COUNTERVAILING EFFECTS OF INNOVATION PROACTIVENESS IN SMES (SUMMARY)

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SUMMARY

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Principal Topic

We investigate the role of the entrepreneurial processes within SMEs operating within a well established supply chain operating under high innovation constraints. We specifically analyze the interaction effects between the recognition and evaluation and selection processes for innovations and their impact on firm performance. Our study provides insights into countervailing effects of innovation proactiveness and the rigidity of the innovation evaluation and selection processes.

Alertness is seen as a precondition for opportunity discovery (Gaglio & Katz; Kirzner 1999). Goal-setting theory stresses the need to specify overarching strategic goals to direct idea generation. We propose that these components jointly define innovation proactiveness and that both innovation alertness (H1) as well as innovation goals (H2) support firm performance. While alertness can expected to be more important to understanding the performance of small firms (H3), innovation goals should be more important for the performance of medium sized firms (H4).

The number of innovation ideas generated is related to firm success (Lawson, Samson 2001). But an increase of ideas could also cause an evaluation and selection problem requiring organization: Increased innovation proactiveness may thus lead to more alternative innovation proposals and require a more rigid evaluation&selection process. This may lead to missed or delayed innovation opportunities. The positive effects of innovation proactiveness on firm performance may thus be countervailed by negative effects of process rigidity (H5).

Method

To test our hypotheses we conducted an empirical study of high-tech SMEs operating within a supply chain of a large European corporation. Data were gathered from a questionnaire sent out to 300 companies. The actual sample consists of 100 companies. A structural equation model was estimated. Furthermore, to test for the contextual effect of firm size, we split the sample into the two groups of small and mid-sized companies and performed a multiple group analysis. The overall and the differentiated models achieve acceptable fits.

Results and Implications

The model exhibits a strong explanatory power. The five predictor variables explain a significant portion of the variance of firm performance. All hypotheses proposing direct effects are supported by the data. Innovation proactiveness exhibits two countervailing effects on firm performance: a direct positive effect on firm performance and an indirect negative effect resulting from the negative mediating effect of evaluation&selection rigidity. Firm size appears to be an important moderating variable.

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