Effectuation in Practice: How is it Embedded in Innovation-Driven Start-Ups?

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Abstract: Effectuation suggests that entrepreneurs decide which goals to pursue based on available means. Instead of following rigid plans and acquiring means as is the case with causation, they get to work immediately with available means and exploit arising opportunities. Various research directions of effectuation are discussed in the literature and this work-in-progress paper focuses on effectual behaviours. Drawing on the extant literature, typical behaviours relate to forming partnerships, exploiting contingencies, using experimentation and defining affordable loss. These behaviours appear to be relevant for innovation-driven entrepreneurs and this work seeks to examine how they are embedded in Swiss start-ups. To gain insights, semi-structured interviews will be conducted with entrepreneurs participating in an innovation competition in Switzerland.

Keywords: entrepreneurship, effectuation, behaviour, entrepreneurial means, innovation-driven start-ups

1. Introduction

Effectuation proposes that entrepreneurs identify available means and decide which goals to pursue with these (Perry, Chandler and Markova, 2012; Sarasvathy, 2001). This suggests that they are flexible to exploit arising opportunities by using available means, rather than following strict plans and acquiring means in line with causation (Perry, Chandler and Markova, 2012; Sarasvathy, 2001). This also suggests that they mitigate risks in dynamic ecosystems where acquired means can rapidly become obsolete (Read, Song and Smit, 2009; Sarasvathy, 2001).

Following a systematic categorisation of effectuation research (Dias, Iizuka and Boas, 2019), this work-in-progress paper corresponds to research that replicates effectuation in different contexts (Arend et al, 2015; Ghorbel and Boujelbène, 2013), specifically, in venture creation (Reymen et al, 2015). The literature on effectuation addresses various research directions including effectual behaviour, which this paper focuses on (Van Mumford and Zettinig, 2022; Werhahn et al, 2015; Chandler et al, 2011; Perry, Chandler and Markova, 2012; Sarasvathy, 2001). Drawing from the extant literature, effectual behaviours relate to forming partnerships, exploiting contingencies, using experimentation and defining affordable loss (Sarasvathy, 2001; Sarasvathy and Venkataraman, 2011; Chandler et al, 2011; Perry, Chandler and Markova, 2012).

These behaviours appear relevant for start-ups in highly dynamic innovation and technology sectors (Alzamora-Ruiz, del Mar Fuentes-Fuentes and Martinez-Fiestas, 2021; Frese, Geiger and Dost, 2020; Grégoire and Cherchem, 2020). This research is guided by the question of how effectual behaviours are embedded in innovation-driven start-ups across Switzerland. The paper seeks to contribute to this discussion and provide the basis for further research with start-ups participating in an innovation competition in Switzerland. The paper presents the reviewed literature on typical effectual behaviours and concludes by addressing further research and limitations.

2. Literature review

Entrepreneurial behaviour can be characterised by how start-ups use their means (Brettel et al, 2012; Perry, Chandler and Markova, 2012). Means relate to “what I know” (e.g., experience), “who I am” (e.g., skills) and “whom I know” (e.g., resource access). When entrepreneurs work with means, their behaviour can relate to effectuation and causation (Read, Song and Smit, 2009; Sarasvathy, 2001). Effectuation is defined 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” (Sarasvathy, 2001). By contrast, causation is defined as “processes that take a particular effect as given and focus on selecting between means to create that effect” (Sarasvathy, 2001). In other words, effectuation is about designing possible effects by using particular means, while causation is about choosing means to create particular effects (Perry, Chandler and Markova, 2012). Regarding uncertainty, effectuation
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focuses on controllable aspects of an unpredictable future, which implies that to the extent the future can be controlled, it does not need to be predicted (Fisher, 2012; Chandler et al, 2011; Sarasvathy, 2001). By contrast, causation focuses on predictable aspects of an uncertain future by defining goals, which suggests that to the extent the future can be predicted, it does not need to be controlled (Chandler et al, 2011; Sarasvathy, 2001).

Drawing from the extant literature, effectual behaviours are commonly described by how entrepreneurs form partnerships, exploit contingencies, use experimentation and define affordable loss (Read, Song and Smit, 2009; Sarasvathy, 2001; Sarasvathy and Venkataraman, 2011; Chandler et al, 2011; Perry, Chandler and Markova, 2012). These behaviours tend to be particularly relevant for innovation-driven entrepreneurs who compete in dynamic and competitive environments with fast technological obsolescence (Andries, Debackere and Van Looy, 2013; Alzamora-Ruiz, del Mar Fuentes-Fuentes and Martinez-Fiestas, 2021; Prajogo and McDermott, 2014; Grégoire and Cherchem, 2020).

