



RWTHAACHEN
UNIVERSITY

Entrepreneurship and Innovation

TU9 MOOC – Introduction to Effectuation

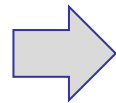
Univ.-Prof. Dr. Malte Brettel | Aachen | October, 20nd 2014

School of Business and Economics

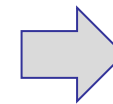
TIME Research Area | Innovation & Entrepreneurship Group (WIN)

Sarasvathy discovered that there also different approaches to starting a business...

...Is there a difference between **expert entrepreneurs** vs. non-expert entrepreneurs as concerns how they would **deal with risks & returns in highly uncertain situations?**



Saras examined 27
Expert Entrepreneurs



in form of a think aloud
experiment



She examined the differences between expert and non-expert entrepreneurs

Non-Entrepreneurs

vs.

Expert Entrepreneurs



- Start by defining goals
- Based on goals, selection of means
- Decision based on expected returns
- Research and comparative analysis ...
-

Established Decision Process

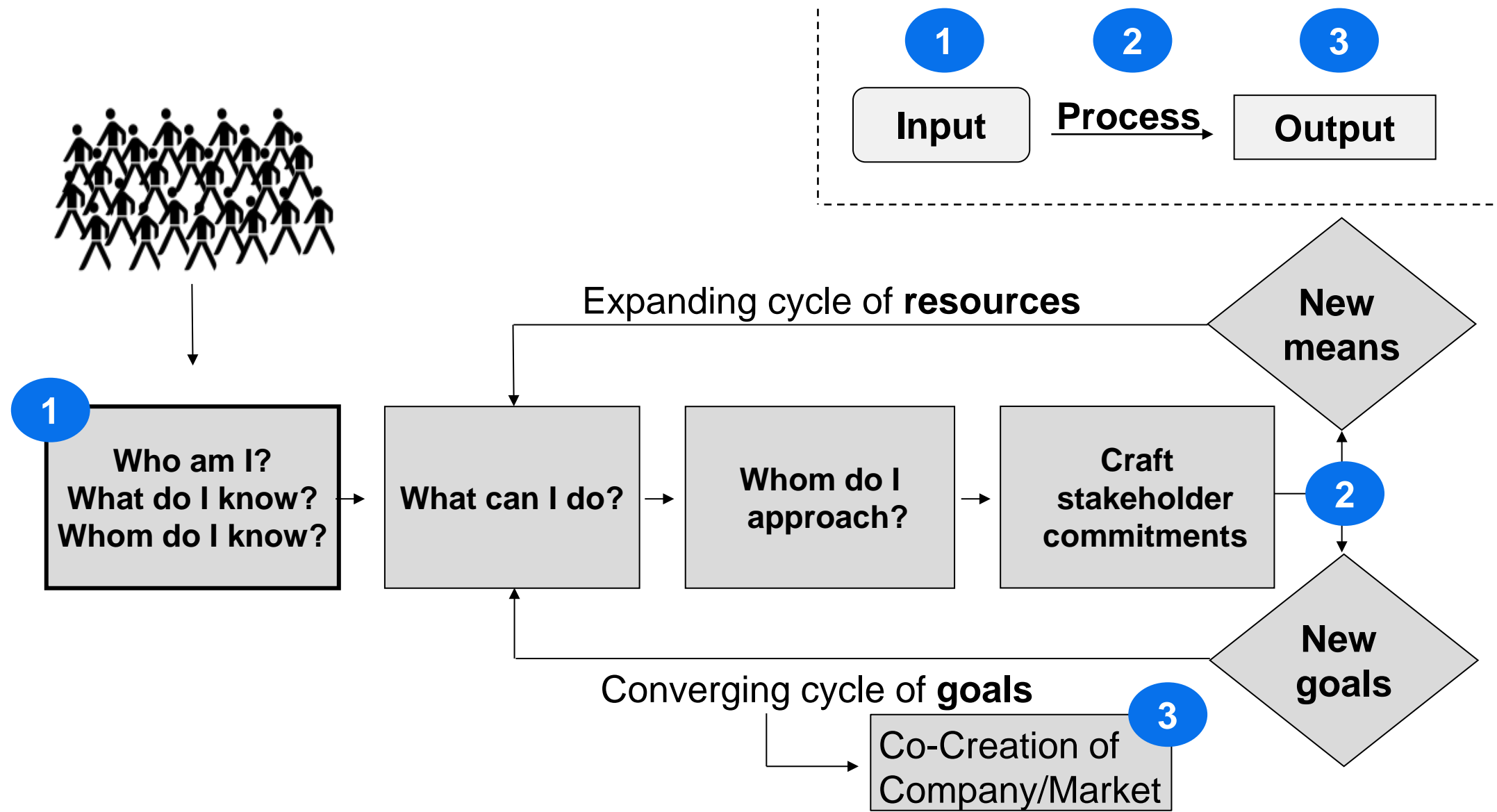


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DIFFERENT APPROACH!!

