Innovation despite reorganization

Rick Aalbers and Wilfred Dolfsma

Rick Aalbers is Assistant Professor of Strategy and Innovation at the Institute for Management Research – Corporate Strategy, Radboud University, Nijmegen, The Netherlands. Wilfred Dolfsma is Professor of Innovation and Organization at the Faculty of Economics and Business, Innovation Management and Strategy, University of Groningen, Groningen, The Netherlands.

1. Introduction

Downsizing always leaves scars (Mishra *et al.*, 2009). Downsizing at a large European commodities trading company shocked employees. They saw colleagues called to the Human Resources department and subsequently being escorted out of the building, without the opportunity to say goodbye, quickly collecting personal belongings. Continuing or reigniting innovative activities is not straightforward in such circumstances.

Managers need to take an end-to-end view of their innovation efforts, spotting firm-specific strengths and weaknesses and tailoring innovation efforts in a way that is appropriate to their firm (Hansen and Birkinshaw, 2007).

Tough choices need to be made in tough times; if a firm faces a crisis, it must reorganize to cut cost or realign organization structure with firm strategy. In such times, innovation efforts are easiest to cut, as their returns are uncertain and will only arrive in the future. Innovation is known to suffer. At the same time, however, cutting on innovation may simply postpone the inevitable by poorly equipping a firm for future survival, let alone competitive positioning. In this contribution, we point to what innovation efforts should be cut and which should be maintained, and we also show how innovation efforts can be maintained at lower cost.

2. Finding the innovation sweet spot

Selecting among innovation efforts is important in good times (Whelan *et al.*, 2011), but it becomes a life-saving exercise in times of crisis. In these times, investing in the development of new knowledge that may only be relevant in a distant future is no longer an option. What managers need to realize is, however, that innovation thrives on employees closely cooperating in fine-grained social interactions. With this consideration in mind, a firm can make better choices to continue to nourish innovation despite downsizing.

Obviously, when knowledge being developed is both irrelevant and not supported by a team of people collaborating, a firm should abandon it, as it leads to a certain death even in the best of times. When knowledge is relevant for a firm, but there is no team to develop it further, the firm finds itself in a dead end. It should consider hiring experts or acquiring another firm to push forward, even in the worst of times. A firm cannot expect to develop the relevant, valuable knowledge when it has no team of experts. A team of experts may work closely together to develop innovative knowledge that nevertheless is irrelevant in the sense of not being in line with the strategy that management maintains and the (future) market demands. Such innovation activity is dead weight for the firm. Management may, however, be lobbied by the people involved to continue developing this knowledge.

The innovation sweet spot, where relevant innovative knowledge is developed by a group of experts collaborating closely, is what a manager should nurture. The question is, of

> **"Cutting on innovation may simply postpone the inevitable by poorly equipping a firm for future survival, let alone competitive positioning."**

course, how to nourish this innovation sweet spot, even when a firm is cutting down on resources to fund it?

3. Nourishing the innovation sweet spot

When management reorganizes and downsizes, innovation takes a back seat. Reorganization and downsizing demotivate and also sever links between people (Nixon *et al*., 2004; Fisher and White, 2000). Innovation, being largely something people do "extra" and also being difficult to monitor, will suffer. Recent findings indicate that reorganization and downsizing need not bring innovation to a complete stop. Firms in diverse industries reinvented themselves drastically, by nourishing innovation even in times of crisis, and came out on top of the game. Examples such as IBM, Boeing, Philips, Hewlett-Packard and Siemens underline this point. Retaining the social infrastructure for innovation is particularly difficult: a firm's innovation DNA can be the first to unravel due to reorganization.

In an important way, firms are overlapping networks of social relations among people who collaborate. In its essence, every firm is a network of continuous collaboration among different individuals, some of which is in line with what managers intended and some of which emerges. Shape and dynamics of these formal as well as informal relations determine if and how a firm may expect to continue its innovative prowess. When downsizing, management should make sure that a group of individuals who had been innovating together continues to collaborate fruitfully even if the group is only a small one. The network of collaborating people, a firm's innovation DNA, should be nourished. The question is, of course, how to do that.

