

Environmental Uncertainty, Innovation Efficiency, and Firm Performance: An Integrative Framework for Contingency Theory Approach

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Abstract

The increasingly fierce global competition, dynamic changes in customer demand, and rapid technological advances are the dominant factors in environmental changes, making it difficult for companies to achieve and maintain their competitive advantage. These changes create environmental uncertainty for the company. Environmental uncertainty puts pressure on company performance due to the large investment costs incurred to overcome increasing uncertainty. Management seeks to create strategies to minimize the impact of environmental uncertainty on company performance, one of the strategies that can be used is innovation. Innovation encourages companies to produce quality products or services at low costs, improvise products with new attributes, and produce products that are different from before. Efficiency is an important concept in innovation because innovation requires large funding. We examine the relationship between environmental uncertainty and firm performance, as well as the moderating effect of innovation efficiency on this relationship. We tested manufacturing companies listed on the Indonesia Stock Exchange from 2013 to 2019 with 564 total observations. We find evidence that environmental uncertainty has a negative effect on firm performance, and innovation efficiency can reduce this negative effect. The evidence shows that environmental uncertainty as a contingency problem is an opportunity for companies to improve their performance, by being more active in carrying out innovation projects. When environmental uncertainty increases, policymakers within the company must ensure that the innovation projects carried out can run efficiently, thus providing great benefits for improving company performance.

Keywords

company performance, environmental uncertainty, innovation efficiency, contingency theory

Biography

Rizki Amalia Elfita is a lecturer in the Department of Accounting at Universitas Nahdlatul Ulama Surabaya, Indonesia. She received her Bachelor of Accounting and Master of Accounting from Universitas Airlangga, Indonesia. Rizki has contributed to internationally published and national published. Her research interests include tax, management accounting, behavioral accounting, and financial accounting.

Triyonowati is a lecturer at the College of Science Indonesian Economy (STIESIA) Surabaya. Undergraduate education is taken at Airlangga University majoring in management as well as her Postgraduate education at Airlangga University in 2003 majoring program of Management Science (IMAN). Completed education doctoral (S3) in Management Science Doctoral Program (PDIM) University Brawijaya in 2015. The author has expertise in the field of Financial Management, and to realize a career as a professional lecturer, the author is also active as a researcher and in his field of expertise. Some research that has been done funded by internal universities and also the Ministry of Research, Technology and Higher Education. Apart from researchers, writers also actively writing books in the hope of making a positive contribution to the nation and the country.

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