

# IMPORTANCE OF INNOVATIVE MANAGEMENT PRACTICE: SOLUTION FOR CHALLENGES IN BUSINESS ENVIRONMENT AND PERFORMANCE IN LARGE ORGANIZATIONS IN SERBIA

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## Introduction

In the contemporary business setting, the implementation of innovative management practices is recognized as a crucial factor (Damanpour, 2014) for strategic change, organizational renewal and achieving long-term competitive advantage (Walker, Chen, & Aravind, 2015). Still, it is surprising how little research is conducted on largescale surveys according to possible approaches to measure innovative management practice which will lead to organizational innovations (Armbruster, Bikfalvi, Kinkel, & Lay, 2008). The proportion of this research topic amounts to only 8% among the innovation research process, while only 3% of research studies analyze this subject (Mihalache, 2012, p. 2).

In the paper, the basic research objective is reflected in the analysis of the degree of innovative management practice impact on organization's performance, and the analysis of the relationship between implementation of innovative management practice and dynamic business environment. This topic has most often been researched on a sample of organizations from the developed countries, but the trend is slightly transforming to the progressive research of managing innovations in developing countries (Ali, Ullah, & Khan, 2009). This view imposes the need to explore innovative management practice in the context of transition economies, whose priority is to increase innovative capacity and performance. We have limited the research problem to the analysis of the need for innovation-oriented management practices as a response to turbulent changes and the way

of achieving organizations' higher profitability in the transitional economy of Serbia.

The determinants of innovative management practices are not completely identified and there is no single coherent framework (Černe, Kaše, & Škerlavaj, 2016). Till now, innovation in management practice was analysed through new planning system, human resources development, new control system (Elenkov & Manev, 2005); innovation strategy, organizational structure, innovation culture, technological capability and customer and supplier relationships (Kalay & Lynn, 2015); innovative strategy, organizational climate and different kinds of innovations (Sánchez, Lago, Ferrás, & Ribera, 2011). Based on the aforementioned, in the study, we have developed a new framework of innovative management practice. The research space includes analyses of the two sides of the coin of management practices, namely innovative oriented functions of management (Fayol, 1949) and managerial roles (Mintzberg, 1973) as the necessity for functions' reorganization and relocation, together with responsibilities, being a type of management innovations (Lin, Su, & Higgins, 2016, p. 864). The possibility of relating Fayol's and Mintzberg's research arises from the conclusion that these two concepts of governance are logically connected since Fayol has set the management concept as it should be, whereas Mintzberg pointed what it is like in reality (Lamond, 2004, p. 330).

Thus far, the trend of empirical research in this area from the perspective of management functions has most often been focussed on the analysis of transformational leadership and its

impact on higher performance (Moriano, Molero, Tope, & Mangin, 2014; Vaccaro, Jansen, Van Den Bosch, & Volberda, 2012); the staffing function and its relation to the enterprise's innovative performance (Jiang, Lepak, & Baer, 2012), where the focus was at rewards, training, and development as well as the process of recruiting innovative talents (Stock, Totzauer, & Zacharias, 2014). Other management functions are scarcely elaborated, leading to partial improvement of managerial practice and the omission of synergetic effects of all functions at the organization level. Therefore, to address the deficiency in extant literature there is a need for better systematization of the steps and standardization of activities leading to innovative managerial practice.

Bearing in mind the above mentioned gap the following research questions imposed themselves: (1) *Which innovation oriented management functions and managerial roles stand out as the essential determinants of organization performance such as growth, development and profitability?* (2) *Does the implementation of innovation oriented management practices depend on the context of business environment?* For the purpose of the above mentioned research, research methodology based on EFA, binary and multinomial logistic regression and Spearman's rank correlation coefficient was applied. The sample comprises 50 large organizational systems on the territory of the Republic of Serbia.

This paper contributes to the literature on management innovation in several ways. Firstly, by developing the new framework of innovative oriented management activities. Secondly, it offers a fine-grained analysis of the effects of innovation-oriented management functions and roles on performances in the turbulent transitional economy context. Thirdly, the empirical evidence of the study broadens the researching horizon in this topic.

The paper is structured as follows. First, we conducted an analysis of the theoretical basis in the manner of the relation between innovative managerial practices and organization performance, and innovative management practices and dynamic external and internal business environment. Then we elaborated on research methodology and finally discussed the obtained empirical results, highlighting the practical implications and limitations of the research.

## 1. Innovative Management Practices and Organization Performance

A large number of authors point out the significance and positive impact of innovation oriented activities on organization performance (Birkinshaw & Mol, 2006; Hervas-Oliver, Ripoll-Sempere, & Moll, 2016). Innovation in the area of management was most often viewed as developing new management practices (Birkinshaw & Mol, 2006; Damanpour, 2014) through changes in managers' scope and manner of work when setting goals, making decisions, coordinating activities and motivating staff (Van den Bosch, 2012). Since managers are, with their manner of behaviour, the key internal agents of developing innovation in the area of management, we analysed them through the implementation of innovation oriented management functions and managerial roles.

The first management function is observed through strategic planning, because the relation between strategic planning and innovative performance is inevitable in a way that strategic planning is oriented to adequate resource allocation to innovative activities entailing a higher degree of risk (Eddleston, Kellermanns, & Sarathy, 2008, p. 32) as well as better chance for higher performance.

