

**Firm Level Innovativeness: Antecedents and Consequences**

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**ABSTRACT**

*The study proposes a conceptual model, identifying the antecedents and consequences of innovativeness. Study suggests firm level conceptualization of innovativeness and proposes product and process innovation as key dimensions of firm level innovativeness. The conceptual model purposes a positive effect of firm level innovativeness on competitiveness and performance of an organization. Study assumes the moderating effect of organizational culture on the degree of firm level innovativeness. Study provides a rich agenda for future researchers to ponder upon.*

**Keywords:** Innovativeness, Product Innovation, Process Innovation, Organizational Effectiveness, Business Performance.

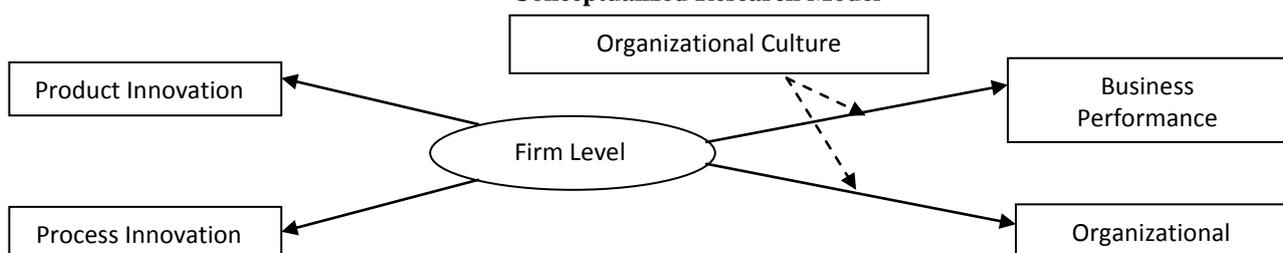
**1. Introduction**

In the present era of globalization and technological advancement, *innovation* has emerged as a major tool for the survival and success of an organization (Damanpour, 1991; Vij & Bedi, 2016). It has been seen that the organizations that have done the best over the long haul are those who are the most innovative and creative. Organization’s who originated a unique application, product, or service tends to distance themselves from others and become market leader (Covin & Miles, 2006; Popadiuk & Choo, 2007).

The importance of innovativeness has been widely recognized (Agars, Kaufman, & Locke, 2008; Anderson, De Dreu & Nijstad, 2004; Damanpour, 1991; West, 2002) but the complexities and dynamism of twenty first century has put innovativeness as top agenda for any board meeting. However, it has been generally seen that most of the innovations have taken place in developed economies and very few come from developing countries (McCloskey, 2010).

The institutional environment of India is undergoing a large-scale transition. Indian government as well as intelligentsia are stressing on the need for promoting entrepreneurship and innovation, as a solutions to the Indian problem of unemployment and economic growth. There is a need to know the factors which determine the extent of innovativeness of an organization. It is pertinent to explore the outcomes of firm level innovativeness so that budding entrepreneurs could better decide the strategic posture of their firm. The study is an endeavor to fill this gap by proposing a conceptual model of firm level innovativeness for future researchers to ponder upon.

**Figure 1**  
**Conceptualized Research Model**



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## **2. Theoretical Framework**

Innovativeness is the tendency of a firm to involve in and support the culture of experimenting, creativity and novelty (Burns & Stalker, 1961; Damanpour, 1991; Heunks, 1998; Khandwalla, 1987; Kreiser & Davis, 2010; Miller & Frises, 1982; Vij & Bedi, 2012). It reflects the willingness of an organization to adopt new ideas and new methods in day to day operations (Cornelia, 1996; Drucker, 1985; Hughes & Morgan, 2007; Krauss, Frese, Friedrich & Unger, 2005; Lumpkin & Dess, 1996; Swierczek & Ha, 2003). It reflects the eagerness of an organization to find new opportunities and novel solutions by seeking extraordinary or strange solutions to problems and needs (Vij & Bedi, 2012). According to Knight (1997), “innovativeness is the pursuit of creative or novel solutions to challenges confronting the firm, including the development or enhancement of products and services, as well as administrative techniques and technologies for performing various organizational functions in effective and efficient manner”. Innovation transforms ideas or concepts into commercial value for the benefit of the enterprise and the customer (Drucker, 1985; Gaynor, 2002). It is not just the invention of a new product or service, that is important, but actually bringing these new inventions into market in a way that add value or improve quality (Brockman & Morgan, 2003; Burgelman & Sayles 1986; Kanter, 1985; Kim & Mauborgne, 1997; Liberman & Montgomery, 1988; Rosenbusch, Brinckmann & Bausch, 2010). Innovativeness entails three different points: i Being willing to depart from current processes, technologies, existing systems and techniques; ii Nurturing the culture of experimentation to generate new products, services, and technologies; iii Attaining, developing, and deploying new technologies to add new value or enhance present value in existing product or service.

