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Fostering Innovative Work Behavior (IWB) in Startup Companies: A Literature Review Study

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Abstract

In this study, the author has integrated an array of theoretical understanding and well-established findings to construct a comprehensive framework for nurturing innovative work behavior (IWB) in startup companies using the literature review method. At its core, this framework put the Human Resource Management (HRM) division as a vital catalyst for transformation. HRM's strategic focus encompasses critical domains such as organization design, talent rewards, risk-taking leadership, and continuous people development. Organizational design emphasizes creating a structure conducive to innovation, while talent reward ensures that contributions are acknowledged and incentivized. The encouragement of risk-taking leadership fosters a culture where visionary leaders drive innovation, embracing the notion that greater risk equates to enhanced learning and growth. Simultaneously, people development is central to nurturing continuous learning and personal growth among employees, thus propelling the organization's progress. This holistic and integrated approach acknowledges the intricate interplay of these facets and serves as a robust foundation for cultivating a thriving innovative work culture within the dynamic realm of startup companies. Furthermore, it underscores the pivotal role played by HRM in this endeavor, involving all stakeholders within the organization. This approach is designed to ensure long-term success and prosperity for startups in building innovative work behavior and culture.

Keywords: *Innovative Work Behavior (IWB); Startup Companies; Human Resources Management (HRM)*

Introduction

According to the Startup Outlook Report 2023 compiled by InnoVen Capital, startup organizations are required to adapt continually to various challenges. The report underscores that startup founders need to prioritize profitability and product-market fit over solely pursuing exponential growth. They must focus on building sustainable business models. Furthermore, the report notes the importance of being selective in hiring, giving preference to individuals with specific competencies, such as product managers, data experts, and engineers. These professionals play a significant role in developing innovative products and business strategies needed by the market and customers. To achieve optimal profitability, startup founders must consider what kind of organizational culture is most suitable and capable of motivating all members of the organization to give their best contributions to the company.

COVID-19 has demonstrated how many startups are extremely vulnerable. According to statista.com (2023), when COVID-19 began to develop widely in the years 2020-2023, numerous startups laid off considerable numbers of employees. Amazon, for example, laid off 27,230 employees; Meta, 21,000; Google, 12,000; Salesforce, 10,140; and, of course, many other new firms were shaken by the COVID-19 pandemic, which had a substantial economic impact.

CB Insight (2022) analyzed 110+ business failure post-mortems to identify the top 12 reasons for startup failure, ranging from a lack of product-market fit to team discord–there are 12 primary reasons contributing to the failure of these startups. These reasons include a lack of funding (38%), a lack of market demand (35%), losing out in competition (20%), flawed business models (19%), policy or legal issues (18%), pricing problems (15%), an inadequate team (14%), mistimed products or poor marketing (10%), poor product quality (8%), team and investor discord (7%), failed pivots (6%), and burnout or exhaustion (5%).

When we examine the 12 most common reasons why startups fail to establish their businesses, we find that the majority of them are dominated by variables connected to the organization's innovation culture. Lack of market demand, competition, incorrect business models, mistimed products or poor marketing, poor product quality, and failed pivots are all examples of how startup companies innovate in their businesses.

Startups are known for their flexible organizational culture, which facilitates quick decision-making and adaptability to changing circumstances. In contrast, large corporations often emphasize stability and structured processes. Hannan and Freeman (1984) mentioned that fundamental differences in organizational culture can necessitate transformation, whether it's a growing startup requiring more structure or a corporation recognizing the importance of becoming more responsive in its approach. The evolving business landscape demands readiness for adaptation and, when necessary, a cultural shift to thrive in an ever-changing market.

As Hmieleski and Baron (2008) illustrate, startups frequently establish a culture that fosters risk-taking and allows adequate opportunities for innovation and creativity to flourish. Large firms, on the other hand, tend to be more risk-averse, resulting in innovation that is predominantly in the shape of incremental product upgrades or service enhancements. The disparities in risk and innovation methods between startups and corporations highlight the dynamic interplay of organizational cultures in the business landscape.

