

SUMMARY BRIEF: EFFECTUATION THEORY: HELPING YOUNG ENTREPRENEURS START THEIR BUSINESS



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STUDY OVERVIEW

USAID/Africa Bureau commissioned YouthPower Learning to better understand the theoretical basis and practical training application of effectuation theory for youth in low and middle-income countries (LMICs). The study explored ways effectuation is being used to prepare young entrepreneurs globally and it outlines the benefits and challenges of using the theory in entrepreneurship education and training (EE&T) programs. During July-November of 2019, YouthPower Learning conducted a literature review on effectuation theory and its applications in EE&T programs and interviews and case studies with organizations implementing effectuation-based EE&T programs to address the following questions described below:

1. How is effectuation theory currently being used in preparing young entrepreneurs globally?
2. Is effectuation-based youth programming being used in Africa? If so, what are key program models?
3. What are the benefits and challenges of using effectuation theory in programming? Are there benefits to using this model versus others?
4. How is effectuation theory being used in training, and what are the results of integrating this model into youth entrepreneur training programs?
5. Does effectuation theory in entrepreneurship training help to promote access of youth to start-up resources? What are the key strategies that the theory promotes to link youth to start-up resources?

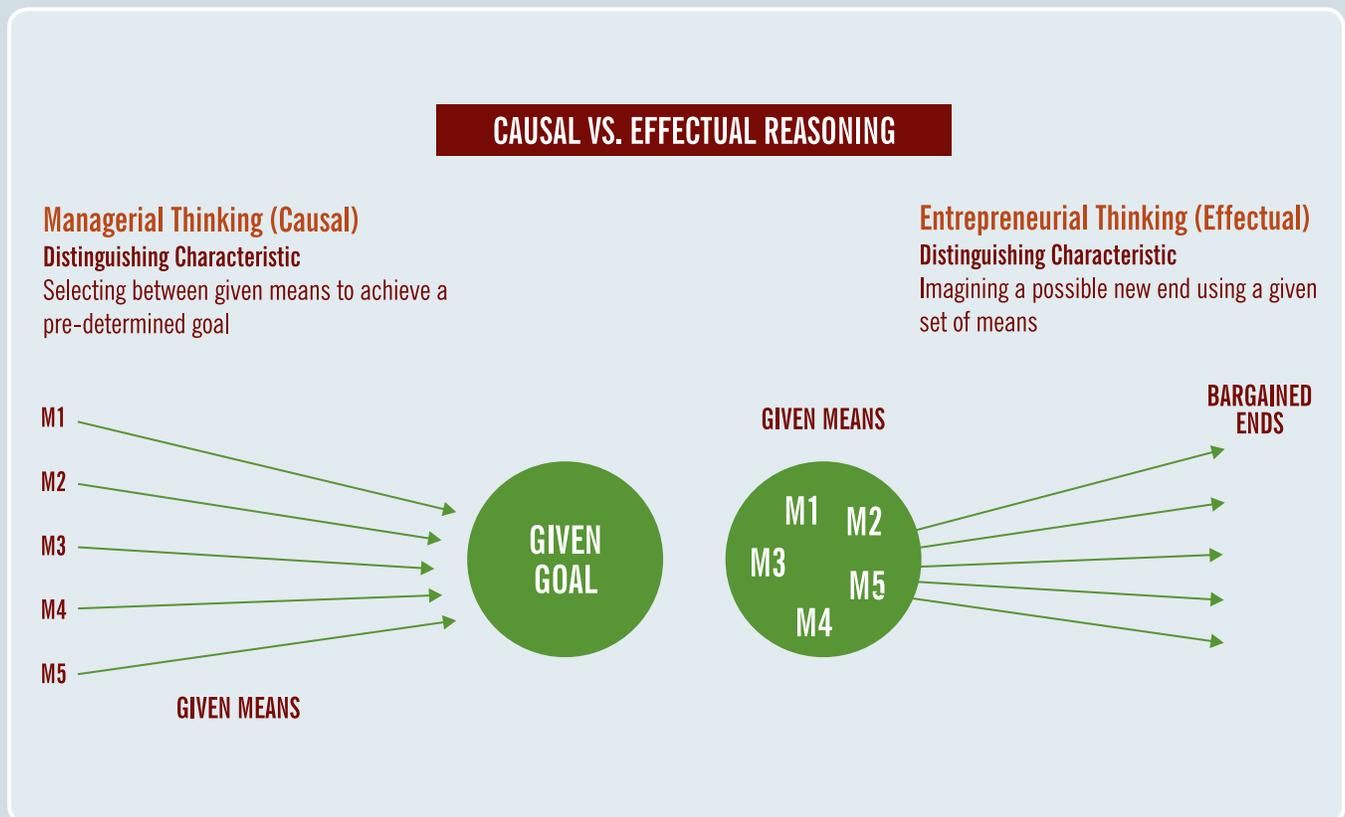


EFFECTUATION THEORY OVERVIEW

Effectuation theory, developed by Professor Saras Sarasvathy, attempts to explain “what makes entrepreneurs entrepreneurial.” In order to answer this question, Dr. Sarasvathy interviewed 27 company founders across multiple industries and asked each to solve a set of ten decision problems. Based on their answers, she analyzed their “decision logic” and generated what is now referred to as effectuation theory; a way of approaching decision-making and subsequently acting on those decisions.

Effectuation theory was developed as a counterpoint to the causal approaches that dominated academic research at that time. Causal reasoning is often associated with business schools and managerial thinking and focuses first on goals and then the set of choices associated with reaching it. Effectuation, on the other hand, looks first at resources and then the goals that can be achieved by employing those. This is perhaps best understood using the depiction in Figure 1.

Figure 1: Causal vs. Effectual Reasoning



Effectuation was not developed to be used for training purposes, nor did it consider application to youth or to contexts outside of the U.S. Rather, it was narrowly

focused on growth entrepreneurs in developed country environments and was solely an attempt to explain their behavior.

Figure 2: Five Principals of Effectuation Theory¹



Bird-in-Hand

Focus on means over ends. Otherwise known as “bird-in-hand,” it stresses three assets: identity (**who I am**), knowledge (**what I know**), and networks (**who I know**).