The importance of organizational structure and its reorganization as one dimension of innovation in the management area are highlighted by numerous authors (Douglas, Overstreet, & Hazen, 2016; Kraśnicka, Glód, & Wronka-Pośpiech, 2016). Nowadays, the organizations have to be agile and capable of strategic implementation of exploitation and research activities parallel with their interdependence and balancing affects performance positively (Lubatkin, Simsek, & Veiga, 2006).

From the staffing function perspective, a study by Jiang et al. (2012) identifies the existence of a direct correlation between a new practice of human resource management and financial results such as ROA, ROE and sales growth. It is deemed that there is an impact of HRM practices on all the results of an organization, by sequential principles, so that it primarily affects staff performance, operative performance, and finally, the organization's financial results (Jiang et al., 2012, p. 1265). Within our study, we aim to analyse the innovation oriented staffing function based on the theory of human capital, emphasizing the staff's skills, knowledge and abilities as the

central driver of the organization's performance (Ployhart & Moliterno, 2011). Thus oriented staffing function will enable the organization to remain dynamic and achieve the desired improvement in the field of performance (García-Morales, Jiménez-Barrionuevo, & Gutiérrez-Gutiérrez, 2012).

From the viewpoint of innovation oriented leadership function, top management should conduct idealized impact and inspiring motivation, which would stimulate staff to participate actively in innovation activities (Elenkov & Manev, 2005). This leader profile also conducts activities aimed at intellectual stimulation (García-Morales et al., 2012) towards problem-oriented thinking, innovative behaviour and transformation of old ways of business operations into the new ones, and the activity of individual consideration, which refers to the support and training staff by leaders (Moriano et al., 2014). The empirical studies existing so far point to an established pattern of positive relationship between the implementation of transformational leadership style and enhancing the organization's performance (García-Morales et al., 2012).

Very little is known about the type of controlling function that encourages achieving innovative performance (Allen, Adomdza, & Meyer, 2015). The research conducted so far has been analysing the effect of managerial controlling function on management performance highlighting the positive impact on sales managers' motivation and their behaviour performance (Theodosiou & Katsikea, 2007 p. 1269) on the one hand, and on the other the fact that controlling function is a barrier to implementing innovative staff behaviour (Huselid, 1995). Allen et al. (2015) argue that the controlling function is a very complex variable, that it is dependent on situation and knowledge, and that there is no support to the opinion that managerial control results in lower staff confidence in management and their leaving the organizations, which was the subject of analysis of the previous study (p. 376).

We also focus on the implementation of Mintzberg's classification of managerial roles in the function of encouraging the staff's creative and innovative thinking and behaviour, which enables achievement of better organizational performance. Studies into this topic were conducted with the aim to analyse interpersonal behaviour between the management team

and external agents which influence the adoption of management innovations (Nieves & Segarra-Cipres, 2015, p. 53). It is important to analyse innovation oriented implementation of managers' informational roles with the aim of forming an information basis by creating social networks, which will result in creating new knowledge. Furthermore, the decision making roles incorporating subjective evaluation and strategic decision making of managers are crucial in creating change in management practice (Kraśnicka et al., 2016; Lin et al., 2016).

Considering the inconsistency of the methodology for exploring innovative management practice, and the absence of any study that has looked into innovative managerial practices in combination with all innovatively-oriented managerial functions and roles with explanation of their importance in achieving greater organizational performance in an uncertain environment, we developed the hypotheses as follows:

*Hypothesis 1: There is a positive association between innovative management practices, growth, development and the overall level of business performance of large organizational systems.*

*Hypothesis 2: There is a positive relation of implementation of innovative management practices and financial indicators such as ROA and ROE measuring the profitability of an enterprise.*

An analysis of the set of research hypotheses will create a comprehensive framework for analysing innovative management practice. In that framework an independent variable is innovative management practice composed from innovative oriented management function as planning; organizing, staffing, leading and controlling from one angle. From the other, it incorporates managerial roles like interpersonal, informational and decisional roles which are innovatively oriented. Besides these components of innovative management practice we analyzed it through organizational innovativeness as the result of implementation of new management behavior and concepts. The dependent variable is business performance measured through growth, profitability and the total level of business performance.

Considering that there is no single measurement of innovative management practices, it results in different statements

about its impact on organizational performance. Some of the research that focuses on the mentioned variables indicate that innovative managerial practice along with its results, such as different types of innovations, explain sales growth but not the improvements in profit per employee and ROA (Sánchez et al., 2011); innovative management practice analyzed through operations, performance and people management have positive association with organization's innovations, but there is no association with ROE (Agarwala, Brown, Greena, Randhawaa, & Tanb, 2014); innovatively orientated leadership and HR management as managerial functions are distinguished from others and have distinct effects on innovative performance measured through product program innovativeness (Stock et al., 2014); an organization that implements innovative managerial practice through a set of different indicators - among other - the process of decentralization of planning and organizational structure that involves cross-departmental development teams and teamwork do not distinguish themselves according to statistically significant difference in productivity (Armbruster et al., 2008).

