

# A Synthesized Review of the Antecedents of Management Innovation and the Impact of Leadership Styles: The Case of Transforming Managing Practices in Chinese Cosmetics-Manufacturing Firm

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As organizations mature in technological innovations, organizations seek opportunities to implement management innovation (MI) to improve their overall productivity. Despite the growing emphasis on implementing management innovation, the existing literature lacks qualitative studies that holistically explore the various antecedents of MI and provide insights into real-world organizational dynamics that drive MI. This research conducts a case study at BeautyCo – an 80-employee cosmetics manufacturing company in Guangzhou and Shanghai, China – to explore the external and internal antecedents of MI and how leadership styles affect MI. The study concludes with 25 interviews representing all top managers, department managers (technical, sales, and marketing), and employees from both locations. The study finds that external factors including competition, industry changes, and government policies, and internal factors including employee satisfaction, organizational matrix, and organization size all effectively foster management innovation. It also concludes that the authoritative, democratic, and liberal leadership styles of top managers play a moderating role in the process of management innovation. By engaging in in-depth conversations with leaders and employees from all levels of the organization, this study contributes to the field of MI studies by presenting authentic insights into workplace dynamics. Managers can utilize the study's real-life examples to identify opportunities in MI and implement effective managerial changes. However, the study's generalizability is limited because it is conducted at a China-based small organization. The findings might not universally apply to larger or culturally diverse corporations. In addition, the research contains two potential biases: observer effect and social desirability. Despite using a non-intrusive interview approach, the research might not have fully captured the interviewee's attitude and behaviors through a non-video phone call. The Chinese interviewees may also be influenced by the collectivist culture by altering their responses or behaviors to present themselves favorably, creating a social desirability bias.

**Keywords:** *Management innovation, employee satisfaction, leadership styles, employee diversity, management, innovation*

## Introduction

The general public has long been referring to innovation as technological innovation<sup>1,2</sup>. Technological innovation is “the process where an organization (or a group of people working outside a structured organization) embarks on a journey where the importance of technology as a source of innovation has been identified as a critical success factor for increased market competitiveness”<sup>3</sup>. However, in recent years, practitioners and scholars are studying a different type of innovation: management innovation. Management innovation is the “new approaches in knowledge for performing the work of management and new processes that produce changes in the organization's strategy, structure, administrative procedures, and systems”<sup>4</sup>. On the other hand, Kimberly (1981)<sup>5</sup> stated that management innovation is a change in management prac-

tics where the “nature, quality, location, and quantity of information available in the decision-making process changes.” Meanwhile, studies<sup>6-8</sup> emphasized a change in management processes, practices, and structures that improves organizational performance. In this paper, we define management innovation (MI) as an organization's changes in organizational practices – such as organizational matrix, evaluation criteria, and employee compositions – that promote productivity and competitive advantages. We selected this definition because it combines key aspects from past research, including the ideas of “new approaches in performing the work of management and new processes”<sup>4</sup>, “decision-making process changes”<sup>5</sup>. This definition also evaluates the effectiveness of management innovation through productivity and competitive advantages, which are observable factors in an organization's annual performance.

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Organizations and scholars are shifting their focus toward management innovation because it has numerous positive impacts on a firm's performance. According to Khosravi and colleagues<sup>9</sup> systematic review of past research on management innovation, management innovation impacts an organization's financial performance, operative/service performance, innovation performance, management performance, and overall performance<sup>9</sup>. For instance, Azar and Ciabuschi (2017)<sup>10</sup> confirmed that management innovation is beneficial for a firm's export performance and competitive advantages by conducting a questionnaire on senior managers at a Spanish firm<sup>10</sup>. Furthermore, according to Nieves (2016)<sup>11</sup>, management innovation fosters production innovation and learning capabilities, leading to financial achievements and improvements<sup>11</sup>. In a 2019 study, Roehrich, Davies, Frederiksen, and Sergeeva<sup>12</sup> found through a longitudinal case study that using Integrated Project Teams (ITP) – which they considered as a type of management innovation – allowed the firm to deliver required outcomes that were previously impossible. This case study demonstrates an example of management innovation's outcomes and confirms that such innovation is useful for solving firm challenges. As a result, many scholars and companies are studying management innovation because it is a powerful tool for companies to gain competitive advantages in today's turbulent and competitive market. Companies are getting to understand that while technological innovation can improve their performance temporarily, management innovation is essential for fueling product innovations and maintaining their long-term productivity.

Despite abundant findings of management innovation's positive outcomes, empirical studies on the antecedents and drivers of MI are scattered. Many scholars studied distinct antecedents of management innovation, including organizational, environmental, and managerial antecedents. However, each study only examines one specific antecedent of management innovation. The field of research on management innovation's antecedents is isolated and lacks study that examines the intertwining and diverse drivers of management innovation together. Current studies on management innovation can be categorized into three sections: organizational antecedents, environmental antecedents, and managerial antecedents. Firstly, studies examine how organizational size and knowledge management foster management innovation. Damanpour and Schneider (2006)<sup>13</sup> found a positive relationship between organization size and management innovation and implied that the mechanism lies in the larger companies having the ability to gather more perspectives from their employees. On the other hand, Černe et al., concluded that “organizational size negatively moderates the relationship between knowledge exchange and MI.” Meanwhile, Vaccaro et al. (2012)<sup>8</sup> examined the moderating role of “organizational size between transformational, transactional lead-

ership and MI,” and discovered that transformational leaders are more successful at fostering management innovation than transactional leaders. Knowledge management, “the process of acquiring, sharing, using and developing knowledge in an organization” (Chang & Lee, 2008)<sup>14</sup>, is also frequently mentioned in studies of organization antecedents of management innovation, (e.g. de Souza Bermejo, Tonelli, Galleries, Oliveira, & Zambalde, 2015; Hecker & Ganter, 2013; Liao et al., 2008.)<sup>15-17</sup> determined that knowledge management fosters management innovation by transferring and creating new knowledge. Other studies suggested that organizational learning is vital to management innovation because it “allows the development, acquisition, and transformation of the knowledge which enhances MI” (Camisón & Villar-López, 2011)<sup>18</sup>.

Secondly, studies often explore how environmental factors – “the market or sector within which the organization works, and can include political and societal” (Damanpour & Schneider, 2006)<sup>13</sup> – lead to management innovation. Damanpour and Schneider (2006)<sup>13</sup> and Kim and Lui (2015)<sup>19</sup> both found that changes in the industry environment, such as increasing competition, motivate companies to implement management innovation. Both studies have also concluded that dynamism and competitiveness within an industry are key drivers of management innovation. Other studies have examined environmental antecedents through market dynamics, political and legal aspects, and people and communities surrounding the organization, (e.g. Ganter & Hecker, 2013; Kimberly & Evanisko, 1981)<sup>5,16</sup>.

Lastly, numerous theories and empirical studies emphasize the importance of managerial antecedents in management innovation. Santos-Vijande & Álvarez-González (2007)<sup>20</sup> found that senior executives are key leaders who affect management innovation, and top managers do so by influencing innovation management practices and implementing diverse leadership styles (Rezvani, Khosravi, & Dong, 2017)<sup>21</sup>. The majority of studies explore how transformational and transactional leaders affect the implementation of management innovation and have universally concluded that both leaders have a positive effect on management innovation. Furthermore, studies also examined how stewardship – overall responsibilities within the organization (meta-analysis) – fosters management innovation. Kam Sing Wong (2013)<sup>22</sup> and Ravichandran (2000)<sup>23</sup> found that top managers cultivate organizational culture, and hence, there is an association between MI and top management. Finally, there exists research on the relationship between personal level characteristics – personality, level of education, working habits, and attitude – and management innovation. Studies focused on aspects ranging from manager's tenure, education/self-directed learning, and attitude towards innovation (e.g. Young et al., 2001; Ho, 2011; Drury & Farhoomand, 1996)<sup>18,24,25</sup>.

Through the above summary of existing literature on the

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antecedents of management innovation, current studies focus on one specific driver of management innovation. However, these antecedents are not one-dimensional factors and should be examined through a holistic process. Therefore, the existing research lacks studies that explore all three categories of antecedents together. In addition, most studies are quantitative and explore management innovation through a mathematical lens, so they do not illustrate a vivid image of managing practices within an organization. Yet, the process of management is all about human interactions between managers and employees. Therefore, there lacks a qualitative study that deciphers the detailed dynamics within an organization. Finally, current studies neglect the effect that employees have on management innovation. However, employees are essential to this process because they make up the majority of an organization, and their experiences are essential to decision-making and executing new management practices. Especially as industries emerge from the pandemic, this field needs a qualitative study that describes the interactions between top managers and employees in a small-scale organization, and how various antecedents, both environmental and organizational, foster management innovation.

