



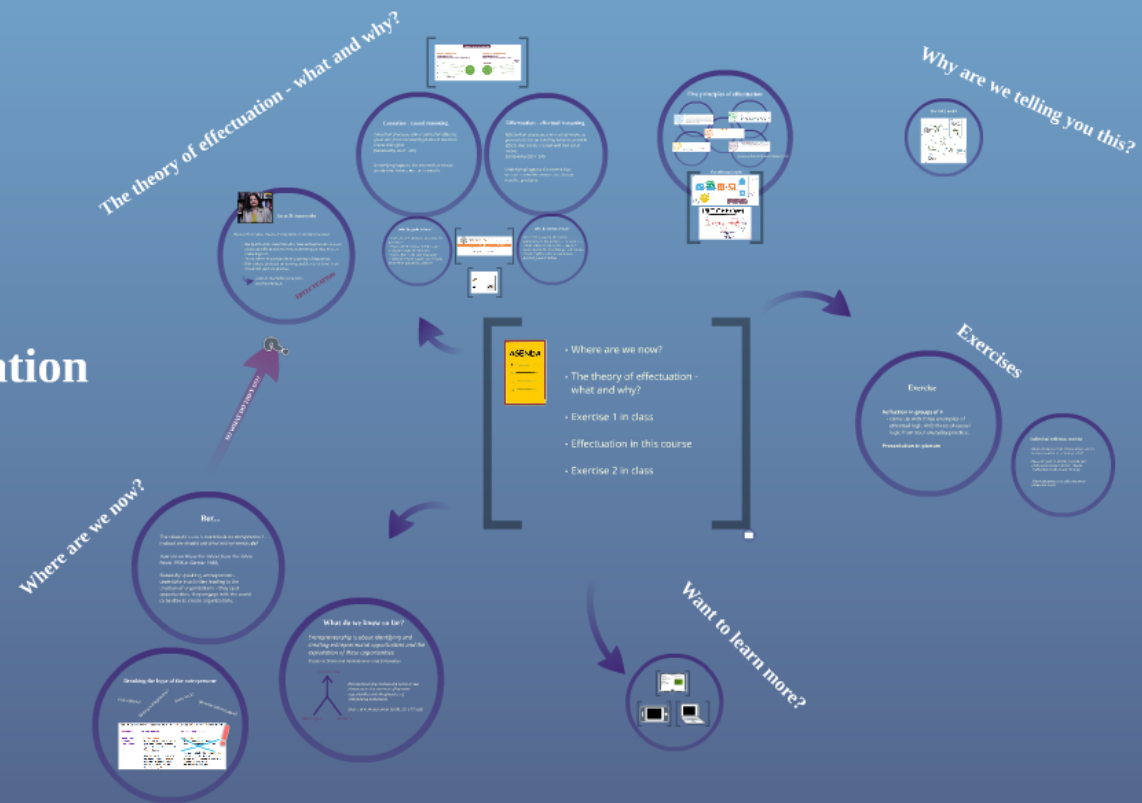
...

- Causation and effectuation are *both* part of the entrepreneurial process
- Effectuation is a cyclical, iterative process
- You can apply these methods - it is not just learning about, it is learning through!

Erhvervsstyrelsen

Day 3 - 07.11.2014  
Effectuation and Causation







## AGENDA

- Where are we now?
- The theory of effectuation - what and why?
- Exercise 1 in class
- Effectuation in this course
- Exercise 2 in class

# Where are we now?

SO WHAT?

## But...

The relevant issue is not *who is an entrepreneur?* - instead we should ask *what entrepreneurs do?*

*How can we know the dancer from the dance*  
(Yeats 1956 in Gartner 1988)

Generally speaking, entrepreneurs undertake in activities leading to the creation of organizations – they spot opportunities, they engage with the world to be able to create organizations.

