Knowing What to Do and Doing What You Know: 
Effectuation as a Form of Entrepreneurial Expertise

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When we imagine an expert, glamorous images of a brilliant scientist conducting groundbreaking medical research, a chess master conquering a computer, or a virtuoso flawlessly performing a complex piano sonata are conjured up. Exceptionally high task performance is consistently associated with experts as they solve complex problems in their domain more quickly, more easily, and more accurately than novices (Charness et al. [2011]; Larkin et al. [1980]; Simon and Simon [1978]).

The desire to understand expert performance has inspired research in areas such as psychology, cognition, and decision-making, and the differences between experts and novices have been investigated in a variety of empirical settings. In the business domain, expert CEOs, marketing managers, and accountants can be found across firms and industries. And the same positive attributions of high performance are associated with experts in management as are linked to experts in other fields. Yet, management research has barely begun to leverage advancements made in the psychology and cognitive science literature to investigate expertise in a business setting.

A thorough search of articles published in major management and entrepreneurship journals revealed one article that seeks to understand the nature of entrepreneurial expertise in management (Mitchell [1997]), one empirical study that shows a strong relationship between entrepreneurial expertise and firm performance (Reuber and Fischer [1994]), work investigating venture capitalist experience (Shepherd and Zacharakis [2003]), and a 1998 dissertation that studied expert entrepreneurs (Sarasvathy [1998]). Although this dissertation used methods from the expertise and cognitive science literature, the study made no attempt to address the connection between entrepreneurial expertise and expertise in general. For example, it does not address the fundamental question of whether it is important to study entrepreneurship as a domain of expertise. One explanation could be that entrepreneurship has traditionally been viewed as an individual characteristic.

Besides investigating personality traits and attributes, studies have examined gender differences (Carter et al. [2003]), risk aversion (Miner, Smith, and Bracker [1994]) and even sociopathy as relevant traits that explain entrepreneurial performance (Winslow and Solomon [1987]). A more productive recent approach involves theories from cognitive psychology such as the impact of heuristics and biases (Busenitz and Barney [1997]). Another increasingly mainstream focus is on the central role of entrepreneurial opportunity in the entrepreneurial process (Shane and Venkataraman [2000]; Venkataraman [1997]).

We acknowledge that entrepreneurship is a complex phenomenon that merits a variety of approaches to study it. We add to extant approaches the study of entrepreneurial expertise—that is, a set of skills, models, and processes that can be acquired with time and deliberate practice. We will not only argue that expertise is a significant factor that can explain entrepreneurial performance but also show
that it enables us to identify testable elements of entrepreneurship that are teachable. There is much current interest in the education of entrepreneurship, and developing a body of information to be shared with aspiring entrepreneurs is a valuable goal for scholarship and pedagogy alike, particularly in schools of business management. Understanding the cognitive processes used by expert entrepreneurs offers the potential to provide a foundation for that body of knowledge. And as Ericsson et al. [1993] suggests that coaching and instruction can enhance the power of deliberate practice, one goal of our effort is to identify the foundation for what instructors might teach to aspiring expert entrepreneurs.

More broadly, studying entrepreneurship as a form of expertise promises to shed light not only on how new businesses and markets are created but also on how to make existing large enterprises more entrepreneurial as well.

We bring to bear on our endeavor the power of three rigorous streams of expertise research from the disciplines of psychology, cognitive science, and decision-making to describe how experience rooted in deliberate practice changes the way that experts perceive, process, and use information. We then draw on effectuation theory (Sarasvathy [2001]) and show how results from the expertise literature apply to the specifics of effectual entrepreneurial practice in new venture creation. The results of our integration of the two lines of thought culminate in Exhibits 4 and 5, where we present a precise set of constructs and hypotheses to focus in on entrepreneurial expertise in future empirical work. In a nutshell, we attempt to make three contributions to the thriving literature on entrepreneurship today:

- First, we introduce to current discourse in management the body of knowledge from the disciplines of psychology, cognitive science, and decision-making regarding expertise.

- Second, we develop a set of observations based on theoretical parallels between experts in general and expert entrepreneurs.

- Third, we integrate the expertise literature with effectuation theory in order to build testable propositions relating the development of entrepreneurial expertise to the performance of firms and entrepreneurs.

EXPERTISE LITERATURE

In keeping with traditions from psychology, we define an expert as “someone who has attained a high level of performance in the domain as a result of years of experience” (Foley and Hart [1992]) and deliberate practice (Ericsson, Krampe, and Tesch-Römer [1993]). Furthermore, we restrict our discussions to “strong-form” expertise, associated with deep personal ability and knowledge derived from extensive practice and experience based on immersion in the relevant domain. We do not seek to investigate “weak-form” expertise, associated with forecasting that can be done through computer models and simulations or through private information (Mieg [2001]).

Though experts have interested scholars for centuries, investigation of expert performance using modern approaches began about 30 years ago, focusing on understanding the nature of chess masters (Chase and Simon [1973]; Simon and Chase [1973]). In their early studies of expert chess players, Chase and Simon quickly observed that simple intelligence had no correlation with chess mastery (Ceci and Liker [1986]; Chase and Simon [1973]; Doll and Mayr [1987]; Taylor [1975]). There were more complex factors at work, revolving around how players store information, perceive problems, and generate solutions. On the foundation of their work, the field began to expand. Although some of the early empirical literature and theory development focused on chess, subsequent work has validated and expanded the theoretical base to more dynamic settings, such as taxi driving, medicine, firefighting, and consumer decision-making. It is important to note that the majority of findings in less dynamic settings are robust in more dynamic settings as well.

In this section, we focus on three issues germane to the development of a more precise framework for studying entrepreneurial expertise. First, we briefly outline four theoretical drivers of expertise and explain why we chose “deliberate practice” as the lens through which to investigate entrepreneurial expertise. Second, we clarify what constitutes the domain of entrepreneurial expertise and how it fits into predominant approaches in current entrepreneurship research. Finally, we list key elements of deliberate practice within the domain of entrepreneurial expertise.

