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## EFFECTUATION & NEWNESS: AN INTERTWINED RELATIONSHIP? (SUMMARY)

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## SUMMARY

### EFFECTUATION & NEWNESS: AN INTERTWINED RELATIONSHIP?

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#### Principal Topic

Effectuation theory suggests that entrepreneurs develop their new ventures in an iterative way by selecting possibilities through flexibility and interactions with the market; a focus on affordability of loss rather than maximal return on the capital invested, and the development of pre-commitments and alliances from stakeholders (Sarasvathy, 2001, 2008; Sarasvathy et al., 2005, 2006). As Sarasvathy resumes, “effectuation is a straight inversion of rational choice theory” (Sarasvathy, 2001).

However, little is known about the consequences of following either of these two processes. One aspect that remains unclear is the relationship between newness and effectuation. On one hand it can be argued that the combination of a means-centered, interactive and open-minded process should encourage and facilitate the development of innovative solutions. On the other hand, having a close relationship with their “future first customers” and focussing too much on the resources and knowledge already within the firm may be a constraint that is not conducive to innovation, or at least not to a radical innovation.

#### Method

In our attempt to capture newness in its different aspects we have considered the following four domains where newness may happen: new product/service; new method for promotion and sales; new production methods/sourcing; market creation. We identified how effectuation may be differently associated with these four domains of newness. To test our four sets of hypotheses a dataset of 1329 firms (702 nascent and 627 young firms) randomly selected in Australia was examined using ANOVA Tukey HSD Test.

#### Results and Implications

Results indicate the existence of a curvilinear relationship between effectuation and newness where low and high levels of newness are associated with low level of effectuation while medium level of newness is associated with high level of effectuation. Implications for academia, practitioners and policy makers are also discussed.

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