DO INNOVATIONS ENHANCE NEW VENTURE PERFORMANCE? EVIDENCE FROM THE KAUFFMAN FIRM SURVEY (SUMMARY)

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SUMMARY

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Principal Topic

The ability of young, new firms to innovate and challenge incumbents with their creative offerings is widely recognized as one of the most important functions of new ventures. Yet existing literature offers contradicting conclusions regarding the performance outcomes of innovative activities in new firms. In this research, we break down both constructs—innovation and performance—to investigate how specific types of innovations affect different types of performance, thus providing important specifications to previously tested models. With regard to the nature of innovations, we consider their patent protection. With regard to the nature of firm performance, we distinguish growth from profitability. In general, we ask: How does innovativeness in new firms affect growth and profitability? And do these effects differ, depending on whether innovativeness is based on protected intellectual property? The knowledge-based view of the firm provides the theoretical framing for this study.

Method

Data come from the Kauffman Firm Survey (KFS), a panel study of new independent businesses founded in 2004 and tracked annually. Because of the addition of relevant innovation-related questions to the survey in 2009, our measures come from this fifth wave of data collection (n=2,408). Our measure for investing in the development of intellectual property captures the increase in a firm’s patent portfolio in 2004-2009. Innovativeness is based on respondents’ answers to two questions that directly ask about the introduction of innovative products or services. Performance is measured with sales growth and return on assets (ROA) (profitability).

Results and Implications

The results show that while innovations introduced by all kinds of new firms have an immediate, positive effect on sales growth, only innovations from firms that have invested in the development of their knowledge base (patented IP) early on lead to profitable growth. While innovations drive growth and profits, protected intellectual property in and of itself (in the absence of innovations) only drives growth and actually negatively impacts profits. These results suggest that rather than one story about the impact of innovation on new firm performance, there are multiple stories to be told.

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