Strategic agility in innovation: Unpacking the interaction between entrepreneurial orientation and absorptive capacity by using practice theory

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STRATEGIC AGILITY IN INNOVATION: UNPACKING THE INTERACTION BETWEEN ENTREPRENEURIAL ORIENTATION AND ABSORPTIVE CAPACITY BY USING PRACTICE THEORY

ABSTRACT

This study intends to unpack the interaction effect between entrepreneurial orientation (EO) and absorptive capacity (ACAP) by analyzing the organizational micropractices of six highly profitable companies to identify three practices and nine micropractices that drive the positive profit outcomes from EO and ACAP. To identify 6 cases, the present study used K-means cluster analysis with a generalizable quantitative dataset in which the interaction between EO and ACAP was found to be associated with high profitability. The 6 cases were selected to unpack the interaction between EO and ACAP to capture this interaction at the microlevel. For this task, we used 31 interviews and practice theory as theoretico-methological perspective. The study contributes by identifying three practices – namely, 1) proactive idea generation, 2) value-driven product development, and 3) market-driven product commercialization – and nine micropractices. These practices shape what we define as strategic agility in innovation.

Keywords: Entrepreneurial orientation (EO), absorptive capacity (ACAP) and innovation capabilities, profitability, organizational practices, strategy-as-practice (SAP) and process theorizing, product innovation, business model innovation, codesign and value cocreation

1. INTRODUCTION

Companies are in constant search of strategic agility and innovation. It has been argued that in this task, firms should benefit from the innovation-driving strategic posture of entrepreneurial orientation (EO) (Miller, 1983; Rauch, Wiklund, Lumpkin, & Frese, 2009) and

organizational capabilities such as absorptive capacity (ACAP) that facilitate the implementation of strategic initiatives and innovation (Cohen & Levinthal, 1990; Volberda, Foss, & Lyles, 2020; Zahra & George, 2002) and hence drive sales growth and firm profitability. Studies suggest that firms achieve higher performance when a strategic posture is complemented with appropriate capabilities and vice versa (Wiklund & Shepherd, 2003). By bringing together entrepreneurial behavior and organizational capabilities for knowledge creation, the combination of EO and ACAP has been observed to offer a potential recipe for long-term prosperity (Kreiser, 2011; Patel, Kohtamäki, Parida, & Wincent, 2015). The interaction between EO and ACAP seems to produce positive innovation and profit outcomes. However, the existing quantitative research fails to reveal how these constructs actually interact – they just do. The present study intends to unpack this important interaction by using practice theory. We investigate what actually happens in the interaction between EO and ACAP at the level of micropractices.

While a range of studies acknowledge the positive relationship between EO and company performance (Rauch et al., 2009), some recent studies have highlighted the possible downsides of EO, suggesting that instead of being universally advantageous, EO may increase variability in innovation and performance outcomes (Patel et al., 2015; Wiklund & Shepherd, 2011). Scholars have also investigated the role of different resources and capabilities, such as financial resources (Wiklund & Shepherd, 2005), intangible resources (Anderson & Eshima, 2013), interorganizational networks (Kreiser, 2011), product development capabilities (Lisboa, Skarmeas, & Lages, 2011) and resource orchestration capabilities (Wales, Patel, Parida, & Kreiser, 2013), as potential means of overcoming the limitations of moderate EO. As the benefits of EO have been argued to manifest in particular through EO's impact on innovation performance (Kollmann & Stöckmann, 2014), learning and knowledge-processing capabilities

such as ACAP have been suggested to be critical for increasingly entrepreneurial firms (Keh, Nguyen, & Ng, 2007; Kohtamäki, Heimonen, & Parida, 2019; Wang, 2008; Zhao, Li, Lee, & Chen, 2011) to increase efficiency (Engelen et al., 2015) and to decrease uncertainty related to innovation efforts (Patel et al., 2015). Highlighting the importance of organizational learning capabilities, studies have investigated possible positive interaction effects between EO and ACAP, finding positive impacts on firm performance in different contexts, such as turbulent environments (Engelen et al., 2015), low- and medium-technology industries (Sciascia, D'Oria, Bruni, & Larrañeta, 2014) and small and medium-sized enterprise (SME) contexts (Wales et al., 2013). Thus, while the empirical studies have demonstrated positive performance effects of the interaction between EO and ACAP (Engelen et al., 2015; Patel et al., 2015), they have not been able to reveal what actually happens in the interaction – the micropractices that are fundamental for the performance outcomes to emerge. For instance, Wales, Gupta, and Mousa (2011: 18) highlight that *"EO affects outcomes through organizational learning, knowledge-based resources and innovation. While these studies begin to address how or why EO contributes to particular outcomes, they do not go far enough in unearthing the underlying generative mechanisms."* This echoes broader concerns in management theorizing in general. By problematizing variance research and developing methodologies for process research, studies have called for more in-depth approaches in strategy research (Langley, 1999; Langley, Smallman, Tsoukas, & Van De Ven, 2013; Pentland, 1999). Strategy scholars have been developing microapproaches for the study of organizations, such as strategy-as-practice (Jarzabkowski, 2003; Johnson, Melin, & Whittington, 2003; Seidl, 2007; Vaara, Kleymann, & Seristö, 2004; Whittington, 1996), as well as the microfoundations approach (Abell, Felin, &

Foss, 2008; Felin & Foss, 2012; Felin, Foss, & Ployhart, 2015), to understand the everyday microlevel practices of organizations (Schatzki, Knorr-Cetina, & von Savigny, 2001).

The present study intends to contribute to the literature on the interaction between EO and ACAP by asking how firms use micropractices to drive the positive profit outcomes from this interaction. In other words, the present study unpacks the micropractices embedded in the interaction effect and its impact on firm profitability. We intend to reveal the micropractices specifically related to product innovation by using a qualitative multiple-case study design that utilizes data from six highly successful companies exhibiting high EO and high ACAP, which were identified based on a quantitative cluster analysis of a single mature-industry sample (the food manufacturing industry). For the cluster analysis, to identify the six cases, we utilized generalizable quantitative data and three constructs, EO, ACAP and profitability, to capture the interaction effect on profitability. The resulting cases include SMEs operating in a mature industry that are characterized by a moderate entrepreneurial posture, high ACAP and high profitability. These firms have utilized a combination of EO and ACAP to produce high profitability and therefore have found an optimal level of EO in their business (Dai, Maksimov, Gilbert, & Fernhaber, 2014; Patel et al., 2015; Wiklund & Shepherd, 2011). To reveal the generative micropractices that create the positive profit outcomes of the optimal interplay between EO and ACAP, we utilize practice theory and the strategy-as-practice approach. Thus, we extend the discussion on the interplay between EO and ACAP by adding more microlevel theorizing on the underlying, generative micropractices in product innovation of specifically characterized SMEs. This study offers insights for managers by demonstrating a framework and practices of strategic agility to enable firms to capture the profitability derived from the interplay of entrepreneurial orientation and absorptive capacity in driving innovation.

2. THEORETICAL BACKGROUND

2.1 Defining EO and ACAP

The most commonly deployed conceptualization of EO is a strategic posture that captures a firm's inclination towards entrepreneurial behavior. Strategic posture refers to orientation, including strategy, culture and activities or practices. EO consists of three dimensions: proactiveness, innovativeness and risk-taking (Miller, 1983; Rauch et al., 2009). Proactiveness is the propensity to seek new market opportunities (Lumpkin & Dess, 1996). Innovativeness is the tendency to experiment with new ideas to introduce new products, services and processes (Covin & Slevin, 1991). Risk-taking involves making bold moves under uncertain circumstances when investing a firm's resources in projects with uncertain outcomes (Wiklund, 1999). Thus, EO is argued to be important to both smaller start-up ventures and larger existing firms and is considered especially beneficial to firms that must compete head-to-head with well-established competitors, as is the case for firms operating in well-established industries and mature markets (Lee, Lee, & Pennings, 2001).