The literature on organizational culture usually highlights the critical role of leaders, particularly founders, within companies. Founders have a significant impact in shaping culture and aligning it with their vision and beliefs. This is in contrast to corporate cultures, which, as Schein (2010) observes, tend to be more institutionalized and established over time, frequently reflecting the cumulative influence of several leaders and previous practices. The distinction between a shifting, dynamic startup culture and a more established, enduring corporate culture emphasizes the unique characteristics of each environment.

Startups frequently use flat organizational structures to foster a sense of ownership and shared responsibility among all team members, resulting in an environment where everyone's participation is valued. Corporate entities, on the other hand, often maintain hierarchical frameworks with well-defined positions and duties. This structural discrepancy can have a major impact on employees' motivation, engagement level, and overall job satisfaction. While startups foster an inclusive and collaborative culture, corporations frequently stress specialized jobs and top-down decision-making processes. The ramifications of these structural disparities highlight the intricate relationship between organizational structure and employee well-being.

Startups are often motivated by ambitious plans for quick development and expansion, according to Ries (2011) in the context of the Lean Startup approach. These ambitious expansion plans might provide a number of obstacles, particularly in retaining the initial corporate culture of flexibility, innovation, and risk-taking. Corporations, on the other hand, frequently prioritize the preservation and reinforcement of their existing organizational culture as they traverse a road of stable and predictable growth. The disparities in growth orientation highlight the underlying tension between startups' need for adaptability and corporate concentration on preserving a stable and established culture as they trace their own routes to success.

Startups are defined by Aulet et al. (2013) and Skawinska et al. (2020) as business organizations founded by entrepreneurs within a collaborative framework. Startups are distinguished by their high level of innovation, capacity to penetrate worldwide markets via the Internet, and access to new financial resources, allowing them to grow quicker than Small and Medium-sized Enterprises (SMEs). Startups are frequently modest at its inception and are connected with growth by establishing a corporate identity outside of the standard business framework.

Startups differ from regular businesses in several aspects. They are characterized by a high level of innovation (related to technology, internal processes, or business models, etc.), the ability to penetrate global markets through the internet, and access to new financial resources that allow them should grow faster. Startups are typically modest at first and are connected with growth through the establishment of a business identity outside of the standard business structure.

Salamzadeh (2015) found that innovation is a key factor in startup success. Startups are often founded based on innovative ideas and must continually innovate to remain competitive and grow. Innovation can help startups differentiate themselves from competitors, create new markets, and enhance their products or services. Innovation can assist startups in overcoming challenges such as financial limitations and limited resources. Therefore, innovation is highly crucial for startups to survive and thrive in the market.