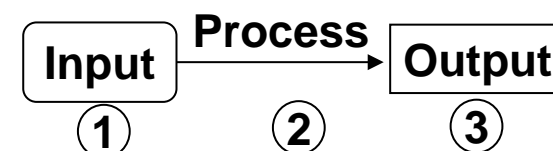
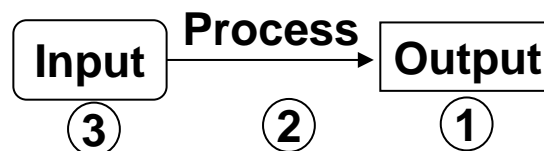
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For example, expert entrepreneurs assess their means available and choose between possible effects to be created...



Effectuation can be contrasted to causation along a list of four dimensions, all carrying the notion of design

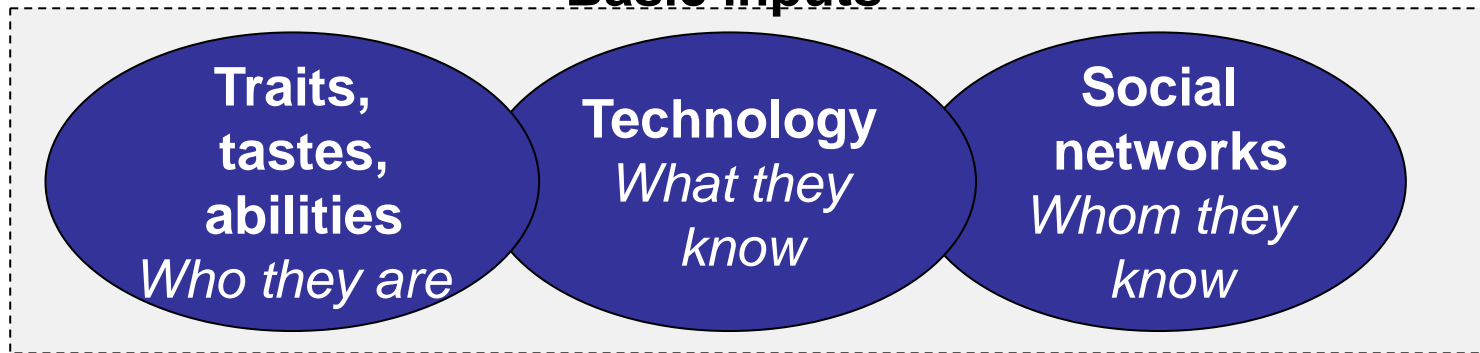
Logic dimensions	... in causal logic (prediction-based)	... in effectual logic (action-based)
<i>Start of process with ...</i> START	Goal (ends)-driven action Estimation of necessary means	Means-driven action (Bird-in-hand) Preferences, knowledge, networks Unspecified goals
<i>Investment decision based on ...</i> INVEST	Expected returns logic Calculations	Commitment limit (Affordable loss) Restriction on downside potential
<i>Moving forward through ...</i> PROCESS	Prediction of the future Planning, Research	Stakeholder commitments, Step-by-step development
<i>Dealing w/ contingencies by ...</i> CONTINGENCIES	Avoiding surprises Plan adjustments	Leveraging contingencies, Incorporation of external information