Affordable Loss

Affordable loss emphasizes the importance of entrepreneurs focusing on what they can afford to lose rather than attempting to assess potential future gains or returns.



Crazy-Quilt

Identification of strategic partnerships as a mechanism for expanding resources, otherwise known as “crazy quilt.”



Lemonade

Leveraging contingencies, or “lemonade,” which suggests that entrepreneurs using effectual logic treat surprises as opportunities to be seized rather than unanticipated barriers.



Pilot-in-the-Plane

“Pilot-in-the-plane” describes the overriding logic of the theory and echoes the notion that entrepreneurs, not externally-determined trends, dictate the direction that the future takes.

STUDY FINDINGS

Question 1: How is effectuation theory currently being used in preparing young entrepreneurs globally?

Effectuation did not initially receive much academic attention, and although the theory gained prominence from 2012 onward, most new research took effectual logic in other directions. Therefore, effectuation has undergone limited testing to confirm its accuracy describing entrepreneur behavior or superiority to causal entrepreneurship. Furthermore, because Sarasvathy’s original study focused on U.S. entrepreneurs, it is difficult to determine if study results are relevant to youth and developing country populations. Effectuation was developed originally to explain entrepreneurial behavior, not as the basis for designing and conducting entrepreneurship training with youth or other populations, thus efforts to incorporate the theory into EE&T programs have proceeded largely independent of the theory’s development.

Globally, there are limited examples of organizations applying effectuation to youth EE&T programs. Despite the low number of effectuation-based EE&T programs, there is diversity among organizations applying effectuation in terms of their geographic scope, target populations, and program sophistication. Existing programs include short-term programs developed for research purposes, university-affiliated entrepreneurship programs, and programs within the international development context. Programs are operating in Africa (e.g., Ghana, Mozambique, Nigeria, and Senegal), Asia (e.g., Pakistan and Myanmar), the Caribbean (e.g., Trinidad and Tobago), South America (e.g., Brazil) and North America (e.g., the U.S.). Training activities have targeted different groups of youth with varying levels of education and business development experience including women, individuals experiencing homelessness, formerly incarcerated individuals, internally displaced persons, and migrants. EE&T programs also used non-effectual business training

¹ “Effectuation 101.” Society for Effectual Action. Accessed December 3, 2019. https://www.effectuation.org/?page_id=207.

models in tandem with effectuation complemented by philosophical and religious influences.

Question 2: Is effectuation-based youth programming being used in Africa? If so, what are key program models?

