Entrepreneurship and Innovation Based on Dynamic Capabilities and Demand-Side Strategies

Área de investigación: Teoría de la Administración

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Abstract

This paper proposes a theoretical model for entrepreneurship and innovation based on two academic perspectives: the dynamic capabilities perspective and the demand-side perspective. These two perspectives belong to the fields of entrepreneurship and strategic management. Nowadays, entrepreneurship and innovation are regarded as a necessary combination for economic growth and social development. The objective of the study is twofold. First, to provide a model for the assessment of the effect that dynamic capabilities related to innovation, and the demand-side orientation have on the value creation of the Mexican start-ups. Second, to analyze the mediation effect of the dynamic capabilities between a demand-side perspective of the start-ups and their performance. This paper takes the dynamic capabilities framework of strategic management and the demand-side perspective to investigate their effects on the entrepreneurial activity theoretically. This rationalization highlights the importance of this study, which provides a framework for the analysis using a combination of intangible assets (capabilities) with a demand-side perspective for superior value creation and in turn, financial performance.

Keywords: Entrepreneurship, dynamic capabilities, demand-side perspective.
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Introduction

In the aftermath of the financial crisis of 2008 and the present economic difficulties in the Eurozone, several actors, from national governments to small firms, including international institutions, banks, and corporations, are looking for recovery and growth pathways. Important amounts of attention and effort are put on entrepreneurship and innovation as they are regarded as a necessary combination for economic growth and social development.

In order to seize entrepreneurship and innovation as moving forces of the global economy, it is necessary to understand, at least, some of the drivers and strategies that differentiate successful innovative companies, products, processes or services from others. It is also relevant to examine how good ideas generate and evolve into products that thrive and capture financial value for a firm.

In this paper, the topics of entrepreneurship and innovation are explored within a theoretical model at the firm level. I propose a model for value creation and performance enhancement in start-up firms based on two academic perspectives: the dynamic capabilities perspective and the demand-side perspective. These two perspectives belong to the fields of entrepreneurship and strategic management. These two fields are considered as young fields of research and therefore, this paper intends to contribute to their intertwined development and integration, which might serve for the better understanding of their similarities and differences in future research. The outcomes of this paper are expected to serve as a basis for future empirical research and to draw some conclusions and advice for the academy and practitioners, including entrepreneurs, managers, investors, and policy makers.

Nowadays, it is important to study how start-up projects, both, within big firms and small enterprises, in which several actors take part and accept responsibilities, rights, and risks can result in product or service innovations that end in generation of wealth. This paper takes the dynamic capabilities framework of strategic management and the demand-side perspective to investigate their effects on the entrepreneurial activity theoretically.

The objective of the study is twofold. First, to review the literature on the effects that some dynamic capabilities and strategies based on the demand-side perspective have on the value creation of the firms. Second, to theoretically explore the relationship between the dynamic capabilities and a demand-side perspective of the firms and the effects that this relationship could have on the performance of the firm.

The rest of the paper is organized as follows: First, a theoretical framework and a literature review are presented along with some propositions. This section includes studies about entrepreneurship, innovation, dynamic capabilities, and the demand-side perspective. The results of the study will be presented in the next section. Finally, the discussion and
conclusion section is included with the practical implications of the study and future lines of research.

**Theoretical Framework and Literature Review**

As mentioned above, the theoretical framework of this dissertation is constituted as shown in figure 1. The phenomenon of study lies exactly at the intersection of the two main fields, where the two management perspectives used in the study also meet each other. Each topic will be presented in a subsection along with the related hypotheses.

Figure 1. Theoretical Framework

### Entrepreneurship

The definition of entrepreneurship can result problematic considering its broad scope and its ambiguity. What the concept implies is that the entrepreneur bears some risk or uncertainty. This is basically what Richard Cantillon said when he coined the term ‘entrepreneur’. He stated that entrepreneurship consists in bearing the risk of buying at certain prices and selling at uncertain prices (Stevenson & Jarillo, 1990). The French term ‘entrepreneur’ in its origins referred to an individual “who unites all means of production and who finds in the value of products... the reestablishment of the entire capital he employs, and the value of the wages, the interest, and rent which he pays, as well as profits belonging to himself” (Say, 1816). This definition that includes the integration of the factors of production places the entrepreneurs as the protagonists of the economic activity. Reynolds and Curtin (2009) considered that this entrepreneurial concept corresponds to a coordinator or administrator who recognizes an opportunity and succeeds, without the requirement of creating something new or innovative.

