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PRODUCT INNOVATION AND ITS RELATIONSHIP WITH CAUSATION AND EFFECTUATION: THE CASE OF SMALL FIRMS IN THE SERVICE SECTOR (SUMMARY)

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≈ SUMMARY ≈

**PRODUCT INNOVATION AND ITS RELATIONSHIP
WITH CAUSATION AND EFFECTUATION: THE CASE
OF SMALL FIRMS IN THE SERVICE SECTOR**

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Principal Topic

Inspired by Schumpeter's (1934) seminal analysis of the importance of entrepreneurs carrying out "new combinations" for economic development, later research has documented that young and small firms is a key source of new product innovations in the economy, and increasingly so (Acs & Audretsch, 2003). However, new and small firms may approach product innovation in different ways, some of them being markedly more innovative than others. Differences may be a result of different strategies or logics adopted by the entrepreneurs in creation and further development of their ventures. This study is motivated by recent research which has suggested that causation and effectuation represent two fundamentally different approaches for *how* new firms come into existence (Sarasvathy, 2001). Causation process takes a particular effect as given and focuses on selecting between means to create that effect while effectuation process refers to the choice between possible effects that can be created with given means. The purpose of this paper is to further examine the intersection between product innovation, and the logic entrepreneurs follow during business creation.

Method

A survey was administered to new and small firms operating within tourism industry in Northern Norway. Measures of effectuation and causation were taken from Chandler et al., (2011). A factor analysis was performed in order to validate the use of the causation/effectuation dimensions. Poisson regression has been used to explore the relationships between causation, effectuation and product innovation.

Results and Implications

Results indicate that entrepreneurs following a causation approach have introduced significantly more product innovations the last 3 years. However, examining the type of product innovation, we find that firms following an effectuation approach have introduced a significantly higher number of incremental product innovations, while firms following a causation approach have introduced a significantly higher number of radical product innovations. Thus, it seems that the ways in which new firms are created have a prolonged influence on the number and type of product innovations after entry. Consequently, the relevance of the concepts of effectuation/causation goes beyond new venture creation to also include strategic management and small business management.

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