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SUMMARY

THE RELATIONSHIP BETWEEN INNOVATION AND DIVERSIFICATION IN THE CASE OF NEW VENTURES: UNIDIRECTIONAL OR BIDIRECTIONAL?

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Principal Topic

The link between product diversification and innovation has been extensively studied (Rodriguez-Duarte et al., 2007). Research on this issue has examined the relationship both as unidirectional - exploring the effect of innovation on diversification (e.g. Silverman, 1999; Miller, 2004) or diversification on innovation (e.g. Rogers, 2002) - and bidirectional – checking for endogeneity between innovation and diversification (Rodriguez-Duarte et al., 2007). Although studies on the bidirectional relationship are scant, findings suggest that the aforementioned link has one direction.

Yet, prior studies have examined the relationship related to established firms. To our knowledge, there is no paper exploring this link for new ventures. In this light, this study tests the unidirectional diversification-innovation relationship versus the bidirectional one for a sample of Greek ventures. Unlike established companies, new ventures strive to reach a steady state (Gilbert et al., 2006); thus, the growth choices they make affect their viability.

To analyze the relationship, we drew upon two traditions: the Resource Based View (RBV) and the Sociocognitive Theory (SCT). RBV has been widely used in the exploration of the innovation-diversification relationship for established firms, supporting the unidirectional link between the two. Within this tradition, firms are considered to engage in a ‘vicious circle’ (Chandler, 1977, 1990) - specializing first to build a resource pool and thus an innovative position and then diversifying to exploit economies of scope of this pool. Contrarily, the SCT posits that both choices are based on the founders’ sociocognitive capacities thus, they are likely to be simultaneous and bidirectional.

Method

To test the endogeneity hypothesis, we used data from Greek new ventures, collected using personal interviews based on a structured questionnaire.

Results and Implications

The results of the study supported the hypothesis of endogeneity between innovation and diversification. This finding contradicts the one for established firms, highlighting the importance of distinguishing between the two groups. The simultaneity strengthens the interpretation provided by the SCT, being in line with the view of the ventures as extensions of their founders (Gilbert et al., 2006). This study may have considerable implications. Researchers acquire insights on endogeneity whereas entrepreneurs are informed on ‘how’ to decide regarding these dimensions.

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