ABSTRACT

The current research studies the relationship between innovation and business excellence within bounded rationality framework in Indian context. The study conceptualizes innovation as an intuitive decision strategy by a manager/entrepreneur to select those ideas, information and opportunities from his/her environment which are ecologically rational and brings excellence in a fast and frugal way. Rather than seeing innovation as mere an act of creating something new or value addition, the current study tries to see it as a strategic intuitive mechanism of adaptation and growth under uncertain business environment. Based on Manimala (1992) and Gigerenzer (2000, 2002) a scale to measure the ability of managers/entrepreneurs to use innovation as a heuristic was developed ($\alpha = .963$, $N = 203$) and, subsequently, factor analyzed to identify the major factors underlying innovation heuristic. A principal component analysis revealed the emergence of two major factors, i.e. ability of managers to use innovation as a search-and-adapt heuristic (SAH) which contributed to 51.44% variance, and ability of managers to use innovation as a fast-and-frugal heuristic (FFH) which contributed to 6.19% variance in the sample data. A mediation analysis showed that the effect of the two obtained factors on excellence is mediated through their summative effect called heuristic intelligence. A structural equation modeling (SEM), using Bollen-Stine bootstrap method, was carried out to test the hypothesized relationship in which the effect of both the predictor factors (i.e., SAH, FFH) over business excellence is fully mediated by heuristic intelligence. Based on the various indices of model-fit the hypothesized model was found to be fit, and thus accepted.

Keywords: Business Excellence, Fast & Frugal Heuristic, Heuristic Intelligence, Search & Adapt Heuristic,