4. Connectors, but who?

Management can and must understand the connections present in a firm before it starts reorganizing. Actual innovation contacts can be more difficult to find. The formal contacts are most visible, and the informal ones can be relatively easily uncovered. The latter two also help management find and nourish the innovation sweet spot.

Connections among people and the overall network configuration should be what a manager who minds a company's long-run success keeps in view. Awareness of an organization's social innovation DNA impacts recovery and success after downsizing.

A new business development manager at Beta Company, for instance, faced challenges inflicted by an across-the-board job cut of 30 per cent. David, who joined Beta Company as a technical engineer and had spent years developing a strong network throughout the company, is eager to turn innovation projects into value-adding enterprises for his company. Moving up the corporate ladder, now overseeing all new business initiatives that emerged within the firm, David realized the possible danger of the downsizing effort his company could not avoid. Besides a significant reduction in the executive cloud for his own team, innovation relations within his team and from his team to others in the company would be disrupted.

David noticed that some employees clearly and permanently shut down innovation activities they were involved in before the downsizing. Others continued, and even increased their innovative activities soon after the reorganization dust had settled. Additionally, they were doing so without much managerial support. This divide within what prior had been a tight innovation department puzzled David.

5. Identifying innovation guardians

What we found as researchers, based on further talks with him and others and on an close analysis of the overall networks in the firm, was that it matters crucially how people were connected before downsizing. Those who continue their innovation activities despite the downsizing, the guardians of innovation constituting the innovation DNA in the firm, were connected more as well as differently in the firm's social networks. Individuals who are well-connected, as well as strategically positioned individuals, will continue to contribute to innovation.

The fact that the structure of connections determines continued innovation involvement means that managers can ensure that innovation does not suffer from downsizing at a low cost.

These guardians are *not* differently motivated or disposed toward the firm – offering bonuses for individuals who continue their innovation efforts may not have the expected result. The withdrawal or even sabotage that some show during downsizing seems mostly to be concentrated among poorly connected individuals (Bommer and Jalajas, 1999; Gandolfi and Oster, 2010).

5.1 Number of connections

The contribution of employees who maintained many connections in the formal (workflow) and informal (grapevine) networks of information flows prior to downsizing is more likely to continue during and after reorganization. Particularly, when any two individuals connect, both formally and informally, they are likely to continue their innovation efforts. They know each other well, have learned to trust one another personally and can also make the necessary formal arrangements. Less well-connected colleagues typically gear down on the innovative activity after downsizing, in many cases reducing these to zero.

5.2 Diversity

Continued innovation can be expected from people who are well-placed in the overall flow of information in a firm. Tapping into the various corners of the organization beyond their immediate contacts, these individuals receive and pass on a diversity of information, boosting their potential to make new combinations, boosting their own possibilities for novel idea creation and improving their understanding of how their efforts fit in a larger picture.

Such betweenness benefits are more important, actually, than those that come from immediate contacts (Provan *et al.*, 2007). Better betweenness can easily compensate for fewer immediate contacts.

Having a reputation for being well-connected throughout the firm is self-sustaining: others will approach these individuals for support and to collaborate. These individuals will, as a consequence, also be more visible and are thus less likely to be the victim of downsizing. Well-connected individuals may not be visible because of their hierarchical position, and can thus be overlooked.

5.3 Leaders

Our research shows that one's position on the corporate ladder ensures that someone continues to be involved in innovation following downsizing. The need for this may be better understood by leaders and middle management, as they are charged to take a broader perspective. The goals that they must meet, however implicitly formulated, align more closely with innovation as well.

> **"A firm cannot expect to develop the relevant, valuable knowledge when it has no team of experts."**

5.4 Informal contacts

As formal positions might require more time to re-establish and settle, informal positions are likely to allow one to pick up on new things that could help ongoing innovative activity (Cross and Parker, 2004). Intel, for instance, when it reorganized, has purposefully relied on previously established informal contacts to support knowledge transfer in the newly shaped formal structures, at least in a transition phase.