Expertise and Deliberate Practice

The study of expertise is hardly a united field. Our review of the literature identified four theoretical approaches,
each conceptually anchored to a unique view of what underlies the development of expertise. These approaches are 1) individual differences, 2) knowledge structures, 3) experience, and 4) deliberate practice.

1. Individual differences. Of these, individual differences were the very first to be examined in detail, starting with Galton’s [1869] work on inherited traits. Work in this stream seems to have slowed based on notable studies showing intelligence, the most promising of individual characteristics, to be unrelated to expert performance among the most successful and creative artists and scientists (Taylor [1975]) and the best chess players (Doll and Mayr [1987]). These findings have been supported and extended such that contemporary literature discounts the impact of virtually all but physical individual differences in understanding expert performance. Clearly, being taller makes it easier to be a successful basketball player, whereas being smaller makes it easier to be a winningockey on a racehorse (Ericsson and Lehmann [1996]).

2. Knowledge structures. As researchers began to question the long-held assumption underlying the relationship between individual characteristics and expertise in light of deGroot’s [1946/1978] surprising finding that expert chess players identify best moves in their initial perception of the game, as opposed to through detailed analysis and thought, new approaches emerged. A vast body of empirical work has since accumulated on the general association of the superior knowledge storage and retrieval abilities of experts with quicker and more accurate problem solving in a domain (Anderson [1981]; Bedard and Chi [1992]; Chase and Simon [1973]; Simon and Simon [1978]; VanLch [1996]), which is perhaps manifest in entrepreneurship as “successful intelligence” (Sternberg [2004]).

3. Experience. In parallel to the investigations of knowledge structure, researchers have also investigated the sheer quantity and complexity of knowledge gained through experience (Camerer and Johnson [1991]; Shanteau [1992]). When simple expertise is approached using the simple construct of experience, however, the connection with performance weakens. For example, experienced individuals are subject to the pitfall of inferring too much from too little information and misreading evidence that confirms prior beliefs; furthermore, those with significant experience are at particular risk because they may have become so mechanical that they miss things (Rabin [1998]). This assertion has been empirically tested using problems involving electronics circuits (Besnard and Bastien-Toniazzo [1999]). Experience can also cause individuals to inappropriately weight information cues, make errors combining them, and be overconfident in their judgments (Bolger and Wright [1992]; Brailey, Vasterling, and Franks [2001]; Camerer and Johnson [1991]; Shanteau [1992]).

4. Deliberate practice. A more sophisticated articulation of the experience view suggests that the expertise that leads to superior performance is developed through a special type of experience that involves “deliberate practice.” As Greeno and Simon [1988] put it, experts learn by doing and doing and doing. But that alone is not sufficient. Systematic differences between experts and less proficient individuals within a domain nearly always reflect attributes acquired by experts during their lengthy period of deliberate practice (Ericsson and Lehmann [1996]). According to the deliberate practice view, individuals who engage in deliberate practice acquire superior knowledge structures, and from that, develop superior expertise (Ericsson, Krampe, and Tesch-Romer [1993]). The growing literature on deliberate practice identifies five necessary requirements of deliberate practice that together form the foundation upon which superior expert performance is built:

a. Motivation. Ericsson, Krampe, and Tesch-Römer ([1993]) pointed out that a greater objective that motivates performance improvement is critical because deliberate practice in itself is not inherently motivating. As such, individuals must identify some larger instrumental objective for their practice in order to motivate themselves to engage in it, day in and day out. Not surprisingly, however, additional research showed that deliberate practice can be moderated by inherent enjoyment of the activity to predict the acquisition of expertise (Ericsson, Krampe, and Tesch-Römer [1993]; Ericsson and Lehmann [1996]; Sloboda et al. [1996]). For an entrepreneur, this kind of motivation might encompass the satisfaction of building a new product or process, an efficient company, an enduring organization, or a personal fortune.

b. Understandability. Complex tasks in the domain must be decomposed into component pieces in order to be completely understood so that the patterns that enable rapid and accurate recall of the solution or application of the solution to a new problem can be properly organized and stored (Ericsson, Krampe, and Tesch-Romer [1993]). In the next section we outline several task decompositions in the creation of new firms and markets that form the basis for development of entrepreneurial expertise. It
is on these task components that expert entrepreneurs receive continual feedback as they repeat them in deliberate practice in order to develop expertise.

c. Feedback. Individuals involved in deliberate practice should receive immediate feedback on performance (Trowbridge and Cason [1932]). Feedback is critical, because people experiment with new methods and refine existing methods when presented with negative feedback (Chase and Ericsson [1981]; VanLehn [1991]), a process that continuously upgrades the sophisticated pattern recognition and matching systems that are developed by experts.

d. Repetition. The requirement that deliberate practice involves repeated performance of the same or similar tasks is consistent with the popular notion that practice makes perfect. But practice, and especially deliberate practice, requires time, energy, and focus. The dedication and motivation to repeatedly perform the same task is one of the key distinctions that separates experts from people with mere experience (Ericsson, Krampe, and Tesch-Römer [1993]).

e. Fit. The design of the task must account for the knowledge and limitations of the individual. A pitcher who performs well against right-handed batters but not against left-handers must deliberately practice pitching to left-handed batters in order to advance to an expert level where he can perform well against any comer. Although the design of deliberate practice tasks is ideally facilitated by an instructor (Baltes and Kliegl [1992]), the literature is quick to point out that the alternative of self-directed learning activities can be equally powerful for individuals with the creativity to develop new challenges for themselves and the discipline to overcome them (Glaser and Bassok [1989]; Wagner [1991]). As novices navigate the trajectory toward expertise, finding existing challenging lessons or knowledgeable instructors becomes increasingly difficult, and Glaser ([1996]) highlights how this transition is often accompanied by an individual's increasing control over his or her own learning.

Practice under these five characteristics, described as "deliberate practice," results in a performance improvement within a domain (Ericsson, Krampe, and Tesch-Römer [1993]; Gibson [1969]). Deliberate practice takes time. Research in the area has converged on the "10-year rule" (Chase and Simon [1973]). Although not hard and fast, the "10-year rule" suggests that it takes a minimum of 10 years of deliberate practice for a novice to ascend to the rank of expert. Before we identify specific elements of deliberate practice in entrepreneurship, we examine what constitutes the domain of entrepreneurial expertise and how it fits with mainstream research in entrepreneurship.