This research paper presents a case study on a small cosmetics-manufacturing company located in Guangzhou and Shanghai China – BeautyCo (as a pseudonym). Cosmetics manufacturing is a niche industry in China as the public displays an increasing need for skincare and makeup products. Therefore, BeautyCo is positioned in an increasingly competitive industry, which provides novel insights into the antecedents of management innovation. We selected BeautyCo for its small organizational size and position within a competitive industry. Within a small organization, because employees have more direct interactions with top managers, we can explore the direct effect that top management practices have on the overall working body. Secondly, the competitive cosmetics industry creates pressure on BeautyCo, and hence, encourages them to implement management innovation.

This study interviews workers of all levels: top managers, team leaders, and employees. The inclusion of employees provides a nuanced understanding of management innovation's antecedents. As outsiders of management-related decision-making processes and people who work within management restrictions, employees reveal a unique perspective on the changes in management practices within an organization, such as stories about how new practices improved/hindered their ability to work and their level of comfort within the organization.

Lastly, the case study explores the external and internal antecedents of management innovation with the moderating role of top managers and team leaders' leadership styles. This study utilizes the behavioral theories of leadership styles, which analyze how individuals act in managerial activity. In

this theory, there are three leadership styles: the autocratic (authoritative) style, the democratic style, and the laissez-faire (liberal) style (Krieger, 2001)<sup>24</sup>. We selected this leadership style theory because it is used in other studies examining the effects of leadership styles within organizations (e.g. Mihai, L., Schiopoiu Burlea, A., & Mihai, M., 2017)<sup>26</sup>. The authoritative style is characterized by “the excessive control of the leaders, a centralized process of decision-making, unilateral communication, and little importance given to the employees' wealth,” (Mihai, L., Schiopoiu Burlea, A., & Mihai, M., 2017)<sup>26</sup>; the democratic style is characterized “directly involving the followers in the decision-making process and the making the communication process creative and bidirectional,” (Burlea Schiopoiu & Rainey, 2013)<sup>27</sup>; and the liberal style is characterized by “the leader's involvement in the subordinates' activity being minimal, (Krieger, 2001)<sup>24</sup>. The research asks each manager to identify their leadership style given the three definitions and explores how each leadership style leads to management innovation within an organization. Past research has explored how transformational and transactional leaders affect management innovation, (e.g. Vaccaro et al., 2012; Rezvani, Khosravi Dong, 2017;)<sup>8,21</sup>.

## Methods

To explore the detailed dynamics between top managers and employees, I looked for a small organization with less than 150 workers in a developing economy. A small organization is more suitable for this qualitative study on management innovation because employees have more interactions with top managers, and hence, better perceptions of their management practices and leadership styles. Frequent interactions with top managers allow employees to provide specific examples of managerial changes within the organization, which is the fundamental purpose of this qualitative study. The size of 150 workers is suitable because it is small enough that employees and managers can have close interactions, but large enough to require a systematic management system and processes. Furthermore, I sought organizations positioned in a niche industry. A competitive industry allows the organization to provide insights into how pressures and changes in the external environment foster management innovation.

I selected BeautyCo, a China-based cosmetic manufacturing small business because the Chinese cosmetics industry is growing significantly and has increased competition. BeautyCo has two locations: the Guangzhou headquarters with over 60 employees and the Shanghai sub-location with 20 employees. The firm's main services include cosmetic manufacturing and formula design with a specialty in face masks, personal care product production, and other cosmetic raw-material production such as SPF and emulsifiers. BeautyCo has customers in China and internationally, including well-

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known cosmetic brands Shiseido, Avon Products, Beiersdorf, Pigeon, and Amway.

The Chinese cosmetics industry has grown significantly in the past decade. From 2019 to 2020, during the Double-Eleven E-commerce Shopping Festival in China, beauty and makeup products sales increased by 38%, and personal care products increased by 43%. 88% of the Chinese cosmetics industry is focused on skin care, hair care, oral care, makeup, and bath products. Women's consumption power in China is increasing significantly, and with the promotion of skincare and makeup in e-commerce and social media, the Chinese cosmetics industry is expanding rapidly. The growth rate in China outcompetes other markets. For instance, the United States is expected to grow, on average, by 2.6% from 2021 to 2023; Korea has a CAGR of 5.22% between 2021 and 2026, and Japan has a CAGR of 3.5% between 2019 and 2024. On the other hand, the Chinese cosmetic industry has a growth rate, on average, of 13% between 2021 to 2023. Therefore, the Chinese cosmetic market is highly competitive due to its potential. The significant industry growth leads to additional competition between cosmetics manufacturing companies, which in turn requires companies to implement innovation to maintain their competitive advantages. Currently, there are 5287 Chinese companies permitted to produce cosmetic products, of which 3.5% are publicly traded companies. For small organizations, they need nuances in their management practices and strategies to differentiate themselves from the vast numbers of competitors. Hence, I selected the competitive cosmetics manufacturing industry to explore the antecedents of management innovation.

Among numerous Chinese cosmetics-manufacturing firms, I selected BeautyCo because it meets the criteria of a small organization, and has a reputation for high-quality products and services within firms of its size in China. In addition, representatives of BeautyCo, including top managers and employees, demonstrated outstanding interest in the research. Each interviewee agreed to provide ample time for all interviews, and they were willing to share details about their experiences within the organization. Combining these factors, I chose BeautyCo as the target organization for this research.

## Samples and procedures

The researcher conducted a qualitative study on BeautyCo of the antecedents that lead to management innovation. To explore both top-down and bottom-up factors that drive MI, the researcher interviewed 25 workers from the Shanghai and Guangzhou locations combined. The interviewees included top managers, department leaders, and employees. The researcher interviewed five top managers, including the CEO, the Shanghai and Guangzhou locations' general managers, and the Shanghai location's vice general managers. The

team leaders from Shanghai and Guangzhou span the technical, sales, marketing, and legal departments. Similarly, the researcher interviewed twelve randomly-selected employees, who represent the technical, sales, and marketing departments of Shanghai and Guangzhou locations. The researcher chose this sample because it includes all of the top and department managers, and a randomly selected group of employees representing each department of both locations; data saturation was reached through the 25-person sample. However, one limitation of this study is the generalizability of findings in large companies outside of China.

Each semi-structured interview lasted between 35 to 45 minutes. All the interviews began by asking the interviewee, "What is your interpretation of management innovation." Through this question, the researcher can understand the interviewee's perception of management innovation and can clarify misunderstandings to prevent irrelevant responses in the future. Through analysis, this question might establish how a person's understanding of management innovation can foster or hinder the process. The interview proceeded to discuss observed changes in the managing practices of BeautyCo and the company's diversity in age, gender, education, etc. "Changes in managing practice" reflects this paper's definition of management innovation, and this question encourages the interviewee to describe the firm's management innovation through concrete examples of managerial changes. Then, according to each interviewee's response, the researcher raised follow-up questions about specific events that triggered such managerial changes: hence, what fostered management innovation. Furthermore, asking about the company's age, gender, and education distribution allows the researcher to explore the relationship between diversity and implementing management innovation.

Finally, each interview ended by asking the top managers and team leaders to identify their leadership style from authoritative, democratic, or liberal leaders. The interviewer gave each top manager and team leader an academic definition of the three leadership styles. Without any additional explanation from the interviewer to prevent potential response bias, the top managers and team leaders identified themselves as one of the three leadership styles. Similarly, the interviewer gave employees the academic definitions of each leadership style and asked the employees to identify the leadership style of their respective team leader and top manager. Through understanding the managers' leadership styles, the research gains insight into the moderating effect of leadership styles on fostering manager innovation. By asking employees to describe their managers' leadership styles, the researcher evaluates whether managers have a similar perception of their leadership styles as outsiders. Consequently, the researcher can explore the effect that employees' perceptions of managers' leadership styles have on management innovation.

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The interviews were conducted in Mandarin and recorded on a phone. The interviewer was born in China to Chinese parents and attended a bilingual school until age 12, where classes were taught in Mandarin and English. Then, the interviewer attended middle and high school in New Jersey and completed language proficiency tests (TOEFL, Duolingo, SAT) with distinctive scores. Therefore, the interviewer is proficient in Mandarin and English.

Using professional transcript software, each interview was transcribed from an audio recording to a typed script in Mandarin. Then, the researcher translated the Mandarin script into English without any modification of the information. When encountering an unknown word, the researcher used a professional online translator. After all interviews were translated into English, the researcher consulted a professional translator of Mandarin and English to ensure the accuracy of the translation.

After thoroughly reading through the English transcripts of each interview, the researcher began the coding process. Firstly, the interview responses were categorized into four main topics: the interviewee's interpretation of management innovation, specific managerial changes that they experienced and/or observed at BeautyCo, the diversity of BeautyCo, and tea leaders and top managers' leadership styles. To explore the antecedents of management innovation and its outcomes, the researcher focused on two main sections: specific managerial changes that they experienced and/or observed at BeautyCo and the diversity of BeautyCo.