Because informal contacts are difficult to manage, relying solely on these could backfire. When support for the realigned strategy in parts of the informal network is lacking, its weight can be used to undermine innovation efforts.

When discussing the exact way in which to downsize his new business development (NBD) department with his Chief Executive Officer, David had specifically argued which individuals should be spared the effects of downsizing because of their position in the different social networks. Recognizing their pivotal innovation role for the company, led it to quickly reboot innovation efforts once the dust had settled.

6. Rewiring sensibly

Observations made earlier can be used to offer suggestions to managers to maintain innovation efforts despite downsizing. We offer suggestions focusing on issues in line with the social network analysis we and some others have done. First of all, choices should be made about which activities should be maintained and which are preferably to be discarded. Table I provides suggestions. Irrelevant R&D efforts should be cut, but when they muster support from within the company, expect strong resistance. Developing knowledge relevant for a company's future might require investments in hiring new employees and embedding them properly – something that might create resentment among the existing employees who might experience uncertainty.

Existing connectors should be nurtured so that the innovation DNA can be maintained. We suggest that key individuals may be stimulated, especially when a company downsizes, to grow into the role of a connector. As the company downsizes and possibly also realigns, some redundancy in communication should be allowed. If management manages to target connectors, in particular when it communicates its intentions, the efficiency of the downsizing and realigning efforts should increase substantially.

Connectors, or potential connectors, are not necessarily people higher up the hierarchy. They can and should also be individuals who are more junior. More senior employees are more likely to:

■ experience communication overload and might not provide the context of information they pass on;

■ might be more inclined to reduce the complexity of information passed on; and

■ may introduce biases and distortions.

The more specific and explicit the relevant knowledge exchanged in a company is, the less management must rely on social connections in a firm. In knowledge-intensive firms and for firms that offer highly customized solutions to customers, in service firms, for instance, management must be very mindful that the social networks in a firm are properly formed and functioning.

Table I	Innovation sweet spot and dead beats		Relevant innovative knowledge	
			y	n
Supportive Innovation DNA	y		Sweet spot	Dead weight
(innovation network)	n		Dead end	Death

We know from previous research that management can take a leading role by shaping formal structures in firms, and that these formal structures are very likely to be the basis for subsequent informal and innovation contacts to develop (Aalbers *et al.*, 2014a). Formal contacts precede informal ones, or at least are not likely to impede their development. Managers should thus not despair: their prerogative is to shape formal structures and connections, and such activity actually can be beneficial for innovation activities by employees in their firm. Managers can particularly think strategically about the contacts they would like to see grow and develop by means of the composition of temporary teams. In studies focusing on less turbulent organizational settings, managerial help in guiding employees to optimize their networks has been found of use for various reasons. Individual employees may find it difficult to search for relevant knowledge on their own, for instance, or have troubles integrating their knowledge with what knowledge others in the group possess. Transferring complex knowledge, especially across organization unit boundaries, can be particularly challenging when no established connections exist to begin with. Independently acting on knowledge acquired or reusing existing knowledge partly held by others to independently develop a new value proposition to the company may not be forthcoming without managerial direction to facilitate or stimulate it (Cummings, 2004; Reagans and McEvily, 2003; Okhuysen and Eisenhardt, 2002; Hansen *et al.*, 1999; Haas and Hansen, 2005). Management may be able to bring focus to the networks of individual employees, as employees that boost a large number of established social relations within the firm are known to strongly rely on these and are known to ignore opportunities for initiating relationships with new partners (Gulati, 1995; Tsai, 2001).

