection process appears random and irrational. If employees do not feel that there is a fit with their own values, the use of an innovation is compliant at best (Klein and Sorra 1996). By not involving them sooner during implementation, employees use the innovation 'less frequently, less consistently, or less assiduously' than required to reap the full benefits of the innovation (Klein and Sorra 1996, p 1055).

As the organization struggles with innovation the pressure for a success story is high. They need innovation to work, leaving no room for failure. Room for failure is a basic prerequisite for an innovative climate and is one of the conditions to build trust and reduce anxiety and resistance to change (Volberda and Bosma 2011). When expectations are too high, people are afraid to get involved in the innovation. They fear that they will be blamed if innovations fail and possibly even lose their job. It is the job of the middle manager to address the well-being of his employees and under high pressure he might have to devote a lot of his time to this 'therapist' role (Huy 2001).

As organizations grow, bureaucracy tends to increase and decision making gets more complex, making it more difficult for them to change (Volberda and Bosma 2011). This effect is clearly present in this case. Organizational inertia is an important barrier to innovation implementation in this organization. Especially the lack of cross-divisional communication and cooperation gets in the way of effective implementations. Knowledge is locked up in separate silos making it almost impossible to effectively share information. For example, the start-up contributor was told to look for the information she needed outside the organization instead of helping her to find the information internally. According to many of the interviewees there are a lot of sacred cows and traditions that need to be questioned. One middle manager feels that the moment is here to challenge traditions: "*Things that were impossible are now open for discussion, sacred cows aren't that sacred anymore".*

### Individual attitudes towards innovation

The third dimension is labelled as individual attitudes towards innovation. Since implementation is defined as the committed and consistent use of an innovation by the target user (Klein and Sorra 1996), this dimension focuses on the perspective of that individual target user. In order for innovations to be internalized, target users have to perceive that innovation use fits their values (Klein

and Sorra 1996). With obstacles like involvement, commitment and resistance, respondents in the interviews mostly refer to individual attitudes and not values. Therefore, the concept of attitude is used here and is defined as the 'mental and neural state of readiness, organized through experience, exerting a directive or dynamic influence upon the individual's response to all objects and situations with which it is related' (Allport 1954, p45). Attitudes have a cognitive, affective and behavioral component. An attitude can be seen as the combined effect of beliefs and values, which results in a negative or positive feeling towards a particular object or situation (Rollinson and Broadfield 2002), in this case an innovation. Attitudes are formed by experience and can change over time. Attitudes strongly influence perceptions and behavior (Rollinson and Broadfield 2002). Successful innovation implementation requires individuals to change their routines and behavior.

Some interviewees complain that employees often fall back in old routines: *"People will not let go of their own way."* And: *"It takes a lot of discipline and focus to make sure you don't fall back in old routines."* This a clear indication that innovation implementation was not successful, in the sense that innovations are not internalized and management has not been able to ensure a true change in routines.

People have unique personalities and differ in beliefs, perceptions and interests (Rollinson and Broadfield 2002). This third dimension refers to these personal factors that make a difference in how people respond to a certain innovation. The operational manager says: "*You have to deal with people, you've got the roofers (the first movers), but you've also got a lot of people that think, okay we will see, or I already heard this twenty years ago".* A middle manager explains: "*People differ in the level of resistance they show. Some see learning new skills as unnecessary ballast, while others recognize the value they have for the organization if they learn new skills".* Individuals are seen by interviewees to differ in their aversion to change, risk and ambiguity, resulting in very different reactions to innovation. While some people are first movers, jump headfirst into a situation, others will wait and see how things work out before getting involved. More risk and ambiguity averse people are more prone to show anxiety and resistance (Bier and Connell 1994). As a result of prior experiences, beliefs and values one message of the middle manager can have different effects on every person of the team. Innovation studies tend to neglect these individual differences and focus mostly on group values (Klein and Sorra 1996), climate or culture (Volberda and Bosma 2011, Lyons et al 2007). With a separate dimension I want to stress the importance of differences in personality and attitudes that make the employees the heterogeneous group it actually is. When an innovation or its use is perceived to require behavior that is inconsistent with the individual's attitude, an employee will develop an unpleasant feeling of dissonance. To reduce dissonance employees will either try to avoid the situation or change the situation (Rollinson and Broadfield 2002). Depending on the room for

discussion and the level of trust and personal characteristics, some employees speak up and voice their concerns. As one middle manager says: "*In the first minute nobody did anything… then one member of my team made his statement and after him others followed. Only then there was a mindset of people daring to express themselves*". It is the task of the middle manager to address the emotional well-being of every employee (Huy 2001). If managers ignore the concerns of their employees or are unable to address them, then the dissonance festers and innovation use will be compliant at best. Those employees that don't speak up may prove the most difficult, as managers get a false idea of commitment for the innovation from them.

From all interviews it is clear that there is a certain level of anxiety and distrust in the current organization. This for a large part fuels the individual attitudes that are present in this organization. Trepidation of senior management to delegate authority. Insecurity regarding regulations makes organizational members worry about doing something wrong in the eyes of the regulator. Middle managers are fearful to lose their status and power if they do decide to implement changes. And mostly uncertainty among employees regarding the consequences of innovations for their job and performance appraisal and an uncomfortable pressure to not make mistakes. Anxiety and lack of trust prevent individuals from sharing their knowledge with others, as knowledge gives them a sense of power (Volberda and Bosma 2011). It makes individuals unwilling to engage and get involved and has a paralyzing effect on individuals across the entire organization. Anxiety is an important obstacle for attaining a positive attitude towards innovation. Trust is the most important enabler of innovation (Volberda and Bosma 2011), while in this case lack of trust seems to be the biggest obstacle for innovation.