## What do we know so far?

*Entrepreneurship is about identifying and creating entrepreneurial opportunities and the exploitation of these opportunities.*

(Fusion of Shane and Venkataraman and Sarasvathy)



*Entrepreneurship involves the nexus of two phenomena: the presence of lucrative opportunities and the presence of enterprising individuals.*

Shane & Venkataraman (2000, 25: 217-226)

## Breaking the hype of the entrepreneur

risk-takers?  
family background?  
pure luck?  
genetic advantages?

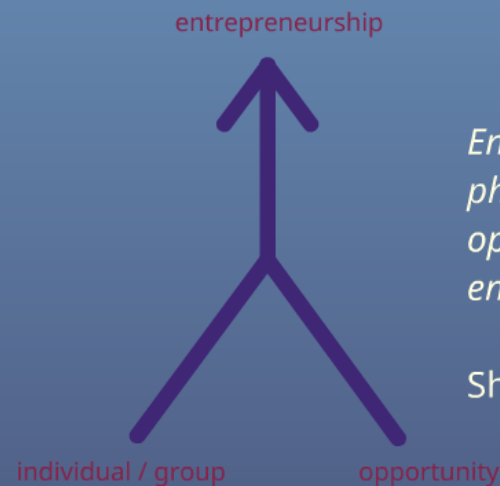
Table 1: Comparing the Entrepreneurial method with the scientific method (Sarasvathy 2011)

Comparison	Scientific Method	Entrepreneurial method
Similarities in historical development	<p>Early explanations:</p> <ul style="list-style-type: none"> <li>Some special people are able to "see what others do not see" – from the "true think" (of Gold or fortune)</li> </ul> <p>Real science is born when the experimental method of the craftsman is adopted by the university scholar and the humanistic liberal</p>	<p>Early explanations:</p> <ul style="list-style-type: none"> <li>Some people are able to "see what others do not see" – from the "true think" (of Gold or fortune)</li> </ul> <p>University scholars (humanists) they are theoretical social scientists or empirical policy researchers begin to understand what actual entrepreneurs really DO</p>

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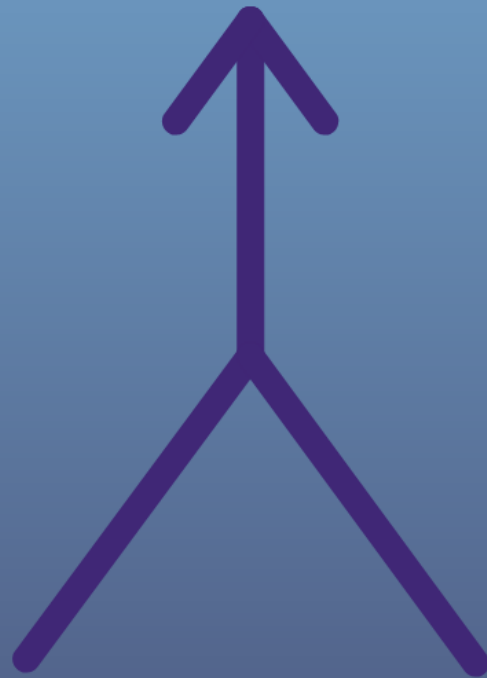
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*exploitation of these opportunities.*

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entrepreneurship



individual / group

opportunity

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**SO WHAT DO THEY DO?**

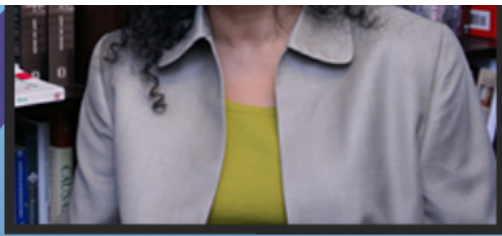




**Saras D. Sarasvathy**

Research on what makes entrepreneurs entrepreneurial

- study aimed at understanding how entrepreneurs reason about specific problems in transforming an idea into an enduring firm
- 30 founders of companies in a variety of industries
- think-aloud protocol on solving decision problems in an imagined start-up process



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a set of teachable principles  
a coherent logic

