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EXPLORING THE INNOVATION CAPABILITY AND ENTREPRENEURIAL
ORIENTATION RELATIONSHIP: A CASE APPROACH

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Introduction

This exploratory research builds upon prior entrepreneurship research by investigating the relationships between firm innovation capability (IC) and the entrepreneurial orientation of the firm (EO).

EO describes the organisational processes, methods, practices, and decision-making approaches that lead to new entry. IC is the ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm and its stakeholders. IC has also been described as a special asset of a firm that gives it the ability to quickly and successfully adopt new processes and methods and develop and introduce new and improved products to compete more effectively in a rapidly changing environment.

Prior research has examined EO and IC independently but has not examined to what degree the two constructs are related and to what extent they *collectively* contribute to firm performance. Evidence indicates that each construct is positively related to firm innovation performance as well as to firm overall performance. As part of a larger research program, this study deconstructs the underlying EO and IC dimensions to identify relationships between these dimensions with the aim of identifying the independence of these two constructs.

The research is important since more entrepreneurial and innovative firms are needed. In the current organisational climate, firms are facing rapidly changing and uncertain operating environments. Increasing rates of globalization and technology change has brought increased competition and has made it harder for businesses to develop and maintain competitive advantage. A number of researchers have addressed the implications of these external forces and have identified entrepreneurship and innovation as a necessary basis for competition and as the key driver for survival and sustainable growth. In particular, innovation has been found to be a requirement for manufacturing enterprises to survive and grow, and EO has been found to be an essential feature of high performing businesses.

The research makes a contribution at two levels. It extends the literature by developing a more holistic EO and IC theory. At an applied level, the research provides insights into the development of training and skills development programs to help firms build their capabilities to support innovation and entrepreneurial activities.

Methodology

Research Design: This exploratory research is the first (qualitative) stage of a larger (more quantitative) research project that investigates the EO, IC and firm performance relationships. The research design involves a case study since underlying interrelationships needed to be examined

that are not readily accessible via quantitative methods. For example, the EO construct includes an “innovativeness” dimension. This raises the question as to whether the EO and IC constructs are separate and distinct; that is, whether IC is a construct in its own right or whether IC is really a subset of EO.

The Case: A metal manufacturing company with approximately 40 employees was recruited as the site for this exploratory case study. A training course was devised to explain the concept of innovation capability and entrepreneurial orientation. The course was constructed around a software diagnostic that was designed to be used by company managers as a training tool. The course was delivered in-house, and each person separately completed the software diagnostic during the session. The results for the group were averaged and each person was provided with a printed chart of their results together with the average for the whole group. These results provided the basis for discussion. Following the training course, all participants were provided with a more detailed diagnostic that each separately completed in the week following the training course. The results from this exercise provided the basis for the qualitative review of data that forms the basis for this paper.

Participants: The functional managers of the company as well as technical specialists attended the training course. The sample consisted of these eight individuals.

Measures: Because innovation itself is a complex activity, IC has many dimensions or components, and draws on a wide range of assets, resources, and abilities. Different theoretical bases have been used to develop measures for innovation capability. These have included technical product innovation, open systems theories, and the resource-based view of the firm. This study used a validated measure of innovation capability that is drawn from the resource-based view, and includes the following seven dimensions: learning, research and development, resource management, manufacturing, marketing, organization and strategy. Each dimension is comprised of several items.

The research also uses validated EO measures that include competitor aggressiveness, innovativeness, risk taking, and proactiveness. Each measure is comprised of several items.

Results and Implications

The small sample size precludes a rigorous statistical analysis. However, a preliminary analysis of the apparent differences between the means for the dimensions of the constructs indicates that IC is a separate construct distinct from the EO ‘innovativeness’ dimension. It also suggests that IC provides a greater richness of data than the EO innovation dimension alone.

The next (quantitative) stage of this research project will explore in detail the relative contributions of EO and IC to firm performance.

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