

# Linking Effectuation Logic With Business Model Innovation in the Context of Swiss Start-Ups

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**Abstract:** Effectuation and business model innovation (BMI) are research topics that are frequently discussed in the literature. While effectuation describes the effectual behaviour for founding a start-up with an emphasis on using currently available means, BMI is considered a way of creating a business model with long-term competitive advantages. Both approaches are valuable for start-ups pursuing growth in an uncertain environment. This work-in-progress paper presents insights from the reviewed extant literature. Further research will investigate effectuation and its enabling impact in designing innovative business models in the context of Swiss start-ups.

**Keywords:** effectuation, business model innovation, relationships between entrepreneurial approaches, start-up behaviour

## 1. Introduction

In recent decades, effectuation and BMI have been frequently discussed research topics in the literature. While effectuation logic describes the effectual behaviour for founding a start-up with an emphasis on using currently available means, BMI is considered as a way of creating a business model with long-term competitive advantages. Consensus exists in the theory and practice with respect to the different dimensions of effectual behaviours (e.g., partnerships and alliances, experimentation) and dimensions of BMI (e.g., value proposition, value chain). Effectuation may lead to BMI and helps start-ups navigate uncertain environments by creating business models with long-term competitive advantages. The main goal of this research-in-progress is to examine the extent to which effectuation logic is an enabling aspect of BMI and to investigate the causal relationship between these two entrepreneurial approaches. Further research will investigate effectuation and its enabling impact in designing innovative business models in the context of Swiss start-ups.

This paper is structured as follows: first, the methodology is outlined for this research going forward. Second, the reviewed literature is presented which is to be extended further. Third, the conclusion identifies avenues for further research.

## 2. Methodology

This work-in-progress paper will first lay the foundation by reviewing the literature on effectuation and BMI. A thorough literature review will be conducted next with special emphasis on the impact of effectuation in designing innovative business models. The research will then examine a sample of 24 innovative Swiss start-ups for their application of effectuation logic. The sample will be reviewed for evidence of BMI and causal relationships between the two approaches.

## 3. Literature review

In this section, we introduce the ideas of our background theory, effectuation logic and BMI.

### Effectuation logic

Literature on entrepreneurial behaviour presents effectuation and causation (Sarvasvathy, 2001, 2009) as opposing logics that entrepreneurs follow to make decisions as they react to changes in the business environment. Effectuation can be understood as a form of logic reasoning which can be applied by entrepreneurs in uncertain environments and describes the effective procedure for founding a start-up with special emphasis on using currently available means. Sarasvathy (2001) defines effectuation as “processes that take a set of means as given and focus on selecting between possible effects that can be created with that set of means”. In contrast, the causation logic is defined as “processes that take a particular effect as given and focus on selecting between means to create that effect” (Sarasvathy, 2001: 245). The effectuation logic assumes

that entrepreneurs themselves create and/or co-create business opportunities, recognise and exploit them (Dew et al, 2008; Read, Song and Smit, 2009; Sarasvathy and Venkataraman, 2011). Five principles and a dynamic cycle define the effectuation logic:

*Means:* Entrepreneurs start with the available means, which can be grouped in three categories: “who I am” (personality), “what I know” (expertise) and “whom I know” (social network). Relevant means include competencies, assets, technological capabilities, internal R&D investments, capital and intellectual property (Read, Song and Smit, 2009).

*Affordable loss:* Entrepreneurs focus on the downside risk. They define what they can afford to lose at each step focusing on cost control rather than expected incomes. This basically relates to experimentation in that it represents a criterion upon which entrepreneurs make decisions (Chandler et al, 2011; Chandler, DeTienne and Mumford, 2007; Sarasvathy, 2001). Pivoting rapidly and early in the process helps entrepreneurs to control costs and therefore manage downside risks (Read, Song and Smit, 2009).

*Partnerships and alliances:* Entrepreneurs build partnerships and alliances with self-selecting stakeholders (e.g. customers, suppliers, other companies from the entrepreneur’s network) enabling them to minimize uncertainty and co-create complementary assets (Chandler et al, 2011; Chandler, DeTienne and Mumford, 2007) – thus accessing means and going beyond competitive thinking (Perry, Chandler and Markova, 2012; Read, Song and Smit, 2009). Through the involvement of stakeholders, entrepreneurs can, to a certain degree, exercise control over the future, making the need to predict it less relevant (Chandler et al, 2011; Sarasvathy, 2001).

*Leverage contingencies:* Entrepreneurs exploit prior knowledge and contingencies instead of developing “what-if” scenarios and how to deal with the worst-case scenario. Because no specific goal is set, the result of this process might be completely different from the original idea that led to the formation of the venture in the first instance (Read, Song and Smit, 2009).

*experimentation:* Entrepreneurs experiment with different approaches prior to defining the business concept (Sarasvathy, 2001; Chandler, DeTienne and Mumford, 2007). As no historical data exists to make informed decisions, entrepreneurs instead experiment with a series of trial-and-error changes pivoting between different approaches. Experiments with mediocre outcomes are halted, enabling the entrepreneurs to focus on the next experiment without wasting resources and time (Chandler et al, 2011).