The Domain of Entrepreneurial Expertise

There is little argument that expertise is contextual (Djakow et al. [1927]; Ericsson and Smith [1991]). Although a neurosurgeon's talents may be unsurpassed in the operating room, her abilities there predict nothing about her abilities in the grocery store or on the computer. As such, expertise research examines experts in their own context, and likewise we do not expect that entrepreneurial expertise is generalizeable out of context. Please note that for the purposes of this article, we think of entrepreneurship as the creation of new ventures, new products, and new markets, but we hope our ideas will apply to areas that include corporate innovation and entrepreneurship.

So, what is entrepreneurial expertise and how does it fit with other factors involved in the entrepreneurial process? Basically, studying entrepreneurship as a form of expertise is consistent with process views of entrepreneurship (Aldrich [1999]; Brockner, Higgins, and Low [2004]; Bygrave and Hofer [1991]; Harvey and Evans [1995]; Low and Abrahamson [1997]; Stevenson and Jarillo [1990]). Although each of the works cited here has a different conceptual framework and definition of the entrepreneurial process, there are several common elements.

Universally, the entrepreneurial process is conceived as a collection of decision tasks such as selecting an idea or opportunity to begin with, creating a legal entity, garnering resources, bringing stakeholders on board, managing growth and exit strategies, and so on. Becoming an expert entrepreneur involves mastering these staged elements of the entrepreneurial process, particularly the recurring decisions and actions that constitute those elements. We examine these in greater detail in the next section on what constitutes deliberate practice in entrepreneurship.

Studying entrepreneurship as a form of expertise encourages us to match the general elements of expertise with heuristics specific to the new venture domain. Effectuation theory (Sarasvathy [1998]), as elaborated later in this article, consists of a set of heuristic principles such as the affordable loss principle or the logic of control that apply specifically to the creation of new organizations and markets. Our focus on these particular aspects of entrepreneurial expertise does not negate the importance and validity of other factors that predict and explain entrepreneurial performance, be it traits or the human and
social capital of the entrepreneur, environmental constraints and opportunities, or any other random or systematic effects impacting the process. Instead, theories of entrepreneurial expertise should explicitly take these important internal and external factors either as constraints or covariates in analyses of performance.

This brings us to a unique aspect of entrepreneurial expertise that makes our investment in this scholarly endeavor even more worthwhile. Current studies of entrepreneurship focus almost exclusively on the performance of the entrepreneurial venture as the primary dependent variable. Even the literature on traits, knowledge acquisition (tacit and otherwise), learning, and the use of general (non-domain-specific) heuristics and biases seeks to explain how these factors impact the performance of the firms that entrepreneurs create. The view from entrepreneurial expertise, however, turns the spotlight on the entrepreneurial expertise, sometimes juxtaposed with and at other times even opposed to the performance of the firm. Entrepreneurs, in current scholarship, are seen as instruments in the birth and growth of firms. Entrepreneurial expertise suggests an instrumental view of the firm instead.

Analyzing results from labor economics and microeconomics, industrial organization, population ecology, and serial entrepreneurship, Sarasvathy and Menon [2002] have argued in great detail that equating firm success with entrepreneurial success has been one of the most powerful confounds plaguing the development of our field. Studies of expertise suggest that although expertise often overlaps with and explains success, expertise is not the same as success. The fact that a chess player wins a tournament does not automatically imply he is a grand master, and similarly being an expert chess player does not guarantee a win. This is even truer in the case of entrepreneurial expertise, where an expert entrepreneur may found one or more failed firms, and novice entrepreneurs may achieve supernormal profits in their very first ventures. That is why studying expertise in complex domains involves investigating consistent commonalities in cognitive processes used by several experts within a given domain, while not defining experts using criteria in terms of single-outcome successes.

Teasing out some of the subtleties involved in the relationships between entrepreneurial expertise and the success of firms and entrepreneurs is an important empirical phenomenon, the study of which we hope to engender and enable through the propositions we develop later in this article. One of the most intriguing subtleties is the relationship between expertise and success in the case of an extraordinarily successful one-time entrepreneur such as Bill Gates or Michael Dell and the more easily understandable “expertise” of a serial entrepreneur. One of our propositions explicitly addresses this issue by examining the inflection point at which the effectual cognitive processes in successful founding need to be transformed into causal processes to grow and manage a large corporation. Before we explicate details of a theory of entrepreneurial expertise based on effectuation, we need to specify the role of deliberate practice in developing expertise within the domain of entrepreneurship.

**Elements of Deliberate Practice in Entrepreneurship**

Does an entrepreneurial setting provide for deliberate practice? We begin our discourse on this matter with a simple accounting of time available to deliberate practice. According to a survey of 500 small businesses, the average small business owner puts in 52 hours of work every week, 50% more than an average production employee in the United States (Willard and Shullman [2000]). By comparison, Olympic swimmers get relatively little practice, putting in a mere 28 hours of swimming in a training week (Banks [1997]). Given the high level of time commitment to a new venture, it seems reasonable to believe that the entrepreneurial setting enables immersion at a level at least commensurate with other fields where expert performance is attained.

As stated earlier, the literature on deliberate practice specifies five criteria for a domain to qualify for the development of expertise: motivation, understandability, feedback, repetition, and fit. It is easy to see that motivation and fit are satisfied in an entrepreneurial setting. Entrepreneurial motivation ranges from making personal fortunes to creating an enduring organization of great value to society. Passion, commitment, workaholism, perseverance, and a host of other attributes of the setting, both in the popular press and in academic research, point to motivations that go beyond what the mere practice of entrepreneurship provides. Similarly, the sheer variety of possible firms and markets allows entrepreneurs to select ventures that they are better suited for and set in motion a chain of tasks for self-directed learning and deliberate practice. In fact, the theory of effectuation, as elaborated in this article, points to an explanation as to why previous research has not unearthed a compelling set of factors that predict the success of entrepreneurial firms. As Sarasvathy [2001] puts it,
The theory of effectuation brings another perspective to the table. It suggests we need to give up ideas such as the successful personality, or clearly superior characteristics of the successful firm or organization. . . . The focus in our journals and classrooms for example, would shift from “How to build a successful firm?” or “How to become a successful entrepreneur?” to “What types of ideas and opportunities should YOU pursue?” and “Given who you are, what you know, and whom you know, what types of economic and/or social artifacts can you, would you want to, and should you create?” The old adage about invention captures this shift rather pithily: Both the optimist and the pessimist contribute to successful inventions. The optimist invents the airplane; the pessimist, the parachute.