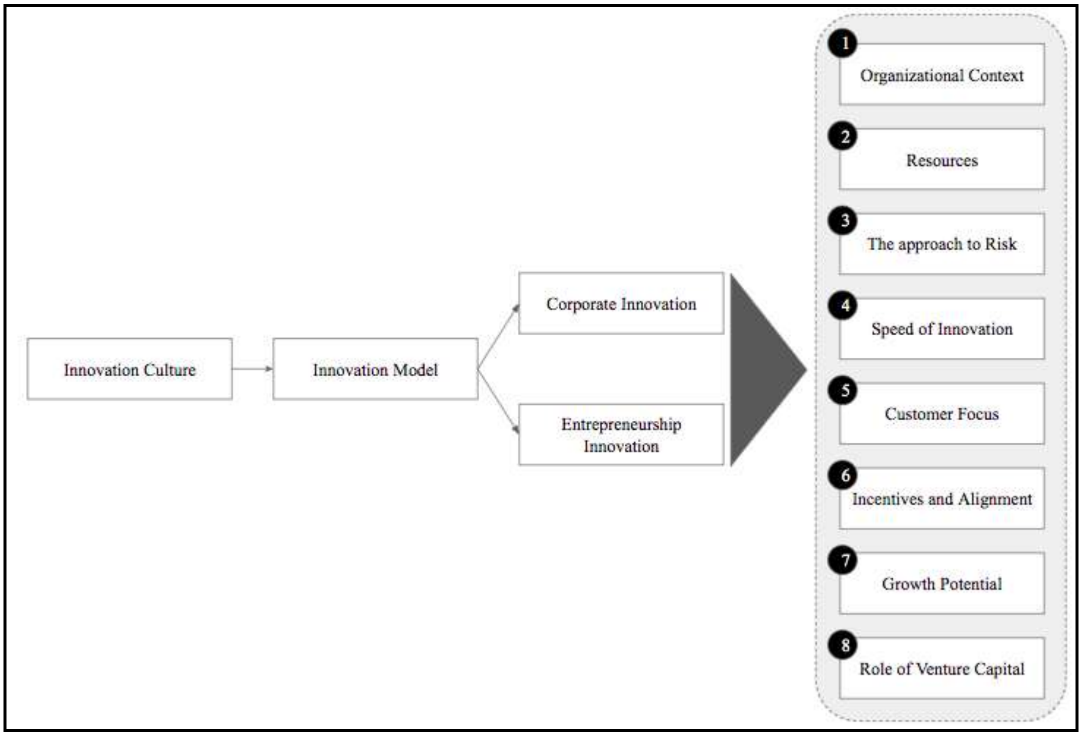
The goal of innovation in startups is to create unique and valuable products that set the company apart from its competitors and attract customers. There is a strong connection between startups and innovation. Essentially, startups are organizations engaged in the innovation process at the intersection of innovation. Therefore, innovative work behavior in startup companies is crucial in driving the organization toward success. The type of organizational culture that can foster innovative work behavior in startup companies will be further explained in this study.

Theoretical Review

Corporate and Startup Innovation Models

According to Freeman, J., & Engel, J. S. (2007), the innovation models in established corporate firms and startups exhibit several characteristic differences. The innovation model within startup organizations is commonly known as the Entrepreneurship Innovation Model. The Corporate Innovation Model refers to the innovation process in established and stable firms, whereas the Entrepreneurship Innovation Model pertains to the innovation process within startup companies. Both models possess distinct managerial and structural advantages and disadvantages that influence their ability to innovate.

Figure 1. Corporate and Startup Innovation Models



Source: Adapted from Freeman, J., & Engel, J. S. (2007)

The Corporate Innovation Model is concerned with the process of innovation in established businesses. When it comes to innovation, these organizations have greater resources, established organizational structures, and competitive advantages than startups. They have more capital, more scientists and engineers, a stronger brand or legitimacy, more strategic relationships, more established organizational structures, and more extensive business processes. Due to their size and complexity, established organizations may be slower to respond to market developments. They also have difficulties managing innovation within the confines of their current organizational structure and processes.

The Entrepreneurship Innovation Model describes the startup innovation process. These businesses are frequently more nimble and adaptable, able to respond swiftly to market feedback. In comparison to established organizations, they are often smaller, with fewer resources and less established organizational structures. In terms of innovation, however, startups have significant advantages over established enterprises. They are more willing to take chances, try out new ideas, and quickly launch new products or services to the market.

The ability to take risks, experiment with new ideas, and quickly bring new products or services to market are critical components in developing an innovation model for startups. Startups frequently focus on satisfying client needs and have the ability to develop unique solutions to meet those needs. They also have the potential for rapid growth and can attract top talents with the promise of equity ownership. The Entrepreneurship Innovation Model is designed around rapid growth and is characterized by the alignment of incentives among entrepreneurs, investors, and employees.

Startups must move swiftly to attain the scale and operational efficiency needed to survive and remain competitive once the window of opportunity has closed. Venture capital plays a vital role in the innovation process as it encourages rapid growth and helps entrepreneurs focus on building value reflected in equity prices. Key elements of this transition include developing entrepreneurs' understanding of the stakeholder community and other equity holders.

