02 - Building and growing regional innovation ecosystems through industrial specialization and collaborations

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INSTITUTIONAL ENVIRONMENT AND INNOVATION IN STARTUPS: THE MODERATING ROLE OF BUSINESS INCUBATORS

Academic paper

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Abstract text:
Purpose

Institutions, which set the rules of the game, have the ability to delimit companies' agency field, regardless of their size. However, small firms are commonly more vulnerable to external influences because their competitive advantages tend to be less sustainable than large companies' advantages, in case of an environmental change (Urban, 2016). This also shapes innovation in these firms. Although the institutional perspective has been widely used in research on entrepreneurship (Bruton et al., 2010), few articles on innovation use the institutional environment as a basis (Turró et al., 2014). With this in mind, this study seeks to analyze the influence of the institutional environment on innovation in startup companies, and understand the moderating role that business incubators play in this relationship.

Originality and value

Much of the research carried out on this subject rests on cases (Manolova et al., 2008) or mainly focuses on the formal regulatory environment (Djankov et al., 2002). However, the regulatory aspect is only one within the complex institutional environment, with at least two other equally important - the normative and the cognitive aspects -, which also reflect characteristics of the institutional environment and need attention from researchers. Therefore, in this study, we analyze the regulatory, normative, and cognitive variables, as part of the institutional environment, and their associations with different types of innovation – of product, process, value, management and business model -, present in startup companies. The use of these variables allows the analysis of an original model, which amplifies the nature of the relationships and adds value to knowledge field, as it enables understanding the individual relationships between the institutional environment variables and the several types of innovation. To include the analysis of the moderating role of business incubators on this relationship also contributes to the originality of the study, which leads to insights regarding the performance of these organizations for stimulating innovation in incubated companies.

Design and methodology

The study comprised a quantitative survey, through the application of self-answering questionnaires to 205 incubated and 194 non-incubated startups, of which 118 and 186 firms, respectively, returned their responses. In the end, 94 incubated and 116 non-incubated companies showed valid responses and composed the research sample. For data analysis, we used Structural Equation Modeling techniques to test the hypotheses derived from the research model, and the Measurement Invariance Test and Multigroup Analysis to check the moderation hypotheses. To do that, we used SPSS and SmartPLS softwares.

Results and findings

The results indicate significant relationships between the institutional environment and the innovations practiced in startups; however, they vary depending on the environment component considered, and the type of innovation. The regulatory component of the institutional environment showed a significant association with management innovation, but with an inverse relationship; that is, companies operating in environments with an unfavorable regulatory aspect tend to innovate more in management, to overcome the adversities imposed by that environment. The normative component, in turn, had significant positive relationships with process, product and value innovations, which shows the importance that standards and attributes defined by the market assume in the innovation process of these companies. Yet, the cognitive component showed positive and significant relationships only with management innovation. When considering the moderating effect, whether or not the company belongs to a business incubator, we identified that incubators moderate only the relationship between the regulatory environment and management innovation; however, the nature of this relationship shows that non-incubated companies innovate more in management than incubated ones. This result strengthens the findings that unfavorable regulatory components tend to foster management innovations as a way of circumventing the effects of this adversity. The results also showed that incubated firms, despite innovating less in management, perceive the regulatory component of the institutional environment as more favorable, compared to those not incubated.

Limitations and implications

Study results bring important implications for theory and practice. From a theoretical standpoint, they represent an expansion of literature findings, showing the relationships between each type of environment's component and each type of innovation, individually. In addition, there are practical implications: first for startups, which can learn, prepare, and take better advantage of the environment where they operate, inside incubators, especially the normative environment; second, for policy makers, who can extend their performance beyond the regulatory component; and third, for the incubators, which can improve their role and support mechanisms for incubated companies. However, there are some limitations, not only of sampling, but also of measurement, regarding both the institutional environment and the types of innovation, since we used measures derived from the perceptions of people close to the investigated phenomenon; this leads to limitations of validity and reliability, as these measures may show variations in understanding and replicability.

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