Then, responses to specific managerial changes within BeautyCo were categorized into external and internal antecedents. External antecedents referred to events that did not occur between members of BeautyCo. Examples of external factors include changes in government regulation, new industry trends, interactions with customers, and competition. Internal antecedents referred to events that included direct interaction between members of BeautyCo. Examples of internal factors are interactions between employees, team leaders, and top managers, evaluation processes, communication methods, organizational matrix and size, human diversity, and employee satisfaction. The researcher grouped responses with similar ideas, and each response could be placed in multiple categories. There were three categories in external antecedents and four categories in internal antecedents. The three external antecedent groups are industry environment and trends, competition, and government regulation. Customer service is included in the industry environment because BeautyCo adjusted its customer service policies in response to the unique customers within its region. The four internal antecedent groups are changes in employee composition and diversity, employee satisfaction, changes in the organization matrix, and organization size. Evaluation processes are included in employee satisfaction because top managers change the criteria

based on employee feedback, and communication processes are included in organization size because small and large organizations use different communication methods.

Finally, each team leader and top manager's response to their leadership style was grouped with employees' response to their leadership styles. The information was organized in a table to examine the similarities and/or differences between employees' perceptions of the managers' styles and their perceptions.

One potential bias in the coding process is inaccurate categorization of information due to false interpretations of interviewee's responses. To minimize the bias, the researcher placed responses into different groups by identifying keywords that corresponded to the category. For instance, for the response to be placed in "Government Regulations," the researcher must find words like "government" or "FDA" within the response. In addition, the research does not paraphrase any information when coding them into categories. When there are no keywords within a response, the researcher contacts the interviewee and asks them to explain the response and place it in one/multiple category/s.

Lastly, a potential limitation of this study is its generalizability. The study is conducted at a small company in China, so the specific findings might not apply to large corporations or companies located in another geographic location with different cultural backgrounds. While the research reached data saturation, the sample size of interviewees at BeautyCo is relatively small. Therefore, the small sample size might limit the generalizability of this study's findings because the interviewees' experiences at BeautyCo may not represent the management situation and needs of other organizations of different industries and sizes. In addition, there are two potential sources of bias in this research: the observer effect and social desirability. While the research utilized a non-intrusive approach with open-ended questions, the researcher may not have a complete understanding of the interviewee's attitude, mindset, and behaviors during a phone call interview. Coming from a collectivist cultural background, Chinese participants may alter their responses or behavior to present themselves in a favorable light, which creates a social desirability bias.

## Results and Analysis

### External antecedents of MI

**Industry Environment and Trends:** Although BeautyCo is a manufacturing company, the core of this business is providing high-quality service to its customers, which are other businesses. Customer service management in a business-to-business context is crucial to its success. Examples of customer service include delivering detailed information about a product to the customer's business, enabling prompt commu-

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nication between customers and sellers, and soliciting feedback on the product from the customer. One management innovation that Shanghai BeautyCo implemented is enforcing stricter policies regarding customer service.

In Guangzhou, most of the company's customers are affordable brands, so they had lower expectations for sellers. For instance, Guangzhou customers solely look for high-quality formulas; they do not seek extensive services from sellers. However, Shanghai BeautyCo's customers are mostly high-end and 'luxury' brands, so they seek both high-quality formulas and excellent services. As Interviewee 1 mentioned, Shanghai customers may look for 'an expert from each department to provide service, specific personnel for each department, the ability to translate between languages, periodic visits from the seller, regular video communication over products, and extensive and complete paperwork over products' (Interviewee 1, Sales, Shanghai). These specific consumer expectations require Shanghai BeautyCo to implement stricter policies regarding customer service.

According to Shanghai BeautyCo's General Manager, the customer service and sales departments directly interact with customers, often through messages, emails, and phone calls. Therefore, the actions and words of BeautyCo's representatives directly affect the customers' attitude towards the company. To ensure high-quality customer service at all times, Shanghai BeautyCo incorporated 'customer service evaluation' into its 'monthly quality evaluation.' Shanghai BeautyCo included 'customer service expectations' in the company's 'Overall Quality Goals.' The quality of customer service is measured through the number of complaints that a worker receives from customers. To minimize the number of complaints, Shanghai BeautyCo includes core processes, such as purchasing materials and sales, in every customer service employee's training. In the past five years, Shanghai BeautyCo received zero customer complaints, indicating a high level of satisfaction with its customer service.

Although the stricter customer service policy is successful at Shanghai BeautyCo, it could potentially decrease employees' motivation to have conversations with customers. One Shanghai customer service employee described that 'under such evaluations, I feel like I'm completing an assignment instead of facilitating a human and engaging conversation.' Therefore, a drawback of the stricter policies is that they hinder employees' abilities to showcase their full personalities and find motivation and joy in speaking with customers.

When BeautyCo first launched in Guangzhou (2008) and in Shanghai (2009), the two locations used similar management practices. Guangzhou BeautyCo being the headquarters, Shanghai BeautyCo imitated its headquarters in policies, employee evaluation, sales, marketing design, etc. However, as top managers of Shanghai BeautyCo gained knowledge in the Shanghai cosmetics manufacturing industry, they changed the

company's management practices to suit Shanghai's industry environment. For instance, there is a distinct contrast between Shanghai and Guangzhou markets – Shanghai's target market is the premium and affluent customers, while Guangzhou targets the general public with more affordable products. A Shanghai interviewee stated that 'because our general manager is a Shanghai native, he changed Shanghai BeautyCo's management practices to suit the industry environment' (Interviewee 1, Sales, Shanghai).

Sometimes a company is in a passive position, and they are motivated to perform management innovation in the face of customers' complaints and doubts. Customers might ask, 'Did your company pass the ISO test? Are your inspections real or are they purchased? Compared with other companies, are your institutional processes complete and polished?' (Interviewee 2, Top Manager, Shanghai). All of the above questions push companies to implement management innovation to satisfy customers."

**Competition:** The cosmetics manufacturing industry is a highly competitive sector in China; therefore, companies' ability to adapt to the industry determines their competitive advantage. The essence of a trading company is its keenness to the fluctuating industry. For a company to react quickly to problems, concision in the company's structure is essential. Although Guangzhou BeautyCo has three times as many workers as Shanghai BeautyCo, both companies utilize efficient and straightforward communication methods. Rather than using an old-fashioned way where employees are required to communicate through email and copy all the team leaders and managers on their emails, BeautyCo employees are encouraged to communicate directly with each other through messaging, phone calls, or face-to-face conversations. Interviewee one describes this communication method with a metaphor, "it is like the top managers are the captains of a ship: when they say turn left, we are ready to turn left," (interviewee one, sales, Shanghai). It is inevitable for trade companies to lose money; therefore, the ability to turn away from profit decline rapidly is essential to the company's competitive advantage.

Competition has also encouraged Shanghai BeautyCo to increase managing forces in the company's marketing strategies design and planning. Interviewee 5 said "Shanghai BeautyCo's biggest strength is in technical developments, but the industry is driven by the market. Marketing is the bridge between technological innovations and sales, so a company must be able to describe its products using 'the market's language,'" (interviewee 5, top manager, Shanghai). The competition in the industry motivated Shanghai BeautyCo to innovate in its management focuses. Furthermore, interviewee 8 from Guangzhou BeautyCo stated that "management innovation is crucial to standing out in competition because it allows companies to pay attention to the market's details," (in-

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interviewee 8, technical, Guangzhou). Management innovation regarding refining policies will improve a company's performance because it avoids mistakes.

In November of 2021, in an industry evaluation of individual companies' performances, Shanghai BeautyCo only received 38 points out of 100, while its competitors received an average of 60 points. Out of the 62 deducted points, 40 points were attributed to the lack of online marketing, and 22 points were attributed to poor storage facility management. To address the issue, Shanghai BeautyCo strengthened its online presence by requiring active marketing in the two dominant Chinese social media platforms: WeChat and DouYin (Chinese version of TikTok). Each month, Shanghai BeautyCo publishes a minimum of two articles on its WeChat Official Account, two videos on its WeChat Channel, and a DouYin account to promote its formulas and technologies. The company hired younger employees who are familiar with new social media platforms and trends, to produce the most up-to-date articles and videos on the internet.

Meanwhile, Shanghai BeautyCo also immediately relocated and reconstructed its storage facility to implement stricter regulations on inventories entering and exiting the facility, pest control, daily care and replenishment, and the physical categorization and locations of products. Furthermore, Shanghai BeautyCo improved its evaluation of suppliers and the process of purchasing and receiving supplies. Lastly, the top managers provided clear enumerations of each employee's tasks and expectations. In July of 2022, Shanghai BeautyCo improved its score from 38 to 88 points in eight months, outperforming the majority of its competitors. This illustrates how small changes in management in specific departments can have a significant impact on its performance and competitive advantage.

The study also provides insight into the competitive dynamics within China's cosmetics manufacturing industry, highlighting the role of adaptability and efficient management strategies in securing a competitive advantage. For instance, BeautyCo utilizes streamlined communication methods to foster efficient problem-solving. Furthermore, the study highlights the impact of management innovation and market-oriented strategies. Shanghai BeautyCo's response to performance deficiencies, particularly in online marketing and storage management, signifies a focused shift towards popular social media platforms and enhanced storage protocols. Shanghai BeautyCo saw profound success in these adjustments, indicating how deliberate management changes led to a significant performance leap within a short period. Targeted and responsive management adjustments propel a company's efficiency, and hence its competitive advantage within a popular industry.