2.1 Forming partnerships

Engaging with customers, suppliers and other stakeholders helps entrepreneurs to build complementary assets and access external means (Chandler, DeTienne and Mumford, 2007). This goes beyond competitive thinking and focuses on collaboration to transform uncertainty into opportunity (Kerr and Coviello, 2019; Reymen et al, 2015; Perry, Chandler and Markova, 2012; Read, Song and Smit, 2009). Partnerships enable entrepreneurs to have some control over future outcomes, which renders the need to predict them obsolete (Chandler et al, 2011; Sarasvathy, 2001). Innovation-driven start-ups often establish partnerships to engage in co-creation and to access resources (Alzamora-Ruiz, del Mar Fuentes-Fuentes and Martinez-Fiestas, 2021; Sjödin 2019; Grönroos and Voima, 2013; Van Mumford and Zettinig, 2022). Potential customers can be involved in product development, which improves the offering and builds trusted relationships (Frese, Geiger and Dost, 2020). Partnerships and commercial agreements also reduce risks among innovation-driven companies, for instance, due to pre-commitments from customers and other partners (Frese, Geiger and Dost, 2020; Laskovaia, Shirokova and Morris, 2017; Reymen et al, 2015).

2.2 Exploiting contingencies

Instead of following formal plans and making predictions, entrepreneurs can stay flexible and take advantage of contingent opportunities as they arise (Kerr and Coviello, 2019; Chandler, DeTienne and Mumford, 2007; Sarasvathy, 2001). Rather than pursuing clearly defined goals as is the case of causation, entrepreneurs deploy available means to exploit contingencies (Kerr and Coviello, 2019; Perry, Chandler and Markova, 2012). When they encounter opportunities flexibly, they can assess alternative approaches, modify processes and deploy resources differently to generate favourable value propositions (Read, Song and Smit, 2009). Innovation-driven start-ups need flexibility to make decisions in fast-changing environments (Frese, Geiger and Dost, 2020; Pöschl, 2022). Because of high pressure and uncertainty in technology sectors, entrepreneurs focus on capturing opportunities with available means rather than on rigidly planning for future events (Ghezzi, 2019; Pöschl, 2022). They can succeed in challenging environments which force them to adapt and use resources as effectively as possible (Baber, Ojala and Martinez, 2019).

2.3 Using experimentation

Entrepreneurs experiment with new product features or processes aiming to learn from mistakes and to iterate before settling on a course of action (Sarasvathy, 2001; Chandler et al, 2011; McMullen and Shepherd, 2006). Uncertainty forces them to learn by trial and error and work out feasible approaches in iterative steps (Chandler, DeTienne and Mumford, 2007). Experiments with poor results are halted in favour of other experiments (Chandler et al, 2011). Innovation-driven start-ups engage in experimentation (e.g., prototype testing) and embrace learning processes and strategies (Freel, 2000). Effectual logic equips entrepreneurs with openness to unexpected events and encourages innovative approaches in favour of experimentation (Ghezzi, 2019; Brettel et al, 2012; Chandler et al, 2011). These behaviours help entrepreneurs to succeed in dynamic technology sectors (Alzamora-Ruiz, del Mar Fuentes-Fuentes and Martinez-Fiestas, 2021). The higher the levels of investors’ influence and perceived uncertainty in innovation-driven fields are, the more likely entrepreneurs are to experiment (Frese, Geiger and Dost, 2020).
2.4 Defining affordable loss

An assessment of how much loss the business can afford helps entrepreneurs to decide which experiments and projects to pursue (Hauser, Eggers and Gündenberg, 2020; Reymen et al, 2015; Chandler et al, 2011; Sarasvathy, 2001). Rather than focusing on the upside potential of an opportunity, this helps entrepreneurs to assess and manage risks and potential costs (Read, Song and Smit, 2009). Innovation-driven entrepreneurs tend to experiment regularly with affordable loss in mind, which highlights their efforts to make best possible use of limited means (Frese, Geiger and Dost, 2020; Dew et al, 2009). They focus on affordable loss to account for fast change and high uncertainty in the technology sector (Frese, Geiger and Dost, 2020; Chandler et al, 2011). This helps them to decide which opportunities and projects to pursue and invest in and consequently overcome resource constraints (Reymen et al, 2015; Shirokova et al, 2021).

3. Conclusion

Based on the extant literature, this work-in-progress paper addresses effectual behaviours and lays the foundation for a thorough literature review and empirical studies on the embeddedness in innovation-driven start-ups. The literature suggests that effectual behaviours relating to forming partnerships, exploiting contingencies, using experimentation and defining affordable loss are embedded in innovation-driven start-ups. Following the suggestion of Dias, Iizuka and Boas (2019) to explore the functionality and application of effectuation, further research will be done to contribute to the understanding of how effectual behaviours are applied and embedded in innovation-driven Swiss start-ups. Semi-structured interviews will be conducted with start-ups participating in an innovation competition in Switzerland. This may also uncover relevant leverage points for start-ups outside the technology sector and mature companies. While the aforementioned effectual behaviours have been widely discussed in the literature, interactions with start-ups may uncover other behaviours to be investigated. In terms of limitations, causation is not discussed in detail as it goes beyond the scope of this paper. However, some empirical evidence suggests that an ambidextrous approach featuring effectuation and causation is adopted by innovation-driven start-ups (Alzamora-Ruiz, del Mar Fuentes-Fuentes and Martinez-Fiestas, 2021; Frese, Geiger and Dost, 2020).

References