Originating from the vast organizational or strategic learning literature, the notion of absorptive capacity refers to processes and routines facilitating knowledge acquisition, assimilation, transformation and exploitation (Jansen, Van den Bosch, & Volberda, 2005; Zahra & George, 2002). Knowledge acquisition capacity, defined as an organization's ability to identify and obtain external knowledge that may be valuable to the organization (Li, Cui, & Liu, 2017; Zahra & George, 2002), is central to capturing knowledge from interorganizational networks (Xie, Wang, & Zeng, 2018) and customer relationships (Kohtamäki & Partanen, 2016). Knowledge assimilation is defined as the ability to interpret, understand, and internalize the acquired information (Jansen et al., 2005). Transformation refers to the organizational routines,

processes, and practices that enable a firm to combine the recently acquired and assimilated knowledge with the existing knowledge base (Todorova & Durisin, 2007). Exploitation, the final element of ACAP, is an organization's ability to apply transformed knowledge to commercial ends (Cohen & Levinthal, 1990). ACAP is commonly considered a dynamic capability enabling a company to adapt to its operational environment (Eisenhardt & Martin, 2000; Sirén, Kohtamäki, & Kuckertz, 2012; Teece, 2007; Winter, 2003) and to implement strategic initiatives (Zahra & George, 2002).

EO and ACAP have been found to increase strategic agility and innovation capabilities, business model innovation, firm growth and profitability, but the relationship between EO, ACAP, mediating factors such as innovation (Sjödin, Frishammar, & Thorgren, 2019), and company performance has been found to be far from simple (Patel et al., 2015). At the microlevel of organizations, characteristics such as EO and ACAP can play an important role in facilitating strategic agility and business model innovation (Ghezzi & Cavallo, 2018), but the black box of EO and ACAP interplay calls for unpacking.

2.2 The role of practice theory in between EO and ACAP

We unpack the interaction of EO and ACAP by building on practice theory and strategy-as-practice (Whittington, 1996), which define practices as "routinized types of behavior" (Reckwitz, 2002: 249) that guide the actual activities or praxis of organizations (Brown & Thompson, 2013; Suddaby, Seidl, & Lê, 2013). Practices are often divided into sayings and doings and understood as inherently social (Seidl & Whittington, 2014). Thus, for practice theory, practices refer not only to 'practical' practices-in-use (Jarzabkowski & Kaplan, 2015; Knight, Paroutis & Heracleous, 2018) but also to narratives, discourses and organizational storytelling and rhetoric.

Hence, practice theory touches upon the themes of social practices (Whittington, 2006) and discursive practices (Vaara & Tienari, 2011; Mantere, 2013) as well as organizational sensemaking and cognition (Rouleau & Balogun, 2011). Practice theory takes a microperspective towards organizational practices, considering how the micro constitutes the macro (Kouamé & Langley, 2018) and how organizations and broader social institutions change through microlevel sayings and doings (Rouleau, 2005), with the sayings often becoming doings (Seidl & Whittington, 2014). Hence, practice theory embraces the role of the practitioner, the strategist, the actor who takes agency by conducting his development duties guided by inherently social practices that cultivate knowledge over time. Thus, practice theory embraces the mundane, everyday praxis, and practices developed in the nitty-gritty of the micro level (Whittington, 2018). According to practice theory, change begins at the micro level through activism that transforms organizations (Jarzabkowski & Spee, 2009; Whittington, 2006). Hence, it is an appropriate theory to study the interplay between entrepreneurial orientation and absorptive capacity, as the interplay between EO and ACAP begins from mundane, everyday praxis. In the present study, practice theory provides an interpretative lens to unpack the interaction between EO and ACAP and to apply a process theoretical perspective (Langley, 2007) to their interplay (Johannisson, 2011; Keating, Geiger & McLoughlin, 2014; Terjesen & Elam, 2009).

2.3 Interplay between EO and ACAP for Higher Profitability

Recent studies have shown that EO and ACAP interact to improve firm performance (Engelen et al., 2015; Patel et al., 2015; Wales et al., 2013). These effects have been argued to be realized particularly through innovation and learning processes (Kollmann & Stöckmann, 2014; Patel et al., 2015; Sirén, Hakala, Wincent, & Grichnik, 2017). Whereas entrepreneurial firms

enjoy increased alertness regarding innovative opportunity-seeking (Lumpkin & Dess, 1996), ACAP provides the means to acquire, assimilate, transform and exploit knowledge to identify and capture emerging opportunities (Zahra & George, 2002). Through these micropractices of knowledge absorption, ACAP can decrease variability (Patel et al., 2015) while increasing the efficiency of firm innovation efforts that result from EO. Thus, *ACAP can operate as a filter to decrease the possibility of negative innovation outcomes related to EO while simultaneously increasing the efficiency of innovation*. Hence, absorptive capacity is of paramount importance in exploratory innovation for firms with high EO levels (Patel et al., 2015; Solís-Molina, Hernández-Espallardo, & Rodríguez-Orejuela, 2018).

While the level of EO affects a firm's eagerness to search for new market opportunities, it also affects the characteristics of the opportunities that a firm desires to pursue (Bhuian, Menguc, & Simon, 2005). Entrepreneurial firms are attracted by unconventional products and services with high potential returns (Covin & Slevin, 1991) that may require heavy resource commitments and bold moves (Wiklund & Shepherd, 2005). Since innovative new product and service market entries tend to require ex ante investments before yielding initial returns (Miller & Friesen, 1982), entrepreneurial firms are more responsive to opportunities that might have been ignored by more reactive, less innovative and more risk-averse firms (Miller, 1983). Advanced knowledge acquisition practices enable entrepreneurial firms to be more effective in identifying opportunities with desirable characteristics (Annosi, Martini, Brunetta, & Marchegiani, 2018; Zahra & George, 2002). ACAP enables firms to efficiently acquire external knowledge (Kreiser, 2011), grants access to a wider range of external knowledge sources (Jansen et al., 2005) and facilitates additional knowledge acquisition in identified new market opportunities (Sirén & Kohtamäki, 2016; Zahra & George, 2002). Thus, *the interplay between*

EO and ACAP increases not only the number of encountered opportunities (Engelen et al., 2015) *but also the probability of recognizing and identifying higher numbers of high-quality opportunities with desirable characteristics such as high potential returns* (Anderson & Eshima, 2013).

Insert Figure 1 about here

EO may also increase a firm's willingness to be the first to introduce new products and services (Lumpkin & Dess, 1996) and a firm's responsiveness to ideas obtained from external knowledge sources (Zhao et al., 2011). Thus, entrepreneurial firms inherently enjoy increased speed in sharing new ideas inside the organization. Practices such as communication and cooperation enable firms to share knowledge even more effectively, while a lack of such practices can lead to communication barriers and conflicts (Engelen et al., 2015). Knowledge assimilation that occurs through collective-learning activities in which individuals and groups interact to discuss and exchange opinions, beliefs, and individual experiences, challenge each other's perspectives and present constructive criticism enables entrepreneurial firms not only to increase the speed of knowledge-sharing but also to identify and evaluate the potential value and risks associated with new opportunities (Zollo & Winter, 2002). Whereas faster knowledge-sharing and identification of the value of opportunities enable firms to engage in entrepreneurial behavior before the opportunity disappears or loses its attractiveness (Rothaermel & Alexandre, 2009), failure to assess the risks may lead to under- or overestimation of risk (Engelen et al., 2015). Underestimating risk can lead to high failure costs, and overestimating risk may decrease motivation to pursue entrepreneurial activities, leading to lost high-value opportunities. Thus,

firms capable of utilizing the interplay between EO and ACAP enjoy more effective sharing of ideas and improved ability to identify and evaluate an opportunity and the risks involved.