#### ***Government Regulations:***

In recent years, BeautyCo innovated in its human resources

due to changes in government policies regarding the cosmetics manufacturing industry. Currently, this industry falls under the supervision of the Food and Drug Administration (FDA). The FDA employs medical-standard evaluation criteria to control the cosmetics industry, enforcing strict policies on the usage of raw materials. In 2021, the FDA adopted the "Regulation on the Supervision and Administration of Cosmetics" and the "Measures for the Administration of the Registration and Recordation of Cosmetics." Both regulations significantly increased expectations for the quality of cosmetics raw materials. As a cosmetics manufacturing firm, BeautyCo needed to meet these heightened expectations but faced two major obstacles during the adjustment process.

Firstly, the suppliers of raw materials for BeautyCo lacked an understanding of the two new regulations. According to the manager of Guangzhou BeautyCo's Legal Department, "the suppliers did not cooperate when BeautyCo requested higher quality raw materials." Because suppliers did not support or collaborate with BeautyCo in adjusting to the stricter FDA policies, BeautyCo experienced shortages in its supply chain. During the initial stages of the new FDA policies, BeautyCo could not acquire sufficient amounts of quality raw materials that met regulatory expectations.

To enhance cooperation between BeautyCo and its suppliers, BeautyCo recruited new staff, exemplifying outstanding communication skills, to the legal department. The addition of new members allowed BeautyCo to allocate more efforts toward ensuring and maintaining the quality of supplies. In addition to the Legal Department's monthly evaluation of basic work performance, such as the prompt completion of tasks, BeautyCo also incorporated communication into the evaluation. For instance, employees are required to provide summaries of their conversations with suppliers and factories, conduct a brief analysis of the effectiveness of that conversation, and highlight potential improvements. This management innovation in human resources and evaluation processes helped BeautyCo improve its cooperation with main suppliers and remain alert to new regulatory policies.

Secondly, the cosmetics factories manufacturing BeautyCo's formulas into consumable products required BeautyCo to be significantly more specific about the safety and efficacy of its formulas. In recent years, this expectation generated noticeable pressure on BeautyCo for the following reasons. To provide extensive details about the safety and efficacy of each formula, BeautyCo spends a significantly larger amount of time on the production of each formula. This sometimes causes BeautyCo to fall behind in its production for other manufacturers. Furthermore, some manufacturers spontaneously ask for specific information on formula safety, and BeautyCo is often unable to promptly respond to these requests, leading to a decline in trust from other manufacturers.

As a result, BeautyCo implemented managerial changes to

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accommodate the challenges. Firstly, BeautyCo requires all employees to conduct sufficient research on each formula before the firm develops and manufactures the formula. Each employee's research is then evaluated by team leaders and top managers to ensure quality. Within three months, this new management process proved successful, significantly improving BeautyCo's response efficiency when other manufacturers asked for reports on formula safety and efficacy. Secondly, BeautyCo expanded its workforce to include employees specializing in delivering reports and information to manufacturers. This change in human resources prevented BeautyCo from falling behind in production because there are now separate employees for creating the formulas and for delivering information about the formulas.

With changes in governmental regulations on cosmetics' quality, BeautyCo implemented managerial changes in human labor and evaluation processes. The management innovation of recruiting new staff allowed individual employees to maximize productivity in their specialized field, while additional evaluation requirements, such as researching individual formulas, allowed BeautyCo to efficiently respond to government and other firms' expectations.

### Internal Antecedents of MI

**Changes in Employees' Composition/Diversity:** Both BeautyCo's average employee age is decreasing as increasing numbers of young employees join the company, altering the company's working environment. The decrease in the company's overall age inspired Guangzhou BeautyCo to utilize a flat management model. Flat management is a management structure that has fewer or no middle management levels. Therefore, new and returning employees all directly interact with department and top managers, fostering a tight-knit community between different levels of the organization.

Interviewee 8 mentioned that flat management allows senior employees to communicate better and build closer relationships with younger employees. "Younger employees are not punished harshly for small mistakes as senior employees will guide them through the process," (interviewee 8, technical, Guangzhou). Diversification in employees' age fosters management innovation because people of different ages have distinct working habits. Therefore, to achieve harmony among its employees, managers have to change their management practices to satisfy both senior and young employees.

Both BeautyCo locations implemented two new managing practices to adapt to the younger workforce. Firstly, BeautyCo shifted the emphasis of their monthly evaluations to skill development for new and younger employees, where top managers accept up to three minor errors, such as problems with dates, formatting, and small deadline delays, and up to one major error, such as miscommunication with clients. As a

result, new employees do not feel overbearing pressure to perfect every aspect of their job during the initial months. Younger employees can utilize their mistakes as tools to enhance their skills.

However, such evaluations face potential challenges when employees take advantage of the managers' flexibility. For instance, the Guangzhou General Manager raised concerns about employees purposefully utilizing the system to produce less-qualified work. Therefore, BeautyCo is still exploring the balance between a flexible evaluation that allows skill development and a system strict enough to ensure employees are performing at their maximum potential. The Guangzhou General Manager suggested that "enhancing employee motivation throughout the organization is fundamental to finding this balance. Employees must feel like they are part of the organization's mission and be authentically motivated to produce high-quality work for this flexible evaluation system to work."

Secondly, younger employees are directly involved and sometimes given leadership positions in organizing BeautyCo's community activities. They are active members of the planning, research, and execution of BeautyCo's annual week-long team-building and training event, where they can fully express their creativity and diverse backgrounds. This past July of 2023, BeautyCo's annual event was designed by a few of the company's newest and youngest employees, and the event was highly successful with high levels of energy and excitement among all participants.

Nevertheless, there are other challenges to increasing diversity within a firm. Interviewee 8 pointed out that "most cosmetics laboratories in China do not have a complete and polished management process, yet managing is vital for any firm or group's success," (interviewee 8, technical, Guangzhou). The more diverse a group of people is, the more difficult it is to unify everyone and accomplish a goal. He indicated that the most challenging part of managing is changing employees' working habits. If employees are stubborn towards their working habits, then companies cannot improve managing processes.

Therefore, Guangzhou BeautyCo innovated the process of implementing new managing practices. Firstly, they would establish a managing team where people shared frameworks for potential management innovation. Then, representatives of different departments would comment on whether the management innovation is suitable for the department's employees. Finally, the managing team would test the new managing process in the firm and gather results."

**Revenue evaluation vs. Profit evaluation:** "A company's greatest asset is its humans, and managing people is the most challenging task," stated Interviewee 2, a top manager in Shanghai. Therefore, companies aim to enhance employees' sense of belonging, satisfaction, and trust through management innovation. Top managers aspire for employees to re-

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gard the company as their family, something they genuinely care for. Recently, both Shanghai BeautyCo and Guangzhou BeautyCo implemented a new management practice: profit evaluation. Previously, both companies relied on sales evaluation—measuring an employee’s performance by their revenue. However, this method led to disparities among employees. More senior employees, having worked at the company longer, have more established customer bases than new employees. As a result, senior employees naturally generate higher revenues and receive more rewards. According to Guangzhou’s General Manager, senior employees, on average, have eight prominent customers who consistently purchase BeautyCo’s formulas, which significantly contribute to the company’s revenue. Conversely, new employees start from scratch, taking considerable time to build their customer base. This discrepancy in access to customer bases creates an unfair evaluation of employees, leading to dissatisfaction and demotivation among new employees. To address this lack of motivation, both BeautyCo companies introduced a new ‘profit evaluation’ process. Employees are now evaluated monthly based on their gross margin percentage, leveling the playing field for all employees. For instance, in the new evaluation, the second employee, with a gross margin percentage of 50%, is considered to perform better than the first employee, even though the first employee has a higher total revenue. This method evaluates an employee’s ability to generate profit for BeautyCo, disregarding their seniority.

Both General Managers stated that the profit evaluation has increased BeautyCo’s overall gross margin percentage. Under the original revenue evaluation, employees tended to be careless with the company’s budget because the total cost was not factored into total revenue. However, with the profit evaluation, employees became more conscientious about their spending, as it directly impacts their end-of-year bonus. Every unnecessary expense made by employees is deducted from their bonus, fostering motivation and prompting more efficient budget allocation within BeautyCo.

Despite the fairness of the profit evaluation, there’s a risk of losing employees’ trust. Interviewee 4 mentioned that some employees doubt the accuracy of profit evaluations, suspecting that top managers might manipulate profit information. To address this, BeautyCo implemented a transparent process where all sales statistics are shared with employees in weekly meetings to ensure trust and accountability.

The management innovation of employing profit evaluation criteria has enhanced both BeautyCo’s profit and employee satisfaction. It eliminates wasted resources and encourages equality among employees, which, in turn, strengthens relationships and motivates individuals to contribute to the company. As employee satisfaction increases, the overall quality of work improves, establishing a crucial competitive advantage for BeautyCo.

