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## ON THE USE OF EFFECTUATION VERSUS CAUSATION IN THE NEW VENTURE CREATION PROCESS: THE ROLE OF RESOURCES VERSUS THE ENVIRONMENT (SUMMARY)

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## SUMMARY

### ON THE USE OF EFFECTUATION VERSUS CAUSATION IN THE NEW VENTURE CREATION PROCESS: THE ROLE OF RESOURCES VERSUS THE ENVIRONMENT

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#### Principal Topic

Effectuation theory suggests that entrepreneurs focus primarily on the resources under their control, and then develop their new ventures in an iterative way. They do this by selecting different potential goals that can be accomplished with the resources at hand based on a focus on affordability of loss rather than maximal return on the capital invested, and the use of precommitments from self-selected stakeholders (Sarasvathy, 2001, 2008; Sarasvathy et al., 2005, 2006). In contrast to the effectual logic, a causal logic starts from a specific goal and then focuses on selecting the resources needed to achieve those goals. Relatively little empirical research has looked at the conditions under which an entrepreneur will use either a causation or an effectuation logic in the new venture formation process, or whether both logics are used at the same time (Sarasvathy, 2003). *In this study, therefore, our main research question is: what factors determine whether entrepreneurs use causal and/or effectuation processes in forming their ventures?* As strategies require a “fit” between organizational resources and the environment of the firm (Grant, 2008; Eisenhardt & Martin, 2000), we developed hypotheses that were interested in both the resources available to the entrepreneur and the external environment that influence the adoption of causation and/or effectuation strategies. With respect to the environment, we look at the effect of different sources of uncertainty. When studying the impact of resources, we examine the effect of human capital, social capital and organizational slack.

#### Method

We empirically examine these issues using a unique dataset composed of self-collected survey data of a random sample of Flemish entrepreneurs who started a firm in the period 2007 to 2008. We collected 152 surveys. To measure effectuation and causation we use a multi-item scale developed by Chandler et al. (2007). Existing scales were used to measure the different sources of uncertainty, social capital, entrepreneurial expertise and organizational slack. We used multinomial logistic regression to examine the impact of our independent variables on the use of an effectuation and/or causation logic.

#### Results and Implications

Our results indicate that perceived market uncertainty and technological uncertainty have a positive and significant impact on the use of causation. Further, experienced entrepreneurs are more likely to use effectuation when confronted with technological uncertainty. Finally, entrepreneurs that have higher levels of social capital are significantly more likely to employ both logics. Our findings indicate that some people use both a causation and effectuation logic in setting up new ventures. This confirms Sarasvathy’s observation that from an empirical point of view, entrepreneurs use both causal and effectual approaches, in a variety of combinations.

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