

Survivor:

The Role of Innovation in Firms' Survival

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Abstract

This paper explores the relationship between innovation and the survival of manufacturing firms in the Netherlands. The determinants of the survival probability of a firm, traditionally identified in the size and age of a firm, are extended to include the ability of a firm to innovate. The empirical analysis combines firm level data on innovation, derived from the second Community Innovation Survey, and on the exit date of from the Business Register of all the firms active in the Netherlands. To estimate the survival probability of a firm we use a non-parametric approach, based on the calculation of Transition Probability Matrices over different time periods. The results show that innovation has a positive and significant effect on firms' survival, and that this effect increases over time. Furthermore, we observe that small and young firms are the most exposed to the risk of exit, as found in earlier studies, but also those that most benefit of innovation to survive in the market, especially in the longer term.