

RELATIONSHIPS BETWEEN ENVIRONMENTAL PRESSURES, FIRMS' ACTIONS, AND INNOVATION PERFORMANCE

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ABSTRACT

We investigate the relationships between regulatory and competitive market pressures, firms' actions, and innovation performance in firms. Based on a survey of 217 managers from business organizations we find that regulatory pressure has a positive relationship with both absorptive capacity and information sharing. Competitive pressure, on the other hand, only has a negative relationship with information sharing, but not with absorptive capacity. Absorptive capacity has a positive relationship with innovation performance, while information sharing, surprisingly, does not have a positive relationship with innovation performance.

Keywords: External pressures, absorptive capacity, information sharing, innovation performance.

INTRODUCTION

External environmental pressures, including regulatory and competitive market forces drive organizations to adopt and implement various strategies. For example, firms face market-related pressures such as changing technological, demand, and competitive forces, as well as regulatory pressures such as political, social, and legislative pressures [5]. In response, and according to the contingency theory, firms need to strategize accordingly [3] to improve performance. While previous research has linked regulatory and competitive pressures with firm performance, little is known about the intervening factors in these relationships [6]. Specifically, we are interested in how firms strategize in response to environmental pressures to improve their innovation performance. We conceptualize that firms need to implement internal and external strategies – i.e., develop absorptive capacity (AC) and engage in information sharing (IS) with partners to respond to environmental pressures while simultaneously improving their innovation performance. Thus, the primary objective of the study was to investigate the relationships between environmental pressures, with AC and IS on one hand, and investigate how AC and IS are linked to innovation performance on the other.

METHODS

We employed a cross-sectional survey of managers of firms predominantly in the manufacturing, service, and oil and gas sectors in a developing country - Nigeria. We obtained 217 usable responses of the 375 questionnaires administered. The measures for the key constructs were obtained from previous studies. For regulatory and competitive forces, we obtained the measures from [1]; for absorptive capacity, we adapted measures based on [7]. For information sharing, [2] was the source of the measures while we obtained innovation performance measures from [4]. In terms of the analytical strategy, we apply structural equation modelling (SEM) to test the study hypotheses.

FINDINGS, DISCUSSION AND CONCLUSION

Our findings suggest that regulatory pressures are positively linked with AC and IS, while AC is positively related to innovation performance. The link between regulatory pressures and IS suggests that firms tend to band together and share more information with their supply chain partners in the face of governmental regulations probably because they see the government as a common enemy; in a developing country context where this study was undertaken, governments play a big role in market economy and are sometimes seen as competitors by firms. The link between regulatory pressures, AC and innovation performance suggests that not only does governmental actions trigger firms to develop the capacity to tap, assimilate and integrate knowledge, such capacity results in an improvement in innovation performance. In fact, this result suggests that AC mediates the relationship between regulatory pressure and innovation performance, thus contributing to the literature. However, IS does not mediate the relationship between regulatory pressures and innovation performance. We find that contrary to our prediction, competitive pressures are not related to AC but are negatively related to IS. This is an interesting finding which suggests that when firms face increasing pressures from their competitors, they are less likely to share information with their supply chain partners. This could be because of the context in which this study is carried out – Nigeria (a developing country context). In such contexts, fear of knowledge spillover is high. Thus, rather than firms competing as a supply chain entity by collaborating and sharing more information with their supply chain partners, they do the opposite. Finally, both AC and IS do not mediate the links between competitive pressure and innovation performance.

In general, the study emphasizes the key role of AC in improving innovation performance particularly in the face of regulatory pressures. There is a need for managers to develop AC through training and development, encouraging innovative endeavors, and building flexible structures and processes that enable assimilation and integration of knowledge. It is not sufficient to build internal mechanisms to respond to regulatory forces. Another implication is the importance of sharing relevant information with supply chain partners when firms are faced with regulatory pressures.

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