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Karynne L. Turner, Alberto Monti and Maria Carmela Annosi

Recent surveys from the U.S. Chamber of Commerce estimate that knowledge-based sectors (i.e., industries that have an intensive use of technology and/or human capital and contribute to advancing technical and scientific innovation such as academic institutions, software, and hardware firms, etc.) account for more than a third of the U.S. GDP, equivalent to nearly $7 trillion.[1] In developed countries worldwide, the knowledge-based industries increasingly represent a larger share of the global economy. Given the rapid obsolescence of technology in knowledge-intensive industries[2], companies will quickly lose their competitiveness if their leaders do not embrace practices that encourage innovation. Innovation should encompass both the *products* offered and the *processes* used to develop them.[3] While product innovations allow companies to meet changing consumer preferences with new and/or improved product offerings, process innovations are important for competitive advantage through operational improvements in efficiency, flexibility, and quality.[4] Successful process and product innovations involve granting employees the discretion to explore novel approaches to their work and/or the technology used for the company's products, backed by management's allocation of the necessary resources to align employee and organizational goals. When employees have more freedom to make choices about their work, it can lead to less interaction with managers. This can be beneficial as it empowers employees, but it may also reduce the traditional role of managers in providing guidance and motivation and thus, lower perceptions of their support. On the other hand, the methods management uses to facilitate coordination among individuals, i.e., control in order to align employees' and the organization's interests often unintentionally constrain innovative behavior. In organizations, the relationship between management's control and employee autonomy is not zero-one. Striking the right balance between managerial control and employee autonomy, a paradox commonly known in the literature as the "control-autonomy" dilemma[5],[6],[7],[8], is crucial in the pursuit of innovation.

Historically, the idea of "self-managing"[9] and "holacracy," emphasizing autonomy, employee decision-making, and limited supervision, appeared to offer a solution to this dilemma.[10] However, an example from Zappos' implementation of holacracy shows that an excessive focus on autonomy can lead to issues. Zappos dropped from Fortune magazine's "100 Best Companies to Work For" list for the first time in eight years after implementing a holacracy.[11] Furthermore, managerial approval among employees declined. A Harvard Business study found complaints of "lack of clarity" and "no definitive answers" among those leaving Zappos.[12] Consequently, for self-managing teams to be effective, leaders must determine the appropriate level of involvement necessary to provide direction and garner approval from employees.

According to research by Turner and her colleagues, a critical element missing in the design of self-managing practices aimed at fostering innovation is the development of

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subordinates' perceptions of managerial support (PMS), i.e., employees' beliefs that management cares about their well-being, values their contributions, and encourages their efforts.[13] When employees are left to self-management, it becomes more difficult to maintain PMS. Without PMS, employees may be more hesitant to engage in the novel behaviors needed to innovate. While employees don't require constant managerial supervision or involvement, what they do need, along with the resources and motivation from management to enable them to perform their tasks effectively, is a sense that managers genuinely care about their well-being. A recent McKinsey study found that perceptions of management's concern for the individual and their wellbeing is even more important post-Covid.[14]

Developing perceived managerial support in self-governing teams

In today's global and dynamic marketplace characterized by disruptive startups, innovative incumbents and fierce competition for employees after the "great resignation", organizations find themselves contending with several important issues impacting their competitiveness. First, innovation is a necessity - this is particularly true for knowledge-based industries and second, organizational practices must demonstrate managers' commitment to, and care for their employees' well-being. How can management design their organizational practices to address these dual challenges?

As business leaders increasingly weigh the benefits and pitfalls of self-managing techniques that spur innovation with the need to show support for their workforce, they should consider the following three questions:

- How can organizations address the "control-autonomy" dilemma?
- How can management use organizational practices to encourage both process and product innovations?
- When is PMS necessary for innovation?

Case: a knowledge-based firm's implementation of self-governing teams

To address the expressed objective of increasing process and product innovations, a large international software development firm elected to reorganize and implement Agile management practices in its R&D units. Agile management practices facilitate innovations and learning through self-managing teams. The role for managers in self-managing teams is to determine team goals, i.e., focus on *outputs*, and conduct evaluations of individuals' training and competency development, i.e., emphasize *inputs*. Whereas previously management supervised workers' actions and activities, the reorganization gave teams the autonomy to decide how to divide their work and tasks to meet the goals set by management. The implementation of Agile practices resulted in the firm shifting from a bureaucratic hierarchy toward a flatter organization.