Innovativeness involves the continuous efforts of a firm to explore novel ideas with regard to administrative systems, technological processes, and organizational procedures (Hult, Hurley & Knight, 2004; Karagozoglu & Brown, 1988; Quinn, 1985). Covin and Slevin (1989) have defined innovativeness as “the extensiveness and frequency of product innovation and the related tendency towards technological leadership”. According to OECD (2005), “innovation is the implementation of a new or significantly improved product (good or service), or process, or a new marketing method, or a new organizational method in business practices, workplace organization or external relations”. Myers and Marquis (1969) have defined innovation as “a complex activity which proceeds from the conceptualisation of a new idea to a solution of the problem and then to the actual utilisation of economic or social value”.

### **a. Innovativeness: A Firm Level Construct**

The innovativeness construct could be studied at different levels from different perspectives. At individual level, innovativeness reflect the creativity of an individual and generally been derived by the personality, motivation and cognition ability of an individual (Zennouche, Zhang & Wang, 2014). At Group level, innovativeness reflects the involvement of a team in idea generation, promotion, implementation and realization (Ramamoorthy, Flood, Slattery & Sardesai, 2005; Scott & Bruce, 1994). At firm level, innovativeness represents those aspects of a firm’s strategic posture- which reflect firm’s readiness and capacity to question and abandon - existing or given environments, and to create room for creativity and experimentation. The objective is to think differently, which could manifest itself in advancement in existing processes, launch of new products, and exploration of new markets. In context of business management, it becomes more practical and practicable to see the impact of firm level innovativeness on the success of an organization. Individual behaviour is difficult to predict and hard to change, whereas firm behaviour can be easily adjusted by

changing the policies and strategies of an organization (Kilmann & Covin, 1988; Bygrave & Hofer, 1991; Stevenson & Jarillo, 1990). Hence study purposes that

Proposition 1: *In context of business management, innovativeness should be considered as a firm level construct.*

### **b. Product and Process Innovation**

Innovation is an organization wide factor. Innovation occurs in management methods, organizational practices as well as in technological domains. Darnanpour, 1987 have categorized innovation into technical and administrative innovation. According to Darnanpour (1987), “A technical innovation can be the implementation of an idea for a new product or a new service, or the introduction of new elements in an organization’s production or service operations . . . administrative innovations are defined as those that occur in the social system of an organization . . . the implementation of a new way to recruit personnel, allocate resources and structure tasks, authority and rewards. It comprises innovations in organizational structure and in the management of people.”

Innovation could take place in several forms, from a simple tryout with a new advertising campaign to adoption of the latest technological strategies (Lumpkin & Dess, 1996). According to Gaglio and Katz (2001), innovation can be divided into five categories i.e. imitative, incremental, evolutionary, radical and discontinuous; where imitative innovation reflect the ability of a firm to the replicate the successful business practices of other organizations. The discontinuous innovation highlights the capacity of a firm to introduce a product or a practice, which is somewhat novel to industry, person and organization as well as to the world. According to Wangxiang (2001), innovativeness could be achieved by integrating various organizational capabilities such as: R&D capabilities, process innovation capabilities, manufacturing capabilities, innovation investment capabilities, technological capabilities, and management capabilities.

