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Validating effectual orientation as strategic direction in the corporate context

Dorothea Werhahn, René Mauer *, Tessa C. Flatten, Malte Brettel

TIME Research Group, RWTH Aachen University, Kackertstraße 7, 52072 Aachen, Germany

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ABSTRACT

This paper takes the concept of effectuation – a collection of entrepreneurial heuristics – from the individual level to the firm level. On this level, effectuation can be understood as strategic direction reflecting a mindset that emphasizes the entrepreneurial behavior of employees. Based on an extensive literature review, a series of pre-tests, and two large survey-based studies of German companies, we describe, develop, and validate a multidimensional measure of effectual orientation.

1. Introduction

In terms of economic effects, research repeatedly indicates the high importance of entrepreneurship for growth and wealth creation (Minniti & Lévesque, 2010). Although entrepreneurship is usually connected with the concepts of self-employment and venturing, both theory and practice concur that entrepreneurial strategies should not be restricted to the context of new ventures but that they are actually necessary and important in firms of any age and size (Hitt, Ireland, & Hoskisson, 2012; Ireland, Covin, & Kuratko, 2009; Lumpkin & Dess, 1996). Although concepts such as corporate entrepreneurship (Jennings & Lumpkin, 1989; Kuratko, Hornsby, & Goldsby, 2004) and entrepreneurial orientation (Lumpkin & Dess, 1996) have been discussed intensively in the literature, there are only a few studies that actually treat the topic of individual entrepreneurial action within firms (Pongracic, 2009; Schmelter, Mauer, Börsch, & Brettel, 2010).

There are good reasons to further operationalize entrepreneurship for the corporate context. An entrepreneurial approach to management can be especially helpful in situations of high uncertainty, where 'change is frequent and the outcomes of these changes are not predictable or knowable a priori' (McKelvie, Haynie, & Gustavsson, 2011, p. 276). According to Wiltbank, Dew, Read, and Sarasvathy (2006), in these environments the usefulness of traditional planning and adaptive approaches decreases when firms try to establish 'how to decide what to do next'. Rather, the authors conclude that 'efforts to control, directly working to create and influence the evolution of market elements, can be seen more clearly as competing alternatives' (p. 987). One of these transformative alternatives belonging to the field of entrepreneurship is called 'effectuation.'

The concept of effectuation was introduced as a decision process of expert entrepreneurs by Sarasvathy in 2001 and has since then gained growing academic importance. According to Sarasvathy, effectuation can be understood as entrepreneurial heuristics which expert entrepreneurs have applied in the uncertain contexts of creating new products, new companies, or new markets. Since its introduction, five principles have been discussed as part of the concept of effectuation (Dew, Read, Sarasvathy, & Wiltbank, 2009a; Sarasvathy, 2001). These include: the exploitation of means available; a focus on co-creating the future together with partners; the consideration of affordable loss as a central decision criterion; a focus on the exploitation of contingencies; and the general perception that an environment is controllable. The effectual approach has been found to differ considerably from traditional entrepreneurial decision making approaches which are taught in business schools and which assume individuals to engage in goal-driven behavior (Dew, Sarasvathy, Read, & Wiltbank, 2009b).

The context in which effectuation was first studied was that of individuals in the process of creating new ventures, a process

* Corresponding author. Chair of Entrepreneurship and Innovation, ESCP Europe, Heubnerweg 8-10, 14059 Berlin, Tel.: +49 30 320 07 203; fax: +49 30 320 07 111.
E-mail address: rmauer@escpeurope.eu (R. Mauer).

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which is characterized by high levels of uncertainty. Different studies show a positive performance impact of effectuation in these environments (Read, Song, & Smit, 2009; Wiltbank, Read, Dew, & Sarasvathy, 2009). However, it has been increasingly acknowledged that the domain of entrepreneurship is no longer restricted to the independent new venture creation process (Low & MacMillan, 1988; Wortman, 1987), and that organizations – per se – can behave in an entrepreneurial manner (Jennings & Lumpkin, 1989). Today, it is widely accepted that the 'abilities to think and act entrepreneurially, to continually innovate, and to engage in an ongoing process of creative destruction have become the source of competitive advantage' (Morris, Kuratko, & Covin, 2002, p. iii). Within the general field of strategic management, we also find an increasing emphasis on 'entrepreneurial processes, that is, the methods, practices and decision-making styles managers use to act entrepreneurially' (Lumpkin & Dess, 1996, p. 136).

Accordingly, it has already been shown that effectuation principles also find validation when applied outside of the new venture creation process. For instance, Brettel, Mauer, Engelen, and Küpper (2012) show that project performance is enhanced through effectuation principles that are used within highly innovative research and development (R&D) projects. Similarly, Dew and Sarasvathy (2002) underline that effectual behavior can also be employed within established firms.