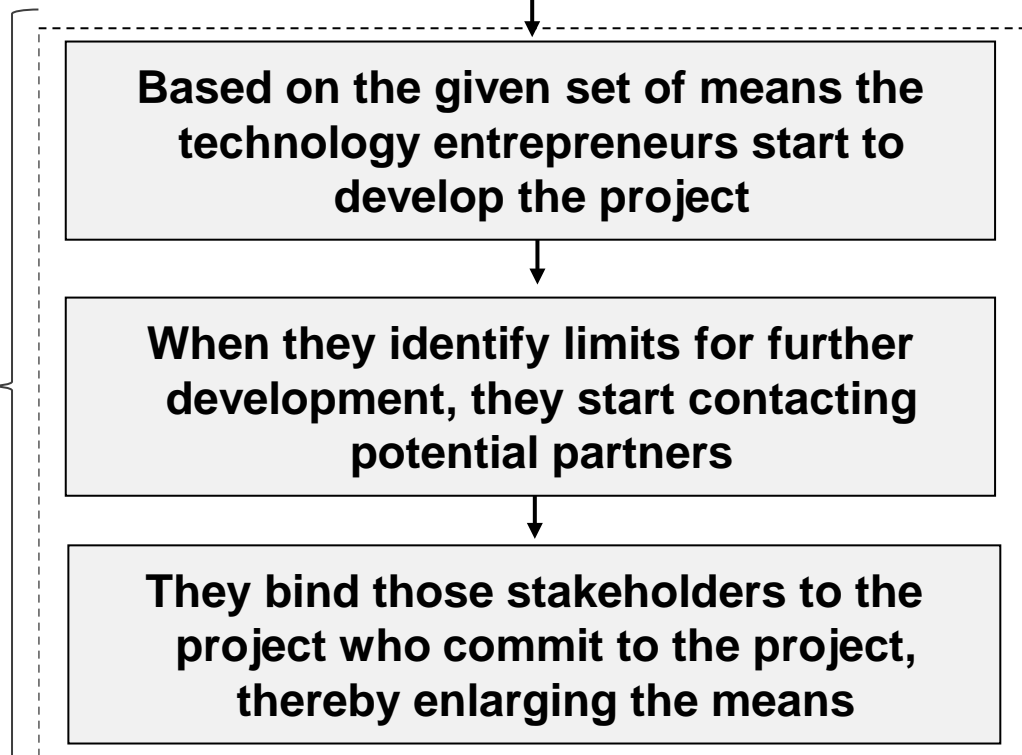
Based on: Sarasvathy (2001), Sarasvathy (2008)

In the dynamic model of new technology-based firms the resource base is being expanded while goals converge

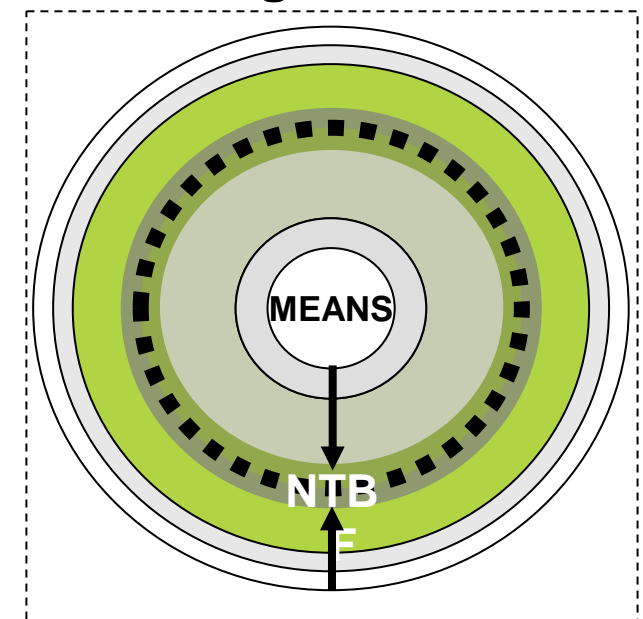
Basic inputs



Effectuation Process



Process converges on NTBF



Source: Based on Sarasvathy (2005)

Analyzing your skills and your knowledge as well as settings in which you would like to apply them

1 Access your means

Write down 10 things answering the questions:

What are your strengths?