Schumpeter (1934) is considered the principal proponent of the entrepreneurial concept as the responsible for economic growth and industrial changes. Schumpeter’s ‘creative destruction’ posits that new firms with new ideas are the movers and shakers of
the economy. If the incumbents firms do not respond to their innovative offerings, they will die. Hence, the markets remain efficient when entrepreneurs are present. Schumpeter (1942) proposed that creative destruction is the process in which the incumbents and the new entrants are continuously striving for growing and this, in turn, enables the development of economic growth.

Stevenson and Jarillo (1990) supported the idea that entrepreneurship had gained its status as a legitimate scholarly research subject. More than a decade later, Ireland, Reutzel, and Webb (2005) pointed out that entrepreneurship was a relatively young field and that it was characterized by low paradigmatic development that might also be assessed as an independent field of study; these statements remain valid today.

Stevenson and Jarillo (1990) published a broad review of the academic literature on entrepreneurship and suggested that entrepreneurship studies could be divided into three main categories: (a) what happens when entrepreneurs act; (b) why the act; and (c) how they act. In order to fulfill the objectives of this study, it is necessary to explore the relationship between entrepreneurship and strategic management. Ireland, Hitt, Camp, and Sexton (2001) pointed out that the integration of strategic management and entrepreneurship creates synergy that enhances the value of their outcomes and facilitates a firm’s wealth-creating efforts. This result seems preferable to the outcomes that strategic management and entrepreneurship provide when separated, which are contributions to firm growth and success. “Continuous, profitable growth is a prerequisite to a firm’s ability to generate wealth across time and events.” (p. 49). According to the authors, there are subtle differences between entrepreneurial actions and strategic actions that are important to take into account in order to understand and develop wealth-creating processes. Entrepreneurial actions are behaviors to exploit opportunities others have not identified or exploited and they are oriented to novelty. Strategic actions are carried out to select and implement the firm’s strategies, which might be built on the pursuit of entrepreneurial opportunities by taking entrepreneurial actions. Entrepreneurship focuses on growth and innovation and strategic management focuses on competitive advantage.

As it can be noticed, many authors have defined entrepreneurship differently, but in general, they coincide that it has positive effects on firm’s wealth creating efforts. Ireland et al. (2001) defined entrepreneurship as “a context-dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities” (p. 51). This definition highlights that it is a multidisciplinary academic discipline grounded in sociology, economics, and psychology. Also, entrepreneurship has both attitudinal and behavioral components.

Shane and Venkataraman (2000) suggested that the conceptual framework of entrepreneurship should be different than the one of strategic management. Strategic management may serve to understand the relative performance of individuals or firms in the context of small or new businesses. Nevertheless, competitive advantage is not a sufficient measure of entrepreneurial performance “because a performance advantage may be insufficient to compensate for the opportunity cost of other alternatives, a liquidity premium for time and capital, and a premium for uncertainty bearing.” These authors define the field of entrepreneurship as “the scholarly examination of how, by whom, and
with what effect opportunities to create future goods and services are discovered, evaluated and exploited” (p. 218). Hence, the field involves the study of sources of opportunities, the processes of discovery, evaluation and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them.

As mentioned above, one purpose of this paper is to contribute to the literature that integrates the fields of strategic management and entrepreneurship (and innovation). This study seeks to provide a theoretical model that could serve as a start for the empirical analysis of Mexican and Latin American firms, especially those that nowadays start ventures in the so-called start-up projects. In this sense, the results could provide some answers of whether entrepreneurship and strategic management are more of two disconnected worlds or more of an intertwined relationship.

Entrepreneurship & Innovation

Based on Schumpeterian principles, innovation is the cornerstone of sustained economic growth and development. The innovation rates of the nations are considered as key drivers and indicators of competitiveness. For this reason, both, the public and the private sectors worldwide foster innovation through policies and work on strategies for their organizations. The ideas of Schumpeter (1934) have served as the foundations of studies in international business and entrepreneurship that establish a positive relationship between the start-up rates of a country and its innovation and its economic development, regardless of the characteristics of the entrepreneurial projects and their institutional or socioeconomic contexts (Anokhin & Wincent, 2012). In contrast, Wong, Ho, and Autio (2005) considered that only high growth potential entrepreneurs represent a valuable contribution to innovation and economic growth.