The R&D units had over 400 employees and over 50 self-governing teams. The average number of people on a team was eight and line managers supervised three to four teams. The teams were cross-functional comprised of system design, coding, and testing engineers. All teams were tasked with implementing and testing both process and product innovations. Each team was coached on the implementation of the Agile practices by a scrum master. The transformation to the new practices occurred at the same time for each team. The adoption of Agile techniques and self-managing practices at the case firm provided a naturally occurring experiment to explore how to manage the "control-autonomy" dilemma. These practices give employees autonomy while management maintains control through goal setting and individual development evaluations. Moreover, this case study illustrates when PMS is needed to encourage a particular type of innovation.

How can organizations address the "control-autonomy" dilemma?

Self-governing teams still require formal practices to drive innovations that will be valued by customers and enhance organizational effectiveness.[15] The balance between employee autonomy and management control can be achieved through practices that ***enable*** employees to make decisions while at the same time a) set guidelines concerning the necessary knowledge and skills of employees, i.e., inputs to the work process and/or b) the goals pursued, i.e., outputs. Such organizational practices will also foster worker's commitment to the organization and lead to greater PMS. Management plays a crucial role in supporting employee innovation. Line managers were responsible for "controlling" the inputs that go into the innovation process and the outcomes of the innovation process. For instance, incentives and opportunities were provided to enhance employees' skills, while management assessed individuals' continuous education and capability development, i.e., the inputs. At the same time, line managers set challenging goals, driving employees to strive for more innovative results. Exhibit 1 illustrates two organizational practices leaders can use to balance management's control and employees' autonomy.

Input practices: a tool for skill development and employee commitment

Management used methods known as "input practices" to control and enhance employee performance by specifying the knowledge, skills, and abilities (KSA) required for tasks before employees begin their work. Input practices strike a balance between management control and employee autonomy by defining the necessary KSA while giving employees the freedom to make decisions related to their work. This approach not only empowers employees but also ensures that management stays closely involved. Career development is a major driver of organizational commitment and retention, according to a new survey by McKinsey.[16] Continuous training plays a crucial role in this process. It includes not only skill-based training but also value-based training, which facilitates employee's commitment to and ***identification*** with the organization and its values.

In today's knowledge-based economy, where success depends on the firm's unique knowledge and skills and the ability to retain valuable employees during this period of increased resignations, employee development and commitment to the organization are paramount. Research by Kuvass and Dysvik in 2010 highlighted the significance of employee development in this context.[17] Continuous education programs are a tangible way to show that management cares about employee well-being, i.e., PMS, and values innovative ideas. This fosters a positive work environment and ultimately benefits both the employees and the organization. In summary, input practices are a valuable tool used by management for enhancing employee skills, motivation to learn and work, and commitment to the organization. They provide a structured framework for skill development while allowing employees to exercise autonomy in their work.

Exhibit 1 Enabling attributes of organizational practices and PMS

Input practices	*Output practices*
1. Managers provide: ■ Specifies Knowledge, Skills, and Abilities ■ Employee Development ■ Skill appraisals	1. Manager provides: ■ Clear Goals ■ Stretch Goals ■ Information Sharing
2. Commitment based upon *identification*	2. Commitment based upon *compliance*
3. Employees have decision-making authority over work processes within KSA parameters	3. Employees have decision-making authority over KSA and work processes

Source: Created by authors

Output practices in management: achieving goals and fostering innovation

Line managers also exerted control by setting clear, ambitious team goals, i.e., improvements in code quality, increases in new release frequency, or more customized products. To do this effectively, they must consistently communicate information about the goals' nature, status, and achievement. According to research by Gallup, employee retention is tied to communicating timely, accurate information.[18] Employee commitment is often based upon their ***compliance*** with these stated objectives. When goals are well-defined and information is shared, it aligns the goals of workers and managers.