## 2. Importance of Innovative Management Practices in Dynamic Business Environment

Nowadays, more than ever, organizations are under the impact of frequent turbulence, new competitive threats, technological discontinuities, new risks as well as new opportunities (Kotter, 2014) for organization growth. In that context, it is important to analyse the relationship between dynamic business environment and innovative management practice, where more radical innovations are preferable in dynamic business environments, which contribute to higher objective performance (Pérez-Luño, Gopalakrishnan, & Cabrera, 2014).

Bearing in mind the functional manner of managing its relation to dynamic environment, it has been confirmed that a correlation exists between decentralized, participative way of implementing strategic planning and growth of business performance in a dynamic business environment (Andersen, 2004). In the contemporary business setting characterized by constant changeability, organization management should apply flexibly oriented strategic planning based on the concept of

strategic thinking as well as situation planning based on the concept of systemic thinking, which takes into consideration intuition and creativity and steps outside the existing framework. According to organizational structure, in the dynamic business environment it is important to form organizational units balancing between exploitation and exploration activities in order to compete in a dynamic business environment (Jansen, Van den Bosch, & Volberda, 2005). Moreover, the dynamic business environment is characterized by implementation of flexibly oriented staffing function, promoting the development of a broad spectrum of new skills and knowledge (Wright & Snell, 1998, p. 758). Leadership function is most often analyzed through implementation of transformational leadership style, which is appropriate in dynamic working environment (Gundersen, Hellesøy, & Raeder, 2012).

From the viewpoint of managerial roles, research has so far placed emphasis on the analysis of frequency of using individual managerial roles depending on the internal and external context (Gibbs, 1994), whereas other authors analyse only the internal context through the importance of individual types of roles depending on the manager's hierarchical level and functional areas (Mintzberg, 1973; Paolillo, 1987). Summary research results indicate that the movement of managers up the hierarchical ladder increases the significance and use of two types of interpersonal roles, such as figurehead and liaison, then all the types of interpersonal roles: monitor, disseminator and spokesperson, and the two types of decisional roles, such as entrepreneur and resource allocator. Gibbs (1994) points out that, viewing the internal context, it is not enough to take into account only the manager's functional areas, but also the degree of the controlling function that they implement, for managers with a higher degree of control more often use informational and decisional roles and vice versa, as well as the duration of the manager's work in the analyzed organizations, because the longer the employment in an organization, the higher the probability of implementation of interpersonal roles.

In addition to the analysis of possible correlations between internal business context and the implementation of managerial roles, research conducted by Gibbs (1994) indicates that the dimensions of environment should be

taken into consideration when further analysing the theories of management practices. The use of interpersonal roles is more intensive under the influence of the complexity of environment, whereas the use of decision making roles is more frequent under the influence of both complexity and environmental dynamism (Gibbs, 1994, p. 581). Author Pfeffer (1977) highlights the impact of the environment on implementation of interpersonal role of figurehead, which is in direct correlation to the degree of environmental dynamism. Furthermore, that interpersonal figurehead role, which arises from the power that the managers have and based on which they guide the organization into the direction that will enable the achievement of positive business effects also depends on the degree of dynamics and complexity of the environment (Gibbs, 1994). Some authors deem that both stable external and internal environment through routine obligations and established rules stifle the management's need to highlight leadership abilities, inclusion into the process of generating and processing new information, that is, implementation of interpersonal, informational and decisional roles (Gibbs, 1994). We can conclude that the more dynamic the environment, the more stimulations there are for innovative leadership of the organization. On the other hand, the survival of organizations operating in dynamic industries depends to a great extent on the workforce's ability to exchange and combine information in a new way (Grant, 1996), that is, the implementation of informational role is necessary. Managers applying these types of roles should identify external tacit knowledge through the monitor role, then to carry out the assimilation of knowledge and its transformation into explicit knowledge (Nonaka & Takeuchi, 2007, p. 166), which is possible by applying the disseminator and spokesperson roles. On this path, organizations may survive or disappear from the market, depending on the undertaken managerial activities (Elenkov & Manev, 2005, p. 383).

Based on the elaborated theoretical basis and up to date empirical research at the mentioned topic, the following hypothesis was set:

*Hypothesis 3: The implementation of innovation-oriented management functions and managerial roles is in positive correlation with the dynamic internal and external environment.*

Previous research on this topic points to the need for top management to respond to changes from an external environment such as technological changes, changes in competitive environment and consumer preferences (Jaworski & Kohli, 1993) by offering new managerial practice, which was analyzed within the empirical analysis of our study. Also, the correlation between the mentioned variables has been demonstrated by focusing on the following changes in managerial practice in a dynamic external environment: the organizational function should be based on a dual operating system in mature organizations, which combines a network system with a traditional hierarchical system of organization as well as implementation functions of leading on the principle of as much agility, innovation and passion as possible (Kotter, 2014); interpersonal relationships should be implemented on the principle of empathy with employees, while the decision-making role should involve the inclusion of as many employees as possible (Kotter, 2014).