**EFFECTUATION**

the principles  
on problems in an  
industries

# EFFECTUATION

## Causation - causal reasoning

*Causation processes take a particular effect as given and focus on selecting between means to create that effect*

(Sarasvathy 2001: 245)

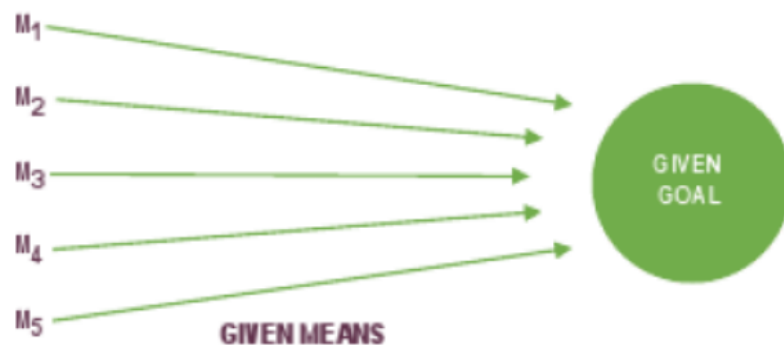
Underlying logic: to the extent that we can predict the future, we can control it.

## CAUSAL vs. EFFECTUAL REASONING

### Managerial Thinking (Causal)

#### Distinguishing Characteristic

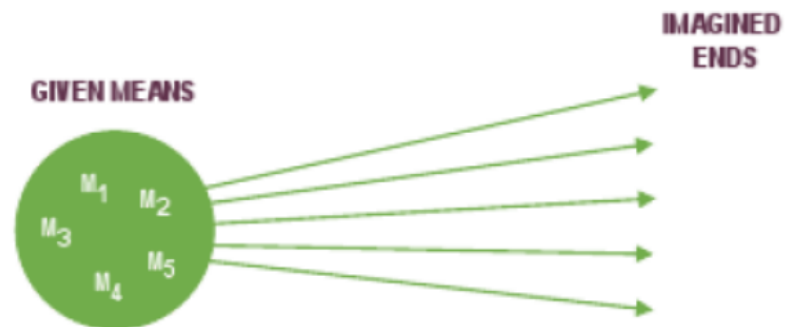
Selecting between given means to achieve a pre-determined goal



### Entrepreneurial Thinking (Effectual)

#### Distinguishing Characteristic

Imagining a possible new end using a given set of means



## Effectuation - effectual reasoning

*Effectuation processes 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: 245

Underlying logic: to the extent that we can control the future, we do not need to predict it.

# Five principles of effectuation



## **Bird-in-hand** {START WITH YOUR MEANS}

When expert entrepreneurs set out to build a new venture, they start with their means: who I am, what I know, and whom I know. Then, the entrepreneurs imagine possibilities that originate from their means.



## **Affordable Loss** {FOCUS ON THE DOWNSIDE RISK}

Expert entrepreneurs limit risk by understanding what they can afford to lose at each step, instead of seeking large all-or-nothing opportunities. They choose goals and actions where there is upside even if the downside ends up happening.



## **Patchwork Quilt** {FORM PARTNERSHIPS}

Expert entrepreneurs build partnerships with self-selecting stakeholders. By obtaining pre-commitments from these key partners early on in the venture, experts reduce uncertainty and co-create the new market with its interested participants.



## **Lemonade** {LEVERAGE CONTINGENCIES}

Expert entrepreneurs invite the surprise factor. Instead of making "what-if" scenarios to deal with worst-case scenarios, experts interpret "bad" news and surprises as potential clues to create new markets.