Dynamic Capabilities

The dynamic capabilities (DC) perspective consists of a framework to understand how firms develop and maintain competitive advantage over time. It seeks to identify the foundations of a long-term growth and prosperity of a firm. The DC perspective was developed from two complementary perspectives, the resource-based view (RBV) of the firm and the evolutionary economics.

Dynamic capabilities research has been growing in the last decade, in part because the interest to explain the difference of performance among firms in a capitalist system is of timeless relevance for academics, practitioners, and governments. This perspective offers an alternative explanation on how firms can differentiate from their competitors. Because of its early stage of development, the construct of dynamic capability has not been defined in consensus. The following table presents the main definitions that have been proposed to date and that are more cited.
<table>
<thead>
<tr>
<th>Year</th>
<th>Authors</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>1997</td>
<td>Teece, Pisano, &amp; Shuen</td>
<td>The firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments.</td>
</tr>
<tr>
<td>2000</td>
<td>Eisenhardt &amp; Martin</td>
<td>The firm’s processes that use resources – specifically the processes to integrate, reconfigure, gain, and release resources-to match and even create market change; dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die.</td>
</tr>
<tr>
<td>2003</td>
<td>Winter</td>
<td>Those (capabilities) that operate to extend, modify, or create ordinary capabilities.</td>
</tr>
<tr>
<td>2006</td>
<td>Zahra, Sapienza, &amp; Davidsson</td>
<td>The abilities to reconfigure a firm’s resources and routines in the manner envisioned and deemed appropriate by its principal decision maker(s).</td>
</tr>
<tr>
<td>2007</td>
<td>Helfat et al.</td>
<td>The capacity of an organization to purposefully create, extend, or modify its resource base.</td>
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<tr>
<td>2007</td>
<td>Teece</td>
<td>Dynamic capabilities can be disaggregated into the capacity (a) to sense and shape opportunities and threats, (b) to seize opportunities, and (c) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise’s intangible and tangible assets.</td>
</tr>
<tr>
<td>2010</td>
<td>Barreto</td>
<td>A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base.</td>
</tr>
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As it can be seen, the construct has gained important academic attention and the different definitions have certain elements in common. However, academics have also criticized the construct of DC, mainly because of its lack of a single interpretation. The several definitions that have been offered do not transmit a clear meaning of the construct and this has led to the consideration of the construct as obscure and tautological (Williamson, 1999), vague and elusive (Kraatz & Zajac, 2001), mysterious and confusing.
(Winter, 2003), and abstract and intractable (Danneels, 2008). Another possible reason for the confusion on the definition is because in comparison to other strategic management theories, some of the definitions do not mention a purpose of their existence. Hopefully and naturally, as time passes, new definition suggestions have been and will be offered to incorporate the previous knowledge and take into consideration the critiques and empirical advances in order to offer a more solid construct, that perhaps will lead to a dynamic capabilities theory.

If a study aims to contribute to the development of the dynamic capabilities perspective it appears necessary to contribute to its congruence, which is defined by the laws of the relationship among its variables of interest (Fry & Smith, 1987). For this end, it is important to consider that this kind of relationships depend on the nature of the definition of dynamic capabilities, which varies according to different authors. Another important consideration and recommendation from the critics is that if a definition of a construct that represents an association with overall performance or effectiveness is chosen, it is not reasonable to propose later a relationship between dynamic capabilities and performance (Barreto, 2010). To avoid rising confusion from this critique, I propose the use of dependent variables such as innovative performance, value creation and value capturing that will be explained in detail later on.

This paper will adopt the definition of DC by Teece (2007) because his research and his propositions are more aligned with the entrepreneurial action. The concept of entrepreneurial managerial capitalism that is explored in the section below explains the clear relationship between dynamic capabilities and entrepreneurship, which is of utmost relevance in this paper. Another reason for choosing this definition is the purpose to provide empirical support that leads to a convergence in the definition of DC, instead of proposing a new definition that could lead to more disagreement in the academy. More research would help to determine the types of environments and firms where the DC concept is applicable and most relevant (Barreto, 2010).

As empirical studies about DC are published, we are able to obtain less ambiguous definitions and explanations of specific DC in different industries. Next, I mention some studies that have shed light in this sense.

There are authors who consider some wide-known organizational practices as DC, e.g. R&D and marketing capabilities (Hsu & Wang, 2012), knowledge management practices –knowledge creation, retention, and practice- (Alegre, Sengupta, & Lapiedra, 2011); idea generation capabilities (McKelvie & Davidsson, 2009); organizational structure reconfiguration (Karim, 2006); entrepreneurial capability, bridging and networking capabilities, resource development and integrative capabilities (Woldesenbet, Ram, & Jones, 2012). These implies that the continuous investment in and development of activities of specific departments, such as R&D and marketing, will be related directly to the creation process of dynamic capabilities. If an organization faces irregular processes it may have weaker knowledge and/or know-how over time.

