THE BEST OF BOTH WORLDS: COMBINING CAUSATION AND EFFECTUATION (INTERACTIVE PAPER)

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Principal Topic

In recent years, there has been an increasing interest in effectuation as a business start-up practice. This concept is appreciated as a valuable alternative to the prevalent assumption that starting entrepreneurs rely on causal principles. Although previous studies identified a positive relationship between effectuation and firm performance, more recently, literature has emerged that offers contradictory findings. It is argued that causation and effectuation should not be seen as opposed ends of a continuum but are orthogonal in nature. In our research, we empirically test to which extent causation and effectuation contribute to firm success, how both approaches interact and how they jointly influence new venture performance.

Method

We test our model on a sample of student entrepreneurs from 26 countries. The dataset is part of the 2011 Global University Entrepreneurial Spirit Students’ Survey (GUESSS) data on entrepreneurial intentions and behaviour which includes responses from 93,265 students in higher education. We analyse a subset of 2,324 active business founders using linear regression models.

Results and Implications

Our findings show that the use of causation positively influences new venture success. The influence of effectuation on firm performance differed between the effectual principles. Securing pre-commitments from customers or suppliers and starting a new business with high flexibility increases the likelihood of running a successful venture, whereas calculating with affordable losses decreases firm success. Results reveal that a combination of causal and effectual principles rather than choosing one approach is the most promising avenue towards business success. Based on our analyses, academic institutions need to realise that traditional entrepreneurship education focusing on causal approaches, for example courses on how to write business plans, should also integrate the principles of effectuation in their curriculum. Entrepreneurship scholars, on the other hand, should focus on including measures for causation as well as effectuation when investigating new venture performance. Scientific discussions should move away from the question whether one approach is better than the other, but focus on how to combine both in order to achieve new venture success.

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