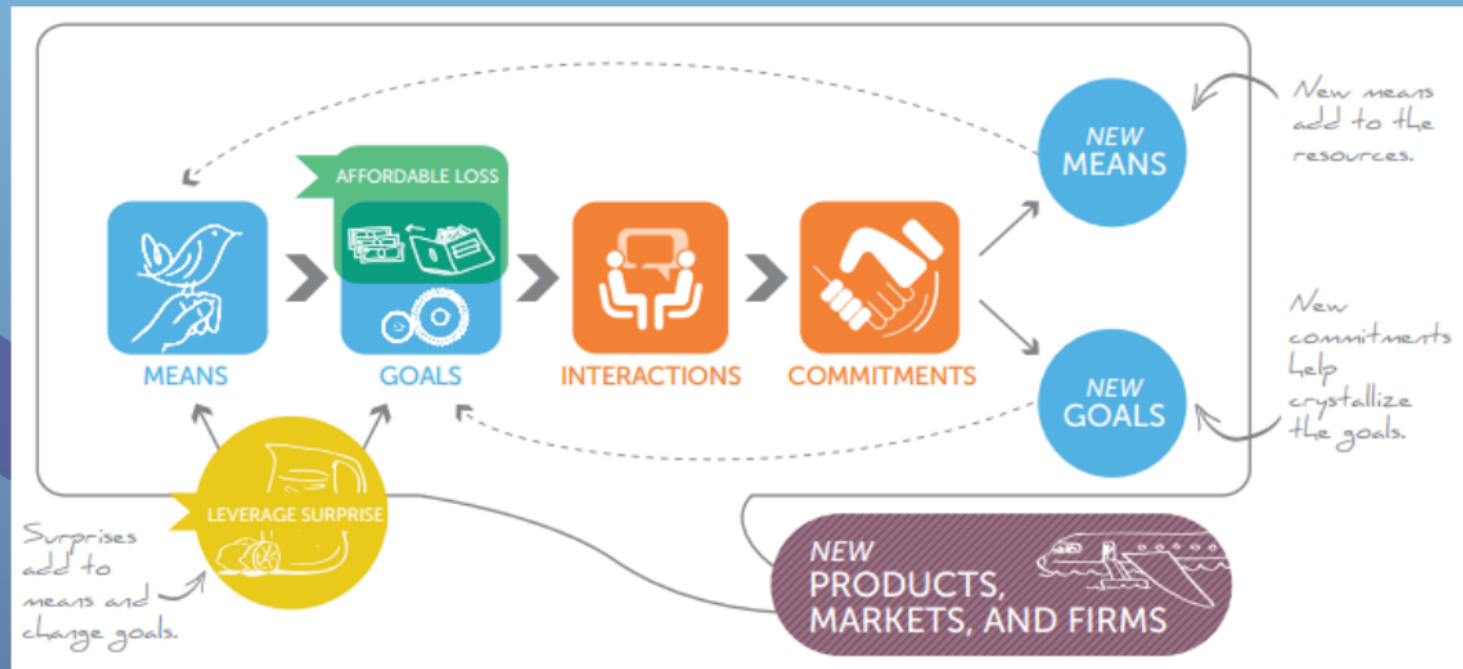
## **Pilot-in-the-plane** {CONTROL V. PREDICT}

By focusing on activities within their control, expert entrepreneurs know their actions will result in the desired outcomes. An effectual worldview is rooted in the belief that the future is neither found nor predicted, but rather made.

