

Chapter 4

Navigating Uncertainty: The Role of Governance in Shaping Corporate Innovation and Investment Amid Policy Uncertainty


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ABSTRACT

This analysis explores the complex relationship between innovation, uncertainty, and governance, demonstrating the impact of different types of uncertainty on corporate innovation and investment strategies. Utilizing a panel dataset comprising 548 publicly listed non-financial companies from 2003 to 2023, this study elucidates the varying impacts of economic policy uncertainty, climate policy uncertainty, and geopolitical uncertainty on corporate decision-making. The results demonstrate that economic policy uncertainty and geo-political uncertainty adversely affects corporate innovation, leading companies to frequently reduce their innovative efforts in times of economic instability. On the other hand, CPU has a positive impact on corporate investment, showcasing how companies adjust their strategies to capitalize on opportunities presented by changes in policy and geopolitical factors. Firms that implement strong governance structures exhibit enhanced resilience and adapt-

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ability, successfully managing uncertainties while promoting strategic investments.

1. INTRODUCTION

The rapid advancement of technology has attracted significant focus from both scholars and practitioners regarding the impact of innovation on the survival of an organisation (Rubera and Kirca, 2012; Rust et al., 2004; Srinivasan et al., 2009; Tellis et al., 2009). In today's economy, innovation serves as the foundation for economic development and significantly influences economic growth (Prifti and Alimehmeti, 2017). Innovation has emerged as a crucial element of corporate strategies that facilitate entry into new markets and enhance current market share. It strives to enhance their credibility in the perspective of consumers to achieve a competitive edge (Al Kurdi et al., 2021). Moreover, innovation equips the organisation with a strategic approach to address challenges, driven by the goal of achieving a lasting competitive edge (Drucker, 1985; Hitt et al., 2001; Kuratko et al., 2005). Currently, many companies are investing significant resources into innovation and development.

The present corporate environment has been marked by increasing uncertainties. In many Asian economies throughout the 1990s and in India from the early 2000s, there has been an alignment between elevated growth rates and increased investment. However, the global financial crisis led to a widespread deceleration in this crucial growth factor: investment. The investment rate in the Indian economy has experienced a decline, dropping from 35% in 2007 to 27% of gross domestic product (GDP) in 2020 (WDI, 2018). The decline in investment has persisted for nearly ten years (Eco-Survey, 2017–2018), with sceptics expressing concerns regarding the possibility of attaining a robust growth pattern in the long run. As a direct consequence of globalisation in client bases, sourcing, manufacturing, and distribution, the contemporary business environment is marked by an increasing degree of uncertainty (Rana and Debata, 2024). Companies face intense competitive pressure due to the increasing expectations of consumers for customisation and superior service. This insistence compels companies to shorten their product life spans, expand their product diversity, and swiftly adapt to technological advancements. In such an environment, uncertainty acts as both obstacles and an opportunity for innovation within the organisation.

In the rapidly changing business environment, uncertainty has grown as a fundamental factor in corporate decision-making (Yu et al., 2021). It impacts companies' strategic choices, their behaviour when taking risks, and their efforts to innovate. Organisations operate within an increasingly complex environment that involves unpredictable economic policies (Guan et al., 2021), evolving climate regulations (Liu et al., 2023), and geopolitical disputes (Phan et al., 2022). The presence of these

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