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A LOOK INTO CORPORATE EFFECTUATION THROUGH CORPORATE ACCELERATOR PROGRAMS



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ABSTRACT

Although researchers have proposed that applications of effectual logics could be extended beyond entrepreneurs to context of established firms (Wiltbank, Read, Dew & Sarasvathy, 2006), studies focusing on “corporate effectuation” are still scarce, leaving a gap in our understanding of effectuation theory and its boundary conditions. To study how effectual logics unfold in the corporate context, we employ a qualitative, multiple case study approach, grounded on four corporate accelerator programs from the highly uncertain ICT sector, working with external start-ups. Our initial findings indicate that accelerators constitute an organizational setting that act as an enabler of the development of effectual logics in the corporate context.

INTRODUCTION

Research focusing on entrepreneurial decision-making has shown that for highly innovative (and therefore uncertain) projects, it can be effective for entrepreneurs to seek to directly influence or control their environment, instead of making significant efforts to predict an uncertain future e.g. by investing in costly market research, (Chandler, DeTienne, McKelvie, & Mumford, 2011; Dew, Read, Sarasvathy, & Wiltbank, 2009; Sarasvathy, 2001). This approach or decision-making logic known as “effectuation” (Sarasvathy, 2001) distinguishes itself from the planning-oriented “causation” in four key principles: (1) focus on affordable loss rather than expected returns, (2) openness towards strategic alliances rather than competitive analysis, (3) leveraging unexpected events, instead of avoiding contingencies (4) controlling an unpredictable future rather than predicting an uncertain one.

Most effectuation studies have looked at how these principles are applied by the entrepreneurs at the individual level (e.g. Dew et al., 2009; Dew, Read, Sarasvathy, & Wiltbank, 2015) or at the firm level in entrepreneurial small ventures (e.g. Saravasthy & Kotha, 2001, Garonne & Davidsson, 2010). However, limited knowledge exists about how effectual logics could be applied at the firm level in the corporate context. A nascent stream of research started to look into this direction (e.g. Brettel et al. 2012; Werhahn et al. 2015; Blauth et al. 2014). In this sense, the pioneering work from Brettel et al. (2012) looked at the use of the effectual and causal approaches in corporate R&D projects and found that the effectual dimensions were inclined to be positively related to R&D performance when innovativeness is high. While these results are valuable, they essentially look at the internal R&D process. However, with the boost of open innovation practices (Chesbrough, 2003), other paths of innovation such as outside-in initiatives based on the use of external ideas (e.g. corporate venture capital, incubators, accelerators, etc.) have gained high relevance. Thus, without studying the open innovation models, our understanding of how effectual logics unfolds in the corporate context, particularly in terms of innovation process, would be limited to only one path (internal R&D), which this process might take.

Therefore, through a multiple case study approach, we set out to explore how effectuation and causation principles might be applied in open innovation, using the corporate accelerator

programs as a context. Accelerator programs make available to start-ups a combination of business training, mentoring, co-working space, and organized access to various networks for a short and limited duration (Cohen & Hochberg, 2014; Pauwels, Clarysse, Wright, & Van Hove, 2016). In particular, corporate accelerators are a variant where a large firm, instead of an independent investor, is the main sponsor of the accelerator (Kohler, 2016; Marval & Kupp, 2016). We choose this setting because corporate accelerators provide support to early stage start-ups i.e. in their prototype phase, and as such the sponsoring large firm faces high levels of uncertainty in terms of technology, market, and partner choice. With this research project, we respond to the call from Wiltbank, Read, Dew, & Sarasvathy (2009) and Brettel et al. (2011) to increase our understanding of “effectual cells” within more prediction-oriented organizations (such as large incumbents), in order to further develop effectuation theory.

THEORETICAL FRAMEWORK

Effectual decision-making

The traditional model of entrepreneurship builds upon the discovery or search for opportunities on which demand exceeds supply (Shane and Venkataraman, 2000). Once an opportunity is considered worthy to exploit, a rational decision-making process, where specified goals are set and required means are accordingly identified in order to maximize potential returns. While the main body of entrepreneurship research had been based on that logic that entrepreneurs engage in rational goal-driven behaviors when pursuing opportunities (termed as “causation”), the recent decades have been marked by “a paradigmatic shift in the way that we understand entrepreneurship” (Perry, Chandler, & Markova, 2012) with the introduction of the effectual logic by Sarasvathy (2001).

Effectuation offers an alternative view consistent with the idea that opportunities are not necessarily found but are instead created (Alvarez & Barney, 2007). The effectual logic describes a process where the current means of the entrepreneur (who he is, what he knows and who he knows) are transformed into co-created goals with others who commit to building a possible future (Wiltbank et al. 2006). While both causal and effectual logics intend to reduce uncertainty, causation focuses on the predictable aspects of the future, whereas effectuation focuses on the controllable aspects (Sarasvathy, 2008). In this sense, causation (prediction) generally refers to efforts to perform forecasts about important market elements e.g. modeling event spaces, estimating probabilities and consequences, and forming sophisticated portfolio strategies with multiple options. On the hand, effectuation (control) refers to efforts directed to creating new market elements or transforming existing one e.g. influencing customer preferences, creating market structures such as channels, technical standards, common practice, etc. (Wiltbank, Dew, Read, & Sarasvathy, 2006). Although effectuation and causation constitute different approaches, they might be combined. Moreover, the emphasis that entrepreneurs give to these logics might shift over the life of the venture (Reymen et al., 2015).