The remaining three requirements for deliberate practice, namely, the decomposability of entrepreneurial tasks into subtasks that provide feedback and are also repeatable, may be a little more difficult to see because of the perception that entrepreneurial ventures are rather idiosyncratic in nature. But the typical daily routines of entrepreneurs, however unique their circumstances and however quirky their venture, do consist of a variety of tasks that fit the bill for deliberate practice. In fact, these tasks form the building blocks of the various phases identified by the well-received process views of entrepreneurship that dominate our research today.

Exhibit 1 lists a variety of exemplar tasks that every entrepreneur has to perform and shows how each fulfills the three deliberate practice criteria of understandability, feedback, and repetition. It also relates each task to specific principles of effectuation used by expert entrepreneurs in performing it. We turn to explicating those principles next.

**EFFECTUATION: A THEORY OF ENTREPRENEURIAL EXPERTISE**

Effectuation theory (Sarasvathy [2001]) has been the first attempt to develop a baseline of entrepreneurial expertise. Although the theory was induced from an investigation of actual expert entrepreneurs using the classic method of protocol analysis from cognitive science (Sarasvathy [2001]), exact differences between expert and novice entrepreneurs have yet to be worked out, even in theory. We begin this task with a concise summary of effectuation theory, including six key constructs that we then use to differentiate it from the many versions of rational choice that dominate extant theories: 1) prediction, 2) commitment, 3) action, 4) planning, 5) risk, and 6) attitude toward outside firms, as described in Exhibit 2.

**Effectuation and Rational Choice**

Effectuation is a straight inversion of rational choice theory (also referred to as causal or predictive rationality). Rational choice theory has been questioned in a variety of ways, particularly in the second half of the twentieth century. Simon's [1991] assaults on its empirical validity based on cognitive bounds of the human mind inspired a slew of research results on heuristics and biases that deviate from rationality in a variety of ways e.g., Kahneman and Tversky [1979]). Effectuation theory too was inspired by Simon's work and was in fact developed in close collaboration with him (Sarasvathy [2002]; Sarasvathy and Simon [2000]). Although bounded rationality has been construed by some as a subset of rational choice, and the vast literature on heuristics and biases is considered a set of deviations from rationality, effectuation is a complete inversion of rational choice. In other words, as Sarasvathy and Simon [2000] put it, effectuation answers the question:

Where do we find rationality when the environment does not independently influence outcomes or even rules of the game (Weick [1979]), the future is truly unpredictable (Knight [1921]), and the decision maker is unsure of his/her own preferences (March [1982])?

**Effectuation: inverse of causation.** Effectuation inverts every aspect of causal rationality, including its problem space, solution process, fundamental principles, and overall logic. Causal rationality is goal driven; effectuation is means driven. Rational choice rests on a logic of prediction—that is, “To the extent we can predict the future, we can control it.” Effectuation rests on a logic of non-predictive control—that is, “To the extent we can control the future, we do not need to predict it.” Causal rationality takes the environment as largely outside the control of the decision-maker and therefore seeks to predict it and adapt to changes in it. Effectuation considers the environment endogenous to the actions of effectuators and therefore seeks to fabricate it through precommitments from stakeholders. Effectuation is enactive and exaptive where causation is reactive and adaptive.
## Exhibit 1
Deliberate Practice in the Entrepreneurial Process

<table>
<thead>
<tr>
<th>Entrepreneurial Task</th>
<th>Understandable, Repetitive Sub-Task</th>
<th>Feedback from Sub-Task shows you How to:</th>
<th>Effectual Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bringing people on board</td>
<td>Cold calling people</td>
<td>• Open conversations with strangers; • Generate new leads; • Take rejection.</td>
<td>Means (Whom you know), Leveraging contingencies</td>
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<td></td>
<td>Taking and giving advice</td>
<td>• Get people to pay attention and care; • Extract useful and candid feedback; • Decide which information to ignore and which to heed.</td>
<td>Means (Who you are, What you know, Whom you know), Non-predictive control</td>
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<td></td>
<td>Negotiating stakeholder commitments</td>
<td>• Understand what matters to others; • Creatively find overlaps; • Structure contractual relationships.</td>
<td>Pre-Commitments</td>
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<tr>
<td></td>
<td>Generating goals and developing a vision</td>
<td>Transforming stakeholder commitments into executable goals</td>
<td>• Close the deal with customers and investors; • Creatively assess what each new stakeholder enables; • Re-assess venture strategies as resources become available.</td>
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<tr>
<td></td>
<td>Business Plan development</td>
<td>• Develop compelling, yet flexible business model; • Revise and re-write myriad versions for a variety of resource-providers; • Re-write plan as means and goals change.</td>
<td>Focus on “Can”, Leveraging Contingencies</td>
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<td></td>
<td>Resource acquisition</td>
<td>• Negotiate supplier partnerships; • Craft compelling stories - test them in market; • Creatively differentiate cheap money from the expensive, and smart money from the dumb.</td>
<td>Pre-commitments, Non-predictive control, Affordable Loss</td>
</tr>
<tr>
<td></td>
<td>New Venture Management</td>
<td>Cash Management</td>
<td>• Understand the difference between profit margins and cash flow; • Manage time lags in resource flows; • Create stakeholder demand for sudden cash need.</td>
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<tr>
<td></td>
<td></td>
<td>Time management</td>
<td>• Decide what not to do – i.e. which promising opportunities to give up; • Delegate responsibilities; • Meet payroll every single time period.</td>
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<tr>
<td></td>
<td>People management</td>
<td>• Raise employee commitment through stock options and other tools; • Hire and fire people; • Balance decisiveness needed to turn on a dime when goals change, with culture of consensus</td>
<td>Pre-commitments, Leveraging Contingencies, Non-predictive control</td>
</tr>
</tbody>
</table>
## Exhibit 2
Basic Differences between Causal and Effectual Thought

