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Article

Does innovation strategy affect financial, social and environmental performance?

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ABSTRACT

In the very study, the emphasis lays on the specific problem of analyzing the impact of the innovation strategy (in particular investment in research and development) on the financial, social and environmental performance. After discussing this subject theoretically, we propose our research hypotheses which, in turn, will be corroborated by an empirical study of 96 Tunisian companies. Indeed, the results are noteworthy and important to the extent that one can say that the innovation strategy has a crucial impact on the performance of the companies.

¿Afecta la estrategia de innovación al rendimiento financiero, social y ambiental?

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RESUMEN

El énfasis de este estudio recae sobre el problema específico del análisis del impacto de la estrategia de innovación (en concreto, las inversiones en investigación y desarrollo) sobre el rendimiento financiero, social y ambiental. Después de analizar este asunto desde el punto de vista teórico, se propone una hipótesis de investigación que, a su vez, deberá ser corroborada por un estudio empírico de 96 empresas tunecinas. De hecho, los resultados son destacados e importantes, y permiten decir que la estrategia de innovación tiene un impacto crucial en el rendimiento de las empresas.

1. Introduction

In recent years, there has been a shift from a single-criterion-performance model to a several-criteria performance model that incorporates the expectations of the different stakeholders; namely, the shareholders, the customers, the employees and so on. The performance indicators are a major tool of the management control system. Their importance resides in the performance measurement and in the control of the resource allocations. Accordingly, the company is usually expanded to maximize not only its financial performance but also its social and environmental performance. This concept is presented as a precautionary stakeholder model established by Freeman (1984) who highlights the problem of profitability. CSR was defined by Bowen (1953) as the prerequisite that business leaders must implement. CSR entails strategies, decisions and practices that go along with the goals and values of the community in general. In the 1990s, CSR became the crux of the matter of the long-lasting development within the company.

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Thereafter, Hoffman and Bansal (2012) stated that companies must consider the environmental issues as a strategic problem by focusing on the relationship between the company and its environment. Caroll (1979) provided a conceptual model based on three dimensions: the principles, manner, and the values of social responsibility. Wartick and Cochran (1985) maintained CSR as the principles which incorporate the structure of this notion; the procedures that were implemented to develop the ability to be socially responsible and the policies resulting from this same ability. Equally important, Wood, George-Falvy, and Debowski (1991) proposed a model that incorporates the principles, the procedures, the organizational practices and responsibility as well as the results brought about by the actions and the choices carried out by the company.

Whereas, some researchers keep integrating the study of the relationships between business and environment (Business and Natural Environment) in the field of study of the relationship of the concept CSR. The relation between this concept and the financial performance builds the concept of total performance. Hence, the company grows so as to maximize not only its financial performance but also its social and environmental performance. So, the company chooses to be established in several projects, strategies and others which aim at growth, profitability and perennial. In this context, companies are seeking to be distinctive either by creating, renewing or maintaining by means of innovation and diversification through their divisions. Therefore, it resorts to set up in several projects, strategies and others which aim at growth, profitability and sustainability. Hence, the study of the effect of innovation on the corporate performance becomes a key issue. Meanwhile, we will try to find an answer to the question of the effect of the innovation strategy on the financial, social and environmental performance by referring to the theories that have shown the effect of the innovation strategy on the business performance.

Our objective is to study the effect of innovation strategy on the financial, social and environmental performance of the Tunisian companies; the main contribution of this work is to explain how the innovation strategy can affect not only financial performance but also social and environmental performance, that we applied the method of rating agency KLD to the Tunisian companies. The results are noteworthy and important to the extent that one can say that the innovation strategy has a crucial impact on the performance of the companies.

This article is structured as follows: Section 2 presents the related literature and the theories which motivate the empirical work; Section 3 presents the hypotheses will be tested, Section 4 discusses the empirical strategies that were adopted; and Section 5 presents the main results and discussion.

2. The theoretical grounds for the relationship between the innovation strategy and the performance companies

Many theories have addressed the relationship between the innovation strategy and the corporate performance in order to answer the question of the effect of the strategic choice on the business performance.

2.1. Industrial approach

This approach stems from the work of Mason (1939) and Bain (1951) in industrial economics. Such an approach considers the effect of the industrial structure on the types of the strategies adopted by the companies which explain the business performance. Again, the works of Caves and Porter (1977) affirm that the company can be successful only when it occupies a remarkable position in the product market and maintains it by setting barriers at the entry (according to the industrial approach).

2.2. The Chicago School

In this school, businesses are different and do not have the same skills to achieve the same performance. So, the skills of the individuals and the work teams that make up the business play a significant role in the strategic choice within the companies. This role has an effect on the corporate performance when the company is more efficient than its competitors. (Demsetz, 1975; Stigler, 1964). In this context, the strategic choice affects the business performance since the differences in the efficiencies stemming from this choice have a direct impact on the corporate performance.

2.3. The resource-based view

This theory emerged in the mid 1980s in the work of Rumelt (1984) and Barney (1985). Durant (1997) says that “the development of the firm depends not only on its external position and the defensive game to which it is subject, but a part of its success also depends on the resources that it possesses and on the way it behaves to offer the services to its customers”. In this theory, the company is a combination of natural productive resources, physical and human; they can be both tangible and intangible. With these resources, it can create a competitive advantage; that is to say, its performance is higher than its competitors’ (Penrose, 1959; Barney, 1991, 1985; Grant, 1991). According to Porter (1986), the competitive advantage “mainly lies in the value that a firm is able to create for its customers”. The resource is “an appropriate and relevant theoretical framework to really understand the origin of the firms’ performance”: Referring to this theory, recent researches are inclined to the relationship between innovation (in terms of product, market, labor, culture...) and organizational performance. In a complex innovative, unstable and turbulent environment, the companies can adapt thanks to their internal resources and skills. Wernerfelt (1984) shows that a company that is able enough to develop and use its skills and strategic resources is more efficient than one that is unable to manage its internal skills and resources. According to this theory, innovation may carry annuities due to the difference in efficiency between companies (if different from the Chicago School). The company resources can be the key of its success because they enable it to increase its production and to create values (Hunt, 2000, Hunt & Morgan, 1995). The companies with good resources and skills, in fact, choose the best strategies to produce effective and efficient products that meet the customer needs; that is how social performance can be fulfilled.

2.4. The agency theory

The agency theory highlights the conflicts of interest between the stakeholders in the firm. According to Albouy (2006), “to create value for the shareholders is to have the customers satisfied with the good products, developed by motivated employees and quality, together with the best suppliers and subcontractors by complying with the regulations imposed by the authorities”. In this context, it is worth mentioning that the decision of innovation in an uncertain project may increase the conflicts of interest between the shareholders and the managers because they do not have the same degree of risk aversion. In other words, the shareholders are willing to endure a higher level of risk than the leaders since they have a diversified portfolio that assumes that diversification reduces the risk. In contrast, the leader chooses a less risky strategy to guarantee the employment security and the short-term profitability since his wealth depends to a great extent on the value of the company that he runs which would be in the interests of