When forming temporary teams, there might be an inclination to bring individuals together who have worked together before or who are the biggest expert in the field of knowledge required. A consideration that we suggest should be important when forming a work team is be to include as a team member someone who the management believes should be given the opportunity to establish connections with other members that she would not otherwise be likely to have. When such newly forming relations cross intrafirm unit boundaries, horizontally as well as vertically, purposive action by managers forming a team may be the only way for connections to develop (Aalbers *et al.*, 2015).

The fortunate thing for managers in a firm that downsizes is that motivation does not play a role in a knowledge-sharing network that many would think: being intrinsically (or extrinsically) motivated will not make someone more active in the innovation network (Aalbers *et al.*, 2013). Other management instruments such as a coherent policy and persistent commitment shown to a policy will make more of a dent. Managerial direction aimed at establishing connections between employees that did not exist before is costly, however. Starting and maintaining connections will cost the company time not spent on other activities.

Under downsizing conditions, such proactive managerial involvement might not change the common notion of organizational downsizing as a strong stressor to those involved, but at the very least, it can turn a downsizing event into something that is not left to chance (Aalbers *et al.*, 2014b).

7. Conclusions

Orchestration of downsizing is a delicate and crucial task for management. Employee reactions to layoff have been found to vary considerably depending on how the employees felt about management conduct (Folger and Skarlicki, 1998). Given the speed with which a downsizing

> **"Individuals who are well-connected, as well as strategically positioned individuals, will continue to contribute to innovation."**

event typically unfolds, management often communicates poorly and not pro-actively, something that has been linked to lowered morale and decreased perceived fairness among the surviving employees (Brockner *et al.*, 1987, 1990). There is a natural tendency, when deciding who to retain and who to let go when a firm downsizes, to mostly look at the knowledge and capabilities that an individual holds (Mishra *et al.*, 1998; Mishra and Spreitzer, 1998). Without connections to others in the firm, however, even if the knowledge someone holds is relevant, it will not be used and developed further. A crucial ingredient of downsizing is for the management to use its understanding of the existing formal and informal networks so it can rewire connections between employees, keeping our suggestions in mind. Given the importance of work , both economically and socially, to most people, managerial care and thought on how downsizing activities affect the formal and informal social networks present in their firm may, in addition to preventing loss of innovative potential to the firm, even be presumed to counter negative employee reactions such as perceived breach of psychological contract between employer and employee (Du Gay, 1996). Without attention to properly retaining some wires and rewiring other social contacts, particularly the ones that nourish innovation, downsizing becomes self-defeating.

7.1 Research methodology

The insights presented in this article are based on research and consulting work over the past years with a number of leading companies in industries varying from financial and IT services, to engineering, trading and professional service firms (a.o. Atos Origin, Equens, Siemens, Deloitte, Ford Credit, ING bank, Academia, DSM, Friesland Campina, Shell, Philips). Our work centered on understanding how to orchestrate downsizing without hampering the interpersonal network of relations that constitutes the innovative DNA of the firm. To examine this process, we used organization network analysis techniques to visualize the networks that facilitate the transfer of innovative knowledge at a variety of organizations. Through a series of interviews in combination with the analysis of pre- and post-downsizing innovation networks, we gained deeper understanding of the characteristics of the guardians of innovation. We took measures of personal innovation activity, value of inputs and correlated them with network position prior and post-downsizing (Du Gay, 1996; Aalbers *et al.*, 2013).

References

Aalbers, H.L., Dolfsma, W. and Koppius, O. (2013), "Individual positioning in innovation networks: on the role of individual motivation", *Research Policy*, Vol. 42 No. 3, pp. 624-634.

Aalbers, H.L., Dolfsma, W. and Koppius, O. (2014a), "Rich ties and knowledge transfer within firms", *British Journal of Management*, DOI: 10.1111/1467-8551.12040

Aalbers, H.L., Dolfsma, W. and Blinde-Leerintveld, R. (2014b), "Firm reorganization: social control or social contract", *Journal of Economic Issues*, forthcoming.

Aalbers, H.L., Dolfsma, W. and Leenders, R. (2015), "Vertical and horizontal cross-ties: benefits of cross-hierarchy and cross-unit ties for innovative project teams", *Journal of Product Innovation Management*, forthcoming.