<table>
<thead>
<tr>
<th>Issue</th>
<th>Causal or Predictive Position</th>
<th>Effectual Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>View of the Future</td>
<td><strong>Prediction.</strong> The causal approach views the future as a continuation of the past that can be acceptably and usefully predicted.</td>
<td><strong>Creation.</strong> The effectual approach views the future as contingent on actions by willful agents, largely nonexistent and a residual of actions taken. Prediction is unimportant as a result.</td>
</tr>
<tr>
<td>Basis for Commitment</td>
<td><strong>Should.</strong> Commit as a course of maximizing, analysis, and what should be done.</td>
<td><strong>Can.</strong> The effectual approach is to do what you can (what you are able to do) rather than what your prediction says you should.</td>
</tr>
<tr>
<td>Basis for Taking Action And Acquiring Stakeholders</td>
<td><strong>Goals.</strong> The causal approach is to let goals determine sub-goals. Commitment to particular sub-goals determined by larger goal constrained by means. Goals determine actions, including individuals brought on board.</td>
<td><strong>Means.</strong> Actions emerge from means and imagination. Stakeholder commitments and actions lead to specific sub-goals. Feedback from achievement/non-achievement of sub-goals lead to design of major goals.</td>
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<tr>
<td>Planning</td>
<td><strong>Commitment.</strong> Path selection is limited to those that support a commitment to an existing goal.</td>
<td><strong>Contingency.</strong> Paths are chosen that allow more possible options later in the process, enabling strategy shift as necessary.</td>
</tr>
<tr>
<td>Predisposition Toward Risk</td>
<td><strong>Expected Return.</strong> The causal approach is to pursue the (risk adjusted) maximum opportunity, but not focus on downside risk.</td>
<td><strong>Affordable Loss.</strong> The effectual approach is to not risk more than can afford to be lost. Here, the calculation is focused on the downside potential.</td>
</tr>
<tr>
<td>Attitude Toward Outside Firms</td>
<td><strong>Competition.</strong> The causal approach is to be concerned with competition and constrain task relationships with customers and suppliers to just what is necessary.</td>
<td><strong>Partnership.</strong> The effectual approach is to create a market jointly, building YOUR market together with customers, suppliers and even prospective competitors.</td>
</tr>
</tbody>
</table>

Source: Sarasvathy [2001].

The overall inversion of the problem space and solution logic of rational choice is implemented through a series of effectual heuristic principles, each of which inverts causal heuristics. In entrepreneurial settings in particular, 1) whereas causal rationality suggests using expected return as a decision criterion, effectuation prescribes the affordable loss principle; 2) instead of competitive analyses, effectuation involves building partnerships through precommitments from stakeholders; and 3) in contrast to rational choice that seeks to avoid unexpected contingencies in order to efficiently achieve predetermined goals, effectuation seeks them out and leverages them to create novelty.

**Causation and effectuation: empirical examples.** In Exhibit 2, we have laid out a series of individual constructs from rational choice that are inverted in effectuation. But to get an integrated picture of effectuation, it may be more useful to cite a concrete example. At least one major thread of research in entrepreneurship sets out a causal process that begins with the identification, recognition, or discovery of an opportunity, followed by a series of tasks that include 1) developing a business plan based on 2) extensive market research and 3) detailed competitive analyses, followed by 4) the acquisition of resources and stakeholders for implementing the plan, and then 5) adapting to the environment as it changes over time with a view to 6) creating and sustaining a competitive advantage. In this view, if an entrepreneur wanted to start a restaurant, he or she would start by identifying a high-potential location, analyzing the competition in the area,
identifying particular target segments, developing marketing strategies to fit the targets, obtaining necessary funding, hiring the appropriate chef to develop the right menu, and then opening the doors to the restaurant.

As Exhibit 3 shows, effectuators, in contrast, would start with the means available. Based on who they are, what they know, and whom they know, they would start with a list of things they can afford to do. Most important in this list would be to call people they know and plunge straight into negotiating a series of precommitments. Depending on who comes on board the venture and other contingencies along the way, they would set in motion two contrasting cycles. The first would be an expanding cycle that increases the resources available to the venture; the second would accrete constraints on the venture that converge into specific goals over time. In the restaurant example above, the effectual entrepreneur may or may not start with a location. Instead it would all depend on who the effectuator is. If the effectuator is a cook, he might start a catering service, or a lunch service, or even just hire himself out as a chef who does house calls—it depends on what he can afford to invest in terms of money, time, and emotion. An expert entrepreneur would not even jump into one of these projects. She would start by calling people she knows and putting together partnerships and precommitments. For example, if she knew someone who owned a grocery store, she might start making dishes for his deli. Or if she knew someone in the popular media, she might start producing cooking videos. And so on.

In causation, the end product is determined by the initial “opportunity” identified by the entrepreneur and the adaptive changes over time to fit the preselected “market” and/or “vision.” The end product in effectuation is fundamentally unpredictable at the beginning of the process. In fact, the opportunity and even the market itself get created through the very process of effectuation. In other words, both market and opportunity are contingent on who comes on board and the actions and goals they enable and constrain; goals and visions of an opportunity seldom determine who comes on board or what resources are gathered.

It is important to note that the extreme dichotomy described above is meant to create a powerful theoretical separation between effectuation and rational choice. Empirically speaking, of course, both causal and effectual processes would be at work. We would expect, therefore, that the data entrepreneurship scholars gather would contain decisions and actions that confound the two. Yet, preliminary investigations into expert entrepreneurial decision-making (Sarasvathy [2001]) and the histories of early-stage firms (Sarasvathy and Kotha [2001]; Dew and Sarasvathy [2002]) indicate that strong patterns of one or the other can be isolated and evidenced. Our contribution in this article consists in developing a more precise set of tools to empirically tease out these patterns and relate them to performance variables within the life cycles of both entrepreneurial firms and entrepreneurial careers. And it is in this connection that the literature on expertise is pertinent to entrepreneurship as a field of research.

