Exploring the Role Of Effectuation In Business Startup: A Review And Evaluation Of Entrepreneurial Project

Sonata Christian
Gek Sintha M.J Wika

Universitas Ciputra, Surabaya
Email : sonata.christian@ciputra.ac.id

Abstract

Entrepreneurship education is closely related to individuals’ ability to start and develop a business. Every student in Ciputra University is required to have a business of their own. In the beginning of their sophomore years, they are taught about business startup. Students normally use causal or predictive reasoning, but the approach is not always a success. As young entrepreneurs who have already started a new business, many of our students are unable to maintain the business. This leads to the need for a new theory that can be both learned and taught to help students develop not only a business, but a sustainable corporation. Effectuation approach in business startup comes as an option (Sarasvathy, 2008). The core of effectuation is the idea that instead of finding and exploiting opportunities that have been explored by others, effectual entrepreneurs create opportunities by understanding themselves; who they are, what they know, and who they know, and immediately take action and interact with other people. Some of the principles of effectuation such as bird-in-hand, affordable loss, lemonade, patchwork quilt, and pilot-in-the-plane can minimize the use of prediction and allow entrepreneurs to shape their unpredictable future. The purpose of this research is to understand how to apply the principles of effectuation into entrepreneurial projects and to prepare young entrepreneurs to have great business startups. The research method used is a qualitative study that uses document study, in-depth qualitative interviews and observations. Results show that effectuation approach is achievable to facilitate students in conducting business startups and increase opportunities of turning a business into a sustainable corporation.

Keywords: entrepreneurship, business startup, effectuation approach, entrepreneurial project

I. INTRODUCTION

The word ‘entrepreneur’ is widely used nowadays, both in everyday conversation and as a technical term in management and economics. The idea of an entrepreneur as someone who undertakes certain projects offers an opening to develop an understanding of the nature of entrepreneurship. Undertaking particular projects means there is a demand that the particular tasks should be conducted with the objective of achieving specific outcomes and that the individual(s) should take charge of the projects. Entrepreneur is then what an entrepreneur does. Entrepreneurial is an adjective used to describe how the entrepreneur conducts the work. The fact that we use the adjective suggests that there is a particular style regarding what entrepreneurs do. The entrepreneurial process in which the entrepreneur engages is the means through which a new value is created as a result of the project: the entrepreneurial project. (Wickham, 2006)

Surabaya’s Ciputra University, established by Ir.Ciputra, is driven by the longing to create young Indonesian entrepreneurs who can benefit themselves, their families, their communities and the Republic of Indonesia. These young entrepreneurs are expected to drive Indonesia towards better economics. Students who enroll at Ciputra University are encouraged to set up a new business. The main study course, which serves as the backbone of entrepreneurship education in Ciputra University, is Entrepreneurial Project. Understanding the right methods of entrepreneurial process, as taught in Entrepreneurial Project class, will greatly affect the university’s graduates’ quality of running a business. Along with the development of technology and knowledge, entrepreneurship learning methods also continue to progress. Models of entrepreneurial learning, which are currently run traditionally, are slowly replaced by newer models with a more relevant approach. An entrepreneurship learning model based on effectuation approach is one of the developments in entrepreneurship education. It serves as a more appropriate learning method aimed at creating young entrepreneurs who are innovative, creative and capable of running their business well.

II. RESEARCH METHODOLOGY

This research is an action-based research which is based on the case studies in Entrepreneurial Project course. This study
is aimed at providing solutions for better business startup. The object of this study is the students of International Business Management program who take Entrepreneurial Project course. This study is designed as a qualitative study using documentation study, in-depth qualitative interviews and observation to obtain the data. Stages of analysis in this study are divided into two phases: exploring the entrepreneurial learning process based on effectuation approach and evaluating the implementation of effectuation in business startup.

**RESEARCH RESULTS AND DISCUSSION**

**Why become an entrepreneur?**

The Entrepreneurial Project course is designed to help International Business Management’s students create and run their business. We encourage students to become entrepreneurs. According to Mariotti and Glackin (2010:5), entrepreneurs put a great deal of time and effort into launching their own businesses. An entrepreneur works for the following rewards:

1. **Control over time:** If you start your own business, you will have control over how you spend your time according to your type of business.

2. **Fulfillment:** Successful entrepreneurs are passionate about their businesses. They feel excited and fulfilled by their work. Entrepreneurs are almost never bored. If something about running the business is boring for them, they can hire someone else for the task as long as they have enough financial resources to do so.