Other authors name the DC they study with names that suggest more complexity of the construct, that means that they represent high-order capabilities that underpin the
renewal in other low-order capabilities like the mentioned above. Their names are not as familiar as the low or first-order capabilities, e.g. strategic service delivery capabilities (Woldesenbet et al., 2012). Woldesenbet, Ram, & Jones (2012) found in their qualitative study of 18 firms case study that DC such as a strategic service delivery constitute a more differentiating factor than an entrepreneurial orientation of being proactive, innovative and risk-taking. Hence, it is crucial to explore this dynamic dimension that follows the entrepreneurial process into one of business growth and expansion.

Zahra et al. (2006) proposed that one source of the ability of enterprises, both, new and established, to continuously create, define, discover and exploit entrepreneurial opportunities lies in the firms’ developing and applying different dynamic capabilities. Their definition places the entrepreneur, the entrepreneurial team or the senior management’s at utmost importance due to their decision-making ability and power or influence. According to the authors, the creation and use of DC refers to the perception of opportunities to productively change existing routines or resource configurations, the willingness to undertake such change, and the ability to implement these changes (Penrose, 1959). All these actions can be carried out by any of the entrepreneurial figures mentioned above.

**Entrepreneurship & Dynamic Capabilities**

Helfat and Peteraf (2003) argued that enterprises in their founding stage could not have DC because they follow the same evolutionary process as other capabilities. Hence, an organization in an early stage lacks any DC that could influence the capability evolution. However, this argument applies when DC are considered as organizational processes; Teece et al. (1997) originally proposed that managerial processes are also involved and later Teece (2012) pointed out that management in an entrepreneurial project lies in the entrepreneurial team and this precedes the replacement by organizing principles (Kogut & Zander, 1992). Moreover, recently, Teece (2012) noticed that the origin of DC are perhaps rooted in several cases to what he called ‘entrepreneurial managerial capitalism.’ This concept proposed by Teece is remarkably related to the proposition of Schumpeter (1934) of the different roles of the entrepreneurs. The word new in “new combinations that constitutes the entrepreneur” lies at the very foundation of the concept proposed by Teece (2012). This is of special importance since we have reached the point in which the origins of creative destruction are analyzed with the purpose to contribute with the development of the capitalist economy. But Schumpeter also explained to detail what “new combinations” meant in his writing. I argue that Schumpeter’s “new combinations” are too broad for the state of the art nowadays since the field of strategic management has already explored these actions or business strategies. Moreover, the levels of analysis of these combinations are the organizational or industrial level. Perhaps, to name more specific “combinations” in the future could contribute with the development of the concept of dynamic capabilities that we know has been explored to a certain extend, but is also in need of further explanations.

The first proposition of this paper is based on these previous studies, where entrepreneurial firms are capable of acquiring and/or developing dynamic capabilities that bring a positive impact on the competitive advantage of the firms.
Proposition 1: Dynamic capabilities play an important role in the value creation of the firm, apart from their contribution to performance.

Dynamic Capabilities in Entrepreneurship and Innovation

The access to resources in an entrepreneurial state is generally a rough stage, and it becomes difficult to change important resources such as technology. This technology-related difficulty represents a challenge a bit different from the traditional dynamic capabilities perspective. In such a challenge the entrepreneurs would have to change their business opportunity or their services, rather than their technology resources. This challenge represents the intersection of this research, where the entrepreneur can take a demand-side perspective and use their dynamic capabilities in order to reconfigure their capabilities and find the possibility to capture value from the previously identified market or even other different markets.

This study, besides focusing on the processes related to entrepreneurship and strategic management, approaches to the innovation of products and services based on the customer preferences differentiation. As suggested by Priem, Li, and Carr (2012), these three bodies of literature share a research perspective that turns its attention from the focal firm towards product markets and consumers for increasing value creation. This perspective, known as the “demand-side” perspective, aims to explain and predict the managerial decisions that increase value creation within a value system. The demand-side perspective focuses on the demand side of the value equation instead of on the resource side.

