

New research examines effects of firm-, industry- and country-level innovation on firm performance

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Yufei Zhang, Ph.D. Credit: University of Alabama at Birmingham

A recent study published in *Marketing Letters* by University of Alabama at Birmingham Collat School of Business Assistant Professor Yufei Zhang, Ph.D., examines how outside innovations can enhance firm performance.

Innovation, which leads to process changes and [product development](#), tends to increase the provisions of companies and helps firms to expand faster and more effectively, eventually more profitably than non-innovators. Innovation is commonly seen as a key source of sustainable competitive advantage in a changing environment.

According to Zhang, marketing strategists seek to identify drivers of [firm performance](#) and their relevant boundaries.

"To date, most research evidence would tell them that competition is a negative force; but this study challenges that [conventional wisdom](#) by drawing on network externalities theory and related strategy research," she said.

Zhang and her team found that innovation on the industrial level or the country level, outside organizational boundaries, has a [positive impact](#) on firms.

In particular, resources that exist outside the organization may benefit the performance of firms in a network, through positive spillover effects. For example, innovation efforts at the industry and country levels can have positive impacts on a focal firm's performance, with influences that are even more prominent than the effect of its firm-level innovation. Due to their distinctions from firm-level innovation, these innovation efforts should be leveraged strategically and uniquely, according to the specific business environment.

In the study, Zhang and her team shared that, as an example of industry-level innovation, Ford and General Motors, two fierce rivals in the [automobile industry](#), collaborated by pooling their innovation teams to develop new automatic transmissions, which led to common parts and economies of scale.

Next steps

Building on these findings, Zhang is now examining how companies open up a free exchange of ideas with other organizations.

"When you develop a new product, do you want to open up to other companies?" she said. "Do you want to protect your product, or do you want to open up to other entities to increase product success?"

More information: Yufei Zhang et al. Effects of firm-, industry-, and country-level innovation on firm performance, *Marketing Letters* (2020). DOI: [10.1007/s11002-020-09530-y](https://doi.org/10.1007/s11002-020-09530-y)

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