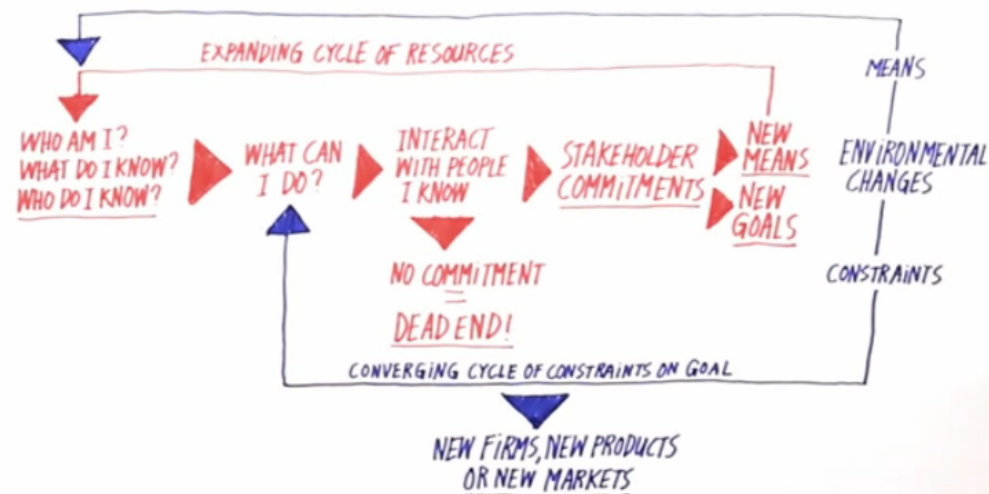
pictures and text from [www.effectuation.org](http://www.effectuation.org)



# The effectual cycle



## EFFECTUATION IN ACTION!





EFFECTUAL LOGIC IS  
LIKE 1ST & 2ND GEAR



*You need them to start your business but  
eventually you shift away from effectual logic.*

### effectuation IS

A thinking framework  
a set of heuristics  
doing the do-able  
how to get the sellable products and  
services established

### effectuation IS NOT

a system to tell you what to do  
an algorithm  
"not planning"  
a way to launch an entire business

## Why be means driven?

- No need to wait for the perfect opportunity or the perfect set of resources
- Stakeholders to your process want to shape goal not just provide you with means
- Goals might block the view toward upcoming opportunities

## Why be goals driven?

- Gives you the ability to use validated procedures
- Goals give direction, energize, and motivate to take the first step
- Goals often make planning easier
- If you don't have a goal, how will you know when you are successful?



	<b>Existing Market</b>	<b>New Market</b>
<b>Existing Product</b>		
<b>New product</b>		<b>Suicide Quadrant</b>

Figur 3 i Sarasvathy 2001: "What makes an entrepreneur entrepreneurial?"  
[www.effectuation.org](http://www.effectuation.org)

## Exercise

### **Reflection in groups of 4**

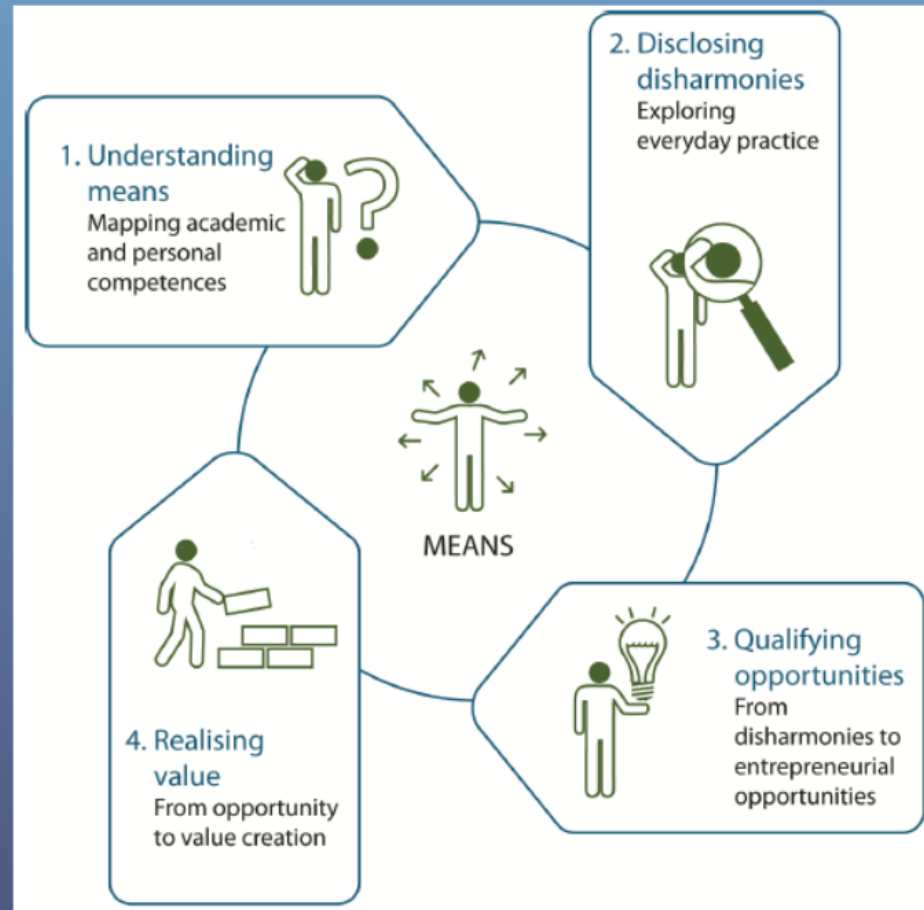
- come up with three examples of effectual logic AND three of causal logic from your everyday practice.