**Effectuation Theory and Theories of Expertise in General**

At a gross level, effectuation theory and expert theory work to understand similar questions of how experience changes the way people think. Perhaps it is not surprising, then, that effectuation theory utilizes many of the same axes that the scholarship on expertise has focused on in determining the characteristics of expertise. Sarasvathy [2001]...
likely to ignore predictive information as it is based on External inputs, particularly predictive inputs (Rikers et al. [2002]). Instead, experts have learned to filter information and use it to model solutions to new problems (Adelson [1984]). Whereas novices are likely to use goals as the basis for action, experts use information cues to validate their actions can be likened to causal thinkers basing action on goals. Yet, effectuation is different from forward thinking in that it is based on means of who they employ (Larkin et al. [1980]). Likewise, expert entrepreneurs do the same thing, matching current actions with past experiences so that they can come up with creative courses of action that are realistically executable, rather than elaborate plans contingent upon things outside their control (Sarasvathy [2001]). Instead of wondering what they should do, I. M. Isidro, founder of GeniusBabies.com, says, “We have a low budget. We try to think of different marketing things that we can do” (Isidro [2002]). She goes on to describe how the terms of the project are realized rather than elaborate plans contingent upon things outside their control (Sarasvathy [2001]).

Observation 2 from the expertise literature: Experts focus on “Can.” Parallel in effectuation: Expert entrepreneurs prefer to do the things they can control those parts of the environment they deem controllable.

Experts automatically store information according to outcomes (Ericsson and Kintsch [1995]), so that as they match and recognize stored patterns against existing situations (Reingold et al. [2001]), they are likely to retrieve strategies they already know they can implement (Kalakoski and Saariluoma [2001]). Expert entrepreneurs do the same thing, matching current actions with past experiences so that they can come up with creative courses of action that are realistically executable, rather than elaborate plans contingent upon things outside their control (Sarasvathy [2001]). Instead of wondering what they should do, I. M. Isidro, founder of GeniusBabies.com, says, “We have a low budget. We try to think of different marketing things that we can do” (Isidro [2002]). She goes on to describe how the terms of the project are realized rather than elaborate plans contingent upon things outside their control (Sarasvathy [2001]).

Observation 3 from the expertise literature: Experts employ means-based action. Parallel in effectuation: Expert entrepreneurs are tethered to their means and doing what they can do, rather than elaborate plans that depend on outcomes (Gobet and Simon [1996]). Through superior memory, utilization of “Broken Leg” clues (Shanteau [1992]), and sophisticated search (Selnes [1989]), experts can draw on processes and results of previous experiences as they make decisions (Shiffrin and Schneider [1977]). The volume of knowledge is only one of the means that experts have developed. As part of assembling a base of experience, experts also learn how to integrate and synthesize that knowledge (Boshuizen and Schmidt [1992]) and use it to model solutions to new problems (Adelson [1984]). Whereas novices are likely to use goals as the basis for taking action, experts use information cues to validate their actions can be likened to causal thinkers basing action on goals. Yet, effectuation is different from forward thinking in that effectuation is based on means of who they employ (Larkin et al. [1980]). Likewise, expert entrepreneurs face decision ambiguity and environmental uncertainty fall back on the means of who they
are, what they know, and whom they know (Sarasvathy [2001]). All that the two founders of Ben and Jerry's had, for example, was the fact that Ben knew how to make ice cream, their unwavering faith in the (hippie?) values of the Sixties, and the liberal folks in Vermont who enjoyed both. They combined who they were, what they knew, and whom they knew to create the foundation for a unique offering within an existing industry that succeeded against the most powerful precepts of received wisdom on building and managing an ice-cream company (Sarasvathy and Wicks [2003]).

**Observation 4 from the expertise literature:**

*Experts leverage contingencies.* Parallel in effectuation: Contingency, as opposed to planning, provides expert entrepreneurs with a wider range of viable strategy choices.

Thus far, we have explained why experts may make better decisions than novices. But we also know that experts are human and thus fallible. Experts intuitively realize from past experiences where failure is possible (Schenk, Vitalari, and Davis [1998]) and work to frame problems in such a way that they build contingency into their strategies (Glaser [1996]). Deferring the elimination of options and selecting paths that may have many positive outcomes enables experts to recover from mistakes (Shanteau [1992]) more quickly than novices (Presley and McCormick [1995]). Expert entrepreneurs frame decisions in the same way, replacing elaborate planning toward a single outcome with strategies that enable many different paths that are contingent on intermediate outcomes (Sarasvathy [2001]). Some form of informal real options (McGrath [1999]), for example, is more likely to be a useful tool to entrepreneurs than standard financial planning techniques. Interviews with executives at 10 technology start-ups in the Ottawa area about what makes a new venture succeed revealed only a single common response, that “all goals are contingent on what comes next” (Hammond [2002]).

These parallels are detailed in Exhibit 4 and related to the constructs in Exhibits 1 and 2.

In the exposition above, we have highlighted the commonalities between elements of effectual thought and of experts in general that are already in evidence in empirical work. There are, however, several open issues initiated by theory on both sides that suggest fruitful avenues for future research. For example, expertise theory provides significant explanations as to why expert task performance is much more rapid than that of novices. The attributes of automatic pattern coding and matching, information organization, combining steps, advanced search, and superior memory all predict that experts will analyze problems and arrive at solutions more quickly than novices. Yet effectuation theory provides no hypotheses about the generation of speedier analyses than those of causal reasoning. We anticipate future extensions of research around effectuation will address this issue as solution speed seems important in the entrepreneurial environment and in other environments where people are likely to employ effectual thought.

Similarly, while effectuation theory provides detailed principles such as those relating to partnership and affordable loss, expert theory references to these are conspicuously missing from Exhibit 4. Of course, it is to be expected that there exist non-overlapping areas between expertise in any one domain and expertise in general. It might be interesting, however, to empirically examine whether the affordable loss principle and partnership precommitments find parallels in other domains of expertise—say, in functional areas of management. In fact, this suggests yet another reason for investing in research into management as a form of expertise.

