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WHEN DOES INNOVATION SPEED MATTER (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

WHEN DOES INNOVATION SPEED MATTER

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Principal Topic

Innovation speed is one of the most important decisions which entrepreneurs must make. However, existing literature contains conflicting results on how innovation speed affects firm performance. Past research has found that faster innovation speed reduces development costs, improves product quality, receives faster market feedback, reaps “pioneering” advantages, achieves higher average profit and market share. Other scholars argue that faster innovation speed provides fewer product benefits, costs more, compromises product quality, and increases emphasis on low-profit trivial innovations. In this study we attempt to examine when innovation speed is good and when it is bad for new ventures. The explicit assumption of this research is that the relationship between innovation speed and performance is contingent on the type of market the firm served.

Method

We surveyed 1,000 companies from Dun & Bradstreet’s (D&B) database list of new businesses started in 2007. All the firms are in the following industries: 1) computer game, video games and toys; 2) consumer electronic and electrical equipment, electronic components, and accessories; 3) household appliances; and 4) computer related products and software. A mail survey was used to collect data. The survey was administered following the total design method for survey research (Dillman 1978).

Results and Implications

The result shows that, in general, more rapid innovation speed seems to be associated with better profitability. The relationship between innovation and innovation performance follows an inverted U-shaped function for product in a mature market, whereas in an emerging market, such a relation follows a U-shaped function. In mature markets, too slow or too fast innovation speed may all leads to bad performance. The best performance can only be achieved when the innovation speed reach an optimal point. Furthermore, only at the very highest levels of innovation speed do we start to see a downturn in profitability, which the literature suggests will occur when costs begin to increase beyond the point of diminishing returns. In emergent market, in order to be profitable, the firm should be either extremely slow or be very fast. A “moderate” innovation speed seems to be less profitable than either very fast or very slow innovation speed.

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