***Change of the Organization’s Matrix:*** Another management innovation implemented by Guangzhou BeautyCo involves a transformation in the organizational matrix. In previous years, top managers held the majority of decision-making power, and employees primarily executed the managers’ instructions. However, in recent years, Guangzhou’s management processes have undergone a rejuvenation and revitalization, as stated by Interviewee 3, from the marketing department. The company now distributes power based on individual strengths and weaknesses, without strict policies determining who holds the power. For instance, individuals with a strong chemistry background are assigned more prominent roles in formula-designing projects, while those experienced in psychology have greater responsibilities in marketing projects.

Guangzhou BeautyCo’s weekly Monday conferences showcase a significant increase in employee motivation since implementing this new decentralized organizational structure. Each meeting begins with the CEO or other top managers summarizing the company’s performance in the past week and outlining specific short and long-term goals for the upcoming week. The meeting proceeds with presentations from each department (technical, sales, marketing) on their recent work, new ideas/innovations, and/or goals. Previously, before utilizing the decentralized structure, the presentations lasted an average of 10 to 12 minutes. Most often, the presentations provided a detailed summary of the past week’s accomplishments and listed generic goals for the upcoming week. In a survey sent to employees, many suggested that the administration team extend more decision-making powers to employees within specialized fields to increase their participation and innovation.

Responding to these suggestions, top management became more flexible in implementing individual department ideas. They accepted the majority of the departments’ innovations, as long as they were within the company’s budget and held a positive outlook. The departments were given room to improve their proposals even if some ideas were initially denied. As a result, the weekly department presentations extended to an average of 17 to 20 minutes, consistently presenting innovative ideas. Employees showed increased engagement and motivation to experiment with new concepts, demonstrating that the management innovation in changing the organizational matrix significantly fostered motivation and the introduction of new ideas.

Top managers rewarding employees according to their performances motivates work driven by personal passion and interest. ‘When you do something because you want to, you approach the problem more comprehensively than when you do it because someone asked you to,’ said Interviewee 3, from the marketing department. Self-generated motivation not only drives employees’ passion for their jobs but also benefits the

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company in the long run, as employees work to their fullest potential.

However, the transition to a decentralized organizational structure did not happen overnight. Initially, employees were intimidated by the newly presented powers, introducing timid and basic innovations that didn't significantly contribute to the company's future performance. According to Guangzhou's General Manager, it is challenging to eliminate the 'fear' of testing new ideas and sharing them with the entire company. The goal for managers is to encourage nuanced ideas and incorporate them into the long-term agenda. It took three months for each department to become fully comfortable with decision-making powers, with top managers supporting every rational, effective, and daring idea during this transition period.

Currently, departments are fully utilizing their freedom to make independent decisions. The new management challenge for BeautyCo is finding the balance between departmental freedom and regulations. An essential future management innovation question for BeautyCo is to find effective practices that encourage innovation and employee participation without the risk of potential abuse of power by employees and departments.

**Organization Size:** The size of an organization significantly influences the type of management processes it implements. Larger companies, with over 150 employees, need a different management approach compared to smaller companies with around 80 individuals. Interviewees emphasized that 'a small company should never adopt the management practices of a large company.' According to the Shanghai General Manager, 'Small companies rely on individual employees' motivation and work ethics. Top managers set general rules and manage processes. However, these processes in small companies do not need to be overly specific; they must only meet the company's production goals and provide an organized structure.'

In contrast, the same General Manager highlighted that 'large companies require a refined and detailed operational system. From employee reimbursements to onboarding new suppliers, large companies need a rigorous and tangible system that oversees every operational aspect. This level of structure is essential in managing hundreds or thousands of employees, sometimes across multiple locations.' In summary, smaller organizations only require general operational directions for successful performance, while larger organizations need meticulous and rigorous systems to ensure quality and organization in every aspect of their work.

Several interviewees at BeautyCo have experience working in companies of varying sizes. For example, interviewee one worked at a company with only five salespersons. Despite its small size, the company mandated communication solely through email, with managers copied on every email. This approach emulated the communication system of a large

company, making conversations extremely inefficient. Consequently, all five salespeople left due to the tedious process. Such a practice might be necessary for a large company to maintain organized information and resources within an email system. Therefore, when designing management processes, it's crucial to consider the organization's size and implement the most efficient communication methods.

As organization size increases, companies must innovate to standardize institutional processes. A mature institutional process ensures that work maintains high quality even in the absence of leaders. As expressed by interviewee 2, 'Good institutional processes are like chains; if one link fails, the next link connects immediately' (interviewee 2, top manager, Shanghai). Establishing a well-integrated management system in a large organization is particularly important as it ensures efficient and accurate delivery of information and work throughout the company.

Nevertheless, all top managers at BeautyCo stressed that as the organization's size increases, implementing management innovation becomes more challenging. For example, when BeautyCo introduces changes to its management system, top management closely monitors the change and continuously seeks feedback from employees. This direct interaction during managerial changes is critical, ensuring that the management innovation results in a positive outcome. While employees in larger organizations offer more diverse ideas for management innovation, implementing management changes becomes more challenging due to the entire organization needing awareness and the difficulty in monitoring the new process with a large workforce.

In conclusion, large organizations necessitate rigorous systems for effective control and can generate a wide array of ideas for management innovation. Conversely, small organizations can rely on a more general management structure. Implementing management innovation in larger companies is considerably more challenging because it requires the entire organization to be aware, and monitoring new processes becomes difficult with a large number of employees.

### **Interpretation of Management Innovation and Its Purpose**

Each interview began with the question "What is your understanding of management innovation?"\* Interestingly, the top managers and team leaders were able to give a clear interpretation of management innovation while the employees had trouble coming up with a description of management innovation. Many employees simply answered that they were unfamiliar with the term management innovation or that their roles in the company were not associated with managing practices.

Meanwhile, the top managers and team leaders identified three major aspects of management innovation: to increase

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\* See appendix for full table of answers from interviewees.

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employee satisfaction, efficiency, and competitive advantages. For instance, the CEO stated that management innovation is “changes in managing practices such that the company’s ideals, culture, and efficiency are met,” and the General Manager of Shanghai stated that management innovation is “an improvement in daily managing practices and change in a company’s structure that motivates employees, increases efficiency, and achieves long-term goals.”

Employees’ lack of understanding of management innovation indicates that they do not consider BeautyCo’s management processes as having a direct effect on their daily jobs. This disconnection between employees and management could lead to three negative consequences on management innovation. Firstly, the disconnection may lead to employees’ resistance to management changes. The employees are merely following directions and expectations from top management, without ever questioning or evaluating the management practices. Consequently, employees might become overly accustomed to the status quo, and resist changes in managing practices. This was demonstrated when Guangzhou BeautyCo shifted to a decentralized structure, where the employees were uncomfortable with sharing new ideas – even when they were given complete freedom by top managers.

Secondly, employees’ lack of understanding of management innovation might prevent top managers from receiving accurate and useful information about flaws within current managing practices. The purpose of management is to organize people such that each employee can perform at their fullest potential and help the company efficiently execute its tasks. As the main subjects of management, employees can provide valuable suggestions to managers about potential improvements within the current system. Therefore, if the employees are left out of conversations about management, it might be difficult for the top managers to implement effective new management practices.

Lastly, the disconnection could decrease employee morale, motivation, and cooperation. Without feeling included in the overall company mission and practices, employees are simply “human machines” that complete tasks. They might be solely concentrated on individual tasks, and hence, the company will lack team dynamics. Without adequate cooperation between employees and departments, it will hinder top managers’ ability to implement management innovation, as changes in managing practices require every worker to actively adhere to the new processes.

The employee’s lack of understanding of management innovation demonstrates a lack of communication about managing processes between different levels of the company. This gap could potentially limit the company’s ability to implement management innovation because employees are unaware throughout the process. Coincidentally, many of the top managers and team leaders identified that increasing employee sat-

isfaction is an essential purpose of management innovation.

### **The Moderator: Leadership Styles of Top Managers:**

At the end of each interview, the top managers and team leaders were asked to identify their leadership styles out of three categories: authoritative, democratic, or liberal<sup>†</sup>. Similarly, the employees were asked to identify the type of leader they perceive the top managers and team leaders as.

Nine out of the top managers and team leaders identified themselves as democratic leaders, with the exclusion of the CEO and the Guangzhou Technical Department Team Leader, who identified themselves as authoritative leaders. Democratic leaders are those who incorporate the employees into discussions about major decisions but still hold the authority to make the final decision. The nine democratic leaders described that this style is effective because it allows employees to participate while ensuring that the organization maintains its organization and procedures. The Shanghai General Manager expressed that “I implement a democratic style to create a sense of belonging and inclusion within the organization, as well as encourage employees to actively participate and provide suggestions. However, I am still in charge of the big picture and have the final say on major company decisions. I have access to company information and details that employees do not have, so I can ensure that the company stays on track.” All nine of the democratic leaders provided a line of reasoning similar to that of the Shanghai General Manager, suggesting that an authoritative leadership style might suppress employees’ ideas, while a liberal leadership style might cause the company to diverge from its plans.