3. **Creation/Ownership:** Entrepreneurship is a creative endeavor. Entrepreneurs put their time into creating something that they expect will survive and become profitable. Entrepreneurs own the business that they create and the profits that the businesses generate. Ownership is the key to wealth.

4. **Control over compensation:** Entrepreneurs choose how and when they are paid: pay yourself a salary at regular intervals, pay yourself a wage, take a share of the company’s profit called a dividend, or take a commission from every sale you make.

5. **Control over working conditions:** As an entrepreneur, you can create a working environment that reflects your values. If you support the idea of recycling, you can make sure your company recycles. You can also evaluate your own performance. No one else has the power to fire you.

**The costs and benefits of becoming an entrepreneur**

In Entrepreneurial Project course, we also share the costs and benefits of becoming an entrepreneur. Mariotti and Glackin (2010:6) said, “Even if you do have a strong dream that you believe will motivate you through the ups and downs of running a business, look closely at the benefits and costs of being an entrepreneur.”

**These benefits include:**

- **a. Independence:** Business owners do not have to follow orders or working hours set by someone else.
- **b. Satisfaction:** Doing what you love to do or turning your skill, hobby, or interest into your own business can be highly satisfying.
- **c. Financial reward:** An entrepreneur’s income is only limited by their own imagination and tenacity.
- **d. Self-esteem:** Creating something valuable can give you a strong sense of accomplishment. It can make you feel good about yourself.

**While the costs include:**

- **e. Business failure:** Linda Yu (2004) stated that about one in five new businesses fails in the first 8 years. This is largely due to the fact that many entrepreneurs do not get proper training. Another reason is because they become discouraged and give up. Entrepreneurs risk losing not only their own money but also financial investment made by others.
- **f. Obstacles:** You will run into problems that you will have to solve by yourself. Your family and friends may discourage you or fail to support your vision.
- **g. Loneliness:** It can be lonely, and perhaps even a little daunting, to be completely responsible for the success and failure of your business.
- **h. Financial insecurity:** You are not guaranteed a set salary or benefits. You will have to set up and fund your own retirement fund.
- **i. Long hours/Hard work:** You will have to work long hours to get your business off the ground.

**Entrepreneurial performance and the process of innovation**

Entrepreneurial performance comes from a combination of industry knowledge, general management skills, human resource skills and personal motivation. Successful entrepreneurs must not only use these skills but learn how to use them and what to learn from using them. Entrepreneurs should constantly audit their abilities in these areas, recognize their strengths and shortcomings, as well as develop the skills for future use. Innovation lies in the heart of entrepreneurial process and is a means to exploit opportunities. In terms of economy, innovation is a combination of resources in a new and original way. Entrepreneurship-wise, it is the discovery of a new and better way of doing things. Innovation goes beyond invention. The new way does not stand on its own merits. It will create new values only if it offers customers an improved way of approaching tasks and solving problems. Innovation is not something that happens at some point in time. It is a process that can be described as follow:

The understanding of opportunity develops as potential innovations are considered. The means of delivery and
promotion will be explored as innovation takes shape. Opportunity and innovation may be reconsidered in terms of promotional and distributional constraints.

The principles of causation and effectuation approaches

Principles of effectuation such as bird-in-hand, affordable loss, lemonade, patchwork quilt, and pilot-in-the-plane can minimize the use of prediction and allow entrepreneurs to shape their unpredictable future. These principles can help students in their business startup in a way that these young entrepreneurs can start their business with what they have and who they are, limit risks by understanding what they can afford to lose at each step, create their own market opportunity, trust other people and work in a team.

Prof. Saras D. Sarasvathy, the founder of effectuation theory, described in her book the difference between causation and effectuation approaches (Sarasvathy, 2008):

“Causal problems are problems of decision; effectual problems are problems of design. Causal logic helps us choose, whereas effectual logic helps us construct. Causal strategies are useful when the future is predictable, the goals are clear and the environment is independent of our actions, whereas effectual strategies are useful when the future is unpredictable, the goals are unclear and the environment is driven by human action. Causal entrepreneurs begin with the effect they want to create and ask, “What should I do to achieve this particular effect?”, whereas effectuation entrepreneurs begin with their means and ask, “What can I do with these means?” and “What else can I do with them?” We are familiar with causal logic. It is routinely used in MBA programs. Causal rationality starts with a pre-determined goal and a given set of means, and seeks to identify the optimal alternatives to achieve the goal such as the fastest, the cheapest, or the most efficient way to do so. It chooses its target market from the highest potential return in investment, picks a portfolio with the lowest risk in finance, or hires the best person for the job in terms of human resource management. The world “effectual” is the opposite of “causal”. Effectual reasoning; however, does not begin with a specific goal. Instead, it begins with a given set of means and allows goals to emerge contingently over time from the varied imagination and diversified aspirations of the founders and the people they interact with.”