Entrepreneurial firms are attracted by first-mover advantages and are willing to experiment with new ideas to create novel products, services, and processes that may lead to high returns but also to high failure costs (Miller & Friesen, 1978). Advanced knowledge transformation practices enable entrepreneurial firms to increase the value of an opportunity through collaboration and knowledge-creation practices that facilitate creative processes and utilize existing knowledge bases to resolve issues related to new opportunities (Engelen et al., 2015). The capacity to transform knowledge also enables better risk management of fewer realized risks, leading to higher firm profitability (Kreiser, 2011; Patel et al., 2015). In return, risk-taking is suggested to facilitate the recombination of resources and learning of nonroutinized, trial-and-error knowledge. This capacity allows entrepreneurial firms to utilize their knowledge-based resources more thoroughly to capture new market opportunities (Wiklund & Shepherd, 2003) and enhance efforts to exploit knowledge and transform it into new resource bundles that create novel customer value (Wales et al., 2013). Thus, *the interplay between EO and ACAP facilitates the creation of meaningful applications and novel solutions for high-value opportunities and enables firms to manage the risks involved* (Cohen & Levinthal, 1990).

Greater numbers of recognized opportunities may tempt firms to engage in multiple entrepreneurial endeavors simultaneously (Wiklund & Shepherd, 2005) and diversify their business (Sapienza, De Clercq, & Sandberg, 2005). Efficient knowledge exploitation practices facilitate the opportunity-selection process and decrease the time to market (Clausen & Korneliussen, 2012) by enabling entrepreneurial firms to quickly recognize the most valuable opportunities (Covin, Green, & Slevin, 2006; Zahra & George, 2002) and identify profitable

customer segments (Engelen et al., 2015). Furthermore, because new product offerings are associated with imperfection (Zahra & George, 2002), entrepreneurial organizations can increase product-market fit by utilizing existing knowledge bases and customer feedback to take prompt corrective action when innovative offerings proactively delivered to the market fail to meet customer requirements (Liao, Welsch, & Stoica, 2003). Indeed, recent research has demonstrated the need of more agile approaches towards innovation (Sjödin, Parida, Kohtamäki and Wincent, 2020). Thus, *the interplay between EO and ACAP can enable firms to identify a higher number of opportunities with desirable characteristics, select the most valuable opportunity, further increase the value of the opportunity, decrease the time to market and manage risks, all of which can collectively improve firm profitability.*

3. DATA AND METHODOLOGY

We use a multiple case-study approach by investigating the micropractices underlying the interplay between a moderate level of EO and high ACAP. Our in-depth analysis is based on unique data collected from six cases that were carefully identified from generalizable quantitative data. Thus, the study is based on a mixed method, with a quantitative approach used for case selection and a multiple case-study method used for comparative qualitative and in-depth case analysis (Yin, 1998).

3.1 Case Selection and Sample

The case companies were selected based on a quantitative dataset collected through a survey questionnaire and linking the primary data with secondary financial data accessed through the ORBIS database. K-means cluster analysis was applied to the combined data by using

validated instruments adapted from prior studies, such as a 9-item measure for EO adapted from Patel et al. (2015) and a 22-item scale adapted from Jansen et al. (2005). Both instruments provided acceptable model fit (Bollen, 1989; Hu & Bentler, 1999). We used quantitative data and K-means cluster analysis to ensure the selection of the most appropriate cases for in-depth analysis (Piekkari, Plakoyiannaki, & Welch, 2010).

As the first step, 343 Finnish food manufacturing companies employing five or more people were identified from the ORBIS database. After identifying, contacting and sending the link to the web questionnaire to prospective subjects, the researchers received 118 responses, of which 98 were completely filled out and had profitability data available. When the quantitative data were analyzed via two-step cluster analysis with the two validated constructs of EO[1] and ACAP and one objective financial performance variable, the EBIT-% average over three years (2010, 2011 and 2012), three clusters of companies were found (Figure 2). The first cluster on the left represents a group of companies demonstrating below-average profitability, ACAP and EO. The high-performing cluster (cluster 2) represents very high values in EBIT-% and ACAP and slightly above-average levels of EO and included 26 companies, of which we selected six cases reporting above-average values for all the variables. From this cluster, we selected interesting companies with innovative business models employing novel forms of value creation, delivery and capture (Sjödin, Parida, Kohtamäki, & Wincent, 2020). The third cluster represents companies with highly negative EBIT-%, below-average ACAP and the highest EO.

Insert Figure 2 about here

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[1]EO, model fit: $\chi 2 = 36.97$, degrees of freedom (d.f.) = 23, $p = 0.033$, $\chi 2/d.f. = 1.61$, RMSEA = 0.075, and CFI = 0.973; ACAP, model fit: $\chi 2 = 184.74$, d.f. = 126, $p = 0.001$, $\chi 2/d.f. = 1.47$, RMSEA = 0.066, and CFI = 0.914.

3.2 Data Collection Process

First, we used the financial data from all companies in the industry, comparing the data for our selected cases against the overall industry data. We collected the survey data that we used to detect the interesting cases through cluster analysis. Then, we contacted the companies to confirm that the firms were active in terms of new product development and considered themselves efficient in introducing new products to the market.

Within the selected companies, we conducted 20 primary interviews. Additionally, 11 interviews were conducted with experts from other firms within the industry. We scheduled 20 primary interviews with representatives in each company who were aware of new product development activities (one of the companies provided only one interview). Taking into consideration the industry and the size of the companies (<50 employees), we selected the respondents from among CEOs, development managers and production managers. The interviewees had operated in their companies for a sufficient amount of time to have in-depth insight into firm strategy, structures, product development and customer relationships. The researchers conducted the interviews by using semistructured interview templates to encourage open dialogue on topics closely related to knowledge acquisition, assimilation, transformation and exploitation in the context of recognition and capture of new market opportunities. In addition, the interviews covered the main dimensions of EO, namely, proactiveness, innovation and risk-taking.

The interviews were recorded with the permission of the interviewees and transcribed by a professional agency. All the main findings were drawn from the primary interviews. The practical and detailed examples confirmed that the shared insight mainly arose from experience

with knowledge processes in the case companies and not from possible prior experiences in other companies or contexts. Furthermore, possible respondent bias was controlled for by comparing the answers and descriptions of the respondents in each company to enhance the reliability of the study. Alongside the primary case interviews, we conducted interviews with 11 experts from other firms in the industry to collect broader data and validate our interpretations of the industry, company business models, and the studied phenomena. Overall, the qualitative data included 31 interviews. Altogether, the transcribed data from the interviews included 234 000 words of text.

Insert Table 1 about here

3.3 Data Analysis

Data analysis was executed through simultaneous interpretation of the existing literature on EO and ACAP and the fully transcribed interview transcripts. Two researchers thoroughly examined all the transcripts, organizing the data into matrices and dividing observations of practices and micropractices related to new product development according the dimensions of ACAP and the evidence indicating the involvement of moderate EO. As part of the coding process, the researchers met repeatedly to discuss similarities and differences in their findings, read through the transcripts several times and cross-checked each other's observations to ensure that the data were thoroughly and correctly interpreted (Lincoln & Cuba, 1985). In this process, the depth of analysis evolved from the descriptive interviewee level to interpretative company- and cross case-level analysis, providing insight into the interplay of the main concepts.

At the beginning of the analysis, the researchers described the business model of each company to understand how product development in the case took place to contextualize the

findings. Each business model emphasizing product development was written out as a case description to discuss with the case company and among the researchers. This phase produced validated case descriptions and a thorough understanding of the case context in which product development and the interplay between EO and ACAP took place. The case analysis was built based on the company-level observations, interviewees' descriptions of their firms' business models and the information available on their companies' websites and in the ORBIS database. All the observations were referenced with the interviewee name, transcript page number or another source identifier.

In the second phase of analysis, we coded the data case-by-case by identifying the micropractices in case contexts and comparing the cases to generate a more holistic understanding of the data structure. During the analysis, we utilized the Gioia method (Gioia, Corley, & Hamilton, 2013) to identify the micropractices driving the effect of EO and ACAP on firm profitability. In this phase, we analyzed and described the data structure to understand the unique microprocess that is key to the influence of EO and ACAP on profitability. This phase aimed to go into greater depth on micropractices that previous quantitative studies have failed to unpack. During the analysis process, we identified first-order observations to conceptualize second-order micropractices and third-order practices (Figure 3) to structure the data. Finally, we produced a table summarizing the findings case by case. Categories and micropractices whose importance in achieving excellence in new product development was not supported by substantial cross-case evidence were eliminated. In the cross-case analysis, the research team discussed and reached an understanding of the data and our interpretations to evaluate the similarities and differences in the findings regarding the practices related to the interplay between EO and ACAP (Huberman & Miles, 1994). During the analysis, the empirical findings

were compared to the research on EO and ACAP and fine-tuned. Then, we produced the final research model.