A liberal leader is defined as someone who gives complete freedom to the employees, allowing them to carry out all tasks and make decisions. According to managers of BeautyCo, while a liberal leadership style can foster immense employee satisfaction, it is impractical because employees will have a wide variety of ideas that can lead to disorganization and disconnection between departments.

Nevertheless, the CEO and the technical manager identified themselves as authoritative leaders who mostly make decisions on their own. The CEO believes that in his unique position, it is necessary to have authority over the company to keep the company moving forward. The CEO said that “if there is not a single authoritative leader within the company, the company will most likely stay in the same place because no decisions will be made.” Similarly, the Guangzhou Technical Department Team Leader believes that “for continuous innovation within our formulas, there must be an authoritative figure who controls and oversees the experimentation and innovation process.” Both leaders believe that the authoritative style is more effective because it increases the organization’s

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<sup>†</sup> See appendix for full list of leadership styles.

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efficiency through making prompt and direct decisions. However, according to employees and other managers, “it is difficult to implement major changes in managing practices under a completely authoritative leadership style because workers are not given any ability to make decisions.”

The research also asked each interviewee whether it is important to have diverse leadership styles within a management team. All of the interviewees agreed that it is crucial to have a diversity of styles among top managers and team leaders because diversity brings multiple perspectives to a problem. The CEO said “I value diverse leadership styles and personalities within my team because it improves our ability to manage risks and grasp opportunities. The different perspective that each manager brings creates a holistic understanding of challenges and industry trends.” Similarly, the Shanghai General Manager stated that “a partial reason for why our management team is shrewd and precise at attacking problems is because we have a variety of leaders within the team. The CEO, who is authoritative, guides us through major company decisions and challenges. The remaining managers, who are all democratic, can hear voices from employees and contribute their ideas to the administration team’s meetings.”

Leadership styles such as liberal and democratic can foster more management innovation than authoritative because they provide more freedom within the workspace and allow additional employee participation. However, even with fewer opportunities for management innovation, it is crucial to have a few authoritative leaders within an organization to help the company proceed with its tasks. A diverse mix of liberal, democratic, and authoritative leaders is essential to a company’s managing success.

Finally, each employee was asked to categorize their managers (their respective team leader and top managers) as a liberal, democratic, and authoritative leader. The employees were only provided with the definition of the three leadership styles to ensure minimal bias within their responses. While the majority of the employees categorized their managers the same way as they did themselves, there were a few exceptions in both Shanghai and Guangzhou locations. For instance, while none of the managers and team leaders identified themselves as having a liberal style, employees from Guangzhou identified the Guangzhou managers and team leaders as liberal leaders. Similarly, one Shanghai employee described the CEO as authoritative while the remaining employees described him as authoritative.

It is crucial to have consensus on how the employee perceives the leader and how the leader perceives themselves because it demonstrates that the leaders are behaving in a way that they want to behave. For instance, when the employees identified the Guangzhou leaders as liberal, it indicates that Guangzhou team leaders and managers might be giving too much freedom to the employees. This difference could hurt

the company because progress might not be unfolding the way that leaders had envisioned.

## Discussion

The qualitative study proposes that the major antecedents of management innovation can be categorized into two main groups: external and internal factors. In the external factors, the industry environment, industry competition, and government regulations are key to fostering management innovation. Differences in local industry environments cause companies to implement management innovation because they have to be in line with the different industry dynamics and environments.

Initially, both the Guangzhou and Shanghai branches of BeautyCo operated using similar management practices. However, Shanghai BeautyCo adapted and customized its strategies to align with the industry environment of Shanghai, which predominantly caters to premium and affluent customers. This adaptability highlights the importance of adjusting business operations to suit the unique demands of the local market, emphasizing the significance of understanding the distinct needs of different customer bases.

Shanghai customers demanded both high-quality formulas and excellent customer service, ranging from specialized personnel for each department to multilingual communication, regular visits and video communication, and detailed product information. This difference in expectations led to Shanghai BeautyCo’s development of stringent customer service policies tailored to meet customers’ expectations. The success of these policies is indicated by the absence of customer complaints over the past five years. However, while effective in meeting customer demands, the strict policies led to a downside: a decrease in the spontaneity and genuineness of employee-customer interactions. Some employees felt like their customer interactions were completing tasks rather than engaging in authentic conversations.

Customer questions regarding quality, institutional processes, and the legitimacy of the company’s practices compel organizations to innovate in their management practices. This emphasis on meeting customer expectations and concerns through innovation underscores the vital role that customer feedback and inquiries play in shaping a company’s approach and service delivery.

In addition, changes in government regulations lead companies to adopt management innovation. Due to the Food and Drug Administration’s (FDA) stricter policies, BeautyCo underwent crucial adjustments in its human resources and evaluation procedures to meet the new standards of raw material quality and product efficacy. There were two primary challenges: inadequate supplier cooperation and increased demands for detailed safety and efficacy information. In response, BeautyCo executed substantial managerial changes by

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recruiting new legal department staff, bolstering communication with suppliers, and integrating employees' communication with suppliers into their evaluation process. BeautyCo also enforced rigorous research and evaluation procedures for its formulas, leading to a substantial increase in efficiency when responding to inquiries about safety and efficacy from other manufacturers. BeautyCo's adaptations in human resources and evaluation processes demonstrate how management innovation helps a company align with new regulatory requirements, enhancing its overall performance and productivity.

Industry environment, firm competition, and changes in government regulation are external factors that foster management innovation. However, people often overlook internal antecedents during the implementation of management innovation. This study identifies four key internal antecedents of management innovation: changes in employee composition and diversity, employee satisfaction, organizational matrix, and organization size. BeautyCo responded to a shift in workforce demographic, specifically a reduction in the average employee age, by utilizing a flat management model at the Guangzhou location. This adjustment bridged communication gaps, mentored younger employees, and encouraged skill development, which cultivated a tightly-knit organizational environment. The stronger bonds between senior and younger employees offered a nurturing environment where mistakes are viewed as learning opportunities rather than harshly penalized. This cohesive environment also prompted young employees' active involvement in leadership roles for organizing recreational and team-building events.

However, there were challenges to this flexible evaluation system. Firstly, managers needed to find the balance between being lenient and ensuring high-quality performance from employees. Secondly, while employee diversity offers creativity and innovation, managing diverse work habits requires a systematic approach that keeps the firm, ideas, and new management practices organized. As a result, Guangzhou BeautyCo introduced a structured management system that leveraged feedback from various departments for effective management adjustments. This strategy aimed to harmonize diverse working styles, which ultimately enhanced management processes and met the needs of a younger workforce within a dynamic organizational setting.

The majority of managers and employees stated that employee satisfaction is essential to a firm's performance. To increase employee satisfaction, BeautyCo transitioned from sales-based to profit-focused evaluation. Originally, the reliance on sales evaluation led to inequalities, favoring senior employees with established customer bases. The introduction of profit evaluation, which emphasized gross margin percentages, created a fairer assessment regardless of one's seniority and established customer base. This shift not only fostered

equitable evaluation but also triggered greater financial conscientiousness among employees, aligning their spending with the company's budget. Despite these benefits, there were employee concerns regarding the accuracy of profit evaluations, and it led BeautyCo to implement more transparent practices such as sharing raw sales statistics to build trust and accountability. This managerial innovation not only improved profitability but also significantly heightened employee satisfaction and created equality and a stronger sense of belonging, which ultimately enhanced employees' work quality and the company's outputs.

In addition, Guangzhou BeautyCo shifted towards a decentralized organizational matrix to empower employees. According to their expertise, they were given decision-making authority. This cultivated an organizational culture of shared responsibility and innovation. Following the transition, employee motivation significantly increased, which was reflected in more extensive and passionate departmental presentations. Nevertheless, initially, employees felt timid and gave tentative and less impactful ideas and suggestions when asked. Over three months, employees grew comfortable with their decision-making roles under top managers' support and encouragement, and they presented more cutting-edge innovations. Currently, BeautyCo's main challenge is finding a balance between departmental freedom and necessary regulations to prevent potential misuse of power.

The interviewees also identified a critical relationship between an organization's size and the type of management processes it necessitates. Small and large companies have different needs. For instance, smaller organizations only need general rules and thrive under a more flexible management structure that mainly relies on individual motivation. In contrast, larger corporations require comprehensive, detailed management systems to organize the bigger workforce and sometimes, multiple locations. For them, a well-integrated management process ensures consistent and high-quality work, even in the absence of direct oversight. This finding combines Damanpour and Schneider (2006)<sup>13</sup> and Černe et al.'s (2013)<sup>28</sup> conclusion on organizational size and management innovation. BeautyCo's interviewees mentioned that large corporations will have more ideas for management innovation, which aligns with Damanpour and Schneider's<sup>4</sup> conclusion on the positive correlation between organizational size and management innovation. Meanwhile, the study's highlight of difficulties in implementing management innovation at a large corporation aligns with Černe's argument on

Some interviewees also indicated that larger companies are more likely to have ideas for management innovation because they have access to a broader spectrum of ideas. However, the implementation process is notably more challenging in large corporations because it requires widespread awareness among all workers and careful oversight of the new manage-

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ment practices. In conclusion, firms should consider the organizational size when designing and implementing management processes to optimize effectiveness and efficiency.