Table 1. The Differences between Corporate and Startup Innovation Models

Category	Corporate	Startup
Organizational Context	Occurs within established, resource-rich, and well-structured organizations. These companies typically have larger budgets and have access to more resources and established processes.	Take place in startups or smaller, more agile organizations with limited resources. These ventures often prioritize flexibility and speed over established processes.
Resources	Benefits from larger capital, more scientists and engineers, established brands, and strategic alliances.	Operates with fewer resources, potentially limited access to capital, and a smaller workforce.
The Approach to Risk	Tends to be more risk-averse due to the size and complexity of the organization, as well as a focus on protecting existing assets.	Embraces risk and uncertainty, as startups often need to take risks to disrupt existing markets and create opportunities.
Speed of Innovation	May be slower to respond to market changes and adapt due to bureaucratic structures and established procedures.	Can react quickly to market feedback and adapt rapidly, often leading to faster innovation cycles.
Customer Focus	May focus on optimizing existing products or services for a broader customer base.	Tends to prioritize finding innovative solutions to meet the specific needs of a niche or target customer group.
Incentives and Alignment	Often structured around performance metrics, budgets, and corporate hierarchies.	Typically aligns incentives among founders, investors, and employees, often with a focus on equity ownership.
Growth Potential	Companies with established market presence may have limited growth potential, but they seek to maintain stability.	Offers significant growth potential, as startups aim to disrupt markets and expand rapidly.
Role of Venture Capital	Typically less reliant on venture capital, as they have other sources of funding.	Often dependent on venture capital to fund rapid growth and innovation.

Source: adapted from Freeman, J., & Engel, J. S. (2007)

Both innovation models have their respective strengths and weaknesses. Therefore, in this collaborative era, it is not uncommon for corporate companies and startups to form business alliances, resulting in a fusion of practices from the Corporate Innovation Model and Entrepreneurship Innovation Model. They can complement each other.

Innovative Work Behavior (IWB)

In the field of industrial and organizational psychology and management, the concept of innovative behavior is a widely explored subject. The construct is frequently associated with employee creativity, but what distinguishes them is the anticipation of positive outcomes (De Jong and Den Hartog, 2008). Their research established a description of creative behavior, defining it as the intentional introduction and acknowledgment of a unique and advantageous concept, process, product, or technique inside a work, group, or organizational setting.

The process of producing and executing fresh and beneficial ideas that lead to new or improved products, services, or methods of doing things is referred to as innovative work behavior. It necessitates imagination, risk-taking, and a willingness to question the current quo. Workplace innovation is critical for firms that wish to remain competitive and adapt to changing market conditions. It can be encouraged through various means, such as providing employees with resources and support, promoting a culture of experimentation and learning, and recognizing and rewarding innovative ideas and contributions (Baer, 2012; Kissi et al., 2012). Young startup companies often struggle to instill innovative work behavior in their employees, which is vital for ensuring long-term survival and success (Flocco et al., 2022). This challenge is highlighted by various studies (Akram et al., 2020; Mutonyi et al., 2020).

Additionally, De Jong and Den Hartog (2008; 2010) elaborated on the dimensions of innovative behavior, aligning with previous research by scholars like Scott and Bruce in 1994 and Kanter in 1998. The dimensions include (1) Opportunity/idea exploration, (2) Idea Generation, (3) Championing, and (4) Implementation/application. Idea exploration refers to the process of searching for new opportunities or problems to solve; idea generation refers to the process of generating new and creative ideas; idea championing refers to the process of promoting and advocating for new ideas; and idea implementation refers to the process of putting new ideas into action. Innovative work behavior has been proven in several studies to be able to influence organizational performance.

Aboramadan et al., (2020) found that innovation, particularly marketing innovation, has a significant positive impact on company performance. Organizations that are able to innovate are more capable of delivering new products and services, improving processes to fit the market's needs, and capitalizing on opportunities better than non-innovative organizations. Innovation has also been associated with higher levels of growth and profitability. To shape and create innovative work behavior, the role of HRM in the organization plays an important role as a catalyst.