### 3. Research Methodology and Sample

The surveyed sample comprises the management of 50 large organizational systems on the territory of the Republic of Serbia covering all sectors and all regions, and account for 4.73% of the total number of large legal entities. The necessity for a survey on the management of large organizational systems stems from the finding that the size of the organization is important because it has been confirmed that organization's size is positively related to better management practice (Agarwala et al., 2014; Nieves & Segarra-Cipres, 2015). Also, the need to introduce innovation in the area of management is greater in large organizations (Mol & Birkinshaw, 2009) due to: comprehensive knowledge, more available funds, the possibility of taking higher risks and diversifying the costs incurred due to uncertainty. Furthermore, the authors Černe et al. (2013) highlight the importance of large organizations and their size as moderators in the relationship between knowledge exchange and management innovation on the one hand, but also the danger on the other because such organizations are characterized by greater complexity and can often make it difficult for innovation to be implemented. We have to



mention here the need to introduce innovative management practice in Eastern transition economies. It follows from the conclusion that business environment of the Western countries is more innovative, leading to the conclusion that managers and leaders are more tolerant of the new management practice, while in the Eastern countries rigid, traditionally oriented management practices based on autocratic style business are more represented (Srivastava, 2016). Therefore, results of this research can serve as a methodology and benchmark for other transition economies that have problematic business environment characterized by poor business models, political instability and governance conditions (Ali et al., 2009).

Formulation of the survey structure was carried out based on the 4 elements of influence (1) the first element which was elaborated through questions within the first section of the questionnaire refers to incentives from the environment that can influence management behaviour; (2) the second element is explained through a set of questions about the implementation of management functions and indicates management practices; (3) the third element is simultaneously represented through questions about the use of Mintzberg's managerial roles and considers a manager as an individual in a cognitive process, who has the role of intermediary between incentives and behaviour; and (4) the fourth element points to possible consequences of such behaviour, which is analyzed through business performance. Incentives from environment, being the first element of research framework which describes environmental dynamism as well as innovation oriented management practice, that further represents the second and the third element of the research framework, were all analyzed through Google survey forms. Each section of the questionnaire, except the fourth element of the research framework, financial indicators, consists of questions in the form of statements to which the respondents were asked to give their responses, expressing their agreement with these statements according to Likert scale from 1 (I agree) to 5 (I do not agree). The fourth element of the research framework as business performance was elaborated using objective data on business performance of the surveyed enterprises, where financial reports for 2012 and 2013 were used for calculation.

Before formulating the final version of the questionnaire, a preliminary analysis of clarity and appropriateness of the set scale was conducted by consulting ten top managers and five academic experts. They were asked for a critical opinion about all questions within the survey and indicated unclear points. Based on the received critique, some questions were eliminated, some modified or added. Google surveys were sent to managers of all levels in 100 randomly chosen large organizational systems. They were accompanied by cover letters explaining the goal of research and the basic ethical principles of research. To minimize possible desirability bias, the cover letter pointed out the confidentiality of provided answers, and the use of these for the purposes of the above mentioned research.

### 3.1 Research Instrument, its Validity and Reliability

There is a lack of widely accepted measures of innovative management practice (Armbruster et al., 2008) which leads to inability to compare the results in this research area (Damanpour, 2014). For the above reason, we tried to develop the measurement methodology for organizations dealing with turbulent environment of transition economies. In the research framework, independent variable is environmental dynamism composed of dynamic internal and external environment scale. Dynamic internal environment was measured through a scale composed of five questions analyzing permanent changes in the business process, the technology used and the engagement of new qualification structures. The dynamic external environment scale was created according to the study of Jaworski and Kohli (1993) and includes four questions about changes in competitor behavior and attitude, changes in preferences of the consumer as well as the tendency to buy new products and technology due to rapid change in industry. Second independent variable is innovative management practice. In the previous research there are no unique constructs that measure innovative managerial practice, but most of the papers took into account some of the managerial activities within the functions. For example, in the work of Kalay and Lynn (2015), they carried out research in 66 organizations, including 132 managers and their innovative leadership practices by considering variables such as:

Innovation Strategy (IS), Organizational Structure (OS), Innovation Culture (IC), Technological Capability (TC), Customer and Supplier Relationships (CSR). Furthermore, the authors Sánchez et al. (2011) conducted similar research in Spain within 91 organizations, while in the dimensions of innovative managerial practice they included innovative strategy, management system, management culture, project management, creativity, as well as different types of innovations that represent the consequence of applying innovative managerial practice. In the paper, Stock et al. (2014), as a part of an innovative managerial practice two managerial functions are distinguished: innovative leadership and innovation-oriented HR management. Within our paper, innovative managerial practice includes innovative oriented management functions and roles. Innovative management functions are measured through 14 questions: 5 questions about innovation oriented planning as implementation of strategic and scenario planning which will result in appropriate innovative strategy; 2 questions about innovative organizing function as a combination of exploitation and exploration activities; 3 questions about innovative staffing through rewards, training and development; 3 questions about the innovative leading function that refers to the implementation of transformational leadership style through transmits of the organization's mission to all of the employees, thus increasing employee's level of enthusiasm and emphasizing the use of employee's intelligence (García-Morales et al., 2012, p. 1048); 1 question on innovative control function through strategic control. On the other hand, managerial roles such as interpersonal, informational and decision-making roles that are innovative oriented are also taken into account. From the perspective of interpersonal roles, both internal and external, the authors Armbruster et al. (2008), in the analysis of manufacturing companies in the territory of Germany, point out that innovative management practices can be viewed, inter alia, through different interpersonal relationships, both between employees through decentralization and the formation of multifunctional teams as well as external participants through outsourcing or alliances. Furthermore, in the paper by Černe, Jaklič and Škerlavaj (2013), which includes research conducted within 604 organizations on the territory of Slovenia, Spain

