SUMMARY

PLANNING EFFECTUAL GROWTH: A STUDY OF EFFECTUATION AND CAUSATION IN BUSINESS PLANS

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Principal Topic

Empirical research on the effectiveness of planned/causal and emergent/effectual approaches to entrepreneurship has provided mixed and contradictory results. One possible reason is that although business plans are generally associated with a planned/causal approach, they also contain indicators of effectual approaches. Along that line, this paper contributes to the ongoing debate by comparing the written business plans of micro-firms and small firms on indicators of effectuation and causation.

Method

Data were collected from the archival records of an incubation program in Northwestern Europe. We used the business plans of the 92 largest firms in this database, ranging from 1 to 58 employees in size, which implies that our sample consists of micro-firms and small firms. We analyzed their business plans for indicators of four out of the five dimensions along which effectuation and causation have been distinguished: means vs. ends-orientation, non-predictive vs. predictive control, partnerships vs. competitive analysis, and affordable loss vs. expected return. As independent variable we used the last available Chamber of Commerce count of the number of employees.

Results and Implications

Significant differences between small and micro-firms were found on the predictive vs. non-predictive control and means vs. ends-orientation dimensions. More large firms in our sample planned marketing while preferring to operate in existing markets. Furthermore, they based their business ideas on earlier experience within the industry or as entrepreneur. At the same time, their business plans show a stronger growth intention than micro-firms. Thus, our data suggest that bigger companies use a predictive control approach while at the same time being more means-oriented and more ends-oriented.

The implications are threefold. First, we demonstrate that business plans can be used to study differences between effectuation and causation. Second, the results imply that means-orientation and ends-orientation are orthogonal dimensions rather than a single dimension and that a means-orientation can be successfully combined with a focus on predictive control. This suggests refinements of the dimensionality of the effectuation model may be needed. Finally, the finding that both experience and growth intentions contribute to firm growth draws renewed attention to the pragmatist underpinnings of the effectuation model.

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