Chapter 5

Innovative Strategies, Feedbacks, Leaning, and Change

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ABSTRACT

Innovation literature sustains that the environment impacts firms’ behaviors and this leads to changes in the firms’ innovative strategies. Innovative strategies, in turn, impact on firms’ performance, which feedbacks the set of decisions (and possibilities) about the innovative strategy. Although there is a vast empirical literature that support this theory, scarce attention has been paid to the changes in the innovative behavior, resulting from these feedbacks between past and present decisions. This chapter aims to contribute to that gap in the literature by providing a dynamic perspective to the firms’ innovative decisions. Results show that looking at continuities and changes in the firm’s innovative strategy helps to understand how innovation impacts performance. This way, results show that the sources of path creation are a key element behind innovation and more research from that perspective could shed light on the subject.

INTRODUCTION

Innovation literature sustains that the environment impacts firms’ behaviors and this leads to changes in the firms’ innovative strategies (Penrose, 1959). Innovative strategies, in turn, impact on firms’ performance, which feedbacks the set of decisions (and possibilities) about the innovative strategy (Nelson, 1991). Therefore, changes in the strategy are subject to path dependence effects, which narrow the range of options firms have and shape their innovative trajectory (Antonelli, 1997).

Although there is a vast empirical literature that support this theory (e.g. Srholec & Verspagen, 2012), scarce attention has been paid to the changes in the innovative behavior resulting from these feedbacks between past and present decisions. This chapter aims to contribute to that gap in

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the literature by providing a dynamic perspective to the firms’ innovative strategies and how they impact on firms’ performance.

From a theoretical perspective, the relevance of this topic lies on the discussion of how learning and accumulation processes that arise from innovation could alter the innovative strategy. In this respect, the referred literature focuses on the firms’ path-dependence and how they are subject to lock-in effects. This chapter proposes an alternative view to understand how the firm can alter its own trajectory and master its path-creation. From a methodological point of view, novelty lies on the construction of a model to test the relationship between innovation and productivity where firms are allowed to change their strategy. From a practical perspective, this topic is especially important within the context of development environments, where changes in the rules of the game compel the firm to adjust its behavior in order to deal with a new competitive environment. In cases like this, one cannot assume that what the firm did on the past is useful to grow and survive in the future. Therefore, this chapter tends to shed light on the changes that alter the firms’ innovative trajectories and provide evidence regarding the process of path creation.

Empirical work is based on the analysis of 800 Argentinian manufacturing firms for the period 1998-2006 which participated in four rounds of the National Innovation Surveys (INDEC, 2010). The period under analysis covers three distinct environments and most of the economic cycle: the 1998-2001 recession (an 18.3% drop in GDP), a change in the economic model plus a quick recovery between 2002 and 2004 (an 18.6% increase in GDP), and high rates of growth during 2005 and 2006 (an average annual rate of around 8%) (World Bank, 2012). This period also included changes in the main institutions affecting economic behavior: the exchange rate policy changed from a fixed free rate to a variable and controlled one, institutions regulating the market mechanisms shifted from liberal policies to price controls, labor market controls were established and import and export taxes were applied to many products which have had zero rates for over a decade. Therefore, there are good reasons to expect changes in the firms’ strategic behavior.

Results show that a set of continuous innovative firms sustained a high-profile innovation-oriented strategy -while the environment was radically changing-, which allowed them to reach higher productivity gains. Another group also sustained the strategy, but a non-innovative one, which is corresponded with low productivity gains. Between these groups, a set of new innovative firms changed from a non-innovative to a high-profile innovation-oriented strategy and caught up in efforts based on pre-existent high levels of capabilities. In this case, higher productivity gains are also observed right after changing the strategy. Finally, a set of sporadic innovative firms show an erratic behavior associated with isolated investments in innovation which did not impacted productivity. Results show that there is not an average behavior but a dynamic interaction between past and present decisions. The preliminary conclusion from these findings is that continuities and changes in the firms’ strategies are important to understand how innovation impact on performance. In this sense, future research on the sources of path creation could shed light on how and why firms get into a successful innovative path.

The remainder of this chapter is as follows. After this introduction, the literature will be reviewed and discussed (second section). In the third section, model, methodology and data are presented. In the fourth section, the model is applied and results are analyzed. Finally, some conclusions are provided.
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