and South Korea they highlight the importance of knowledge sharing in implementation of innovative managerial practice, which is the key to implementing an information management role. In our study we used a shortened scale of 17 questions that were modified in order to analyze the application of three groups of management roles, interpersonal, information and decision-making roles adjusted to the research of McCall and Segrist (1980), who developed 54 questions describing subgroups within each role. For the analysis of interpersonal roles, questions that were used are related to improvement of the network of personal contacts, good relations with employees, business partners and users, while promoting the organization as an innovative oriented. Information roles were analyzed through a database of information created in cooperation with suppliers, competing organizations and end-users, as well as the transfer of information received to a narrower and wider circle of employees. The role of decision-making by managers was analyzed based on the manager's position that advocates an aggressive reaction to the changes that occurred, with the emphasis on greater creativity and innovation. In addition to examining innovative management behavior, some authors analyzed the results of these activities as different types of innovations that are the consequence of application of innovative managerial practice (Sánchez et al., 2011) as we also did within our survey through the variable Organizational Innovativeness. The mentioned variable was measured by various types of innovations over the last 5 years, taking into account the classification of innovations in the OECD study (2005).

Furthermore, the dependent variable - business performance - was measured through growth, profitability and the total level of business performance. Above mentioned variables were described as follows: the growth variable was measured by the chain index of growth in the number of staff, revenue and assets; the development variable was analyzed through implemented investment; profitability of the enterprises was measured by business result change indicators as average values of ROA and ROE.

The reliability of survey constructors was analyzed by factor analysis and calculating the Cronbach's Alpha coefficient. The value of this coefficient is 0.880 for the final version of the

Tab. 1: Items and reliability of each measure

Sections of the questionnaire – variables	Source of questions	KMO and Bartlett's Test	Factors/ dimensions	Eigenvalue	Total variance explained	Cronbach's Alpha
Section I Environmental dynamism	<ul style="list-style-type: none"> <li>■ Gibbs, 1994</li> <li>■ Jaworski &amp; Kohli, 1993</li> </ul>	KMO .624 Chi Square 102.901 df 36 sig .000	1. External environment 2. Internal environment	2.570 1.707	47.515	0.626
Section II Innovation-oriented management functions	<ul style="list-style-type: none"> <li>■ Fayol, 1949</li> <li>■ Garcia-Morales et al., 2012</li> </ul>	KMO .647 Chi Square 215.857 df 91 sig .000	1. Planning 2. Organizing 3. Staffing 4. Leading 5. Controlling	3.116 2.486 1.352 1.332 1.234	67.997	0.745
Section III Managerial roles	<ul style="list-style-type: none"> <li>■ Mintzberg, 1973</li> <li>■ McCall &amp; Segrist, 1980</li> </ul>	KMO .712 Chi Square 485.979 df 153 sig .000	1. Interpersonal roles 2. Informational roles 3. Decisional roles	4.351 3.281 2.411	55.799	0.825
Section IV Organizational innovativeness	<ul style="list-style-type: none"> <li>■ OECD, 2005</li> </ul>	KMO .632 Chi Square 35.739 df 6 sig .000	1. Types of innovation	2.061	51.516	0.670

Source: own

questionnaire, which indicates good reliability of the scale. The performed factor analysis shows that Kaiser-Meyer-Olkin value is higher than 0.6, which indicated that the values in the matrix were appropriate to conduct factor analysis. According to Bartlett's Spherical Test, the study showed that the data originated from a multivariate normal distribution and that the scale was found significant. Principal component analysis was used as a data extraction method. Varimax rotation was conducted. A factor loading of 0.50 is regarded as practically significant and has therefore been used as the cut-off level in this study. The Varimax vertical rotation method varies in a range from 0.517 to 0.886 (Tab. 1).

To test the influence and correlation between the above mentioned survey constructors, we conducted logistic regression, binary and multinomial, and correlation analysis.

#### 4. Research Results

Tab. 2 shows the results of binary logistic regression conducted in order to test hypotheses H1 and H2.

Regarding the growth modelling, model performance was first tested with Hosmer-Lemeshow test, which shows that the model

is good ( $\chi^2(8) = 6.843$ ,  $p = .000$ ), that the model with all included variables statistically significantly predicts organizational growth better in comparison to the model that only has a constant. Performance of the profitability model was tested with the same Hosmer-Lemeshow test, whose results show that the model with all the predictors is statistically significant ( $\chi^2(8) = 17.611$ ,  $p = .000$ ). Organizational performance was modelled within model 3, where model performance was tested using Hosmer-Lemeshow test, which also supports the hypothesis that the developed model is good ( $\chi^2(8) = 3.578$ ,  $p = .000$ ).