Insert Table 2 about here

The accuracy of the interpretation of observations for both the within-case and cross-case analyses was controlled through transcription cross-checks by team members to ensure that all the relevant practices and activities were identified and that the interviewee expressions revealing the involvement of entrepreneurial proactiveness, innovativeness and risk-taking were recognized. To confirm our results, we deployed data triangulation by exploiting various data sources, such as quantitative survey data, interviews, websites, a secondary financial database (ORBIS) and a data-auditing technique in which two researchers read all the transcripts thoroughly to ensure data interpretation accuracy (Huberman & Miles, 1994). We crafted a data structure by assembling first-order observations into second-order microprocesses, which then generated third-order practices. To guide our analysis and conceptualization, we utilized the concept of data structure, although our approach was more abductive than purely inductive (Gehman et al., 2017; Gioia & Chittipeddi, 1991; Nag, Hambrick, & Chen, 2007).

Insert Figure 3 about here

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4. RESULTS

Our empirical results build on within- and cross-case analyses. Where within-case analysis provides an important overview of the contextual settings of the case companies (Table 3), the primary findings arise from cross-case analysis. The cross-case analysis is here deployed to identify the central profit performance-driving practices affecting the early stages (idea generation, screening and testing) of the new product development (NPD) process (Cooper, 1994). Particular focus is placed on explicating the empirical evidence of the micropractices through which the different dimensions of EO (proactiveness, innovativeness and risk-taking) and ACAP (knowledge acquisition, assimilation, transformation and exploitation) interact to increase firm profitability. As the case companies belong to the cluster of companies having slightly above-moderate EO and high ACAP, the analysis is performed with a focus on capturing the underlying practices in the essence of the interplay between EO and ACAP.

4.1 Within-case analysis

4.1.1 Pizza Company

This company operates in four different sectors: the restaurant business, HoReCa (Hotel, Restaurant, Catering) sales, grocery store sales, and services. The company produces bakery products for HoReCa customers and offers convenience foods and sauces to consumers via grocery stores. In addition, it has created an interesting service concept for event organizers that enables sports arenas and other similar customers to effectively operate fast-food service with an all-inclusive service concept delivered by the case company. The new product and service development activities of the company build on assessing the value produced for each actor in the value system. As observed, the firm operates effectively and is entrepreneurial and agile,

reacting rapidly to changes in customer needs and preferences with the aim of capturing value from new product and service opportunities.

4.1.2 Industrial Meat Company

Operating in the Finnish and Swedish markets, this company provides consumers with cold-smoked products and salamis. By interacting with domestic and international distributors and following public discussion, the company utilizes gathered knowledge to create additive-free, low-fat and organic products to satisfy growing demand from nutritionally aware consumers. The company has developed effective product development processes that seem to be capable of transforming new ideas into original products faster than the majority of their competitors in the market.

4.1.3 City Bakery

This company operates as a bakery specializing in Mediterranean and French breads. The company's products are available to consumers through several grocery stores and the company's regular marketplace booth. Furthermore, the products are actively sold to numerous hotel, restaurant and catering customers. The company cooperates with its customers to comprehend consumer consumption preferences to create more appealing product offerings. By combining highly productive processes and effective product development, the company is able to compete with other actors in its markets by offering a better price-to-quality ratio.

4.1.4 Traditional Meat Company

This company operates as a meat product wholesaler. It offers cooked and raw meat products to HoReCa customers and private consumers via grocery store meat counters and the company's own shop. The company specializes in providing cured meat products and meat-curing services to its customers but also offers other meat products to markets. The company actively gathers and utilizes knowledge concerning consumer consumption preferences via its store location to create new product offerings that satisfy existing customer demand. The company works in close cooperation with HoReCa customers to create new products for that sector.

4.1.5 Sauce Manufacturer

This company produces a large selection of different marinades, dressings, sauces, and spices. Additionally, the company offers its customers product development services free of charge to find new ideas and establish new business. The company's customers are mainly meat counters, meat-processing companies, and grocery stores. Working closely with customers to obtain feedback on products, the company then uses that information to introduce new products and further develop existing ones. Highlighting the importance of partnerships, the company's operations are very collaborative, thereby improving its understanding of its customers.

4.1.6 Additive-Free Bakery

This company operates several bakeries producing, among other things, gluten-free products. The company's products are available at its three own locations and numerous grocery stores due to cooperation with national grocery store chains. Additionally, the company offers its

products to some hotel, restaurant and catering (HoReCa) customers that request specific types of bakery products for their menus. The company frequently creates new experimental products that are available in its own locations; these products are assessed based on their popularity and further developed in response to consumer feedback. Viable products are then marketed via grocery store chains.

Insert Table 3 about here

4.2 Cross-case Analysis

4.2.1 Micropractices of proactive idea generation

New product idea generation as a starting point for the NPD process appears to be shaped by practices related to EO and ACAP. The case companies are characterized by increased organization-wide alertness to new market opportunities, ability to activate external parties to participate in idea generation, and willingness to rapidly share ideas. The direct interaction with consumers (end customers), retailers and other partners is one of the most valuable sources of new product ideas and entirely new product ranges; on one occasion, such interaction even serves as the initiator of the establishment of completely new production facilities. The case companies benefit from numerous possible points of contact with end customers, such as their own factory shops, their own cafeteria or restaurant services, separate sales points, active product promotions on the premises of retailers and interaction at food exhibitions. In direct customer interactions, not only directors but also other employees show increased alertness to new market opportunities through active listening and proactive engagement in discussions. For example, sales personnel are encouraged to engage in discussions with customers for new ideas and

feedback, push the discussions slightly deeper to better understand what is truly meant and document the findings. Here, organizational emphasis on knowledge acquisition coupled with increased entrepreneurial proactiveness appears to positively affect the ability to efficiently capture end-customer insight to generate new product potential.

Additionally, what appears distinctive to the case companies is that they are able to activate surrounding parties to proactively contribute to new product idea generation. Exhibiting genuine interest in ideas coming from external parties, interactions with consumers, and daily open dialogue with resellers – as well as other actors such as logistics companies and promotion service providers – initiates the process of organization-wide active knowledge acquisition crossing traditional organizational boundaries. For example, taking the initiative to discuss emerging trends and end-customer needs with the ground-floor employees of retailers or asking a delivery person for insight into well-selling products prompts external parties to share ideas on new market opportunities whenever they encounter them. Where increased proactiveness with advanced knowledge-acquisition and knowledge-assimilation capabilities activates external parties, an increased level of entrepreneurial innovativeness, manifested in organization-wide openness towards new ideas, decreases resistance to "not-invented-here" ideas inside the focal company. Organization-wide innovativeness enables knowledge assimilation to begin alongside knowledge acquisition in customer interactions, facilitating the interpretation of the acquired knowledge so that the right conclusions can be drawn.

Furthermore, the case companies are eager to rapidly share the gained insight within the focal company. By being encouraged to document and share observations and new ideas, entrepreneurial firms with advanced knowledge-processing capabilities are increasingly able to connect the acquired knowledge with the existing knowledge base. Here, the interplay between

increased proactiveness and innovativeness and high knowledge-acquisition and knowledge-assimilation capabilities affects the speed of the NPD process by quickly feeding ideas into the screening phase and exposing them to a broader audience inside the focal company. In this endeavor, companies appear to benefit from increased alertness to new product and service ideas and other market opportunities and from the mindset of immediately sharing the observations within the organization.