Product and process innovation have often been considered as the key dimensions of firm level innovativeness (e.g. Edmondson & Nembhard, 2009; Rosenbusch *et al.*, 2010; Utterback & Abernathy, 1975; Winterton, 1997). Product innovation reflects the ability of a firm in creating and subsequently introducing new goods or services or proving better version of previously available services or goods. It includes issues like: assessment of the need of customer, translation of customer’s need into new or improvised product and service; testing of new product and its commercialization (Feldman & Florida, 1994). The emphasis of product innovation is to fulfill the unmet needs of the customers through the introduction of new or improved product. Process innovations focus on the application of novel or considerably improved production or delivery method, affecting all sides of economic production and society. The emphasis of process innovation is on improving and redefining the process through which a work is to be done (Baer & Frese, 2006). Process innovation is normally undertaken to enhance the quality of product or to decrease the cost of product (Crossan & Apaydin, 2010). The association between product and process innovation is related with *what* and *how* of innovation. Processes innovation focuses on *how things are to be done*, where as product innovation emphasizes *what is to be done*. Product innovation is generally radical in nature, whereas process innovation is normally incremental.

Based upon above arguments, study proposes that

Proposition 2: *Product innovation and Process innovations are the key dimensions of firm level innovativeness.*

### **c. Innovativeness and Organizational Culture**

Organizational Culture often considered as a significant determinant of the firm level innovativeness (Ahmed, 1998; Gaynor, 2002; Hitt, Ireland, Sirmon & Trahms, 2011; Kenny & Reedy, 2006; Martins & Terblanche, 2003; McDermott & Sexton, 1998; Zairi & Al-Mashari, 2005). McGrath (1999) points out that innovativeness flourishes in a culture, where human resource policy and reward systems embrace success while not personalizing failure. According to Poskiene (2006), organization culture – generally reflected through the complex set of traditions, ideologies, commitments, and value system of an organization, has a direct bearing on the degree of innovativeness demonstrated by an organization. It is not the key individuals, who impact the degree of organizational innovativeness; rather it is the culture and value system of an organization which affects the behavior of organizational members while introducing newness and novelty (Jassawalla & Sashittal, 2002). Innovations took place when the top management of a firm encourages experimentations and novelty even in the situations where the benefits from these actions are unclear (Miller and Friesen, 1982). Organizations looking to be truly innovative have to focus upon mutual trust, individual achievement, exchange of information, and so forth. Such initiatives, at times, involve management restructuring and technological transformation (Damanpour, 1991; Edmondson & Nembhard, 2009; McDermott & O'Connor, 2002; Van de Ven, 1986).

The extent of firm level innovativeness is significantly impacted by the culture of an organization. Organic culture is based upon the belief that organizations are having: open channels of communication - with free flowing of information across different layers of management, participative style of decision making - with a culture of openness and trust, lower vertical differentiation and more of flat and horizontal integrations - with informal and bidirectional communication, lesser formalization and higher integration - by emphasizing knowledge specialization rather focusing operative specialization. All these characteristics of organic culture equip organizational members with strategic autonomy and create an ideal environment for innovation. Freedom of selection of means and goals, not only enhances the morale of employees but it also brings positive energy in work environment and strengthens the current capabilities of an organization.

Innovativeness required to be seen as a process rather than a characteristic *per se*. According to West and Altink (1996), “organizations with flat structures and high levels of communication between departments and functions are likely to be more innovative than traditional hierarchical organizations”. An organic form of organization allows a firm to exhibit a rapid response to environmental change. Hence, study purposes:

Proposition 3: *Organizational culture has a direct bearing on firm level innovativeness.*

Proposition 4: *Innovativeness flourishes in organic organizational culture.*

### **d. Innovativeness and Organizational Competitiveness**

Innovativeness equips entrepreneur's with capabilities to introduce product or service which differs significantly from others (Schumpeter, 1934). Without innovation, new business practices will not come into existence (Drucker, 1985). The competitive entry of new services and new products not only enhances the competitiveness of a firm but also serves the purpose of advancement of society by replacement of present market circumstances with new ones. Zahra (1993) stated that the hallmark of an entrepreneurial organization is its competence to create new services and products, especially well before their competitors. Entrepreneurs and their start-ups are considered as vital agents of innovation (Rosenbusch *et al.*, 2010; Watson, Kumar & Michaelsen, 1993). They are not only introducing innovative products and services, but also upgrade the existing technological

processes, which increases the human welfare (Antoncic & Hsrich, 2003; Mintzberg, 1979; Wangxiang, 2001; Winterton, 1997).