The completed logical regression shown in Tab. 2 indicates that leading function ( $\chi^2(1) = 3.655$ ,  $p = .056$ ) stands out from other management functions, which indicates that organizations applying innovation oriented leading function and contemporary leadership styles, especially transformational leadership style, have a higher likelihood of future growth and achievement of the desired performance level compared to organizations applying traditionally oriented leading function, which points to partial confirmation of hypothesis H1. The manager as the decision maker ( $\chi^2(1) = 4.660$ ,  $p = .031$ ) stands out as



**Tab. 2: Results of binary logistic regression**

Variables in the equation	Model 1 – GROWTH			Model 2 – PROFITABILITY			Model 3 – TOTAL LEVEL OF PERFORMANCE		
	B	Sig.	Exp(B)	B	Sig.	Exp(B)	B	Sig.	Exp(B)
Planning	.974	.156	2.647	.974	.306	2.071	4.035	.075	56.522
Organizing	-.287	.684	.750	-.287	.456	1.910	-1.935	.283	.144
Staffing	.174	.840	1.191	.174	.203	.281	-1.422	.508	.241
Leading	-1.271	.056	.281	-1.271	.273	.507	-2.345	.049	.096
Controlling	.648	.332	1.911	.648	.997	.998	.460	.717	1.584
Interpersonal roles	.048	.903	1.049	.048	.088	2.200	.643	.482	1.902
Informational roles	-.122	.668	.885	-.122	.993	.998	.224	.638	1.251
Decisional roles	.244	.342	1.276	.244	.031	.563	-.186	.655	.830
Organizational innovativeness	-.045	.745	.956	-.045	.455	1.137	.639	.246	1.894
Constant	-4.045	.354	.018	-4.045	.852	.455	-16.785	.106	.000
Test of model	Sig = .000			Sig = .000			Sig = .000		
Summary	-2 Log likelihood = 55.019* Cox & Snell R = 0.192 Nagelkerke R = 0.260			-2 Log likelihood = 51.324* Cox & Snell R = 0.216 Nagelkerke R = 0.298			-2 Log likelihood = 22.581* Cox & Snell R = 0.302 Nagelkerke R = 0.539		
Correct predictions	73.5			71.4			91.8		

Source: own

a significant predictor of the enterprise's profitability, indicating that organizations where managers apply decisional role have a higher likelihood of profitable operation compared to organizations whose managers do not have prominent decisional role. This partially confirms hypothesis H2.

Multinomial logistic regression was applied in order to examine the influence of innovation-oriented management practices on organizational development (Tab. 3).

The surveyed organizations were classified into three different categories, where category 0 includes organizations whose value of investment was reduced compared to the previous year; category 1 includes organizations whose value of investment increased compared to the previous year; category 2 includes organizations that did not invest. Taking into account this classification, likelihoods of belonging to one of these three development categories were prognosticated, where the group 2 was selected as the reference category.

When comparing categories 0 and 2, only controlling function features as a significant predictor, that is, organizations characterized by decline of investment and implementation of innovation oriented controlling function have a higher likelihood of development compared with organizations characterized by traditional controlling function and no investment allocated for development. On the other hand, when comparing categories 1 and 2, that is, organizations whose investment grew in 2013 and those that did not invest at all, what stands out is innovation oriented planning and organizing function as well as the decisional role. The obtained results, together with the results of binary logistic regression within models 1 and 2, indicate full confirmation of hypothesis H1.

Tab. 4 points to the results of correlation analysis with the aim of determining the correlation between innovating managerial activities in large organizational systems and dynamic business environment, in order to test hypothesis H3.

Tab. 3: Results of multinomial logistic regression

Development	B	Std. Error	Wald	Df	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
							Lower	Upper
<b>Category 0</b>								
Intercept	-1.766	6.042	.085	1	.770			
Planning	.393	.903	.190	1	.663	1.482	.253	8.690
Organizing	1.262	1.530	.680	1	.410	3.532	.176	70.885
Staffing	.334	1.240	.072	1	.788	1.396	.123	15.850
Leading	-1.640	.993	2.725	1	.099	.194	.028	1.359
Controlling	-2.535	.795	5.405	1	.020	.079	.009	.672
Interpersonal roles	1.224	.405	2.369	1	.124	3.401	.716	16.161
Informational roles	.129	.386	.101	1	.751	1.137	.514	2.514
Decisional roles	-.406	.235	1.109	1	.292	.666	.313	1.419
Organizational innovativeness	.069	6.042	.086	1	.769	.933	.589	1.479
<b>Category 1</b>								
Intercept	3.139	4.996	.395	1	.530			
Planning	1.853	.972	3.631	1	.057	6.379	.949	42.906
Organizing	-2.281	1.013	5.071	1	.024	.102	.014	.744
Staffing	.725	1.069	.460	1	.498	2.065	.254	16.784
Leading	.009	.667	.000	1	.990	1.009	.273	3.732
Controlling	-1.066	1.033	1.073	1	.300	.344	.046	2.590
Interpersonal roles	-.816	.523	2.436	1	.119	.442	.159	1.232
Informational roles	.194	.337	.332	1	.564	1.214	.627	2.352
Decisional roles	.655	.339	3.726	1	.054	1.925	.990	3.743
Organizational innovativeness	-.116	.162	.516	1	.473	.890	.698	1.223

Source: own

Note: a. The reference category is 2.