4.2.2 Micropractices of value-driven product development

The screening process builds on efficient knowledge processing, exploiting informal daily dialogue, promoting the originality of the new product idea, and evaluating the value potential for the entire value system and the ability to utilize the existing resource base. First, to complete the assimilation of the acquired knowledge and transform the raw ideas into valuable insights, the case companies rely on informal daily dialogue. Increased innovativeness manifests itself in discussions at coffee breaks and during daily operations, where new ideas are evaluated and developed further. Openness to new external ideas and willingness to innovate new products enable firms to transform assimilated customer insight into testable product ideas. The companies make use of the time spent in production processes and on coffee breaks to brainstorm around the acquired information and extract valuable new ideas from it. Infused new-idea screening practices demonstrate embedded proactiveness, innovativeness, assimilation, and transformation practices through which new ideas are evaluated. Serving as a capacity to turn the acquired and assimilated knowledge into potential new products that meet the requirements of established product strategy and customer needs, knowledge transformation is critical to facilitating entrepreneurial innovativeness by the case companies.

The screening process also reflects increased innovativeness by emphasizing new-product uniqueness. The aspiration to transform ideas into novel product concepts benefits from knowledge-acquisition practices and entrepreneurial proactiveness to explore the existing products on the market, enabling firms to evaluate the originality of new product ideas. By emphasizing new-product uniqueness, the case companies ease their access to retailer shelf space and can avoid head-to-head competition affecting new product profitability, the central criterion for new-idea evaluation. Original product ideas and the refusal to copy competitors indicate strengthened proactiveness and the capability to create successful original products. These characteristics require innovativeness, which together with proactiveness indicate enhanced EO.

At the new-idea screening phase, the focus is on the value produced for the entire value system, meaning that the case companies consider value for end customers, retailers, wholesalers and the focal company itself. Finding an optimal balance among customer value, attractive prices and high profit margins is at the center of knowledge transformation. Successful products embed low development, raw material, manufacturing and delivery costs; high value for the end customer; and attractive profit margins for firms operating within the value system. Based on knowledge of critical price points and stakeholder profit margins, companies improve their capability to assess product ideas and create products that are financially appealing to customers. Calculating prices in the idea-screening phase decreases the risk of product failure.

Finally, the results show that the case companies place considerable emphasis on product profitability, product pricing and reseller profits by engaging in opportunities that can be captured with existing resources and capabilities. The new offerings are developed such that they can be produced with existing resources without making heavy investments in new capabilities or equipment. Thus, a great majority of the new product and service innovations are more

incremental than radical. As the case companies do not search for opportunities in completely new markets or industries, a very high level of proactiveness or innovativeness is not required, as would be the case with new market entries with highly innovative product or service concepts. Furthermore, product development utilizing existing capabilities and resources lowers the required level of risk-taking.

4.2.3 Micropractices of market-driven product commercialization

The case companies are efficient in building early prototypes of the ideas found attractive at the screening phase, collecting feedback from customers to further coordinate the development process and capturing the value of new products that are still under development. Here, transformed knowledge is exploited to build minimally viable products on a small scale. Building early prototypes in the new-product concept-development and testing phases speeds up the product-development process. EO influences this process by increasing the speed and determination of acquired knowledge internalization. For instance, the case companies highlight that the process from knowledge acquisition to assimilation and transformation may sometimes take only days – firms interpret and react immediately when they encounter challenges in product sales.

Prototypes are directly tested with consumers and resellers to proactively acquire early feedback, which is exploited to further develop products but also to quickly abandon unviable ideas. Thus, knowledge acquisition appears to provide essential information for the assimilation, transformation and exploitation of knowledge and not only serves as a common initiating capacity for the new-product idea-generation process but also tightly interrelates with the later NPD phases. Here, entrepreneurial orientation, particularly proactiveness, facilitates cooperative

operation and proactive feedback-gathering in product development and testing. Being able to acquire, assimilate and transform insight into prompt corrective action enables the case companies to manage the risk of launching a failing product on a full scale. Since the prototype-testing processes are based on the acquired feedback, the companies' perceived risk becomes lower than it would be without that feedback knowledge.

The case companies tend to capture the value of the prototypes by already selling the products in the development phase. In addition to enabling direct consumer interaction and a continuous feedback loop, prototype testing with end customers also serves as a promotional activity. Therefore, the companies rely on product sampling days in supermarkets, which provide customer feedback and increase sales. For example, in some cases, even the head of new-product development (master chef) him- or herself engages in product promotion activities to capture authentic first-hand end-customer reactions. Thus, the companies do not rely on expensive marketing campaigns but rather believe that their high-quality products speak for themselves and are capable of attracting consumer purchases after sample testing. By verifying retailer and consumer preferences and increasing market awareness through prototype selling, firms are able to not only reduce the risk related to the final version of the product but also finance the early development phase. Building on early prototypes decreases both market risk and financial risk.

The capacity to exploit new knowledge builds on leveraging the acquired, assimilated and transformed knowledge to enter markets with new products. These companies are familiar with effective prototype development and enter smaller local markets to determine whether new products are capable of succeeding. If the products succeed in these local markets on a smaller scale, then the new products are introduced to a larger audience by using the early success as a reference to strengthen the companies' positions in future sales negotiations with other

customers. Here, entrepreneurial proactiveness to increase the sales of new products is facilitated by the ability to efficiently exploit customer feedback. Table 4 provides quotes as illustrative evidence of the micropractices found.

Insert Table 4 about here

4.3 Towards an entrepreneurial innovation practices framework

Finally, we can synthesize the findings into our final model. Figure 4 summarizes the micropractices that drive profit from the interplay between EO and ACAP. Figure 4 synthesizes the main results and contributions of this study, describing how EO and ACAP materialize into practices and micropractices that lead to firm profitability.

Insert Figure 4 about here

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5. DISCUSSION AND IMPLICATIONS

5.1 Theoretical contributions

This study set out to reveal the underlying practices and micropractices that drive the profit outcomes of the EO-ACAP interaction. Our findings extend the ongoing discussion on EO's interrelationship with other factors (Lumpkin & Dess, 1996; Rauch et al., 2009). Whereas recent quantitative studies have shown that EO and ACAP interact to improve performance (Engelen et al., 2015; Wales, Parida & Patel, 2013), our findings unpack the essence of the interplay between these two strategic constructs. Thus, this is one of the first empirical studies to

systematically examine the interaction between EO and ACAP and does so in the specific context of SMEs characterized by a moderate to elevated entrepreneurial posture, high ACAP and high profitability. In this sense, these firms employed a combination of EO and ACAP that produced high profitability and therefore had found an optimal level of EO in their context (Dai et al., 2014; Patel et al., 2015; Wiklund & Shepherd, 2011). By demonstrating how a moderate level of EO helps define the characteristics of new market opportunities that highly profitable SME firms operating in a well-established industry pursue, our analysis increases the understanding of the effects of a moderate entrepreneurial posture on the innovation process and firm profitability (Alegre & Chiva, 2013; Ghezzi & Cavallo, 2018; Kollmann & Stöckmann, 2014). To identify micropractices, we used practice theory, which encourages the use of inherently qualitative and discursive approaches.

By identifying three dominant practices – 1) proactive idea generation, 2) value-driven product development, and 3) market-driven product commercialization – and nine micropractices, our results demonstrate how firms with moderate EO benefit from high ACAP and vice versa. First, based on our findings, it appears that companies with advanced learning and knowledge-processing capabilities, such as ACAP, benefit from increased alertness to new market opportunities (Lumpkin & Dess, 1996), openness to new ideas (Zhao et al., 2011), and courage to experiment, which are typical in entrepreneurial firms (Kollmann & Stöckmann, 2014; Lumpkin & Dess, 1996). What appears distinctive to the case companies is how a moderate level of EO manifests as genuine interest in ideas coming from customers and partners (Zhao et al., 2011) and how its interplay with high ACAP facilitates cross-organizational knowledge-sharing (Lane, Salk, & Lyles, 2001). By exhibiting proficiency in communicating (ACAP) and responsiveness to external ideas (EO), the case companies activate external parties

to proactively identify, generate and share ideas for new market opportunities. While customers as a primary external knowledge source have already been found to drive high firm performance in similar contextual settings (Grimpe & Sofka, 2009), our novel findings demonstrate that the interplay between moderate EO and high ACAP can increase efficiency in generating ideas to capture new market opportunities, likely affecting overall firm performance.