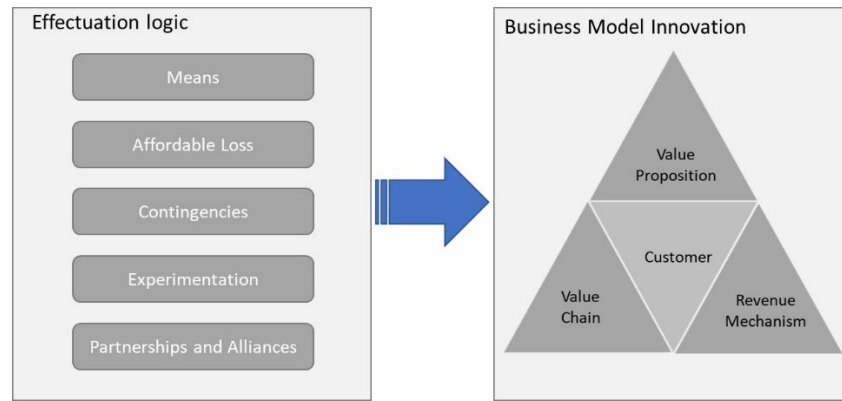
## **Business Model Innovation**

Before discussing BMI, it is important to introduce what should be innovated. The business model has attracted significant attention from both practitioners and academics and provided a platform for multiple research streams. A business model can be described as the logic of how a company operates and creates value for its stakeholders (Casadesus-Masanell and Ricart, 2010; Amit and Zott, 2012; Zott, Amit and Massa, 2011). Creating value can be achieved through four dimensions, including value proposition, customer, value chain, and revenue mechanism (Csik, 2014; Gassmann et al., 2020). To create and sustain competitive advantages, the role of BMI has been widely discussed in the literature, especially in the context of uncertain environments. According to Foss and Saebi (2017), BMI represents “designed, novel, nontrivial changes to the key elements of a firm’s business model and/or architecture linking these elements”. Consequently, BMI occurs if an innovative characteristic can be attributed to one or more of the dimensions of a business model (Spieth and Schneider, 2016; Csik, 2014). BMI might be more challenging than product or process innovation, but could result in higher returns (Chesbrough, 2007; Lindgardt et al, 2009; Chesbrough, 2010). This, in turn, can provide start-ups with a way to break through where competition is intense.

## **4. Effectuation and its enabling potential in designing innovative business models**

The objective of this research is to elaborate on effectuation logic and its enabling potential on BMI or its impact on the design of innovative business models. An in-depth analysis of the potential link between these two entrepreneurial approaches in the context of Swiss start-ups will be undertaken.

The framework (Figure 1) will serve as basis to investigate the abovementioned objective and potential link between the two entrepreneurial approaches in the context of Swiss start-ups.



**Figure 1:** Framework linking effectuation logic and business model innovation (authors' own representation – right-hand diagram adapted from Csik, 2014)

Designing innovative business models requires innovation on at least two dimensions on which a business model is built. First, innovating the dimension of value proposition aims to meet currently unsatisfied needs of clearly defined customers/customer groups by offering products and services that meet those needs. Second, innovating the value chain consists of creating new value through the company's partner network, its available resources as well as its supplier and distribution network. And third, innovating the revenue mechanism refers to the way a company generates value and creates new ways of capturing value through new revenue and profit-generating streams (Spieth and Schneider, 2016). Futter, Schmidt and Heidenreich (2018) differentiate between internal and external dimensions in creating value. Internal value creation comprises activities performed within the organization, while external value creation encompasses activities in collaboration with external partners, enabling entrepreneurs to overcome resource scarcity, reduce uncertainty and pursue further opportunities. Consequently, value creation (in particular the external value) can be affected by applied entrepreneurial behavioural logic (e.g. effectuation). Previous academic research put strong emphasis on the "causation-effectuation-BMI" interface and focused on the effects of both logics on BMI (Futter, Schmidt and Heidenreich, 2018; Reymen et al, 2017; Sitoh, Pan and Yu, 2014; Andries, Debackere and Van Looy, 2013). These studies agree that both effectuation and causation impact BMI positively.

## 5. Conclusion and future research

Building on previous research and the framework outlined above (Figure 1), we will examine a sample of 24 innovative Swiss start-ups. First, the chosen sample will be analysed on its application of effectuation logic based on a set of pre-defined criteria for the abovementioned effectuation dimensions. Second, the sample will be reviewed for evidence of BMI based on the abovementioned four business model dimensions and their innovative potential. Third, causal relationships between the two approaches will be examined to gain insights into the potential influence of effectuation logic on the development of innovative business models. The outcome of this research will help increase our understanding of the often-abstract principles of effectuation logic and its impact on BMI. Consequently, we expect that the research outcome will help start-ups bridge the design-implementation gap of the innovative business model by applying effectuation logic.

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