Based on the research by Jebali and Meschitti (2021), it was found that HRM can contribute to fostering innovative culture through:

1. Creating a conducive learning environment, encouraging work autonomy, and thoughtful workspace design are crucial elements for nurturing innovative work behavior among startup employees.
2. Human Resource Management (HRM) practices play a pivotal role in involving employees in the innovation process and cultivating a work environment that supports innovation in startup companies.
3. Recognizing the value of knowledge workers and ensuring their continuous growth and development is a fundamental factor for the success of startups.
4. Fostering exploratory learning and promoting a culture of innovation, enjoyment, and risk-taking are vital success factors for startups.
5. The simultaneous use of both formal and informal HRM practices can be advantageous for startups in fostering innovation.
6. Encouraging an environment where individuals take ownership of their ideas is essential to prevent distractions and avoid becoming a source of stagnation.

Research Method

This study uses a literature review approach. A literature review involves providing a framework related to both new findings and previous discoveries to identify whether there is progress in the results of a study through comprehensive research and interpretation of literature related to a specific topic. It includes identifying research questions by searching for and analyzing relevant literature using a systematic approach (Randolph, 2009).

A literature review is conducted to examine the pattern of relationships among various studies on innovative work behavior in several previous research works. The process of reviewing previous research is done using databases available in various public journal e-resources, both national and international. Similar studies are searched using two main keywords, namely "innovation culture in startup companies" and "innovative work behavior in startup companies." Through this search, several previous studies are found that contain similar keywords but with different focus areas. The criteria for selecting literature to be referenced in this study are based on their relevance and significance to the research objectives.

Result and Discussion

Despite of a multitude of theoretical frameworks and well-established findings, the author found interrelated patterns that would serve as a valuable finding that can be defined as a framework. This framework can be effective in cultivating and fostering an innovative work culture within startup companies.

This study will also be beneficial to maximize the Human Resource Management (HRM) division's role, positioning it as a catalyst for change and progress. Within this framework, the HRM division will be focused on several fundamental areas. These areas are, but are not limited to, (1) organization design, which entails structuring the company in a manner conducive to innovation; (2) talent reward, recognizing and incentivizing productivity and contributions based; (3) risk-taking leadership, by fostering an environment where visionary leaders steer the company towards innovation through the mindset "higher risk means a higher opportunity to learn and grow", and (4) people development, facilitating continuous learning and growth among employees to propel the organization forward.