Challenging or stretch goals can drive innovation and change how things are done within an organization. In knowledge-intensive economies, ambitious goals motivate employees to showcase their skills and abilities. Importantly, managers don't need to specify the exact KSA employees should have. Instead, employees are given autonomy to figure out how to enhance their capabilities to achieve these defined goals. This autonomy signifies that management trusts and values employees' abilities, i.e., PMS, which in turn boosts employee belief in their value to the organization and enhances performance.

How can managers use organizational practices to encourage process and product innovations?

To ensure that self-managing teams successfully deliver innovation, management used both Input and Output practices. We prescribe managers use the following tested guidelines to facilitate both process and product innovation.

1. Input Practices for Process Innovation. Process innovation involves enhancing internal operational methods to become more adaptable, efficient, and reliable.[19] To promote this, managers should design input practices focusing on building and upgrading employee skills by doing the following:
    - Focus on Depth of Knowledge: encourage employees to specialize and deepen their expertise in specific knowledge areas related to the organization's processes.[20]
    - Resource Allocation for Skill Development: allocate resources and provide training opportunities to help employees continuously upgrade their skill sets, especially in areas relevant to process improvement.[21]
    - Regular Skill Assessments: conduct periodic assessments of employees' KSA to identify areas for improvement and track progress. For example, Deloitte, one of the top consulting firms for innovative services, provides frequent feedback to continually develop its employees and determine career paths based on future intentions and potential.[22]
2. Output Practices for Product Innovation. Product innovation is about meeting external market needs with new technologies, products, or features. To support product innovation, managers should design output practices as the following:
    - Establish Clear Goals: set clear goals for employees, aligning them with the organization's mission and market trends. Clearly defined objectives provide a roadmap for product innovation that is valuable to customers.
    - Stretch Goals: encourage employees to reach beyond their current capabilities by setting challenging goals. Stretch goals push teams to think creatively and contribute to the development of new products.[23]

- **Information sharing:** share information and provide feedback on the status of achieving the specified goals. Feedback is a useful tool to motivate employees to persevere and encourage them to try different methods until they meet the goals. [24] Innovative firms like Google and Johnson & Johnson use clearly articulated, ambitious goals with frequent feedback to prompt workers to develop products to meet emerging market demands.

When is PMS necessary for innovation?

Both process and product innovations play a critical role in a firm's ability to appeal to market demands and in achieving sustainable competitiveness. Balancing control and autonomy is essential in fostering innovation. Achieving this balance can lead to greater success in the evolving knowledge-based economy and a post-Covid world. As society continues to grapple with feelings of isolation, loneliness, and increases in remote work post-pandemic, managers should pay careful attention to designing organizational practices that emphasizes management's concern for individuals' well-being, i.e., PMS and understand how PMS helps to achieve a particular type of innovation.

Process Innovation: Process innovations, often characterized by refinements to organizational techniques, typically benefit from Input practices that promote employees' expertise in specific knowledge areas. When these practices are used, additional management support is less likely to be necessary for employees to use their KSA to make incremental improvements in the processes. For example, a process innovation that increases the speed of writing code would draw on existing knowledge without the need for more managerial involvement. However, if Output practices are used without specifying KSA, process innovation will require significant PMS. In this regard, managers must create a supportive environment where employees feel safe experimenting and improvising with their work methods to deliver those process improvements.[25]

Product Innovation: A driving force for product innovation may be a shift in market preferences or unmet market needs. Breadth of KSA from different knowledge areas enables the creation of new combination of ideas and questions the established assumptions that might hinder innovation in response to change consumer preferences.[26] In this context, having a broad knowledge base is more advantageous than having deep expertise in a specific area. Output practices allow individuals to tap into diverse knowledge to achieve performance targets without needing additional PMS. However, when using Input practices for product innovation, there are limitations to the types of KSA that employees utilize, restricting what the organization can achieve. In this scenario, management must actively promote a culture of thinking outside the box and encourage employees to go beyond their current understanding. To foster product innovations with Input practices, employees will need higher levels of PMS. Exhibit 2 provides a framework for business leaders to evaluate when PMS is required for different types of innovation based on the specific context.

Exhibit 2 The types of innovation and the need for PMS

Degree of need for PMS	*Input practices*	*Output practices*
Low need for PMS	Process innovation	Product innovation
High need for PMS	Product innovation	Process innovation

Source: Created by authors

Notes

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