What are you good at?

2 Reflect your means

Amend your thoughts by answering the questions:

In which contexts did you use your strengths?

Which skills & knowledge were also needed in these situations?

3 Transfer your means

Complete your thoughts by answering the questions:

In which contexts do I want to apply my skills and knowledge?

Which is the closest context for me to use my skills & knowledge?

Partnerships ≠ Partnerships – so, what is the difference?



String Quartet

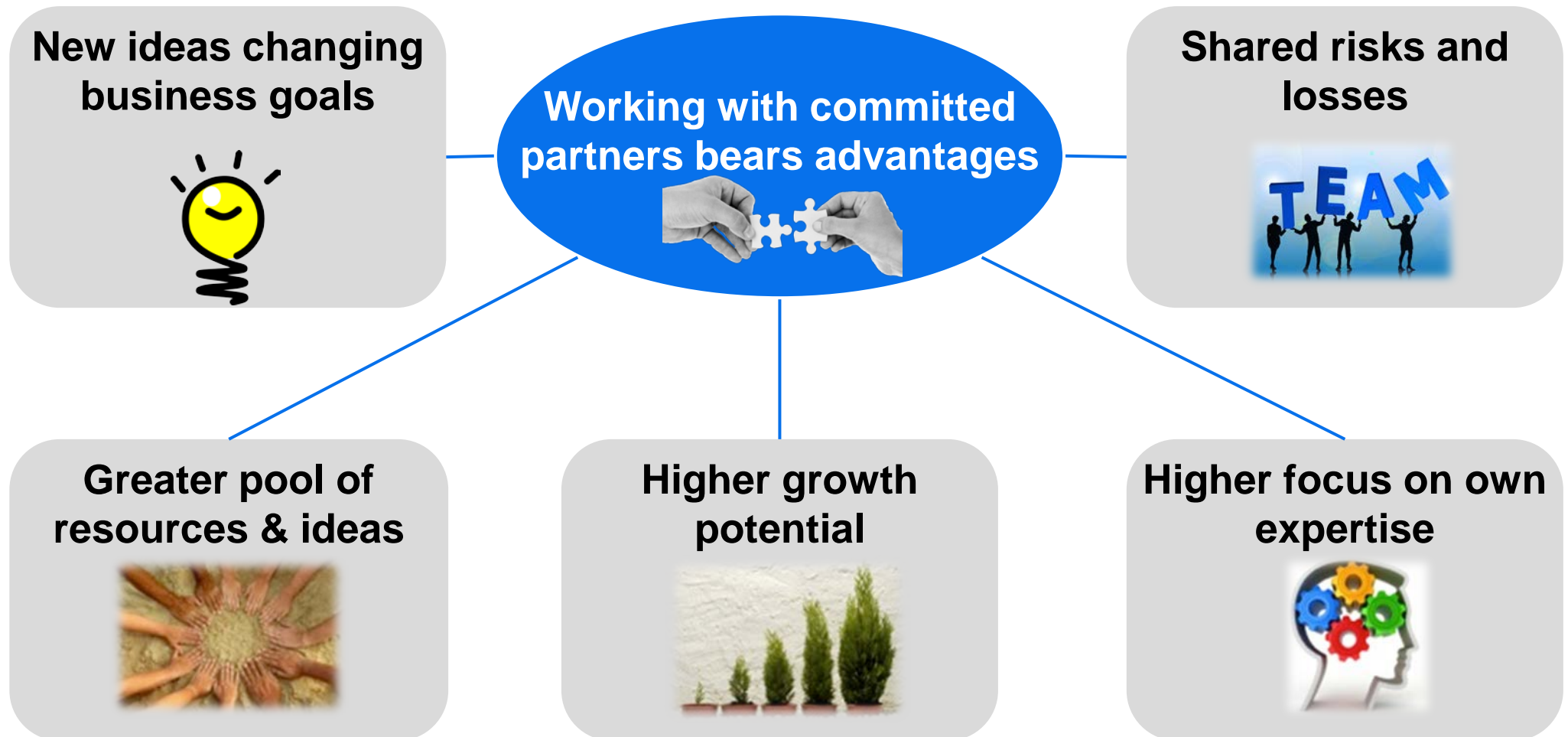
vs.