## 5. Limitations and suggestions for future research

Various limitations, which provide meaningful directions for future research, are discussed as follows.

First, this thesis has the aim of providing an overview of the obstacles middle management face during the implementation of innovations. The respondents were not asked to rank the obstacles in a specific order. This can be an interesting follow up on this research. As most innovations studies tend to provide a rather normative description of the ideal circumstances for innovation (for example: Volberda and Bosma 2011; Klein and Sorra 1996; Hornsby et al 2009, 2002), gaining a more profound insight in prevailing obstacles can give guidance on which issues need to be addressed first, to give innovation a better chance. It is clear from this research that resources are limited and a ranking of obstacles might help organizations to direct their resources and attention to the most pressing problems first. These studies can then also incorporate the solutions to the obstacles.

Second, to keep true to the open nature of this inductive research a very broad definition of innovation was used. All innovations were included, radical and incremental, product and service, management and technological innovation, new to the organization or new to the world. The literature does suggest that the degree, size, complexity and novelty of an innovation influences attitudes and perceptions about the innovation, for example about the perceived risk and uncertainty (Drew 1995). As the respondents in this case all refer to management innovation, future research is needed to assess if the same obstacles are present in other types of innovation or that other obstacles surface. It might also be that the ranking of the obstacles differs with the type of innovation.

Third, a variance in obstacles may also occur dependent on the position of the middle manager in the organizational hierarchy. The theoretical background suggests that for example top level support is more easily obtained and used by middle managers just below the top level than for managers that are lower in the hierarchy (Horsnby et al 2002). This may be true for other obstacles as well, therefore further research is needed.

Fourth, this research is based on a single case study, making it difficult to generalize the findings to other contexts. The case study looks at the unique characteristics of this financial service organization. The case enabled the generation of concepts that have to be tested and validated in other organizations and other industries. Janssen et al (2006) also based their research on one case, but explained their research was conducted at multiple organizational units in autonomous branches of a large financial service organization which helped to control for corporate- and industry-specific differences. Although with a lower number of respondents, the same goes for the case study in this research. Either way, more empirical study has to be done to generalize the findings.

## 6. Conclusion

Innovation implementation can be seen as an obstacle course for middle management and employees. The obstacles are grouped in three aggregate dimensions: managerial implementation survival skills, innovation context and individual attitudes towards innovation. The effective implementation of an innovation depends on the abilities of middle management to overcome and provide a solution to these obstacles. It is their perseverance and stamina that keeps innovations thriving forward. Innovation context refers to all obstacles present in the internal and external organizational context that have a detrimental influence on innovation and its implementation and include low autonomy middle management, weak innovation climate, dysfunctional selection and portfolio management, limited resources and time for innovation, inadequate internal support, the paralyzing effects of rules and regulations, organizational inertia and lack of customer input concerning innovations. Innovation studies tend to neglect the individual differences and focus mostly on group values, climate or culture. With the separate dimension of individual attitudes towards innovation, the importance of differences in personality and attitudes is emphasized that make the employees the heterogeneous group it actually is. For innovations to succeed, unsupportive attitudes need to be addressed on an individual level by middle management

The financial service sector is on the verge of making great changes to their way of working, which makes this topic very relevant for today's businesses. The awareness that radical changes are needed is growing, but there are still many road blocks in their way. It is an exciting time for everyone in this continuously changing sector which will be followed with great interest by the author.

## Appendix 1: Interview protocol (Dutch)

### Introductie

Mijn naam is Marcel in 't Hout. Ik ben 32 jaar en ik werk bij XXX op de businessunit Zuid-West Nederland in Rotterdam. In 2014 ben ik op eigen initiatief, zonder financiële steun van de mijn werkgever de Master Parttime Bedrijfskunde aan de Rotterdam School of Management gaan volgen. Op dit moment zit ik in mijn afrondende jaar en werk ik aan mijn scriptie. Deze scriptie en het scriptieonderwerp zijn op eigen initiatief en zonder hulp van XXX of externe consultants gekoppeld aan de XXX bedacht. Het onderzoek wordt zonder hulp van de XXX of externe consultants gekoppeld aan de XXX uitgevoerd. Ik zit hier niet namens de XXX, ik zit hier voor mijzelf en mijn eigen onderzoek. Dit interview is vertrouwelijk. Uw naam en andere namen die u noemt zullen niet worden vermeld in de scriptie.

### Vragen

1. Kun je iets vertellen over jouw functie?
2. Hoe zie je jouw rol (in groter geheel) in deze organisatie?
3. Wat versta je onder innovaties?
    3a. Heb je voorbeelden?
    (Note: als er wordt gesproken over technologie, is technologie dan een drijver van de innovatie of echt de innovatie)
4. Hoe belangrijk zijn innovaties voor jouw afdeling?
5. Hoe komen innovaties tot stand binnen jouw afdeling? Proces?
    Zo ja:
        5a1. hoe ervaar je dan dit proces?
        5b1. welke stappen vind je het moeilijkst in dit proces?
        5c1. welke stappen vind je het belangrijkst in dit proces?
    Zo nee:
        5a2: doorvragen.
6. Hoe zou je de type innovaties beschrijven waar je mee te maken hebt?
7. Wat versta je onder een succesvolle innovatie?
8. Hoe zie je jouw rol in innovatie?
9. Wat versta je onder een succesvolle implementatie van een innovatie?
10. Hoe zie je jouw rol in de implementatie van innovaties?
11. Wat zijn de problemen waar je tegenaan loopt bij het implementeren van innovaties?

### Observations

*Sfeer van het gesprek*

*De houding van de geïnterviewde*

*Non-verbale expressie*

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