WHO IS FASTER? THE ROLE OF START-UP STRATEGIES IN DETERMINING TIME TO FIRST SALE AND BREAK-EVEN POINT (INTERACTIVE PAPER)

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The initial stages of a new venture are most precarious and many start-ups do not survive the first crucial years (Laitinen, 1992; Cooper et al., 1998; Timmons, 1990; 1999). Liabilities of newness and smallness make it difficult for new ventures to convince potential stakeholders of their value (Hannan and Carroll, 2000; Shepherd et al., 2000; Stinchcombe, 1965). How do entrepreneurs, who lack credibility and still have to prove themselves, cope with the uncertainty of starting a new venture? Following Sarasvathy (2001; 2008) we distinguish between two strategies that entrepreneurs can adopt when founding a new venture: causation and effectuation. Research suggests that the causal approach is more useful when dealing with fairly predictable conditions, such as those in existing markets, and that an effectual approach is more appropriate in case of new market creation (Chandler et al., 2009; Dew et al., 2009). As causation and effectuation are two alternative approaches, we argue that it is vital to understand their impact on new venture performance. There is no consensus on whether planning is always beneficial in early venture stages (cf. Brinckmann et al., 2010, meta-analysis on planning-performance relationship). Research on effectuation indicates a positive relationship with firm performance (cf. Read et al., 2009, meta-analysis on effectuation-performance relationship). The aim of this study is to examine to what extent effectuation, causation or a combination of the two support entrepreneurs in achieving their first milestones such as first sales and break-even point faster.

Method

We use data of the Global University Entrepreneurial Spirit Students’ Survey (GUESSS) from 2011 including responses from a total of 93,265 students. Our sample consists of 2,036 student entrepreneurs from 25 countries.

Results and Implications

Contrary to our expectations, preliminary results suggest that causation and effectuation do not have a significant impact on time to first sale and time to break-even point. However, it appears that they are both important for explaining long-term performance with regard to sales, market share and profit.

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