Jam Session

Photo Orchester: Koninklijke Harmonie Oefening & Uitspanning Photo Jam Session: Kevin Viol

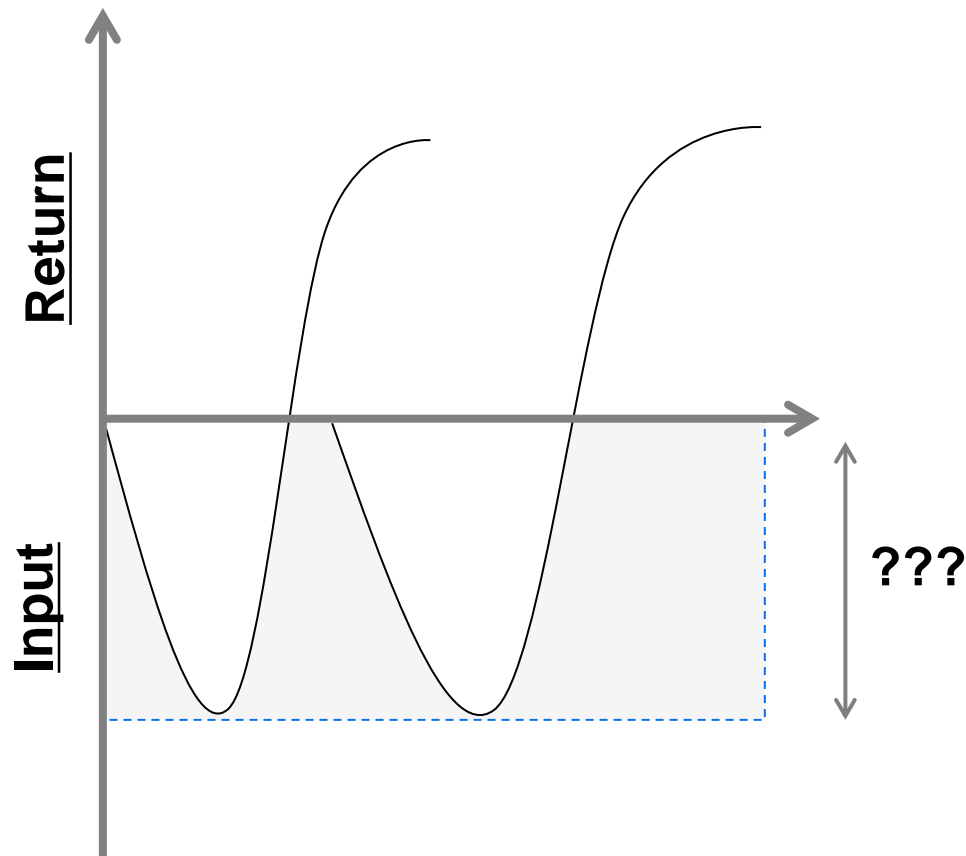
The preferred method of effectual entrepreneurs building a start-up is “stitching together a network of stakeholders”*