The effectual decision-making logic is based on four core principles: (a) Affordable loss meaning that entrepreneurs decide on what they can afford to lose, instead of focusing on return on investment proper of causation; (b) Openness to building strategic alliances by inviting stakeholders to pre-commit to co-create the project as a way of reducing uncertainty, instead of focusing on competitive analysis in causation (c) Leveraging unexpected events and using them to reshape the outcome, instead of avoiding contingencies, and finally (d) Controlling an unpredictable future through action and experimentation with different solutions, as opposed

to doing great efforts to predict the future (Dew et al., 2009; Sarasvathy, 2001). Even though in practice, entrepreneurs often do use both sets of strategies (Reymen et al., 2015), scholars argue depending of what the dominant driver of strategy formation is, the consequences are different (Mintzberg and Waters, 1985; March, 2006; Sarasvathy, 2001; Wiltbank et al., 2006).

Most effectuation studies have focused on the context of entrepreneurial ventures. Although researchers have proposed that applications of effectual logics could be extended beyond entrepreneurs and new ventures to the context of established firms (Wiltbank, Read, Dew & Sarasvathy, 2006), studies focusing on “corporate effectuation” are still scarce. The pioneering study by Brettel, Mauer, Engelen, & Küpper (2012) shows that effectuation is employed in corporate contexts, but their work focuses on the innovation outcomes of corporate R&D. In particular, they found that the effectual dimensions were inclined to be positively related to R&D performance when innovativeness is high.

However, as more and more disruptive innovations are emerging from start-up companies, large firms are increasingly going beyond their corporate R&D efforts, by connecting with entrepreneurial start-ups through different organizational forms e.g. corporate venture capital and corporate accelerators (Weiblen & Chesbrough, 2015). Those initiatives involving the incorporation and combination of external ideas, with internal ones, in the innovation process are termed outside-in open innovation (Chesbrough, 2003). We suggest that those initiatives, and in particular corporate accelerators, who work with early-stage start-ups, involve a very high degree of uncertainty for the corporates in terms of market and technology like in R&D, but also in terms of the young partner’s abilities to execute. Therefore, accelerators constitute an ideal setting to further our understanding of how effectuation principles are applied in the corporate context.

Corporate accelerator programs

Since 2005, a new format of entrepreneurial support has emerged: the startup accelerators (Miller and Bound 2011). These programs of limited and short duration, help cohorts of startups grow their business. They usually provide co-working space and sometimes small amounts of seed capital in exchange for non-controlling equity stakes. They also offer networking opportunities with successful entrepreneurs, program graduates, venture capitalists, angel investors and corporate executives. Finally, most programs end with a grand event, a demo day, where ventures pitch to a large audience of qualified investors (Cohen 2013; Miller and Bound 2011; Cohen and Hochberg 2014). These startup accelerators programs generally focus on highly scalable ventures, particularly high-tech and internet-based (Hallen, Bingham, and Cohen 2014).

Startup accelerators constitute a distinct model from other entrepreneurial support models (Pauwels et al., 2016). In this context, corporate accelerators represent a particular variant, where the main sponsor of the program is an established large firm, instead of an independent investor. Corporate accelerators in addition provide start-ups with access to unique corporate resources such as distribution channels and technologies (Kohler, 2016; Marval & Kupp, 2016). While corporate accelerators emerged about a five years later that the independent programs (Heinemann, 2015), leading corporations are increasingly adhering to this model as part of their open innovation initiatives (Roettger, 2013; Weiblen & Chesbrough, 2015). With this open innovation format, the corporation benefits from a head start over on novel technological developments and can extend its existing business into new areas by profiting from external innovation. The format allows the corporation to pursue multiple interests in parallel via each of the many startup companies it supports (Weiblen & Chesbrough, 2015).

METHOD

We employ a qualitative approach, grounded on 4 purposely selected case studies (Eisenhardt, 1989; Yin, 2009) conducted on accelerator programs sponsored by large corporations working with external ventures. We selected accelerators sponsored by large firms from the Information and Communications Technology (ICT) sector, which is characterized by a fast-changing and uncertain business environment (see Table 1).

We consider the multiple case study approach to be the most appropriate to investigate our research questions, as research in both corporate effectuation and the corporate acceleration fields is still nascent and exploratory. On such situations, it is recommended to take a qualitative approach to understand the phenomenon (Edmondson & Mcmanus, 2007). Moreover, the case study method is well suited to answer “why” and “how” questions like the ones driving our research project.

