

Emerging market firms' persistence with failed innovations

Stijn Horck (Maastricht University)
(Edris, S., Wahle, T., Horck, S., & Gaur, A. S.)

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We explore the conditions under which firms persist with failed innovations. While prior literature suggests firms' persistence after failure may vary by novel versus incremental failing innovations, we argue that a firm's institutional experience can explain their ability to interpret and respond to failure events. Firms from advanced economies may react to failure by persisting with innovations after setback, whereas firms from emerging markets may abandon failing innovations. We explain such abandoning of failed innovations and subsequent pursuit of novel projects by the additional institutional risk that exacerbates responses to failure as well as firms' dominant learning motivation, which incentivizes novel innovation efforts. We test hypotheses on a dataset of FDA-approved drugs (2004-2020). Our analysis provides insights on emerging market firms' learning from failure and innovation efforts.