Dynamic Capabilities & Demand-side Perspective

Dynamic capabilities depend both on resources exchanged inside and outside the boundaries of the firm. They can be developed within the firm or acquired from outside and they are continually recombined. This dynamics can derive in the creation of new products that are related or not related to the core business. The changing demand of the customers can originate the conception of a new market. It is possible to establish relationships between the DC and the demand-side perspectives. Therefore, it is necessary to establish the relationship between these two frameworks that it is going to be explored in this study and its boundaries. Priem et al. (2012) suggested that DC view could complement RBV and demand-side studies. Such integration could represent the starting point for understanding the underlying mechanisms required for strategic success.

Demand-side Perspective

Priem et al. (2012) recently proposed the demand-side perspective as an alternative perspective to understand the sources of sustainable competitive advantage of firms of all sizes. They present the demand-side perspective as a supplement to the static market analysis of industrial organization (Porter, 1980) and the resource-based view (RBV) of the firm (Barney, 1991; Wernerfelt, 1984). The demand-side perspective is interested in entrepreneurial profits, rather than rents from resources or market position. The authors considered that there are four typical characteristics of demand-side research: (a) making a
clear distinction between value creation and value capture (the first is determined by the consumers’ willingness to pay and the second is determined by market structure and resource ownership), (b) recognizing that firm heterogeneity is enhanced by consumers’ heterogeneity of demand through the difference in judgments of managers and their responses to consumer heterogeneity, (c) considering that consumer preferences change dynamically and that sometimes are latent, and (d) stressing product markets as key sources of value-creation strategies for firms, as an alternative to the RBV emphasis on resource markets and value capture.

In their review of demand-side research to date, Priem et al. (2012) showed that results indicate that building resource -or ability- based barriers to imitation are not as important as previously supposed to achieve sustainable competitive advantage because successful innovations can be consumer driven instead of resource or technology driven. The authors considered that consumer knowledge can play a key role in entrepreneurial idea discovery and this may make the valuable, rare, inimitable and non-substitutable resources unnecessary in many contexts. They suggest that big enterprises are easier to study under this perspective because they can exploit their own resources for inter-industry product diversification; while small or entrepreneurial firms are usually in single-industry product assortments and that would be functional marketing. However, they pointed out that Adner (2002) study on demand-side technology innovation has implications for both new and established firms.

Priem et al. (2012) explained that there is a debate whether innovation is technology push or demand pull, i.e. driven by technological advances or by market demand. They argued that despite the fact that technology-based explanations are more common, some empirical evidence led researchers toward demand-pull explanations for innovations. The authors define demand-pull innovations as “those innovations driven by the goals of either satisfying current consumer needs in an entirely new way or identifying and satisfying new needs.” (p. 350). They also indicated that research based on a demand-side approach assumes that market changes and that it is heterogeneous; demand-pull innovation research assumes that customers’ needs are not constant.

The demand-side perspective is in its starting point and for its development in the field of strategic management. Therefore, it is valuable to establish connections with other theories or theoretical views within a framework. The dynamic capabilities perspective appears as a possible interjection because it takes into accounts both, internal resources of the firm and the external marketplace, in its analysis.

Based on the results of previous studies and other mentioned below, the second proposition is as follows.

Proposition 2: Strategies based on the demand-side perspective create value for the firm.
Innovation as a Result of Dynamic Capabilities and a Demand-side Strategy

There are only a few studies that have studied this relationship because the field is young. In his conceptual work on the demand-based view, Adner (2002) ran a computer simulation that included controls for supply-side asymmetries like initial resource endowments and technological potential. In the case of this paper, the demand-side perspective is explored together with some supply-side asymmetries, i.e. the dynamic capabilities of the start-ups.

Adner and Snow (2010a, 2010b) found that it was possible to reposition old technologies using a demand-side perspective. These two authors pondered an uncommon proposition in the literature. There are plentiful of studies that explore how firms reinvent their capabilities in order to preserve their market position, the authors studied how firms reinvent their market position in order to preserve the value of their existing capabilities. Apart from looking at the quantitative changes in market size and market share, there is potential in attending to qualitative changes in the composition of the customers that represent the market for the old technology. The demand heterogeneity is a source of opportunities for the old technologies in their existing market or in new ones.

The results of Adner's (2002) computer simulation, where he analyzed competing technologies, highlighted the relationships among consumer preferences and consumers’ willingness to pay for performance improvements as key factors that caused technology disruptions. His analysis of the disk drive industry also revealed that market heterogeneity is progressively masked as technology improvements exceed consumer requirements. According to the author, market heterogeneity initially serves to separate market segments and attenuate competition.