Chandler et al (2009) on Journal of Business Venturing validates effectuation approach to new venture creation by saying:

“We develop and validate measures of causation and effectuation approaches to new venture creation and test our measures with two samples of entrepreneurs in young firms. Our measure of causation is a well-defined and coherent uni-dimensional construct. We propose that effectuation is a formativ
development of verified measures of both causation and effectuation. An awareness of the actions and behaviors of entrepreneurs is critical to understanding an entrepreneurial economy. In her groundbreaking research, Sarasvathy (2001, 2008) advanced our understanding of the entrepreneurial process by describing two distinct approaches to new venture creation: causation and effectuation. While causation is consistent with planned strategy approaches, including such activities as opportunity recognition and business plan development, effectuation processes are inconsistent with emergent strategy and include a selection of alternatives based on loss affordability, flexibility, and experimentation. While Sarasvathy has done a masterful job of articulating the constructs, our research addresses the next critical step in advancing this research — the development of validated measures of both causation and effectuation processes. Thus, we contribute by developing measures and analyzing the empirical distinctions between causation and effectuation. Specifically, we make several key contributions. First, using data from two field samples, we develop and refine measures of causation and effectuation. Next, we use these measures to test the dimensionality of the constructs and the associated distinctiveness of each as suggested by Sarasvathy (2001). In addition, we show that causation measures are negatively related to measures of uncertainty and the experimentationsub-dimension of effectuation is positively related to measures of uncertainty, providing support for the theoretical conceptualization of causation and effectuation.
Finally, we position our findings in the entrepreneurship literature and propose that scholars undertake a research stream to examine entrepreneurial processes utilizing the measures developed and tested in this study. Beyond the implications for scholars, this research also has implications for practitioners. The path to new venture creation may follow a well-defined causation approach in which those who identify opportunities, bring together resources efficiently, and work according to a plan may achieve competitive advantage; however, the path to new venture creation may also be a process of experimentation, affordable loss, and flexibility that results in entrepreneurial success. While it will be up to future research to determine the circumstances under which each approach is more appropriate for a particular individual or an opportunity, our findings should be validating for the legions of would-be entrepreneurs who wage a dichotomous war between the need to “develop a full-blown business and marketing plan” and the need to “just get started.”

Sarasvathy (2008) uses the contrasting metaphors of a jigsaw puzzle and a patchwork quilt to capture the differences between the two approaches. In the jigsaw puzzle approach (causation) the entrepreneur’s task is to take an existing market opportunity, and through the use of resources, create a sustainable competitive advantage. The assembler of jigsaw puzzles sees the world as one in which all of the pieces are there, but requires assembling. In the patchwork quilt approach (effectuation), the task of the entrepreneurs is to develop opportunity by experimenting and changing direction as new information becomes available. The patchwork quilter sees the world as still-in-the-making with a significant role for human action.

Nienhuis Master’s Thesis (2010) explains about causation and effectuation approaches as follows:

“Effectual logic, captured in the emerging theory of effectuation, is the logic of expert entrepreneurs and differs significantly from the causational logic predominantly used by managers and MBA students alike. This new school of thought lacks significant empirical evidence of the influence of effectuation, e.g. on performance, and in this thesis I aim to contribute to filling that gap by assessing the impact of effectuation on job creation as performance measure in the context of incubated start-ups. In the process, a coding scheme to measure effectuation in business plans is developed. The literature review revealed two major ongoing debates: one between discovery theory and creation theory in entrepreneurship research, with effectuation having moved to the front lines of creation theory, and the other an ongoing debate on the merits of planning, as opposed to learning. This thesis attempts to integrate these debates, looking for evidence of creation theory in (mandatory) business planning leading to higher performance. The literature review also indicated a lack of operationalization in the area of effectuation, being non-existent in the context of business plans. This thesis tries to fill that gap as well. The findings offer interesting new insights into the workings and effects of effectuation.