In my opinion, these internal antecedents of management innovation are stronger drivers than external factors because management innovation is defined as an internal change in managing processes and structures. Employees are the people who are putting in the work and keeping the business functional. Therefore, to improve a company's overall productivity, management innovation should stem from the workers and their experiences at the firm. If the employees are satisfied, then they can maximize the company's efficiency because they are motivated to work hard.

Nevertheless, for organizations, it is crucial to place an equal emphasis on external factors in shaping an organization's management innovation. Indeed, while internal elements, including workforce diversity, employee satisfaction, and organizational structure, play pivotal roles in cultivating a nurturing environment for innovation, only considering internal antecedents might overlook the powerful influence of external pressures. External factors such as industry competition, government regulations, and industry dynamics are intrinsic to shaping an organization's need for adaptability. Neglecting the impact of these factors could lead to a limited view of an organization's operational scope, potentially hindering its ability to respond effectively to evolving market demands or regulatory changes. Furthermore, while internal factors contribute to a harmonious organizational culture, external pressures serve as catalysts for necessary innovation and adaptation. Industry competition can trigger the need for cutting-edge practices to stay ahead, and government regulations can mandate transformative measures for compliance. A balanced approach that considers both internal and external factors is necessary for a comprehensive understanding of effective management innovation, ensuring organizations remain agile, competitive, and adaptable within a dynamic business landscape.

Furthermore, although scholars have a unified understanding of management innovation, employees and even managers in real-world organizations have scattered interpretations of management innovation and its purpose. When asked about management innovation, some interviewees – mostly team leaders or employees – were completely unfamiliar with the term and couldn't answer the question. This lack of understanding of management innovation shows that companies do not often discuss this concept in everyday practices. This could be a fundamental reason why companies emphasize technological innovation over management innovation. Employees, as the beneficiaries of management innovation, are not informed about management innovation by top managers. This disjoint in the understanding of management innovation could hinder companies' innovation progress because people

are not on the same page.

The study evaluated the moderating impact of top managers' leadership styles to further understand how management innovation is implemented in small organizations. Except for the CEO, who identified himself as an authoritative leader, the remaining top managers categorized themselves as democratic leaders. Authoritative leaders accept minimal interventions from others during the decision-making process while democratic leaders incorporate others into the decision-making process, though they still have the power to make the final decision. While the majority of managers indicated a democratic leadership style, they only incorporated employees into decision-making processes in individual projects. On the organizational level, top managers and the CEO continue to utilize an authoritative leadership style that limits employees' involvement and understanding of management processes. This is a core reason for why the external and internal antecedents aren't effectively and directly translated to management innovation. Because employees aren't included in management-design processes, it is difficult for managers to understand the employees' true experiences and know which managing processes to improve upon. Therefore, to ensure that top managers see more opportunities for management innovation, they need to incorporate a democratic leadership style into organizational-level projects and decision processes. However, a completely democratic approach has the risk of reducing efficiency because it slows down decision-making and could potentially cause a misinterpretation of employee suggestions. An alternate approach would be to find a balanced approach between top-down authoritative decisions and bottom-up participatory inputs to ensure a faster yet well-informed decision-making process.

Top managers highlighted that it is important to maintain a diversity of leadership styles so that the team can evaluate situations from all perspectives. The CEO specifically mentioned that he needs to be an authoritative leader for BeautyCo to move forward because, in every organization, there has to be a decisive individual who puts an end to decisions. I agree with the CEO and top managers in that the management team should have diverse leadership styles to evaluate risks holistically and make prompt decisions. Nevertheless, it's important to acknowledge that diverse leadership styles could lead to internal conflicts or confusion, causing the decision-making process to be less efficient. Employee involvement in the decision-making process could lead to information overload and dilute the focus; therefore, a targeted approach that carefully selects employee participation and leverages employees' expertise can be more effective than widespread and general involvement. These findings align with the current studies on how transformational and transactional leaders impact management innovation. For instance, Rezvani, Khosravi, Dong's 2017<sup>21</sup> found that both leadership styles are beneficial to man-

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agement innovation, which agrees with this study's conclusion that diversity in top managers' leadership styles is crucial to management. However, this study explores leadership styles in more detail than current studies. For instance, current studies on transformational and transactional leaders and management innovation utilize mathematical models to find correlations. This qualitative study describes how leadership styles affect everyday workplace dynamics in real-world organizations, which provides critical insight into how and why each leadership style fosters management innovation.

The major contribution of this qualitative study on BeautyCo is its synthesized review of external and internal antecedents of management innovation and the mediating role of top managers' leadership styles. As Khosravi, Newton, and Rezvani's<sup>9</sup> systematic review of past research on management innovation reveals, there remains a gap in synthesizing research that evaluates all the antecedents holistically. Currently, studies explore separately the impact of organizational size, industry environment, workspace dynamics, and leadership styles on management innovation, but there is a study that combines these various factors. This qualitative study on BeautyCo not only integrates all the internal and external factors of management innovation, it also explores the factors by using concrete workspace examples. This close examination of real management innovation within an organization provides critical insight into how to identify management innovation and how to incorporate such opportunities into real managerial practices. Therefore, this qualitative study closes the gap for an integrated review of the various antecedents of management innovation and illuminates additional findings into how management innovation is reflected in a real-world organization.

## Theoretical Foundation

The qualitative study on management innovation draws its theoretical foundation from established theories in organizational behavior and innovation management. Rooted in the Innovation Diffusion Theory by Everett Rogers, which explains how new ideas, products, or technologies spread through society in a predictable pattern, the study explores the dynamics of adopting new management practices within organizational systems (Rogers, 2003)<sup>29</sup>. It provides a comprehensive understanding of the factors that facilitate or hinder the implementation of innovative management practices among employees and managers. This theory acts as a foundational lens through which the adoption of new strategies within an organization is comprehensively evaluated.

The Resource-Based View (RBV) Theory lends crucial insights into the study's focus on internal elements, such as employee satisfaction, organizational structure, and employee diversity (Barney, 1991). This theory emphasizes that a firm's

competitive advantage is dependent on its resources, capabilities, and competencies. In the context of this study, the RBV theory explains how these internal factors contribute to the firm's management innovation capacity and overall performance.

The study is also informed by the Contingency Theory, which describes that the most effective organizational strategies are contingent on situational factors (Donaldson, 2001)<sup>30</sup>. In this research, the theory illuminates how management practices are correlated to external influences such as industry environment, competitive pressures, and regulatory requirements. Understanding the multifaceted factors in the industry is crucial in fostering effective management innovations that are responsive to the specific contextual needs of an organization.

The study's exploration of top managers' leadership styles draws from various leadership theories, notably transformational, transactional, and situational leadership theories (e.g. Bass, 1999)<sup>31</sup>. These theories elucidate how different leadership styles impact the adoption and success of management innovation. Specifically, it highlights the significance of leadership styles in influencing employees' engagement in the innovation process and how the various styles may affect the outcomes of management innovation.

Lastly, the study underpins organizational change theories, including Lewin's Change Management Model or Kotter's Eight-Step Change Model (Lewin, 1947; Kotter, 1996)<sup>25,32</sup>. These theories form the basis for understanding the dynamics of change within organizations. The study highlights the complexity of implementing and managing changes in management practices and focuses on how these models encourage effective managerial change within organizations.

The above theoretical frameworks shape the study's exploration of the complexities surrounding the antecedents of management innovation. By incorporating these theories, the research presents a comprehensive perspective on how organizations can effectively navigate and implement innovative management practices, considering both internal and external factors, and the leadership styles that influence this process.

## Implications

When considering the generalizability of this study's findings to other contexts or organizations, several key factors must be explored. Firstly, the industry and market conditions of BeautyCo, as highlighted in the study, significantly influenced the adoption of management innovations. These conditions – including demanding customer expectations, regulatory changes from the FDA, and differing demographics in the workforce – were instrumental in driving the identified internal and external antecedents of management innovation. Therefore, in a similar industry setting with comparable customer demands,

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stringent regulations, and a dynamic workforce, the findings might be reasonably applicable.

However, the generalizability of these findings could face limitations when applied to dissimilar industry environments. For instance, in industries or markets where customer needs are less diverse or where regulatory standards are not as stringent, the drive for management innovation might not be as pronounced. Additionally, organizations with a different corporate culture, size, or leadership structure may experience varying degrees of success in implementing similar strategies. For instance, smaller organizations might lack the resources or infrastructure to execute some of the strategies mentioned, while larger organizations could face challenges due to the complexity of their operations.