The focus of innovation is not limited to improvement or development of novel products and services but also on enhancing the effectiveness of various organizational functions such as distribution, sales, production and marketing etc. Today, it is observed that many organizations gain competitive advantage by manufacturing even ordinary and standard products by extremely innovative processes (Quinn 1985; Stevenson, 1998; Wolfe, 1994). The use of advanced technology, not only accelerates the pace of product and service introduction to the marketplace but also strengthens an organization's competitiveness by hindering or deterring other competitors' willingness to introduce a new product or technology, penetrate the market, or attract customers by blocking the move or making it costly (Cornelia, 1996; Downs & Mohr, 1976; Edmondson & Nembhard, 2009; Gimenez; 2000; Wangxiang, 2001). The process of innovativeness makes a firm adaptable to market burdens and improves its internal competencies (Rosenbusch *et al.*, 2010). Hence, study assumes that

Proposition 5: *Firm level innovativeness has a positive effect on the competitiveness of a firm.*

#### **e. Innovativeness and Business Performance**

Innovation is a key driver of organizational success (Edmondson & Nembhard, 2009; Hultink & Atuahene-Gima, 2000; Heunks, 1998). Innovation revises the firm's knowledge base; permit it to produce products, processes, and systems, which provide an edge to the organization over its rivals (Bhuian, Menguc & Bell, 2005; Hitt, Biermant, Shimizu & Kochhar, 2001; Winterton, 1997). Introduction of new products and services helps an organization in exploring new markets, realigning its offerings with the changing market conditions, and creating unique brand image for the products and services of the organization (Kotler, 1994; Zahra, 1996). Invent of new technology and techniques speed up the product and service introduction to the marketplace. The process of innovation makes a firm flexible and adaptable to the new environmental challenges and improves its internal capabilities (Bulgerman & Sayles, 1986; Hisrich & Peters, 1998; Hult *et al.*, 2004). Innovativeness equips a firm with the capabilities to rapidly enter into new markets that might signify a better strategic fit for their innovation-based competencies and are more attuned to present and emerging market needs (Morris & Paul, 1987).

Innovation is a way to enhance and expand business by implementation of novel and creative ideas in process improvement, product development and technology up-gradation (Bhuian *et al.*, 2005; McDermott & O'Connor, 2002; Morris & Paul, 1987; Schafer, 1990; Wangxiang, 2001). According to Naman and Slevin (1993), innovativeness aids an organization in recognizing and managing with various environmental challenges. According to them, "innovation generates products, processes, services, and systems that can be used to meet customer needs and helps a firm in improving its profitability and fuelling its growth". Zahra (1996) pointed out the importance of innovative strategic posture for firm survival, by arguing that "success in today's competitive environment requires a company to pursue a coherent technology strategy to articulate its plans to develop, acquire, and deploy technological resources to achieve superior financial performance". Innovativeness helps a firm in recognizing and coping up with various environmental challenges (Miller & Friesen, 1982). Adoption and deployment of innovative practices can generate competitive advantages and provide a major source of firm growth (Covin & Slevin, 1989). According to Zahra (1993), innovation helps an entrepreneurial firm in improving its profitability, fuelling its growth and meeting the needs of its consumers through new products, processes, services, and technologies. Innovativeness protects and expands the market share of a firm (Bhaskaran,

2006; Kotler 1994) through developing solutions either for new or already existing market needs ahead of competitors (Quinn 1992; Zahar, 1996). According to Bradmore (1996), “innovation assists entrepreneurial firm in taking quick advantage of scientific or technological discoveries, commercializing them in ways that translate the new discoveries into added-value goods and services for their customers”. Hence the study purposes

Proposition 6: *Firm level innovativeness has a positive impact on business performance.*

### **3. Conclusion**

The foregoing discussion offers several insights and prepositions regarding the antecedents and consequences of firm level innovativeness. Specifically, study identifies *product* and *process innovation* as antecedents of firm level innovativeness. Study suggests the positive impact of firm level innovativeness on competitiveness and performance of an organization. Study also suggests the moderation role of organization culture on the degree of innovativeness. The proposed model and prepositions emerging from it provides a rich agenda for future research. Managers of business organizations can draw meaningful insight from the study and could better decide the degree of innovativeness for their business operations.

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