Primary data collected from semi-structured 25 interviews was combined with publicly available material, such as business press, industry reports, and internal documentation provided by the interviewees, following the logic of triangulation. For our analysis, we followed the recommendations for multiple case theory building (Eisenhardt, 1989; Eisenhardt & Graebner, 2007), performing within-case and cross-case analyses.

RESULTS AND IMPLICATIONS

Initial findings

Our initial findings indicate that corporate accelerators serve as a strategy for large firms to reduce uncertainty by facilitating the development of effectual logics. In terms of the four guiding principles of effectuation, our data analysis points to the following:

- (a) Affordable loss: in contrast to accelerators launched by independent investors focusing on return on investment, we find that corporate accelerators have a clearly dominant strategic role. From a large firm viewpoint, the small investment (ranging from 50-300 k€) and its limited financial upside are more consistent with the acceptance of an affordable loss that provides the corporate with the opportunity to experiment. As the directors of Alpha and Beta accelerators point out:

“We act as a very early stage, small fund which is not financially driven but purely strategically driven. We are not measured by the financial returns because the small tickets we invest have actually no impact on [the corporation] profit and loss” (Accelerator director Alpha)

“We try to keep the budget as small as possible. Well, yes, we have that trust. But It’s one of the things you have to build. If you are doing this in a corporation, you have to make sure that they are not going to ask for results in one year” (Accelerator director Beta)

- (b) Openness to building strategic alliances: given the high uncertainty of the innovation areas covered by the accelerator (e.g. big data, connected objects, cybersecurity, etc), their aim is to serve as enablers to build collaboration between the parent company and the start-ups in order to build partnerships and commercial agreements.

“Our main goal is really to transform, to make business together, which enables the startups to grow up, and [the parent company] to benefit from the innovation of the startups, to

either increase retention or make our customers more satisfied" (International director, Accelerator Delta)

Even if the product development is mainly driven by the start-ups, we find elements of co-creation. Technical and business development teams act as mentors in the accelerator, providing feedback, and organizing product tests between start-ups and potential clients, which allows to reduce technology and market uncertainty. This is in line with Sarasvathy (2001) and Wiltbank et al. (2006), who argue that entering partnerships and building alliances can be seen as a more control-oriented instrument than engaging in extensive market research or competitive analysis. Moreover, the high levels of interactions between the start-up teams and the accelerator team also help to reduce partner uncertainty for the corporate, linked to the capacity of the start-up to deliver on its promises.

- (c) Leveraging unexpected events and using them to reshape the outcomes: beyond the provision of co-working space, accelerators make efforts to organize multiple events within their locals (workshops, networking activities, etc.). This setting allows to leverage "serendipitous" encounters and unexpected events, both for the corporate employees and the entrepreneurs.

"The team at [Accelerator Gamma] worked really hard to bring most important investors and most important connections, the biggest corporates... Sony wanted to work with us afterwards, Samsung wanted to work with us. All these people came to us through [Accelerator Gamma]. They came here and saw what we do" (Entrepreneur, Accelerator Gamma)

"There's a number of ways [to connect the start-ups and corporates]. Number one, events like yesterday: portfolio days, bootcamps, and so on, where we try to connect the startups with the right people at [the corporation]. So, we invite the right people from [the corporation], make them mentors, make them close partners to our startups" (Director Accelerator Alpha)

- (d) Controlling an unpredictable future through action and experimentation with different solutions: accelerators allow the corporate to acquire new knowledge and new means through the interactions with the partnering start-ups. Also, they can engage in experimentation and co-creation with their customer base. Thus, for corporates and start-ups the accelerator provides a platform where they can influence or control their environment, instead of trying to predict the future.

Implications

This study explores the intersection of two research opportunities. First, the gap in our understanding of the phenomenon of corporate accelerators given their growing relevance as a form of entrepreneurial support. Second, the unique setting that corporate accelerators provide for furthering our understanding of strategizing under uncertainty, and in particular how the organizational setting of these programs help them enable effectual logics within the corporate context. Corporate accelerators can be thus considered one of those "effectual cell", within which large firms can "incubate" new ventures at early stages and bring to bear a more predictive approach when product innovation is further advanced. This study contributes to expand the boundaries of effectuation theory from entrepreneurial ventures to the corporate context. Furthermore, it contributes to open innovation and corporate venturing literature by increasing our understanding of the new phenomenon of corporate accelerator, and some characteristics linked to the effectual

approach that distinguish this new organizational form from other more causation oriented initiatives like corporate venture capital.

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Table 1: Brief overview of the case studies

Corporate Accelerator	Country	Founded (year)	Duration (months)	Funding	Equity stake	Physical presence
Alpha	Germany	2011	up to 12	300K€	~15%	Yes
Beta	Spain	2011	4 to 12	~50K€	~ 10%	Yes
Gamma	UK	2012	4 to 12	~50K€	~ 10%	Yes
Delta	France	2013	3 to 4	Optional	~0%	Only during workshops