Effectuation and causation approaches differ significantly in resulting performance. Causal market research has a positive influence on performance, while measurements of means-based, rather than goals-based action and a focus on partnerships both proved that these dimensions of effectuation positively influence performance. Interestingly, attention for competitive analysis also positively influenced performance. Also, experience as a measurement of means, along with the control variables growth intention and company age, proved to be a predictor of the chance that a start-up would successfully transition from a micro business to a small business (more than ten employees). A focus on affordable loss (effectuation), rather than expected return (causation), was hard to measure and did not provide significant results. This suggests avenues for further research on the effectual constructs.”

Review: Entrepreneurial Project course at Ciputra University

Topics in Entrepreneurial Project course at Ciputra University are described in Table 1:

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<thead>
<tr>
<th>No</th>
<th>Topic</th>
<th>Subtopics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Being an entrepreneur</td>
<td>• Entrepreneurs: characteristics and tasks • Effectuation theory at a glance</td>
</tr>
<tr>
<td>2</td>
<td>Key personal resources</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Key resources (interest, personality, network, value) and relevant entrepreneurship areas</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Selling project preparation</td>
<td></td>
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<tr>
<td>5</td>
<td>Selling communication skill</td>
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<tr>
<td>6</td>
<td>Creative Selling, using empathy map tools</td>
<td></td>
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<tr>
<td>7</td>
<td>Consumer behavior</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Building entrepreneurial mindset (integrating the subjects of discipline and entrepreneurship)</td>
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</table>

Source: Class database: Entrepreneurial Project Syllabus

The method used to explore the student potential is filling in the worksheet. The worksheet is one of the applications of the principles of effectuation, the bird-in-hand. Bird-in-hand identifies who we are, our interests, our abilities and skills, our personality tendencies, and also our values and networks. Students find it easier to absorb the materials when the lecturers use presentation methods such as inspiring videos, games and experience sharing. In addition to theories about entrepreneurship, students are also directly involved in real projects in the community or through personal selling market in collaboration with suppliers or other parties who meet the criteria standard set by the University of Ciputra. Through selling project, students learn about responsibility, communication skills, financial and commercial awareness, the needs of the market, customers and supplier networking, and more.
Evaluation of Entrepreneurial Project course at Ciputra University

Evaluation of the effectuation principles approach in Entrepreneurial Project courses is performed by in-depth interviews to students. The questions posed to students are as follows:

1. What benefits do you get for your business startup from the principles of effectuation approach?

2. What do you think about the concept of entrepreneurship after learning about the principles of effectuation approach?

Student’s opinion regarding the use of the approach through effectuation principles in Entrepreneurial Project course is quite similar. They stated that the effectuation approach helped them in starting a new business.

“The use of the principle of effectuation in business courses is one of the most important things to learn as a student who has yet the experience of working or doing business with limited start-up capital, because it is beneficial to understand what we have or our potential.”

“The concept of effectuation teaches me to recognize my passion first, so any difficulties encountered during the process of starting a business can be faced with ease.”

“I now understand more about my ability and interest; and therefore, I can now face the challenges in my business better than before.”

Our students also revealed that, “Recognizing self-potential and personal vision is important before starting up a business or turning a company into a sustainable business”. Effectuation principles help students recognize their potentials, ability, passion, interest, and networking.

The entrepreneurial learning process based on effectuation approach for a semester has provided tangible benefits to students. The following are some of the students’ statements regarding the benefits of applying the principles of effectuation approach in Entrepreneurial Project class:

“Effectuation approach is very helpful in terms of knowing where to step on.”

“The principles of effectuation help me understand my personality, abilities, and networking. Consequently, it helps me to develop my potential and passion and allows me to start a business that fits my liking.”

“It is very useful. It helps me see the personal strengths and weaknesses necessary for my development.”

The three statements above confirmed that the use of the approach through the principles of effectuation in Entrepreneurial Project course has achieved the expected objective. Aself-undertaking approach is expected to facilitate the students in deciding entrepreneurship areas for their business startup, according to their own potential, strengths and weaknesses. Nonetheless, they have to improve and utilize it in accordance with the needs of starting a business.

III. CONCLUSION

When entrepreneurs use effectuation approaches, they experiment with alternatives in which potential losses in the worst-case scenario are affordable. It also means that they use pre-commitments and strategic alliances to control an unpredictable future and remain flexible in order to take advantage of the changing environmental contingencies. Entrepreneurs are entrepreneurial, as differentiated from managerial or strategic, because they think effectually. They believe in an in-the-making future that can be substantially shaped by human action. This is the goal that can be achieved using the principles of effectuation.

The principles of effectuation can help facilitate students in conducting business start-up and increase opportunities of turning a business into a sustainable corporation.

REFERENCES


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