

6-13-2015

## INNOVATIVE PATHWAYS THROUGH ADVERSITY FOR NEW VENTURES: THE IMPORTANCE OF SUSTAINING R&D INTENSITY DURING CRISES (SUMMARY)

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### Recommended Citation

Osiyevskyy, Oleksiy; Meyer, Marc H.; and Zargarzadeh, M. Amin (2015) "INNOVATIVE PATHWAYS THROUGH ADVERSITY FOR NEW VENTURES: THE IMPORTANCE OF SUSTAINING R&D INTENSITY DURING CRISES (SUMMARY)," *Frontiers of Entrepreneurship Research*: Vol. 35 : Iss. 11 , Article 17.

Available at: <https://digitalknowledge.babson.edu/fer/vol35/iss11/17>

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≈ SUMMARY ≈

## INNOVATIVE PATHWAYS THROUGH ADVERSITY FOR NEW VENTURES: THE IMPORTANCE OF SUSTAINING R&D INTENSITY DURING CRISES

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### Principal Topic

R&D activity has long been considered an important internal organizational driver of innovation in new ventures, improving their growth and performance. Yet, research has shown that severe adversities in the external environment at the macro level (economy downturns, restrictive credit or lending conditions) can substantively hinder innovative activities of new ventures. This is unfortunate, given that research has shown that only stable investments in R&D allow the firms to develop and sustain capabilities underpinning their competitive advantage. We posit that any disruption in the flow of funds to R&D can have a detrimental effect on knowledge creation and implementation in the form of new commercial outputs from the firm. And this in turn has long-term negative consequences for revenue growth, market position, and also the ability to retain and attract the best people to work in R&D.

In the proposed study we demonstrate that maintaining (or even increasing) the R&D intensity during times of economic crisis can be a bold and highly effective way to weather economic and market adversity.

### Method

The model is tested using a panel data (Kauffman firm survey), scrutinizing the new ventures' behavior in the midst of the 2007-2008 financial crisis and their performance after it, contingent on their change in R&D intensity in 2008. The key *predictor variable* is change in R&D intensity in 2008 comparing to 2007; key *outcomes* are post-crisis growth rate, performance, and likelihood of survival.

### Results and Implications

Obtained results support the proposed theoretical framework: the negative change in R&D intensity during the crisis is associated with significantly lower profitability and growth after the crisis, at the same time having insignificant impact on the chances of surviving after the crisis.

Theoretically, we emphasize the importance of not disrupting the R&D activity of innovative companies, as these actions lead to detrimental consequences for the post-crisis performance. For practitioners, the study shows that – despite conflicting demands on managers' attention and firm scarce resources during crises – R&D activity of new ventures should not suffer. Once R&D is disrupted, the prior accumulated knowledge is, to a large extent, lost, depriving the company of the competitive edge.

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