Given these observations, we develop propositions that relate the use of causal and effectual reasoning to performance, in the life cycles of both firms and entrepreneurs.

**PROPOSITIONS REGARDING EXPERT ENTREPRENEURIAL PERFORMANCE**

Although we may be tempted simply to associate causal thought with novices and effectual thought with experts, preliminary empirical investigations have shown us that the relationship is more complex. A study of the relationship between expertise and an effectual approach showed that whereas expert entrepreneurs are more likely to adopt an effectual approach, experts and novices cannot be differentiated by their use of causal reasoning (Read, Wiltbank, and Sarasvathy [2003]). In light of these findings, we integrate our entire theorizing about the role of causal and effectual reasoning in the development of entrepreneurial expertise and the creation and growth of firms into four propositions that culminate in Exhibit 5.²

**First, How Is Effectual Action Related to the Development of Entrepreneurial Expertise?**

An obvious answer to this question might be that whereas expert entrepreneurs are highly effectual, novice entrepreneurs tend to use more causal modes of reasoning. We believe, however, that we might find more variation
### Exhibit 4

**Parallels between Expert Entrepreneurs and Experts in General**

<table>
<thead>
<tr>
<th>Effectual Position (Exhibit 2)</th>
<th>Experts in General (cites are only examples, each topic has much related work)</th>
<th>Expert Entrepreneurs</th>
<th>Observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation</td>
<td>Experts have a sense of information relevance (Charness et al., [2001]) that they combine with information filtering (Leifer, [1991]) to reduce reliance on prediction.</td>
<td>Expert entrepreneurs notice predictive nature of key pieces of market research and reject the use of such predictive pieces as irrelevant.</td>
<td>Expert entrepreneurs reject the use of predictive information. Ex: Real Networks</td>
</tr>
<tr>
<td>Can</td>
<td>Experts organize information (Ericsson and Lehmann, [1996]) according to solutions, so that automatic pattern coding and matching (Chase and Simon, [1973]) returns feasible solutions that can be implemented.</td>
<td>Expert entrepreneurs model the new venture creation problem as a Marchian ([1982])-Knightian ([1921])-Weickian ([1979]) space, focusing on problems that they are able to solve.</td>
<td>Expert entrepreneurs prefer to do the things they can to control those parts of the environment they deem controllable. Ex: Ben &amp; Jerry's</td>
</tr>
<tr>
<td>Means</td>
<td>Through superior memory (Ericsson and Charness, [1994]) and advanced search (Simon and Simon, [1978]), experts' greater knowledge base enables them to integrate and synthesize information (Boshuizen and Schmidt, [1992]), develop a physical intuition through modeling (Simon and Simon, [1978]), and benefit from forward versus backward reasoning (Chi et al., [1982]).</td>
<td>Expert entrepreneurs focus on available means of: who they are what they know whom they know And select solutions based on those means (as opposed to setting goals and then assembling the means necessary to accomplish those goals).</td>
<td>One of the means that separates expert entrepreneurs from novices is what they know.</td>
</tr>
<tr>
<td>Contingency</td>
<td>Experts use problem abstraction (Fiske et al., [1983]) and decision framing (Bettman and Sujan, [1987]) to build contingent (Glaser, [1996]) strategies, enabling quick recovery from mistakes (Shanteau, [1992]).</td>
<td>Expert entrepreneurs manage risk through creating or identifying contingent courses of action.</td>
<td>Contingency provides expert entrepreneurs with a wider range of viable strategy choices.</td>
</tr>
<tr>
<td>Affordable Loss</td>
<td>Not currently addressed by expert literature.</td>
<td>Expert entrepreneurs evaluate maximum downside risk as opposed to upside potential.</td>
<td>Future research opportunity.</td>
</tr>
<tr>
<td>Partnership</td>
<td>Not currently addressed by expert literature.</td>
<td>Expert entrepreneurs use pre-commitments from partners to shape the environment.</td>
<td>Future research opportunity.</td>
</tr>
</tbody>
</table>
in the behavior of novices, ranging across the entire spectrum of causal and effectual action. One reason for surmising this consists in the possible existence of individual variation in a preexisting propensity for causal or effectual thought and action. Although we aver that effectuation is for the most part a learned process consisting of specific skills, techniques, and heuristics, we do not completely rule out the role of “talent” in developing entrepreneurial expertise. To use an analogy from music, although key aspects of musical expertise might be learned through formal training and hands-on experience, a certain base level of preexisting musical talent may differentiate the performance of novice musicians. Further, as expertise is developed over time and through experience, individuals will be exposed to strategies that may be antithetical to their original starting point. The incorporation of these strategies into the individual’s knowledge base will serve to “soften” any extreme position that individual may have started with. Therefore, our first proposition goes as follows:

**Proposition 1a:** Although novices may vary in their use of causal and effectual action, their preferences for effectuation in the early stages of new ventures will increase as they become experts.

**Proposition 1b:** Furthermore, both highly causal and highly effectual novices learn to balance causal and effectual approaches during the growth phase of new ventures, before developing a clear preference for highly effectual strategies as their expertise grows.

**Second, What Is the Role of Resources in Moderating the Relationship between Effectual Action and Entrepreneurial Expertise?**

In a predominately resource-poor situation, such as in the case of bootstrapped start-ups, effectual strategies are more likely, simply because the resources required for implementing causal strategies may not be available. Also, novices are less likely to change their “vision” when the resources to implement it are not scarce. In such cases, they are more

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**EXHIBIT 5**

**Type of Reasoning Approach with Respect to Experience and Firm Lifecycle**

| P1: Converging to an effectual position |
| P2: Novice Entrepreneur |
| P3: Shift in reasoning with respect to firm growth |
| P4: Expert entrepreneurs do not always bridge this gap |

**P1a:** Although novices may vary in their use of causal and effectual action, their preferences for effectuation in the early stages of new ventures will increase as they become experts.