### **Presentation in plenum**

# Why are we telling you this?



# The ME2 model

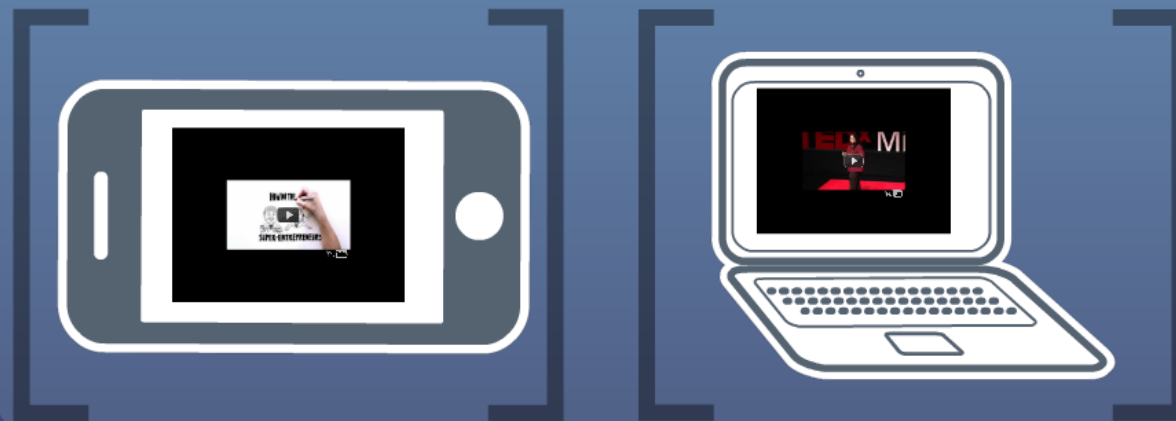




## **Individual reflection exercise**

- Which elements of the effectual logic appeal to you in particular - and why is that?
- Based on your JTI-profile - how do your preferences support and/or impede  
1) effectual and 2) causal thinking?

**Afterwards present your reflections to the person next to you**



**Saras Sarasvathy** (2001a)

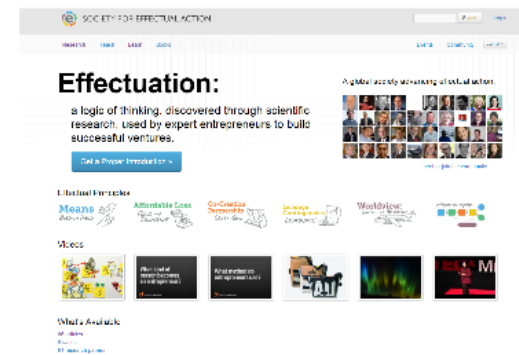
"Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to entrepreneurial Contingency" in *Academy of Management Review*, vol 26, no 2.

Optional reading:

**Saras Sarasvathy** (2001b)

"What makes Entrepreneurs Entrepreneurial?" in Darden Business Publishing

**www.effectuation.org**









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EFMD

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