Bommer, M. and Jalajas, D.S. (1999), "The threat of organizational downsizing on the innovative propensity of R&D professionals", *R&D Management*, Vol. 29 No. 1, pp. 27-34.

Brockner, J., DeWitt, R., Grover, S. and Reed, T. (1990), "When it is especially important to explain why: factors affecting the relationship between managers' explanations of a layoff and survivor's reactions to a layoff", *Journal of Experimental Social Psychology*, Vol. 32 No. 4, pp. 389-407.

Brockner, J., Grover, S., Reed, T., DeWitt, R. and O'Malley, M. (1987), "Survivors' reactions to layoffs: we get by with a little help for our friends", *Administrative Science Quarterly*, Vol. 32 No. 4, pp. 526-541.

Burt, R.S., Hogarth, R.M. and Michaud, C. (2000), "The social capital of French and American managers", *Organization Science*, Vol. 11 No. 2, pp. 123-147.

Cross, R. and Parker, A. (2004), *The Hidden Power of Social Networks: Understanding How Work Really Gets Done in Organizations*, Harvard Business School Publishing, Boston, MA.

Cummings, J.N. (2004), "Work groups, structural diversity, and knowledge sharing in a global organization", *Management Science*, Vol. 50 No. 3, pp. 352-364.

Du Gay, P. (1996), *Consumption and Identity at Work*, Sage, London.

Fisher, S.R. and White, M.A. (2000), "Downsizing in a learning organization: are there hidden costs?", *Academy of Management Review*, Vol. 25 No. 1, pp. 244-251.

Folger, R. and Skarlicki, D. (1998), "When tough times make tough bosses: managerial distancing as a function of layoff blame", *The Academy of Management Journal*, Vol. 41 No. 1, pp. 79-87.

Gandolfi, F. and Oster, G. (2010), "How does downsizing impact the innovative capability of a firm? A contemporary discussion with conceptual frameworks", *International Journal of Innovation and Learning*, Vol. 8 No. 2, pp. 127-148.

Gulati, R. (1995), "Social structure and alliance formation patterns: a longitudinal analysis", *Administrative Science Quarterly*, Vol. 40 No. 4, pp. 619-652.

Haas, M.R. and Hansen, M.T. (2005), "When using knowledge can hurt performance: value of organizational capabilities in a management consulting company", *Strategic Management Journal*, Vol. 26 No. 1, pp. 1-24.

Hallen, B.L. and Eisenhardt, K.M. (2012), "Catalyzing strategies and efficient tie formation: how entrepreneurial firms obtain investment ties", *Academy of Management Journal*, Vol. 55 No. 1, pp. 35-70.

Hansen, M.T. and Birkinshaw, J. (2007), "The innovation value chain", *Harvard Business Review*, Vol. 85 No. 6, pp. 121-130.

Hansen, M.T., Nohria, N. and Tierney, T. (1999), "What's your strategy for managing knowledge?", *Harvard Business Review*, Vol. 77 No. 2, pp. 106-116.

McPherson, M., Smith-Lovin, L. and Cook, J.M. (2001), "Birds of a feather: homophily in social networks", *Annual Review of Sociology*, Vol. 27 No. 1, pp. 415-444.

Mishra, A.K., Mishra, K.E. and Spreitzer, G.M. (2009), "How to downsize your company without downsizing morale", *Sloan Management Review*, Vol. 50 No. 3, pp. 39-44.

Mishra, A.K. and Spreitzer, G.M. (1998), "Explaining how survivors respond to downsizing: the roles of trust, empowerment, justice and work redesign", *Academy of Management Review*, Vol. 23 No. 3, pp. 567-588.

Mishra, K.E., Spreitzer, G.M. and Mishra, A.K. (1998), "Preserving employee morale during downsizing", *Sloan Management Review*, Vol. 39 No. 2, pp. 83-95.