Moreover, the geographic and cultural differences between locations might also impact the transferability of the findings. BeautyCo is an organization headquartered in Shanghai and Guangzhou, China, so the specific market demands, consumer preferences, and organizational culture in China may significantly differ from those in other regions or countries. This difference could decrease the relevance of the antecedents identified in BeautyCo. For instance, Chinese workplaces emphasize a culture of collectivism whereas in Western cultures, workplaces might emphasize a culture of individualism. These differences in organizational and community cultures might limit the implications of this study's findings on firms in other countries.

To enhance the generalizability of the findings, future research might consider conducting comparative studies across diverse industries, cultural backgrounds, and organizational sizes to identify commonalities and variations in the impact of both internal and external antecedents of management innovation. This approach could offer a more nuanced understanding of the transferability of the identified factors and strategies, allowing for the development of adaptable and context-specific management innovation frameworks that could be more widely applicable across diverse organizational landscapes.

Nevertheless, despite the above limitations of this study's generalizability, the antecedents identified in the findings have several implications for real-world organizations and managers. The introduction highlights the lack of qualitative studies on management innovation that reveal the details about organizations' managing processes and everyday dynamics. This study provides concrete examples of management innovation at a real-world organization, and managers can utilize these examples to compare with their own companies and identify opportunities for management innovation.

A primary implication of the study is the importance of customer-centric management innovation. The study underscores the pivotal role of customer feedback and demands in driving companies to innovate within their man-

agement practices. Managers can leverage this conclusion to recognize and meet customer expectations. Such management innovation will sustain the company's competitive advantage by aligning management strategies with evolving customer needs to maintain market relevance and satisfaction.

Furthermore, the study indicates the substantial influence of internal organizational dynamics on fostering management innovation. Internal antecedents such as workforce diversity, employee satisfaction, and organizational structures significantly impact an organization's capacity and need for innovation. For instance, the study found that effective management innovation will increase employee satisfaction and motivation, which is key to improving the organization's overall efficiency and productivity. This implies that organizations should focus on implementing management strategies that cultivate an empowering and inclusive environment where there is employee satisfaction, diversity, and motivation.

The conclusion also highlights finding a balance between centralized control and decentralized decision-making and tailoring management strategies based on an organization's size. Managers need to empower employees while maintaining necessary checks and balances. Similarly, large and small organizations require distinct approaches to management processes, so managers need to evaluate the organization's size before designing customized management strategies. Organizations need to ensure that managing and communication processes are efficient in small organizations while they are systematic and formulated in large corporations to minimize internal networking errors.

Managers can also utilize the findings on how authoritative, democratic, and liberal leadership styles foster management innovation. The behavior of leaders significantly affects employee engagement and involvement in decision-making processes. Top managers also identified that it is crucial to have diversity in leadership styles to evaluate risks holistically. These findings underscore the mediating role that different leadership styles have on management innovation, and thus, help managers determine the leadership style that they could implement to maximize management innovation.

Finally, the research conveys that many middle managers and employees lack an understanding of management innovation. This indicates that top managers should promote better internal communication and educational efforts in the organization's managing processes. To successfully implement an organizational-level management change, everyone needs to be aware and alert. Therefore, managers must emphasize the importance and role of management every day to effectively carry out managerial changes.

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## Future Directions

When considering future directions for research, a comprehensive exploration of the relationship between leadership styles and management innovation within varying organizational contexts is essential. Firstly, a longitudinal study should be conducted to analyze the evolution of leadership styles and their direct impact on sustained innovation within organizations. This study would involve multiple assessments over time, capturing changes in leadership approaches and their correlation with the level of innovation. It will address how the dynamic nature of leadership influences the trajectory of innovation. Secondly, a cross-cultural investigation into the antecedents of management innovation and how leadership styles nurture innovation in diverse geographic locations could reveal cultural nuances affecting the implementation of management innovation. This cross-cultural research would highlight how varying cultural norms and values shape the antecedents and implementation of management innovation, as well as the interpretation and execution of different leadership styles. It would enhance the generalizability of this research and make its findings applicable to multiple cultures.

Another significant direction for future research involves an in-depth exploration of specific sectors or industries to decipher how different industry environments affect managing processes within a firm and the effectiveness of certain leadership styles in fostering management innovation. Future studies could also explore how different organizational sizes affect the antecedents of management innovation and its implementation. For instance, examining how different leadership styles influence management innovation in technology-based firms versus service-oriented companies, or contrasting innovation in SMEs to that in large corporations, would offer sector-specific insights.

An investigation into the potential drawbacks or limitations of certain leadership styles on innovation would provide insights into which aspects of various leadership styles stifle or impede management innovation. Additionally, examining potential combined or hybrid leadership styles that integrate the strengths of multiple approaches to stimulate innovation could provide interesting findings on how managers can utilize leadership styles to maximize opportunities for management innovation.

Two other major questions emerged during this case study: the conceptual gap between technological innovation and management innovation, and how to initiate and implement management innovation in the real world. Future qualitative studies can interview managers and employees at various organizations to explore the reasons behind companies and people's tendency to view technological innovation as more important than management innovation. Such insights will help organizations understand why there exists a conceptual gap

between technological innovation and management innovation, and what managers could do to close that gap.

Finally, current studies explore the causes and outcomes of management innovation. However, to truly apply these antecedents of management innovation to real-world organizations, studies must explore the mechanisms to turn management innovation opportunities into real-life practices. For instance, future studies can track an organization over time and conduct periodic interviews to identify new opportunities for management innovation and actual changes within the organization's management process. This longitudinal research could reveal specific practices or behaviors within an organization that allowed actual changes to take place in their managing processes. Organizations and managers would benefit from this research as they could implement similar behaviors to foster managerial changes that enhance the organization's efficiency and performance. Future research could also focus on how different organizational structures affect management innovation: does management innovation take place in a top-down procedure (from top managers to middle managers to employees), or in a bottom-up procedure (from employees to middle managers to top managers)? For instance, studies could track various organizational structures over time and compare the frequency and effectiveness of management process changes through periodic interviews.

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## Appendix - I

**Table 1:** lists all the interviewees' definitions of management innovation and the category into which their definition falls.

Position of Interviewee	Interviewee's Interpretation of Management Innovation	Identified Purpose of Management Innovation
CEO	Changes in managing practices such that the company's ideals, culture, and efficiency are met.	Increased efficiency
General Manager (Shanghai and Guangzhou)	An improvement in daily management practices and change in a company's structure that motivates employees, increases efficiency, and achieves long-term goals, (Shanghai).  Improvements in managing practices due to industry transformations, company development and expansion, and supplier changes, (Guangzhou).	Employee motivation Increased efficiency Improvement in competitive advantage and statistics  The purpose is not clearly stated.
Vice General Manager (Shanghai)	Management innovation is the changes in management practices that correspond with the company's development stage. For instance, management in initial-stage companies focuses on sales, revenue, and profit. Development-stage companies concentrate on nurturing employee relationships through managing practices. Lastly, mature companies manage to establish policies and procedures that regulate the overall pace of the company, (Shanghai).	Employee motivation Increased efficiency
Team leaders (Shanghai and Guangzhou)	Management innovation improves a company's procedures, human regulation, and sales and marketing practices, (Marketing, Guangzhou).  Management innovation deviates from traditional management practices; as a result, the new managing practice utilizes creative thoughts and practices that allow the company to adapt to the external environment, (Sales, Shanghai).  Management innovation is breaking away from a company's current managing practices, (Technical Development, Shanghai).  Management innovation is the result of adapting to a company's new structures and cultures through changing management practices, (Technical Development, Guangzhou).  Management innovation is changes in managing practices and structures that increase efficiency and employees' motivation, (Sales, Guangzhou).	Increased efficiency Improvement in competitive advantage and statistics  Improvement in competitive advantages and statistics  The purpose is not clearly stated.  The purpose is not clearly stated.  Employee motivation Increased efficiency
Employees (Shanghai and Guangzhou)	Management innovation improves managing practices such that managers can unite employees' thoughts and beliefs and motivate employees, (Sales, Guangzhou).  Management innovation is using a company's foundational managing practices and implementing new managing practices that are suitable for the particular company's development and goals, (Technical development, Shanghai).  Management innovation is new ways of managing that expand a company's customer base, increase sales, and improve marketing techniques, (Marketing, Shanghai).	Employee motivation  Improvement in competitive advantage and statistics  Improvement in competitive advantage and statistics

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## Leadership Styles

Leadership styles of top Managers and team leaders

**Table 2:** lists all the top managers and team leaders' positions and the type of leader they identified themselves as.

<b>Position of Top Manager and Team Leader</b>	<b>Leadership Style</b>
CEO	Authoritative
Guangzhou General Manager	Democratic
Guangzhou Vice General Manager	Democratic
Shanghai General Manager	Democratic
Shanghai Vice General Manager	Democratic
Guangzhou Marketing Team Leader	Democratic
Guangzhou Technical Development Team Leader	Authoritative
Guangzhou Sales Team Leader	Democratic
Shanghai Technical Development Team Leader	Democratic
Shanghai Sales Team Leader	Democratic
Shanghai Marketing Team Leader	Democratic