**P1b:** Furthermore, both highly causal and highly effectual novices learn to balance causal and effectual approaches during the growth phase of new ventures, before developing a clear preference for highly effectual strategies as their expertise grows.

**P2:** The more resources available to novices, the more causal their actions are likely to be. In the case of expert entrepreneurs, availability of resources will not affect their use of highly effectual action.

**P3:** Successful firms are more likely to have begun through effectual action and grown through causal action as they expand and endure over time.

**P4:** Only a small subset of expert entrepreneurs will successfully make the transition from an entrepreneurial firm to a large corporation.
likely to stay tethered to their goals even in the face of negative feedback, leading to our second proposition:

Proposition 2: The more resources available to novices, the more causal their actions are likely to be. In the case of expert entrepreneurs, availability of resources will not affect their use of highly effectual action.

Third, How Is Effectual Action Related to the Development and Growth of the Firm?

We now look at the life cycle of a firm as opposed to the growth of an individual entrepreneur, who, during the development of his or her entrepreneurial expertise, may start several firms, including ones that fail. In the case of firm development and growth, there is extant evidence that successful firms, especially highly innovative firms that endure over long periods of time, are more likely to have started through effectual action (Sarasvathy [2002]; Sarasvathy and Kotha [2001]). Therefore we posit the following relationship:

Proposition 3: Successful firms are more likely to have begun through effectual action and grown through causal action as they expand and endure over time.

What Are the Interactions between Firm Growth and Effectual Entrepreneurial Expertise?

Our final proposition addresses a fundamental irony of effectuation. Clearly, an entrepreneur uses effectual thought in order to improve the new firm’s chances of survival, growth, and success. But as the entrepreneur and the firm achieve these goals, the relevance of effectual action is minimized. The very expertise that contributed to fledgling firm survival and growth in the highly uncertain and ambiguous start-up setting is not as appropriate for the more static, causal environment of a large organization. In other words, the expert entrepreneur who effectuates has less and less advantage as the organization that he created becomes increasingly “corporate.” Ironically, therefore, level of entrepreneurial expertise, as measured by effectuation, predicts the necessary departure of the effectual entrepreneur (through exit, supersession, stepping aside, or in other ways) once the firm has successfully expanded to the inflection point at which causal reasoning becomes necessary for firm survival.

Proposition 4: Only a small subset of expert entrepreneurs will successfully make the transition from an entrepreneurial firm to a large corporation.

IMPLICATIONS

In comparing theoretical biology with actual biological evolution, Dennett argued that the latter gets “physics for free”—that is, there is no need for Mother Nature to second-guess the laws of physics or even to have a complete theoretical understanding of physics. The physics already exists within the molecular stuff of life. Similarly, implicit in our association of expertise and effectuation is that the very process of effectuation provides entrepreneurs with “the market” for free—namely, immediate and tangible feedback on their ideas, strategies, and actions. No effectual manager/entrepreneur need wonder whether a forecast is accurate or whether the market was segmented correctly. These facts are simply endogenous to the processes of effectual action. In this light, the development of entrepreneurial expertise is nurtured through effectual reasoning, and effectual action becomes a primary tool of expertise. Exactly how various processes of expertise development unfold has attracted attention in the field of psychology, but it merits further exploration, especially in managerial and entrepreneurial business settings.

For example, one of the things that we know is that an individual’s ability to “self-explain” (Chi et al. [1994]) and generate inferences—even if some end up being incorrect—is associated with expertise development. But what does this mean in the management area? Certainly experts learn from trial and error (Ohlsson [1996]), but discovering the underlying processes, or “self-explanation,” promises to help enhance the teachability of expert development. Our nascent understanding of effectuation informs this line of inquiry to some degree, as it is a learned process that expert entrepreneurs selectively invoke depending on the situation. But the little we know thus far opens up a number of interesting questions revolving around the boundary conditions for the use of effectual thought, starting perhaps with the question of how experts initiate effectual reasoning. This may be best understood by investigating the transitions that managers and entrepreneurs make at different phases in their career and different points in a firm’s life cycle. Another question with regard to bounds and initiation may be whether the
life cycles of firms started by experts versus novices differ. These questions may begin to identify issues in how effec-
tuation and expertise interact in the management setting.

On a practical level, this work may help us under-
stand the communication gap that has been described as
existing between entrepreneurs and investors. If it is
ture that expert entrepreneurs resist predictive tools for
decision-making, then it is easy to imagine how entre-
preneurs might share little common ground with investors,
who are, by virtue of their task, predominantly causal,
predictive thinkers. Understanding this issue raises others,
though. For example, might it make sense for early-stage
investors to adopt a less predictive approach to decision-
making? Might successful entrepreneurs be modal in their
thinking, presenting predictive information to investors
while acting effectually during the operation of their
firms? And given that a non-predictive approach is
positively related to new venture success, how might a
prospective investor look for teams with this expertise?

George Bernard Shaw said, “In literature the ambi-
tion of the novice is to acquire the literary language: the
struggle of the adept is to get rid of it.” Similarly, in entre-
preneurship, although we teach novices the tools of market
research and business planning, empirical research suggests
that expert entrepreneurs seek to do without such predic-
tive tools. Our primary aim in this article was to initiate a
dialogue about the nature and role of entrepreneurial exper-
tise in the creation and growth of new firms and markets.
We are convinced that such a dialog will provide a rig-
orous foundation for making some of the hard-learned
lessons of expert entrepreneurs teachable to novice entre-
preneurs, a task currently based almost entirely on anec-
dotal evidence and individual war stories. In the process we
hope also to have initiated a dialog between cognitive sci-
ence and management on what each can learn from the
other about expertise development and expert performance.

ENDNOTES

The authors gratefully acknowledge Tom Jones for his
guiding suggestions and comments on an early revision of this
manuscript and Michael Frese for making us work just a little
bit harder on the literature review.

1 de Groot [1946/1978] began sporadic work on the topic
as early as 1946.

2 Exhibit 5 is not intended to be a mathematical model
but rather a graphical representation of our four propositions.

3 In “resources” we include financial resources as well as
prior knowledge and social networks.

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