Second, our findings are aligned with previous research suggesting that high ACAP facilitates inter- and intraorganizational knowledge transfer, especially through informal daily dialogue (Lane et al., 2001), which enables firms to share, evaluate and further develop newly recognized market opportunities. Whereas other results suggest that firms with moderate EO focus on the delivery of high customer value by producing market-oriented innovations (Bhuian et al., 2005), which thus are rather incremental in nature (Baker & Sinkula, 2005), our case companies are distinctive in that they build new-idea screening into the evaluation of potential value for all actors in the value system. Here, efficient utilization of internal and external knowledge enables firms to develop ideas with attractive end-customer value and appropriate prices and to secure adequate profit margins for resellers and the focal company. Moderate EO appears to further facilitate firm profitability by driving an emphasis on new-product originality and a willingness to differentiate offerings from competing alternatives (Lechner & Gudmundsson, 2012), enabling these firms to be noticed by the end customers (Song & Parry, 1997) and command higher profit margins (Boulding, Lee, & Staelin, 1994).

Third, our results demonstrate how the case companies experiment with early prototypes, which can partly explain why an increase in EO has previously been found to increase new-product speed to market (Clausen & Korneliussen, 2012). What is distinctive to the case companies is that they are not only enthusiastic about trying new ideas with customers but also

concerned with capturing authentic end-customer reactions to experimentation. Here, high ACAP facilitates proactive feedback-gathering through practices of knowledge acquisition, assimilation and transformation occurring in parallel, enabling increasingly entrepreneurial firms to execute prompt corrective action when required (Engelen et al., 2015). Furthermore, experimenting with prototypes with paying customers enables the case companies to capture value even in the early stages of the new-product development process, increasing revenues while promoting the new products and decreasing marketing costs.

As discussed in detail above, our findings add to existing knowledge on how micropractices drive profit outcomes from the interplay between EO and ACAP. Hence, our study extends the previous quantitative research demonstrating the effect of the interaction of EO and ACAP on firm profitability by providing detailed accounts of the micropractices that drive profit outcomes. Hence, the study also contributes to emerging research on organizational practices by shedding light on the role of micropractices related to the interplay between EO and ACAP. Perhaps this study can be one of the earlier studies to bridge the gap between the strategic orientations and practice theory literatures. Practice theory provides a perspective on everyday microlevel practices, highlighting their role and evolution from micro to macro (Kouamé & Langley, 2018). Practices are inherently social, carrying knowledge over time. Social practices, such as sayings and doings (Jarzabkowski & Kaplan, 2015; Seidl & Whittington, 2014; Vaara & Whittington, 2012), have an important role in entrepreneurial companies and much insight to reveal through research on EO and ACAP, among other constructs. This practice theory-based look at the interplay between EO and ACAP extends the previous quantitative research, providing a more detailed view.

Finally, we address the method used in this study to identify interesting cases based on a generalizable quantitative dataset and K-means cluster analysis, followed by the collection of in-depth qualitative data from the identified cases to create unique insight into a theory that has been mainly constructed based on quantitative research. Perhaps this type of methodological approach can provide some insight for future research in different fields.

5.2 Managerial contribution

The study provides interesting managerial insight into the use of knowledge in new-product development process through unpacking the interplay between EO and ACAP. In profitable firms, new product ideas often derive from external sources but are quickly brought inside the company to be evaluated and further developed to improve the value potential across the value chain. Embracing this proactive stance by engaging in informal dialogue with external stakeholders but also within the organization appears to facilitate innovation and information acquisition, assimilation, and transformation practices. By creating a culture enabling informal communication, organizations enhance their knowledge-based resources and utilization of knowledge. The case companies also illustrate practices that enable quick failure and adjustment through trial-and-error learning. Instead of aiming to introduce ready or perfect products to markets, profitable organizations build the early stages of their product-development process on a constant customer- and consumer-feedback loop. Such an approach ensures that organizations' new offerings draw demand from the customer side and that innovations match customer preferences. Sourcing new product ideas from customers and end users, organizations can also reduce requirements for unnecessary risk-taking.

Furthermore, potential new products are developed with a constant strong focus on profitability and gross margins throughout the process. Since the profitability of a product or service is well planned from the beginning of the innovation process, it is likely that the product will end up with viable profit margins for major stakeholders within the entire value system. By operating in this manner, the companies are able to quickly discard unviable ideas. Thus, although new product and service innovations facilitated by high ACAP and moderate EO appear to be rather incremental, managers seeking high firm profitability should seek to develop such a combination of these organizational characteristics.

5.3 Limitations and suggestions for future research

In an analysis of microlevel practices, a well-outlined contextual setting is necessary to produce meaningful insights and applications. The sample in our study, being almost disarmingly small food enterprises, may limit the application of the findings to some extent. Whereas our analysis increases our understanding of the micropractices that mediate the impact of the interplay between EO and ACAP on firm profitability in the particular context of SMEs operating in a mature industry, future studies could further the discussion by focusing on dissimilar contextual settings and other dimensions of firm performance. Moreover, where our results add to the ongoing discussion on EO's interrelationship with other factors by investigating the interplay with ACAP (Lumpkin & Dess, 1996; Rauch et al., 2009), in-depth investigations on the interplay with other capabilities through which the full potential of very high EO can be captured represent interesting opportunities for future research. In addition, the role of key individuals such as founders or innovation champions should be studied further in the context of ACAP and EO (Sjödin et al., 2019). Finally, our findings indicate that different

dimensions of ACAP appear to be activated simultaneously in our case companies, enabling them to enjoy highly efficient knowledge utilization. This finding encourages scholars to investigate the nature of ACAP by challenging the assumption of the sequential order of the different dimensions of ACAP. Future studies could investigate how to facilitate parallel execution of ACAP activities in larger firms.

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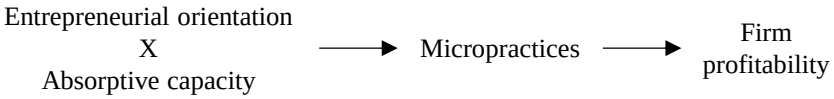

Figure 1. How micropractices drive profitability through the interplay between EO and ACAP.

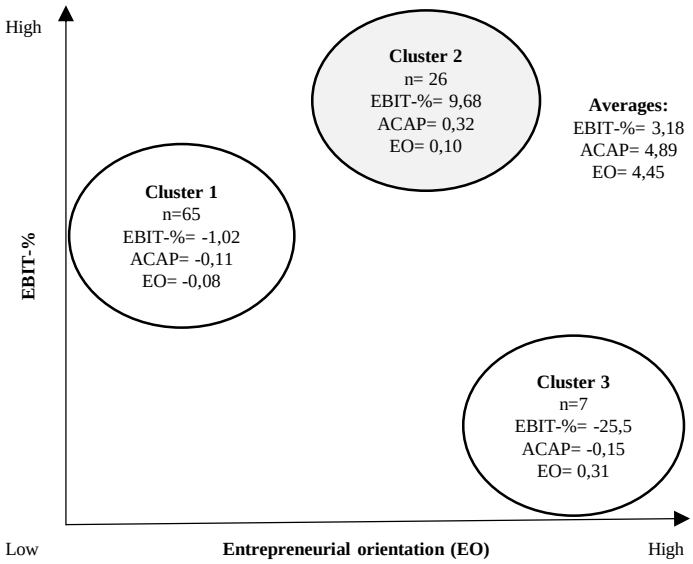

Figure 2. Three clusters identified through K-means cluster analysis. Variable values are mean-centered values.