Enterprises characterized by dynamic internal environment encourage the implementation of innovation oriented leading function ( $\rho = .325$ , Sig = .023), whereas those that function in a dynamic external environment encourage the implementation of innovation oriented planning ( $\rho = .307$ , Sig = .032), leading ( $\rho = .308$ , Sig = .032) and controlling ( $\rho = .351$ , Sig = .014) functions. As for managerial roles and intensive changes in the environment, a statistically significant medium strength correlation was prominent among all the groups of managerial roles and changes in internal environment: interpersonal roles ( $\rho = .393$ ; Sig. = .005); informational roles ( $\rho = .405$ ; Sig. = .004); decisional roles ( $\rho = .317$ ; Sig. = .027). Another moderate statistically significant correlation is the one between the implementation of both interpersonal roles

( $\rho = .357$ ; Sig. = .012) and decisional roles ( $\rho = .359$ ; Sig. = .011) with changes in external environment. The last hypothesis H3 was also confirmed.

## 5. Discussion

The aim of this paper is reflected through a theoretical contribution to the relation of the analysis of the impact that innovative management practices have on business performance, and the relationship between dynamic movements of factors in internal and external business setting and implementation of innovated management practices. In order to maximize performance, it is necessary to introduce management innovation (Hervas-Oliver et al., 2016) by transformation of traditional management concepts into contemporary. But till now there is no unique

**Tab. 4: Correlation analysis**

Innovative nature of management functions	Dynamic internal environment	Dynamic external environment
Planning	$\rho$ .114 Sig. .435	<b>.307*</b> .032
Organizing	$\rho$ .123 Sig. .398	.130 .375
Staffing	$\rho$ .243 Sig. .093	.128 .382
Leading	$\rho$ <b>.325*</b> Sig. .023	<b>.308*</b> .032
Controlling	$\rho$ .212 Sig. .144	<b>.351**</b> .014
Interpersonal roles	$\rho$ <b>.393**</b> Sig. .005	<b>.357*</b> .012
Informational roles	$\rho$ <b>.405**</b> Sig. .004	.196 .177
Decisional roles	$\rho$ <b>.317*</b> Sig. .027	<b>.359*</b> .011

Source: own

Note: \*. Correlation is significant at the 0.05 level (2-tailed).  
\*\*. Correlation is significant at the 0.01 level (2-tailed).

measure for the innovation in management because it represents one complex area, which leads to the point that data sets with comparable information on introduction of this type of innovation across organizations are very scarce (Damanpour, 2014).

Some empirical results presented in theoretical background indicate that, at the level of large organizational systems, individual management functions and managerial roles that are innovation oriented represent significant drivers of the enterprise's growth, development and profitability, and that the need for implementation of innovative managerial behaviour is greater in a dynamic business environment and vice versa.

From the viewpoint of impact on the organization's growth and total level of performance, the results of the conducted research indicate that implementation of innovative leadership is necessary above all, as specific characteristics of top managers, when they lead, accept, routinize and assimilate new management practices (Douglas et al., 2016). Therefore, there is a difference in the applied

leadership styles in Western countries that are turned towards process-oriented leadership, while in some Eastern countries task-oriented leadership remains the most predominant (Srivastava, 2016). Especially today in a turbulent business environment, this trend needs to change and that Eastern developing countries should adapt to modern business trends. Some of the modern trends that need to be encouraged are that, organizations tend to operate as networks, and in that model there are no traditional functional areas, but rather sets of various types of initiatives, where leadership is the core of the network (Kotter, 2014). It is also necessary to implement an adequate leadership style that implies the combination of transformational and transactional leadership styles as the way of innovative behaviour that exhibit superior organisational performance (Sethibe & Steyn, 2015). Likewise, Ebrahimi, Moosavi and Chirani (2016) point out that transformational leadership style in the manufacturing companies can improve profitability (p. 357). Such leaders should identify the attractive vision that promotes optimism

and enthusiasm, point to the importance of finding new ways of doing business and encourage the achievement of synergy through collaboration (Vaccaro et al., 2012, p. 34), as well as fostering problem-oriented thinking in all the staff (Moriano et al., 2014). As regards enterprise development, if we observe it as a process of positive systemic changes, which demands a complex integrated management process together with innovative management practice, the prominent factors include almost all innovation oriented functions, and a group of managerial roles, namely, decision making roles (Lin et al., 2016). Therefore, enterprises should implement innovation in the area of management that are difficult to imitate such as innovation oriented management functions and managerial role, where the decisional role is prominent. In order to make creative decisions the crucial role is played by innovation flow and knowledge exchange, that is, intensifying the informational managerial role, leading to innovation in the area of management, which was confirmed in the surveyed organizations on the territories of Spain and Slovenia (Černe et al., 2013).

