THE EFFECTS OF EFFECTUAL LOGIC:
NASCENT ENTREPRENEURIAL
PERFORMANCE AND EFFECTUATION
(INTERACTIVE PAPER)

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This study is motivated by the need for empirical evidence of the use of effectual logic (Sarasvathy, 2001) by nascent entrepreneurs. Although there have been several empirical studies of the use of effectual logic in specific industries (Dew, 2003; Wiltbank & Sarasvathy, 2002), there has been limited research examining the use of effectual reasoning by nascent entrepreneurs in varying industries. We seek to contribute to the literature by investigating the effects of the use of effectual logics in the very early, nascent stage of new ventures.

In order to investigate the linkages between effectual logic and success, we utilized five principles of effectual thinking, and three common measures of entrepreneurial success. By looking separately at the five principles and three measures of success, we are able to show how the various components of effectual logic impact each measure of success for nascent ventures. These insights contribute both theoretically and practically to the field of entrepreneurship by providing empirical linkages between some applications of effectual logic and venture success.

Method

We used data from the Panel Study of Entrepreneurial Dynamics and logistic regression to test whether some principles of effectual logic (using means based strategies, focusing on affordable loss, creating effectual partnerships, leveraging contingency and utilizing non-predictive strategies) are related to nascent entrepreneurial success. The dependent variables for each separate regression related to success, were all dichotomous, and reflected positive income generation, the hiring of an employee, and self reported “operating business” status respectively.

Results and Implications

We found significant positive correlations between the use of non-predictive strategies and all three measures of success, and found that some types of effectual partnerships increased the chances of success. The use of partnerships was also related to multiple success factors, while the adoption of a causal financial planning logic was negatively correlated with all measures of success.

This study provides support for the principles of effectual logic that call for a focus on partnership and de-emphasis on long-term planning, particularly financial projections. This research suggests that potential entrepreneurs would be well served to focus on building an equity driven team of stakeholders and leveraging potential and existing suppliers when formulating new business concepts, rather than the more causal pursuit of financial planning.

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