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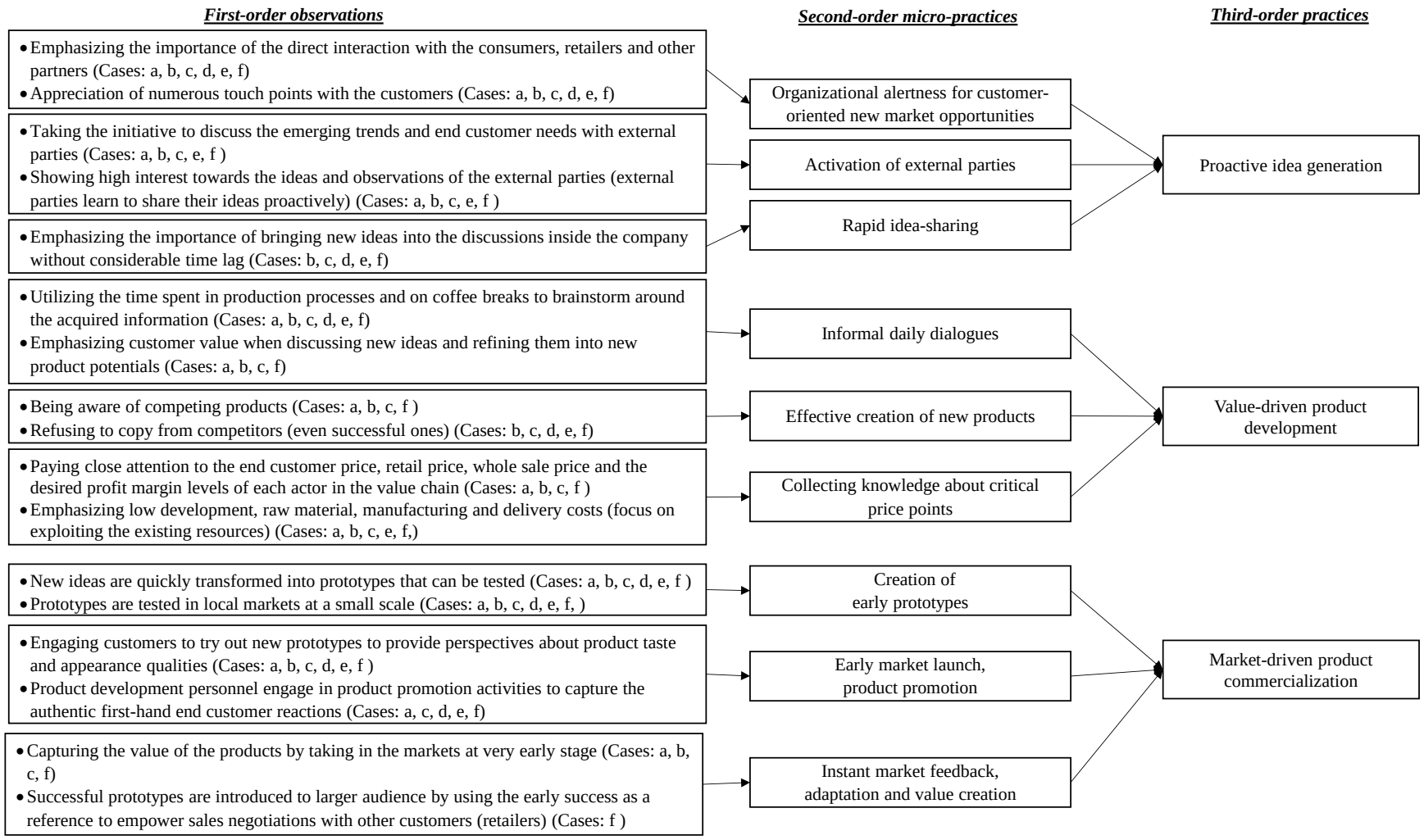

Figure 3. Findings illustrated through the data structure (Nag, Corley, & Gioia, 2007).

Figure 4. Practices and micropractices of entrepreneurial innovation.

Table 1. Description of the primary data.

Company	Revenue 2013	Profit% 2013	Primary business model
Industrial Meat Company	€20.20 m	8.80%	Small variety of cold meat products. Very narrow scope of products. Distribution mostly through large channel partners.
City Bakery	€1.10 m	6.33%	Bakery products with broader scope. Hotel, restaurant, and catering (HoReCa) customers; a large number and variety of customers.
Additive-Free Bakery	€5.50 m	9.25%	Additive-free bread products. Relatively narrow product scope. Distribution mostly through large channel partners with geographically limited scope. Additionally, HoReCa and three own stores.
Pizza Company	€2.10 m	20.77%	Manufacture, delivery and sale of pizza with their own brand. Own restaurants, sales through distribution channels, service concept for variety of festivals. Reasonably focused scope regarding products, but relatively broad scope of distribution channels.
Traditional	€1.20 m	6.61%	Meat product wholesales. Cooked and raw meat product distribution to

Meat Company			HoReCa customers and private consumers via channel partners.
Sauce Manufacturer	€1.00 m	20.79%	A broad array of marinades, dressings, sauces, and spices. Sales to meat counters, meat-processing companies, and grocery stores. Important partnerships, as well as free product-development services to generate new product ideas.

Table 2. The process of analysis.

Stage	**Analytical Activities**	**Output**
1. Create description of each case to contextualize the studied micropractices	1. Describe each case and its business model to contextualize the findings 2. Share the description with the case company and interviewees to discuss and improve validity	● Validate description of each studied case
2. Identify how EO and ACAP materialize in each case and through what types of micropractices they impact profitability	3. Code the data from each case and identify the micropractices enabling the effect of EO and ACAP on profitability: (a) Identify first-order observations from each case and compare cases (b) Describe second-order micropractices (c) Conceptualize third-order practices based on second-order micropractices and first-order observations (d) Produce a table summarizing findings on a case-by-case basis using the identified practices and micropractices	● Code results regarding the micropractices emerging from the data
3. Combine data and literature to build a theoretical model	4. Compare the empirical findings with the EO and ACAP literature 5. Fine-tune and finalize the data structure 6. Create the final research model	● Synthesize the final model on the micropractices enabling the effect of EO and ACAP on profitability

Table 3. Illustrative examples of quotes demonstrating the results on a case-by-case basis.

Cases	Proactive idea generation	Value-driven product development	Market-driven product commercialization
a. Pizza Company	*"Interaction with the customers is truly important. If a customer asks whether we sell a 'simsalabim' thing, don't just reply 'no' but also make notes on it, so we get the information"* *"We listen all the time. … We continuously adjust and fine-tune."* *"Just a little while ago, we received feedback. … The customer felt that the servings were too simple, and … the next day, we took action. We brought it up and started developing it. … This is our way of operating. … We react to a situation when it occurs."*	*"Now the stores have started understanding this. … It is not only how much they sell but rather that they sell the right products, which have profit margins. The store gets damn good profit margins from our products. Then they also want to put them on nice displays in the good spots inside the stores."*	*"Customers have requested such a thing, and maybe at some point, we can take it into consideration and start thinking about it."* *"One celebrity (name hidden) recommended our pizzeria company in a newspaper interview. … The next day, we took it [the mentioned pizza]… as our recommended pizza."*
b. Industrial Meat Company	*"New ideas emerge from everywhere. … Everyone should keep their eyes and ears open, and we have been, in this house, always very open to new insights and ideas and have followed the market very carefully."*	*"Outsourcing of logistics is big part [of new development efforts]. We analyze now more systematically than before [what we should develop], and delve deeper into this sausage market, making investments to [company x's] consumer panel, and [company y's market] tracking data. We analyzed the market and its needs and searched for blank spots, what is missing."* *"We should get more kilos [of meat] through the process. … In our plan, we have many investments that are related to development of our competitiveness."*	*"We are a rather small company, but in this salami business, we are a big player, but small and flexible in our own way, so we can really quickly turn an idea into a product. It does not require that much bureaucracy, after all."* *"How we get it [market knowledge] developed further, and [we tried] to determine where it is understandable and to get the relevant information out of it."*