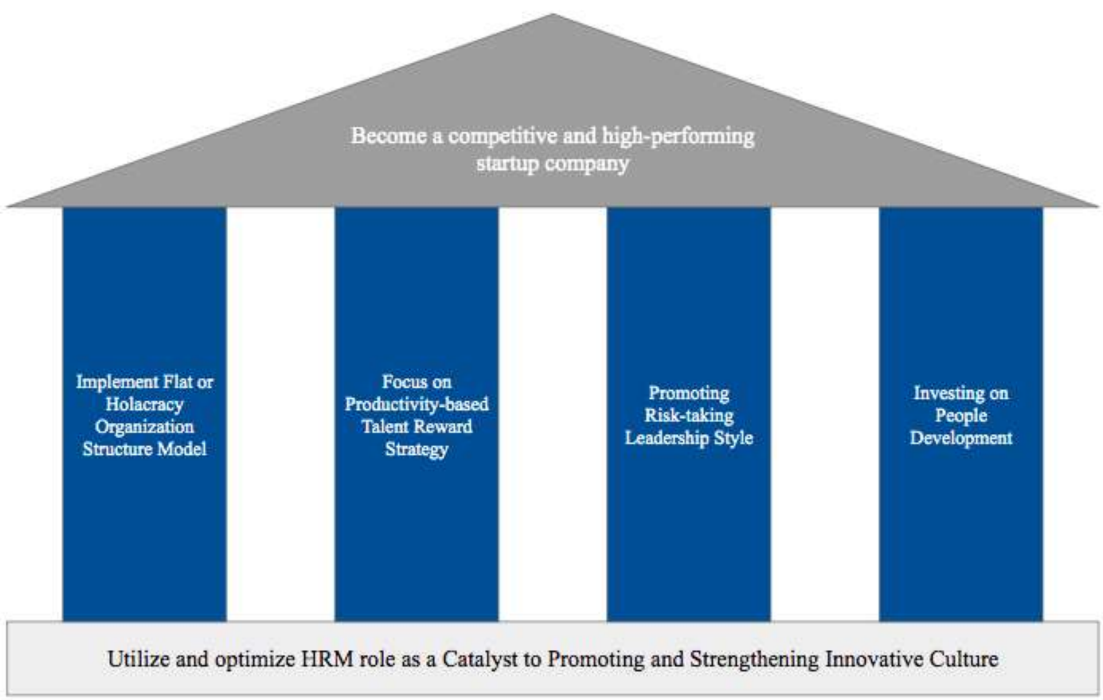


Figure 2. Innovative Work Behavior (IWB) Framework for Startup Company
Source: adapted from various references used in this study

Startups need a flexible and agile organizational design. To encourage innovative work behavior, startup organizations should be designed as streamlined as possible. With a flat organization design or by implementing holacracy, the work environment becomes more open, avoiding excessive bureaucracy, formalities, and hierarchies, which can impede the innovation process. The benefits of implementing a flat and holacracy organization design are (1) employees can have more freedom to explore their interests and aspirations, leading to greater employee engagement and satisfaction; (2) it promotes a broad career development space, not limited to just vertical or horizontal paths; and most importantly, (3) every employee is encouraged to develop an entrepreneurial mindset, where the success or failure of the organization is also in their hands, giving them the freedom to make their best contributions.

In a startup organization, the HRM team needs to define a talent reward approach that is more competitive but can still maintain operational costs to prevent excessive spending. It's important to remember that startups have limited financial resources, unlike more financially established corporations. Therefore, a suitable talent reward strategy for startups in promoting innovative work behavior is a productivity-based talent reward. It focuses on the significant impact on the organization, especially in functions that contribute to revenue generation and product-service outcomes.

The role of a leader in fostering innovative work behavior is crucial. While HRM functions are important, leaders are the ones who understand the conditions of their respective teams the most. Every leader should play a role in creating a work environment that allows every employee to take risks in their work. Without this, innovation is unlikely to occur. Leaders should provide opportunities for every team to voice their opinions in every meeting, explore new ways of working, appreciate differences and everyone's opinions, and always strive to stimulate and nurture a mindset like investing in stocks, "higher risk, higher return."

Building an innovative work environment must be accompanied by initiatives that promote the collective growth mindset within the organization. The HRM team and leaders can collaborate to achieve this by (1) HRM taking a formal approach to creating an organization that supports employee development, while team leaders (2) focus on being mentors and coaches for each team member in discussions about their career development. With a strong organizational learning culture, employees will be better prepared for innovation.

This integrated approach recognizes the complex interplay of elements necessary for promoting an innovative work culture and lays the foundation for sustained success in the dynamic landscape of startup companies. HRM's role in driving this initiative is very important, involving all stakeholders within the organization.

Conclusion and Recommendation

In conclusion, the various theoretical and empirical findings have led to a cohesive understanding of cultivating an innovative work culture in startup companies. Optimizing the Human Resource Management (HRM) division as a strategic partner is critical in building an innovative culture through several key focal areas including organizational design, talent rewards, risk-taking leadership, and continuous people development. This integrated approach acknowledges the interplay of these factors and establishes a strong foundation for sustained success in the dynamic startup landscape. HRM, involving top and middle management as well as employees, plays a pivotal role in fostering an innovation-friendly environment, driving the company's long-term growth and prosperity.

Limitation

There are two main limitations in this research. First, the research is limited not using primary empirical data but relying solely on findings from previous research. In the dynamic context of startup companies, this limitation means that the study may not be able to capture the specific and up-to-date dynamics that may occur within the startup environment. Second, the findings in this research related to the development of innovative work behavior are not connected to the understanding that the business needs of startups may vary at each stage or cycle and in various industries. This limitation may render the study less relevant to real-world situations, where each stage or business cycle of a startup may require different approaches to developing innovative behavior.

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