Theoretical Framework for Intangible Investment in Case of Limited Resources: The Case of Innovation

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Abstract

Innovation increases value added and promotes development. But innovation intensity in firms is related to resource constraints, most important being financial and human resource constraints. The problem is especially fierce in laggard firms, either in developed or developing countries. The paper proposes a theoretical framework for investment into intangible capital in the case of limited resources for the case of innovative activity. By relying on the fragmented literature on innovation under resource constraints, the model proposes a theoretical framework, which answers 3 key questions: (1) Which innovation types are more relevant, (2) what process they should embrace (where should they start from), and, (3) which resources do they need and why at which stage of the innovation process. By developing a 3x3 matrix linking resource intensity and value added of different innovation types and an extended discussion of constraint, the proposed model shows that the following answers questions 1-3: (1) organizational, marketing and process innovation are more important initially under resource constraints than product, (2) organizational innovation represent a starting point, and (3) initially knowledge and managerial aptitude towards innovation represent an important resource. The paper makes several contributions to the literature, but primarily it proposes a model of innovation under resource constraint. Also, it poses a challenge to future research as a theoretical foundation that should be challenged, theoretically and empirically.

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