How firms can overcome market-based innovation barriers

How do firms overcome market-based innovation barriers and improve their innovations' performance? Until now, research took either a 'mindset' or an 'action' perspective. ***Sebastian Szambelan, Jiang Dragon Yi,*** *and* ***René Mauer*** *investigate how both mindsets and actions can help firms overcome innovation barriers.*

The received wisdom from the growing body of literature that addresses innovation performance has highlighted that innovation is closely associated with firms' competitive advantages and financial performance. Yet achieving innovation is particularly difficult for established firms because they may face market-based barriers, defined as barriers related to the external market environment the firms are confronted with. Examples of such barriers are competitive rivalry on price, technology, product quality, reputation, or brand, as well as missing market demand. Market-based barriers can be perceived as the given characteristics of a market environment to which organizations must adapt.

However, in a dynamic market many companies have difficulties in overcoming these barriers. In 2018, KPMG and Innovation Leader (a corporate innovation website), surveyed 270 corporate leaders in strategy, innovation, and research & development roles. In the survey, the inability to act on signals crucial to the future of the business was cited as one of the most important obstacles to innovation (42% of respondents).

"We asked about two related barriers in our survey: how well does your company 'pick up' on signals of change, and how well does it act on them? Only 18% of respondents said that their companies had trouble with the former — so at most companies, there's awareness of disruptive start-ups entering their sector, or changing customer purchase behaviours. The problem is acting on those signals," writes Innovation Leader co-founder and CEO Scott Kirsner in Harvard Business Review. "Too many companies wait for the annual strategic off-site to roll around before they address the changing dynamics of their market."

In fact, we know relatively little about how organisations can overcome market-based barriers. Recent research on the topic can be organised from two perspectives: the mindset-based view, represented by an organisation's culture and underlying values; and the action-based view, represented by certain actions taken to build leadership, management processes, or human capital. However, little research has systematically investigated how both mindsets and actions can help firms overcome these innovation barriers. A deeper understanding of this subject could provide new insights into our knowledge of how firms can achieve this, an idea that catalysed our thinking and helped us approach the innovation phenomenon in a novel way.

To tackle this research question empirically, we relied on a quantitative research design using survey data from 157 established organisations in Germany. Conceptually, we borrowed the "effectuation orientation" construct from the entrepreneurship literature. Effectuation orientation (EO) is defined as a strategic orientation that reflects a firm's direction toward proactively shaping and designing the external environment, and creating new markets. The dimensions of this construct fall into two categories: (1) firms' mindsets, represented by effectual control orientation (ECO); (2) firms' actions, represented by four effectual action orientation (EAO) dimensions (affordable loss orientation, contingency orientation, means orientation, and partnership orientation).

The results from our analyses show that effectuation orientation is highly relevant for studying how firms overcome market-based innovation barriers. Our study further emphasises variations in how effectual actions are related to perceived market-based innovation barriers, which in turn influence innovation performance. Specifically, it discusses effectual control orientation as a firm's underlying effectual mindset, which triggers the remaining action-based effectuation orientation dimensions. The findings thereby offer insights into the effectuation and innovation literature, and they hold several promising implications for practitioners:

First, the study interprets market-based innovation barriers as socially constructed perceptions. Having such a conceptualisation in mind instead of seeing innovation barriers as given and uncontrollable obstacles, which might prevent potential innovation activities from being pursued, it shows practitioners that they might be able to reduce and overcome certain innovation barriers.

Second, effectual control orientation is introduced as a novel firm-level orientation driven by a mindset towards controlling the environment and co-creating its future. Building on this ECO, the implementation of the effectual action orientation dimensions shows promising effects on the perceived market-based innovation barriers. Focusing on given means rather than inaccessible means or unavailable forecasts could yield more realistic solution spaces.

When looking at the characteristics underlying effectual means orientation, firms could focus more on initiatives for which they have the relevant capabilities or the greatest motivation. This would at the same time help them to leverage existing knowledge and expertise in the best possible way.

Furthermore, an openness to contingencies and their association with opportunities helps in perceiving the market more positively and thus in reducing perceived market-based innovation barriers. Specifically, this effectual dimension suggests that firms establish a firm mindset that allows them to perceive new information or setbacks as opportunities. They could then exploit contingencies effectively.

Additionally, as other publications have already shown, affordable loss orientation and partnership orientation are still worth pursuing. However, practitioners should be more aware of their possible consequences on perceived market-based innovation barriers. If these barriers are perceived as higher than before, managers might understand where such an increase originates from and could act accordingly.

Ultimately, this study shows that lowered perceived market-based innovation barriers are positively associated with a firm's innovation performance. This highlights the importance of understanding the perceived levels of innovation barriers, what they originate from, and how they can be overcome.

♣♣♣

Notes:

- *This blog post is based on Breaking through innovation barriers: Linking effectuation orientation to innovation performance, European Management Journal.*
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
- *Featured image by Brodie Vissers from Burst*
- *When you leave a comment, you're agreeing to our Comment Policy.*