In view of the fact that external environment and business setting in which organizations operate differ between the countries, it is confirmed that there is a positive correlation between dynamic business environment in which organizations deal with constantly changing economic, technological, political and social context (Glińska-Noweś, Sudolska, Karwacki, & Górka, 2017) and management innovation. This dynamic business environment is characteristic for developing countries, where there is a lack of appropriate infrastructure, poorly developed innovative policy and a very often lack of real knowledge and know-how arising from the weak link between academic institutions and business practice (Ali et al., 2009). Given these large barriers from the macroeconomic angle, organizations in such countries should focus on managers who need to play a key role of the change agent that will encourage employees at all levels to transform the awareness of routine business into innovative-oriented business. For this reason, a large number of less-developed organizations have to adopt innovative management practices in order to contribute to long-term success (Lin et al., 2016). Organizations operating in such an environment must innovate management

practices so that, within the planning function, they define a plan of innovative strategy which should promote innovative results in the form of as many inventions and commercialized new products and services as possible. Within the leading function, managers should direct staff towards new ideas together with rewarding their innovative activities so that changes can be adopted more easily, and turbulence and actions of external players can be responded to as soon as possible. Also, the obtained empirical results of our study indicate that the more dynamic and turbulent the environment, the greater the implementation of innovation oriented interpersonal and decisional roles (Gibbs, 1994, p. 582). It can be concluded that contemporary organizational systems should base their operations on organizational entrainment, which points to the need for functional groups and functional activities to be both internally and externally linked and harmonized. Therefore, the set research framework and methodology for measuring the share of innovative managerial practice along with the empirical results obtained should present a standard framework for this type of research in developing countries that will contribute to the change of the way the management work is performed.

## Conclusions, Practical Implications and Limitations of the Study

Lack of experimental evidence on the effects of innovative management practice on organizational performance was the main motivation to do this research. By elaborating a comprehensive framework, a new view of the innovative management practice is proposed, consisting of innovation oriented management functions and managerial role. To this end, we elaborated and validated a scale that included itemized measures of innovative management practices.

The completed study points to three significant practical implications. First, some of the obtained results are prompted by earlier research into this topic in the area of small and medium sized enterprises in developed countries, whereas other results represent new discoveries for the top management of large business systems, which were often associated with rigidity, low flexibility, and absence of creative and innovative operation. Second, research into this topic in transition

economies is limited, especially on the territory of the Republic of Serbia, because it is the first empirical research into this topic. This should be overcome, in view of the fact that the current subject matter is also of great significance for all developing countries. Third, we highlight the importance of integrating the concept of innovative managerial behaviour, achieved business performance and dynamic environment. As the level of overall performance of the organization is dependent on innovative managerial behaviour, our study serves as managers' guidance about innovative managerial behaviour in a turbulent and dynamic environment. Thus, managers have the aim of forming and implementing new managerial practices that are hard to imitate. This manner of innovation does not require large financial investment, which is essential for enterprises in developing countries that suffer from insufficiently developed market and limited financial resources. It is necessary to promote the development of a new mindset of the manager as an agent of change, who will implement business processes and promote a creatively oriented business culture in an innovative way, which will result in growth, development and higher profitability.

The conducted empirical research has certain limitations, which open new possibilities for future research. Firstly, a scale for measuring innovative management practice has been developed in the study, and further research can enhance the measurement and test its validity. Our measurement scale is very complex and includes various aspects of the innovations in the management from many relevant studies. The research framework could be expanded from the viewpoint of the analyzed sample to other developing countries, so as to obtain a broader picture of the need to innovate managerial activities which is not standardized in these subjects, and often lacks in developing countries. It would be interesting to make a comparative analysis of the innovativeness of managerial activities in organizations on the territory of the Republic of Serbia and countries that are on similar level of economic development, in order to establish possible differences. If the surveyed persons are observed, the survey could also include other staff within future research, so as to consider their opinion and appreciate their attitudes regarding the innovation of managerial activity.

What is especially significant is their attitude to business changes; desired ways of motivating for active participation in the implementation and dissemination of new business practices; expertise and experience-based knowledge and its harmonization with the business changes they should implement. Secondly, from the viewpoint of research subject, future research can take into consideration a broader spectrum of factors from the business environment and their interdependence in a longer time period towards an analysis of the macroeconomic effect of innovating managerial activities and long-term effects.

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Abstract

**IMPORTANCE OF INNOVATIVE MANAGEMENT PRACTICE: SOLUTION FOR CHALLENGES IN BUSINESS ENVIRONMENT AND PERFORMANCE IN LARGE ORGANIZATIONS IN SERBIA**

**Božidar Leković, Maja Strugar Jelača, Slobodan Marić**

*The main research problem in this paper is the determination of the main causes of the existing gap between management practices and demands of business operations. The identified problem is the consequence of complex business circumstances constantly setting new tasks before managers. Managers are forced to abandon the established management practices and the existing business framework so as to enhance or merely maintain the attained level of organizational performance.*

*The main research objective is to establish the degree of impact of innovative management practices on the attained organizational performance. The second segment of the research intention is reflected in the analysis of business environment as the determinants of innovative aspiration within the existing management activities.*

*To this end, research methodology based on binary and multinomial logistic regression and Spearman's rank correlation coefficient were applied. The sample comprises large enterprises on the territory of the Republic of Serbia.*

*The obtained research results pointed to the sequential impact of innovative management activities on organization performance on the one hand and the connection between business environment and innovative management practices on the other.*

*The scientific contribution of the paper is the choice of an insufficiently represented topic and research problem across all dimensions, which can be concluded observing the research results obtained so far. The scientific contribution of the paper is also emphasized by the complexity of defining and measuring the research variables of the set research problem. The fact that all business achievements are determined by the management's abilities additionally points to the importance of the paper.*

**Keywords:** *Innovative management practices, management functions, managerial roles, business performance, dynamic environment.*

**JEL Classification:** *L20, M21, O39, P47.*

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