

Chapter 5

What Makes Companies to be More Innovative and Profitable?

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ABSTRACT

The aims of this chapter are the following. First, we delimitate the innovation and imitation concepts. Secondly, using structural equation modeling method, we empirically test the impact of two dimensions of market and entrepreneurial orientations, respectively, on the decision to be more or less innovative. Thirdly, we relate this decision with the company's performance. Based on a survey of 304 companies, our empirical results support, on one hand, the view that proactivity is the most important determinant of the decision of whether to innovate or imitate. On the other hand, we find that the company's performance is not conditioned by the decision of innovating or imitating, but is rather determined by the company's proactivity and focus on customers.

INTRODUCTION

This chapter covers a review of the literature about the definition of “innovation” and “imitation” and some of their antecedents and performance consequences. In this sense, it is interesting to highlight that there is a wealth of studies that claim to demonstrate the positive effect of innovations on company's competitiveness. However, the management literature has forgotten that imitation is

an organizational behavior that can also generate sustainable competitive advantages and, apart from very recent exceptions (Lieberman and Asaba, 2006; Zhou, 2006), imitation has only been analyzed from the point of view of a company that wishes to avoid being imitated (Barney, 1991) or of a company that may wish to encourage others to imitate it (McEvily et al., 2000). This situation, together with the lack of consensus on the conceptual delimitation of the terms “innovation” and “imitation”, has led us to raise several research questions, such as: What are the differences between innovating and imitating?

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What factors determinate the firm's decision towards imitating or innovating? With the answers to these questions we contribute to the literature giving a clear conceptualization for the terms innovation and imitation. Our second contribution is empirically demonstrating that the different dispositions toward proactivity, risk taking, customers focus and competitors focus have a great impact on the decision to innovate or to imitate; and on the firms' performance. This analysis is conducted using environment dynamism, sophistication and firm size as control variables.

Build on the Resources Based View and the Contingency Theory, obtaining answers to these questions is the aim of this chapter.

In so doing, we make the following contributions to the literature. First, previous studies that have used models aimed at explaining variance in innovation have confounded imitation and innovation. That is, they have collectively estimated the extent to which firms innovate and imitate. For example, a common approach is to explain variance in new product releases, without considering that new products can be the result of innovation or imitation (Damanpour, 1991; Damanpour and Wischnevsky, 2006; Knight, 1967; Li and Atuahene-Gima, 2001). Instead, we explicitly address whether new market offers are the results of innovation or imitation and what drives this behavior.

Second, although the insight that firms can emphasize innovation or imitation is not new, we address it from a new vantage point. Previous research on innovation and imitation has only examined if one or the other is more profitable (Adner and Zemsky, 2006; Hodgson and Knudsen, 2006; Lieberman and Asaba, 2006; Lieberman and Montgomery, 1988; Lieberman and Montgomery, 1998; Pepall, 1997; Pérez-Luño et al., 2007; Trott and Hoecht, 2007; VanderWerf and Mahon, 1997; Zhou, 2006), and how companies avoid or encourage imitation (Barney, 1991; Conner, 1995; Kogut and Zander, 1993; MacMillan et al., 1985; Mansfield et al., 1981; Massa and Testa, 2004; McEvily et al., 2000; Rivkin, 2001).

In contrast, our study builds on the notion that firms can combine imitation and innovation and that the choice between the two is a matter of degree rather than a binary choice between two pure types of firms (innovators and imitators). We therefore explore the internal conditions that entice firms to emphasize imitation over innovation or vice versa and how this proclivity leads to a higher or lower performance.

The paper proceeds as follows. Firstly, after a bibliographic review of different conceptualizations utilized for the term innovation, we delimit the concepts of innovation and imitation. Secondly, we identify the factors that influence the firms' decision to innovate or to imitate. Thirdly, we empirically test how proactivity, risk taking, customers focus and competitors focus (dimensions usually analyzed as components of entrepreneurial and market orientation, respectively) influence the firm's to imitate or to innovate. Fourthly, we empirically analyze how this decision mediates the relation between these four factors and the company's performance.

DELIMITATION OF THE TERMS INNOVATION AND IMITATION

The review of the literature demonstrates that the results in the field of innovation have been inconclusive, inconsistent and characterized by limited explanatory power (Zmud, 1982; Wolfe, 1994; Becheikh et al., 2005; Damanpour and Wischnevsky, 2006). One possible explanation for the lack of similarity in the conclusions of researchers is the diverse range concepts, contexts, characteristics, types, stages, etc. used by different authors to study innovation. As a consequence, the current state of the organizational innovation literature offers little guidance to those interested in this concept (Wolfe, 1994; Damanpour and Wischnevsky, 2006).

Because of the different value judgments attached to the term, there are many problems

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