c. City Bakery	*"One worker once said to me, 'You are the managing director, you decide.' I said, 'No, we have 50 customers on a daily basis, and those are my superiors. We are here working for the customers,' I told him."* *"At the moment, investments have been minor. … Customer orientation is the most important thing. We cannot lose that. … All the other technical things and the rest can be solved in time."*	*"While working, we have lots of time to discuss informally about how we do things and where we are saving (money). … At the oven or at the dough-making station… we discuss these things and what we could do and where we could get raw material or what kind of raw material suppliers there are."* *"I have tried to differentiate our portfolio from what the big bakeries do. … For example, the abandoning of rye bread. In addition, the making of artisan breads and Mediterranean breads. … We have many products that our competitors do not have."* *"At the moment, investments have been minor. … Customer orientation is the most important thing. We cannot lose that. … All the other technical things and the rest can be solved in time."*	*"We offer these conversions to our current customers and purchasing managers… and we can see… if there is demand for that kind of product. If there is, then it is easy to bring a similar product, yet a bit different, to other customers. … We can try it out in small quantities and see how well they sell. Usually, it can be seen pretty quickly."*
d. Traditional Meat Company	*"For Labor Day, we made one version of it [sausage], and this week we'll make a new one. The customer tried it and wanted changes, which we will now make. The product will match the customer preferences."*	*"It pretty much happens here when we are having coffee. So if some customer from somewhere asks for some special kind of product, we start developing it, considering what could be the idea, and someone might get an idea, 'Yes, let's try that,' and then we start developing from there."* *"No point of copying them [competitors], as they do them so cheap, so no. We would not experience it [the product] as ours."*	*"If we develop a new product, we make a prototype of it and take it the customer… in a personal visit… and then he tastes it. … He accepts the product as it is or gives us improvement ideas. … In the end, the consumers will make the final decision."* *"In [larger supermarket chains], we are present in stores. We deliver our products there and have our representative, who demonstrates the products and gives samples, and from that, we gain customer awareness and enhance our sales."* *"We can make decisions … in a day here; when some big meat refinery … starts making decisions, it will take them months. … This is like a fast-turning ship. … I know how slow those big, unwieldy ships [large corporations] are to turn. It might take them a year before anything actually happens."*

e. Sauce Manufacturer	*"We have had the huge strength that … we have had good relations with shopkeepers, so that we have information well in advance on what they are going to require in the future. … with this (information) we have gained new customers."*	*"We don't think that we need to start copying our competitors, even if we see that they have some novel product."* *"Since we mostly make the same kind of products that we always have, we don't have to make investments. … We'd rather stick to the markets that we have gained access to, so we don't try anything more extraordinary than anyone else; instead, we stay rational, and since we have some markets, we will look after them."*	*"It does not matter to us if we make a small number of products and they don't get sold. After that, we just do not make them anymore. It is not a problem for us. We can make small quantities, and we can make large quantities."* *"Sometimes, we have a chef giving out samples on our behalf. … He goes next to a meat counter and gives samples of either fish or meat products that are seasoned with our products. Then, he gives us feedback on what the customers have liked, and at the same time, we can boost the sales of our new products such as meat seasoning oils or chili pepper oils."*
f. Additive-Free Bakery	*"We might ask customers directly … or we hear a lot from product representatives … and bread department managers talk to our delivery drivers… and the customers [talk to us] directly at the store. … The reaction of the customers is the most important thing."* *"If we take a competitor [large corporation], for example,… they cannot just take their products to the store and say, 'Sell these'…. It will take them a year or two. During those two years' time, we have brought six new products to the market and have already shut down the majority of them. For us, business is fast like that."*	*"For the producer, there will be certain costs, but if it is so high that the customer does not want to pay it, then … something has to be changed in the whole process, in the raw materials or in some other parts, or the product just cannot be released to the markets."*	*"It is easier to bake breads and take them up to our store for sale and see if they get sold. I ask the sales clerks, since it has been a good day, 'What do the customers buy and what do they like?' And then they say that the customers have praised the mämmi [traditional Finnish dessert] and said that is the best. A couple of hundred people have bought it and five have said that it is the best they have ever had. Then, we will lock the recipe down, and we won't change it anymore."* *"When the product has been finished and the sample tested, maybe experimentally sold at our store, then after that we can pretty quickly see whether people are interested in it and whether we should take it to nearby supermarkets or not. … We first try with a small volume in one location before we expand to all the stores."* *"Today, we plan and make. Tomorrow, it is already for sale. And we get the money on the same day. We get a constant flow of cash without any half-year waiting periods. Since we have our own store, we can sell the experiments to customers. Then, our sales clerks will give us feedback on what things the customers like."*

Table 4. Evidence on the micropractices through which the interplay between EO and ACAP impacts firm profitability.

Practices	Micropractices	Extracts
Proactive idea generation	Organizational alertness for customer-oriented new market opportunities	*"New ideas emerge from everywhere. … Everyone should keep their eyes and ears open and we have been, in this house, always very open to new insights and ideas and have followed the market very carefully."* (Industrial meat company) *"We listen all the time. … We continuously adjust and fine-tune."* (Pizza company) *"One worker once said to me, 'You are the managing director, you decide.' I said, 'No, we have 50 customers on a daily basis, and those are my superiors. We are here working for the customers,' I told him."* (City bakery)
	Activation of external parties	*"We might ask customers directly … or we hear a lot from product representatives … and bread department managers talk to our delivery drivers… and the customers [talk to us] directly at the store. … The reaction of the customers is the most important thing."* (Additive-free bakery) *"We have had the huge strength that … we have had good relations with shopkeepers, so that we have information well in advance on what they are going to require in the future. … with this (information) we have gained new customers."* (Sauce manufacturer)
	Rapid idea sharing	*"Interaction with the customers is truly important. If a customer asks whether we sell a 'simsalabim' thing, don't just reply "no" but also make notes on it, so we get the information"* (Pizza company) *"If we take a competitor [large corporation], for example,… they cannot just take their products to the store and say, 'Sell these'…. It will take them a year or two. During those two years' time, we have brought six new products to the market and have already shut down the majority of them. For us, business is fast like that."* (Additive-free bakery)
Value-driven product development	Informal daily dialogues	*"While working, we have lots of time to discuss informally about how we do things and where we are saving (money). … At the oven or at the dough-making station… we discuss these things and what we could do and where we could get raw material or what kind of raw material suppliers there are."* (City bakery)
	Effective creation of new products	*"It pretty much happens here when we are having coffee. So if some customer from somewhere asks for some special kind of product, we start developing it, considering what could be the idea, and someone might get an idea, 'Yes, let's try that,' and then we start developing from there."* (Traditional meat company)
	Collecting knowledge about critical price points	*"Now the stores have started understanding this. … It is not only how much they sell but rather that they sell the right products, which have profit margins. The store gets damn good profit margins from our products. Then they also want to put them on nice displays in the good spots inside the stores."* (Pizza company) *"For the producer, there will be certain costs, but if it is so high that the customer*

		does not want to pay it, then … something has to be changed in the whole process, in the raw materials or in some other parts, or the product just cannot be released to the markets." (Additive-free bakery)
Market-driven product commercialization	Creation of early prototypes	*"We offer these conversions to our current customers and purchasing managers… and we can see… if there is demand for that kind of product. If there is, then it is easy to bring a similar product, yet a bit different, to other customers. … We can try it out in small quantities and see how well they sell. Usually, it can be seen pretty quickly."* (City bakery)
	Early market launch, product promotion	*"One celebrity (name hidden) recommended our pizzeria company in a newspaper interview. … The next day, we took it [the mentioned pizza]… as our recommended pizza."* (Pizza company) *"Today, we plan and make. Tomorrow, it is already for sale. And we get the money on the same day. We get a constant flow of cash without any half-year waiting periods. Since we have our own store, we can sell the experiments to customers. Then, our sales clerks will give us feedback on what things the customers like."* (Additive-free bakery)
	Instant market feedback, adaptation and value creation	*"Customers have requested such a thing, and maybe at some point, we can take it into consideration and start thinking about it."* (Pizza company) *"How we get it [market knowledge] developed further, and [we tried] to determine where it is understandable and to get the relevant information out of it."* (Industrial meat company)