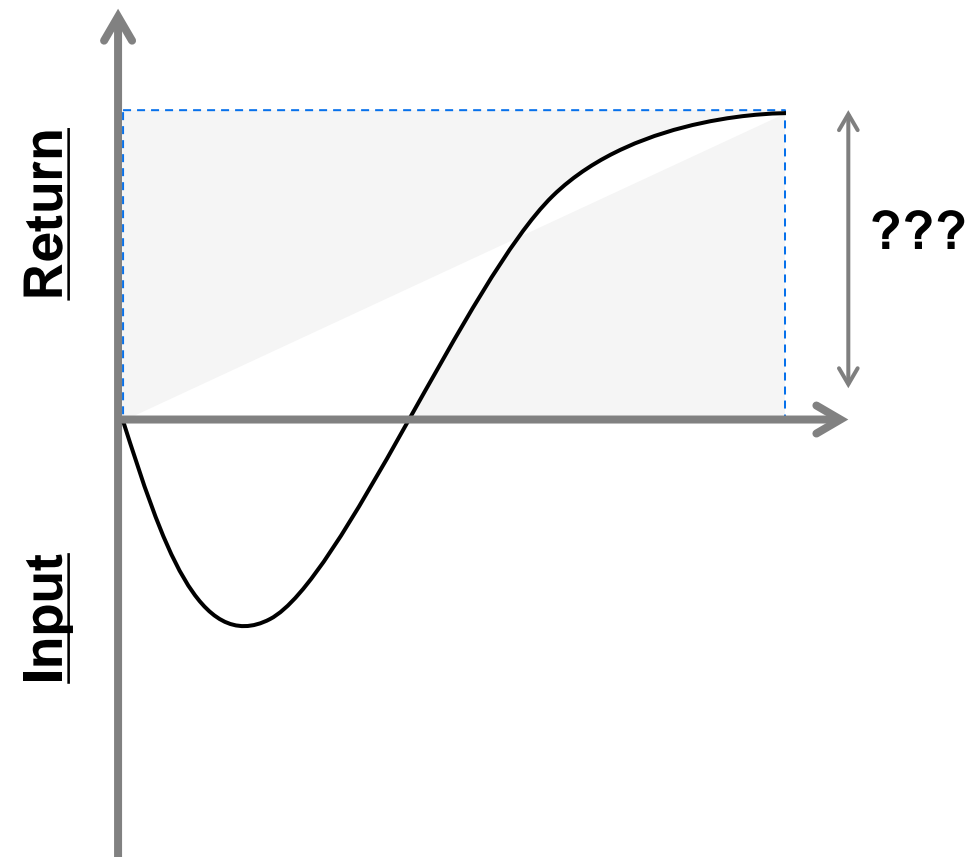
*Dew et al. (2010) Photo: <http://pixabay.com/> CC0 public domain

Effectuation focuses on controlling the level of input, whereas causation focuses on controlling the level of return