Furthermore, a look at practice reveals that some larger companies are already showing structures and procedures that seem to mirror effectuation principles on a firm level. Gore & Associates attempts to leverage the personal means and resources of its individual employees by granting them the freedom to pursue their own ideas or to choose projects that they are interested in (Pongracic, 2009). Further, by not letting subsidiaries grow larger than 150 employees, Gore & Associates fosters interaction between its employees, thereby promoting the idea of successful partnerships rather than competition. Affordable loss is operationalized in a principle called "waterline", which allows employees to take decisions as long as they do not create risks that might produce major threats for the company as a whole. The limited size of a maximum of 150 employees per subsidiary also provides the company with the possibility not only to flexibly adapt to changing environments, but also to leverage unexpected events. Overall, employees are encouraged to take a controlling influence on the development of their company. In doing so, Gore & Associates has come up with innovative product lines, such as Elixir guitar strings, which were created on the basis of existing products and individual employee preferences.

However, it remains difficult to detect adequately how and to what extent established companies foster entrepreneurial behavior in their employees. What is missing is a measure that adequately captures a firm-level orientation of allowing – and actually motivating – employees to act entrepreneurially. To address this gap, this paper theoretically develops the concept of effectuation into a firm orientation that gives room for employee-based entrepreneurial activities. Moreover, based on the theoretical delineations and on the relevant literature, we develop and validate a scale for measuring the level of effectual orientation.

The remainder of this paper is structured as follows: First, we briefly outline the evolution and definition of other strategic orientations, with the final aim of clarifying and deriving the meaning of an *effectual orientation*. We give a brief overview of the advantages of such a perspective. Second, we theoretically transfer the five principles to the level of corporate orientation. Third, we describe a complete scale development process, providing details on the processes of scale item generation, scale refinement, and scale validation. Last, we present and discuss our findings in more detail.

2. Effectual orientation

Over the past decades, a growing body of organization research has shifted its perspective away from the analysis of specific organizational functions toward the analysis of different corporate behaviors, values, cultures, and so-called orientations. In general, strategic orientations are interpreted in two ways: (1) strategic directions for fostering respective behavior, or (2) actual behavioral implementation. Conceptualizations such as "entrepreneurial orientation" or "innovation orientation" are in line with the definition by Gatignon and Xuereb (1997), indicating that it is the strategically appropriate behaviors implemented by a firm that form a strategic orientation. Moreover, these authors also acknowledge that an orientation is based on an underlying business philosophy or culture.

We define effectual orientation as a strategic direction that emphasizes entrepreneurial decision making among employees along five dimensions (means orientation, partnership orientation, affordable loss orientation, contingencies orientation, and control orientation). Effectual orientation is measured at the firm level as an organizational posture and accordingly encourages effectual actions of organizational members along particular dimensions. We argue that a firm level effectual orientation will give room for a specific way of entrepreneurial thinking and acting within a firm, thereby inducing effectual activities and behaviors from the individual actors within that firm. Similarly to the model of sustained corporate entrepreneurship of Kuratko et al. (2004), we hence claim that a sustainable model of effectual orientation is contingent upon a firm's individual members. They need to encounter an environment that continuously allows for effectual actions. The kind of action needs to be motivated by management as well as be perceived as positive. The increasing speed of changes in the business environment necessitates the evolution of new strategic orientations, such as effectual orientation, which helps established companies to revitalize their entrepreneurial spirit and to keep track with emerging competition.

On the basis of the seminal works by Sarasvathy (2001, 2008), we elevate the five subdimensions of effectuation – i.e., means, partnerships, affordable loss, contingency, and control – to the level of corporate orientation. We are aware, and do not intend to ignore, that recent research on effectuation considers only four such subdimensions (Brettel et al., 2012; Chandler, DeTienne, McKelvie, & Mumford, 2011; Perry, Chandler, & Markova, 2012). However, we find that these works do not always share identical dimensions. Further, as we seek to provide a thorough and comprehensive theory and scale development, we follow DeVellis (2003), who notes that these processes should be 'well-grounded in the substantive theories related to the phenomenon to be measured' (DeVellis, 2003, p. 60). As Sarasvathy developed this substantive theory, we chose to elevate effectuation to the level of corporate orientation, drawing on the initial set of five subdimensions proposed by her.[1] According to our view, effectual orientation is a multidimensional construct, whose subdimensions can vary independently. The purpose of effectual orientation is to enable companies to successfully encounter uncertainty. Depending on the organizational and environmental context, the dimensions of effectual orientation can vary independently. Even if not all dimensions were in place, a firm would

[1] In fact, Sarasvathy (2001) identifies four principles but does not include the principle of using means as a starting point. This receives special attention in the article before the four other principles are articulated. However, subsequent work by a variety of authors never questioned the inclusion of the means principle as part of the set (see e.g. Brettel et al., 2012; Chandler et al., 2011; Dew et al., 2009a).