Going, Going, Gone.

Innovation and Exit in Manufacturing Firms*

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Abstract
This paper examines the effects of innovation on the risk of exit of a firm, distinguishing between different modes of exits. Innovation represents a resource and a capability that helps a firm to build competitive advantage and remain in the market. At the same time, the resources and capabilities of innovative firms make them an attractive target for the acquisition process of other firms, thereby increasing the likelihood of their exiting the market. We explore these effects empirically by linking data on innovation and exits for a large sample of manufacturing firms in the Netherlands. The results show that the effect of innovation on a firm’s risk of exit differs according to the mode of exit and, in addition, it is shaped by the nature of the innovation. While a firm can lower its risk of failure by innovating in either products or processes, the introduction of a new product in the absence of innovation in the production process increases the risk of exit as a result of merger and acquisition.

Keywords: Mergers and Acquisitions; Firm Exit; Innovation; Competing Risks Model

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