Effectuation Logic

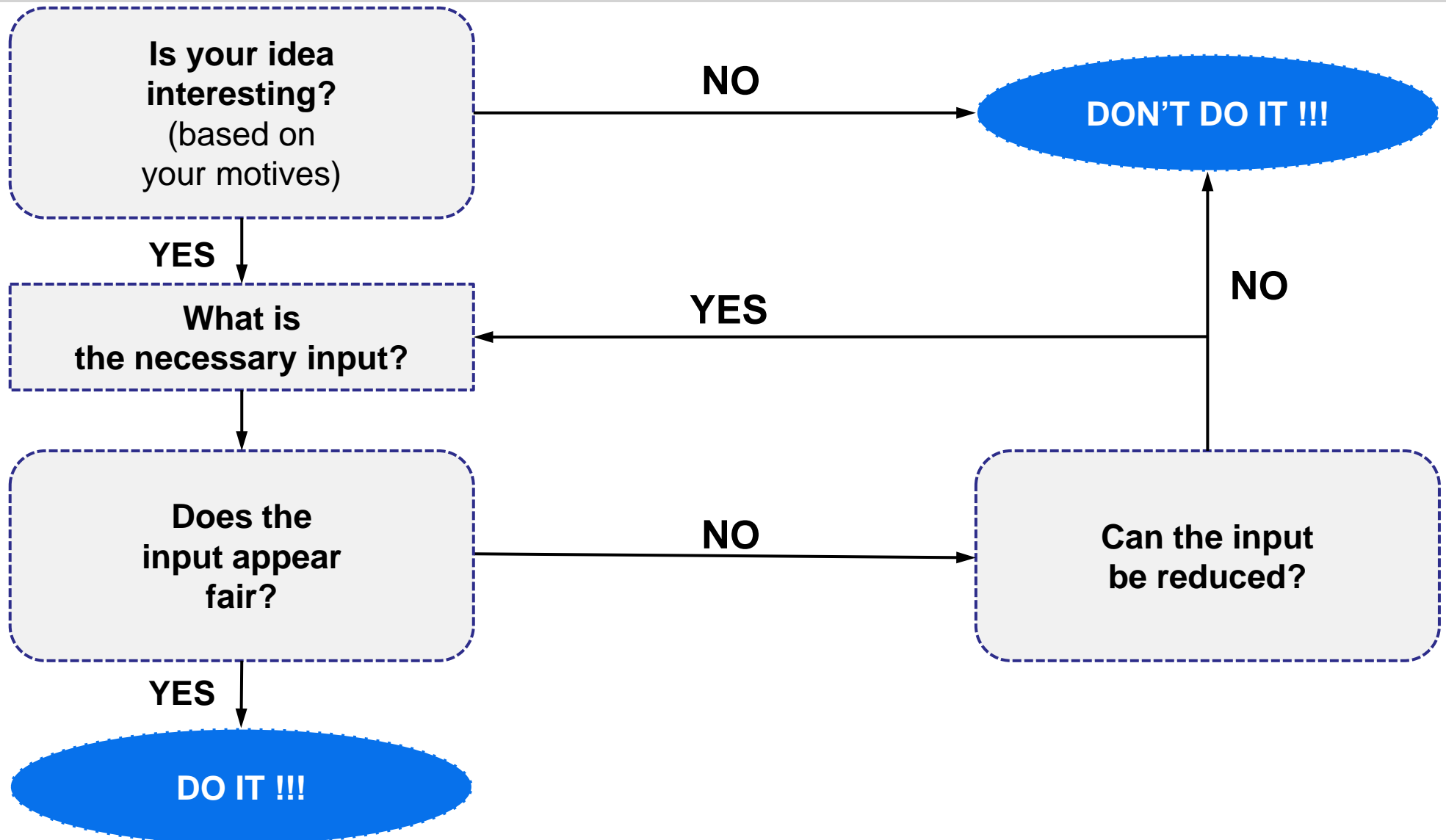


Causation Logic



Adopted from: Faschingbauer, M. „Effectuation: Wie erfolgreiche Unternehmer denken, entscheiden und handeln“, Schäffer Poeschl, 2010. p.203

Understanding your decisions on how to do the next step without risking severe consequences



Adopted from: Faschingbauer, M. „Effectuation: Wie erfolgreiche Unternehmer denken, entscheiden und handeln“, Schäffer Poeschl, 2010. p.203

Turning contingencies into new opportunities



In response to a guest complaining about fried potatoes being too thick, an American cook cut them as thin as possible



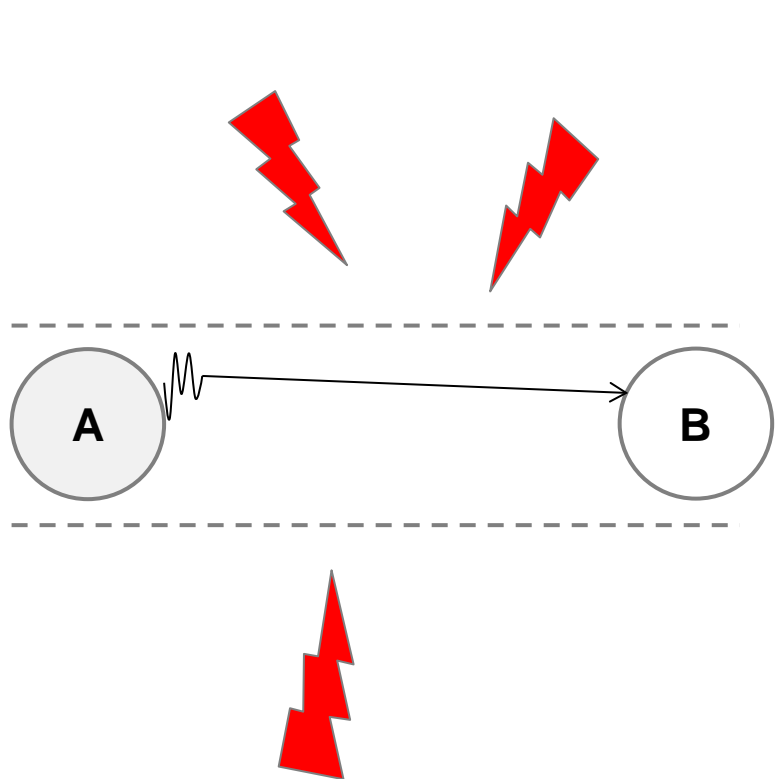
Percy Spencer found that the chocolate bar in his pocket melted because he had been working on a radar unit