Nixon, R.D., Michael, A.H., Ho-Uk, L. and Eui, J. (2004), "Market reactions to announcements of corporate downsizing actions and implementation strategies", *Strategic Management Journal*, Vol. 25 No. 11, pp. 1121-1129.

Okhuysen, G. and Eisenhardt, K.M. (2002), "Integrating knowledge in groups: how formal interventions enable flexibility", *Organization Science*, Vol. 13 No. 4, pp. 370-386.

Provan, K.G., Fish, A. and Sydow, J. (2007), "Interorganizational networks at the network level: a review of the empirical literature on whole networks", *Journal of Management*, Vol. 33 No. 3, pp. 1-65.

Reagans, R. and McEvily, B. (2003), "Network structure and knowledge transfer: the effects of cohesion and range", *Administrative Science Quarterly*, Vol. 48 No. 2, pp. 240-267.

Shah, P. (2000), "Network destruction: the structural implications of downsizing", *Academy of Management Journal*, Vol. 43 No. 1, pp. 101-112.

Tsai, W.P. (2001), "Knowledge transfer in intraorganizational networks: effects of network position and absorptive capacity on business unit innovation and performance", *Academy of Management Journal*, Vol. 44 No. 5, pp. 996-1004.

Van de Bunt, G.G., Wittek, R.P. and de Klepper, M.C. (2005), "The evolution of intra-organizational trust networks the case of a German paper factory: an empirical test of six trust mechanisms", *International Sociology*, Vol. 20 No. 3, pp. 339-369.

Whelan, E., Parise, S., de Valk, J. and Aalbers, H.L. (2011), "Creating employee networks that can deliver open innovation", *Sloan Management Review*, Vol. 53 No. 1, pp. 37-44.

About the authors

Rick Aalbers is the Assistant Professor at Radboud University, Institute for Management Research, Department of Strategy, Nijmegen, The Netherlands. He was previously a manager at Deloitte Consulting. He studied business as well as economics (with distinction) at Erasmus University RSM, and received a PhD from the University of Groningen. He has published in, a.o., the *Journal of Product Innovation Management*, Research Policy, MIT Sloan Management Review, and Innovation: Management, Policy and Practice, and was published as book chapters with Routledge London and Edward Elgar among others. He has consulted with companies such as Deloitte, ING, ABN-Amro, Rabobank, Achmea, Nationale Nederlanden, KBC Belgium, OP Pohjola Finland, Philips, Equens and Siemens. Rick Aalbers is the corresponding author and can be contacted at: r.aalbers@fm.ru.nl

Wilfred Dolfsma is a Professor of Strategy and Innovation and director of the SOM research program Innovation and Organization at the University of Groningen School of Economics and Business. He studied economics and philosophy, and holds a PhD in the former from Erasmus University. He published in, a.o., the *Journal of Product Innovation Management*, *Research Policy*; *Journal of Business Ethics*; *Journal of Evolutionary Economics*, *Technology Analysis and Strategic Management*, *Technovation*, *Technological Forecasting and Social Change*. He is the Editor-in-Chief of the Review of Social Economy (2005) and Associate Editor of Innovation: Management, Policy and Practice (2012). He authored or edited, a.o., Interdisciplinary Economics (ed, with S. Kesting, Routledge 2013); Government Failure (Edward Elgar 2013); Understanding Mergers and Acquisition in the 21st Century (with K. McCarthy, Palgrave Macmillan 2012); The Nature of the New Firm: Beyond the Boundaries of Organizations and Institutions (ed With K. McCarthy and M. Fiolet, Edward Elgar 2011); Knowledge Economies: Innovation, Location, and Organization (Routledge 2008); Fighting the War on File Sharing. (with A. Schmidt and W. Keuvelaar, Cambridge UP 2007); and Understanding the Dynamics of a Knowledge Economy (ed, with L. Soete, Edward Elgar 2006). He has consulted with companies such as DSM, Campina, Accenture, Ford Motors, ASML, Equens and Siemens.