Based on these previous findings on the literature, the proposition we make of the relationship between the demand-side perspective and the DC view is that the demand-side strategies can be enhanced significantly by DCs. In this sense, the implementation of demand-side strategies and the acquisition and/or development of DCs are complementary, not mutually exclusive.

Proposition 3: Dynamic capabilities enhance the effect of strategies based on the demand-side perspective.

Value Creation

Value creation is considered as a result in the propositions of this paper, i.e. if empirical studies derive from this research, value creation would be operationalized as the dependent variable. By selecting this term we seek to obtain a specific and contingent variable that meets the requirements of the analysis in terms of appropriateness to the status of the literature and the phenomenon. As mentioned by Lepak, Smith, and Taylor (2007), the concept of value creation has gained attention in recent years and yet there is a lack of agreement in its understanding. Therefore, we will follow their suggestions in order to provide findings that contribute with the foundations and development of the concept.
It is important to note that the concept of value creation allows researchers to undertake different sources, targets, and levels of analysis in a study. Therefore, value creation represents a variable that makes possible to take into consideration different stakeholders of a studied phenomenon.

The definition of value creation that will be used in this study will be the one that Lepak et al. (2007) provided based on the work of Bowman and Ambrosini (2000). The latter authors introduced two fundamental types of value at the organizational level of analysis: use value and exchange value. They defined use value as the “customers’ perception of the usefulness of the product on offer, equivalent to ‘total utility.’”

The importance of using value creation as an outcome is founded on the ideas of Priem et al. (2012) who suggested that it is of utmost importance for firms to take demand factors into consideration and a consumer focus to successfully innovate or to retreat from the market when a competitor is about to introduce a disruptive innovation. Innovation is successful when consumers or users confer a significant value to the product or the innovation process and are willing to pay for this extra value. Priem et al. suggested that apart from inter-industry diversification, there are another examples of value creation in the simultaneous utilities situations in which many business are combined, such as the convenience store-gas stations, bookstore-coffee shops, dog wash-coffee shops and the big-ticket manufacturer-credit supplier combinations or large companies, among others. In addition, the authors considered that value creation in the common platform situation is illustrated by Amazon and eBay online and by speed dating and venture capitalist-entrepreneur meetings and ‘pitch’ events in the face-to-face setting. The fourth proposition is related to the relationship between value creation and value capturing.

Proposition 4: Value creation obtained from dynamic capabilities and demand-side strategies will increase the innovative or the financial performance of the firm.

Results

The literature review presented above undergirds the theoretical model presented in figure 2, which is the integration of our four propositions and also the graphic representation of the second objective of this paper. This model is based on theoretical and empirical studies corresponding to the theoretical framework of this paper (figure 1).
Entrepreneurship and strategic management are still arguably two separated fields of study. However, the academic trend is to treat these two fields of study as separate but intertwined worlds in order to create better theory and models that contribute to the economic growth, principally based on the assumptions and propositions of the creative destruction (Schumpeter, 1934). The economic change perspectives of Kirzner, Schumpeter, and the evolutionary economics theory undergird the DC framework, which in turn can explain entrepreneurship and competitive advantage of the firms. The addition of a demand-side perspective to the study of entrepreneurship and innovation at the firm level provides a sharper insight because it considers not only the firm capabilities, but also the market changes and its heterogeneity. Teece advanced that industrial organization do not provide sufficient explanation for the difference of financial performance across firms. He suggested that intangible assets (especially knowledge and relationships) and the activities (i.e., innovation) that create them are basically ignored in market positioning approaches. Moreover, he punctuated that uniqueness in product offerings must be accompanied by a good marketing strategy. This ensures that the firm makes distinctive products or services that customers want and can afford. This rationalization highlights the importance of this paper, since it provides some theoretical analysis for the use of a combination of intangible assets (capabilities) with a demand-side perspective for superior value creation and in turn, innovative and financial performance.
This study aims to represent a contribution to academics and practitioners. This short contribution aims to serve as a basis for further empirical studies that test the model. Through this, practitioners will be able to make better decisions by having better theory, data and tests of successful strategies and decision-making processes in an entrepreneurial and innovative venture. There is an actual need to understand and carry out academic research on entrepreneurship and innovation nowadays to be able to predict better the future of the economy. The implications of this study could be useful too for other actors of the economy, such as institutional investors and policy makers, since it is necessary to provide guidelines to avoid to the possible extent the creation of false narratives and illusions of unexciting returns or innovation for the world economies.

References