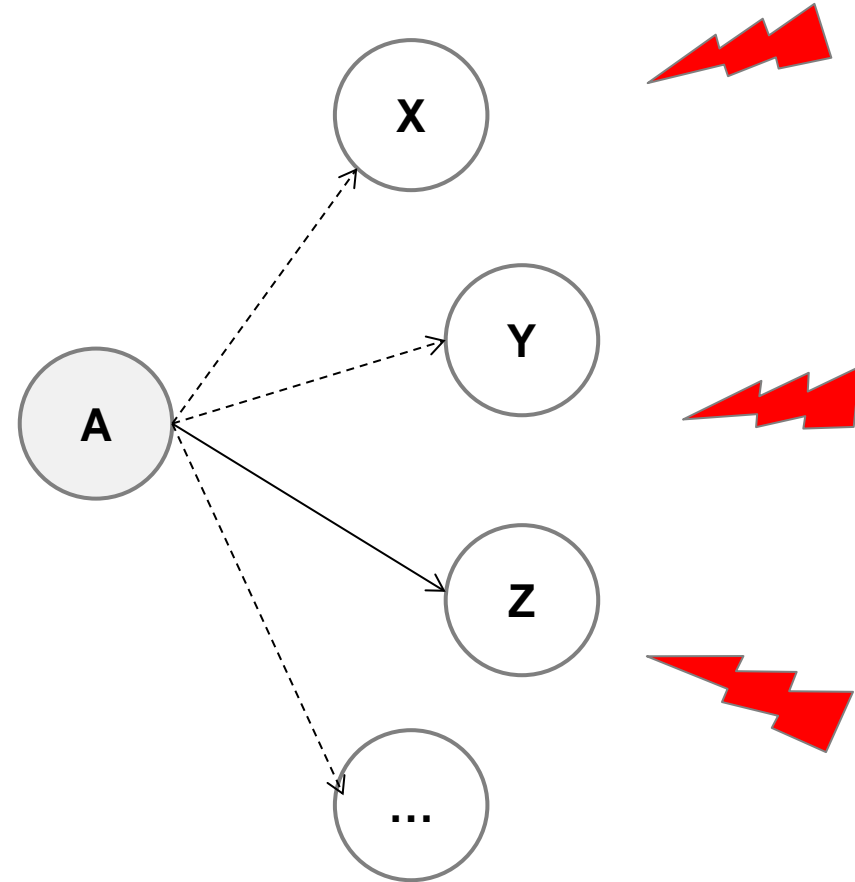
Working on a treatment for heart disease, Pfizer found that the developed medication could not cure heart diseases, but..

Photo: <http://pixabay.com/> CC0 public domain

Whereas a causation approach attempts to avoid surprises, an effectuation approach embraces surprises



Avoiding contingencies/surprises



Using contingencies/surprises as new means

Adopted from: Faschingbauer, M. „Effectuation: Wie erfolgreiche Unternehmer denken, entscheiden und handeln“, Schäffer Poeschl, 2010. p.205