There are few examples of effectuation-based youth EE&T programs in Africa. Current programs generally include short-term (i.e., one week) trainings, supplemented by subsequent one-on-one and group follow-up trainings, mentoring, and outcome monitoring conducted up to one year post-training. Programs visited in Ghana and Mozambique served mixed-gender youth, ages 15-35, at various stages of education and business development and living in rural (Ghana) and urban (Mozambique) settings. Trainings employ intensive teaching (Ghana) and facilitation techniques (Mozambique) through one-on-one, small group, and large group exercises. These programs prioritize targeted outreach to marginalized populations, including women, geographically isolated youth, and people with disabilities.

Several common training elements emerged among Africa-based and other global EE&T programs including:

- **Screening to ensure program participant buy-in and fit** for entrepreneurial training;
- **Intentional training periods** coupled with dedicated time for applying learnings to venture creation;
- **Supplementary suite of services** including mentoring, market linkages, and ecosystem development in addition to entrepreneurship training; and
- **Application of effectuation theory to some or all training and mentoring activities** in tandem with other business start-up approaches.

One prominent distinction among programs was their choice of trainers, with different programs assigning different levels of importance to trainers' backgrounds. All, however, stressed that of **paramount importance was engaging trainers that fully embrace the effectual approach to entrepreneurship.** Programs also varied in their use of effectuation in youth EE&T programs, and the degree in which they **incorporated effectuation to achieve different training outcomes.** Programs made use of effectuation, along with other entrepreneurship training approaches (e.g., lean start-up, Business Model Canvas), to offer a more comprehensive training approach in order to shift attitudes, develop entrepreneurial skills, help participants overcome constraints, and reinforce social and emotional learning and soft skills.

Question 3: What are the benefits and challenges of using effectuation theory in programming? Are there benefits to using this model versus others?

Given that most relevant literature on effectuation theory focuses on successful, growth-oriented, adult entrepreneurs living in developed country contexts, it is difficult to draw lessons from this source for youth programs in LMICs. Furthermore, in practice, effectuation theory-based approaches are not used as the sole basis of training, but rather are used in conjunction with other methodologies and can also be influenced by local religious and traditional customs. Thus, the discussion around benefits and challenges of effectuation theory's application in youth EE&T programs is exploratory, which can only be confirmed with additional research and application in the field.

While effectuation theory was not initially designed for training, based on this study, there seem to be a number of benefits to employing effectuation in EE&T programs. **Effectuation is industry-agnostic, applicable across sectors and contexts, and has a bias towards action** via "learning by doing" that helps young people get businesses off the ground quickly. It also recognizes that entrepreneurs need a supportive ecosystem to foster business development. Effectuation theory has the additional benefit of being a **strengths-based approach**, focusing on what young people have rather than what they do not (e.g., bird-in-hand). Effectuation also **aligns closely with the four domains of Positive Youth Development** (assets, agency, contribution, and enabling environment) through:

- **Assets – Effectuation-based youth EE&T programs are empowering,** helping youth grow their confidence and skills as individuals and entrepreneurs who can have a positive influence beyond training and business settings.
- **Agency – Youth recognize their ability to create value** based on who they are (e.g., their identity, skills, social network)(bird-in-hand), are more aware of their autonomy (pilot-in-the-plane), and how to pool and harness the collective resources of partners (crazy quilt).
- **Contribution – Effectuation-based youth EE&T programs invite youth to lead business development processes** (pilot-in-the-plane) using their own means (bird-in-hand).
- **Enabling Environment – Effectuation is applicable beyond the business context** and can be leveraged by youth changemakers to make impactful decisions to address individual, community, and

societal challenges when embedded in a supportive ecosystem of stakeholders.

Practitioners also noted several challenges when incorporating the theory into youth EE&T programs:

- It can be **challenging to find the right trainers** to lead effectuation-based youth EE&T programs. Many experienced trainers have been previously trained on the traditional, causal approach to entrepreneurship, which broadly consists of analysis activities culminating in a business plan, and it can be difficult for them to adopt the non-linear effectual approach.
- Though program representatives identify the value of instilling an effectual approach in youth participants, they also cite the challenge of balancing this approach with the **need to also prepare entrepreneurs to navigate an entrepreneurial ecosystem still based primarily on a causal approach** (e.g., bank financing is still reliant on traditional business plans).

Most organizations shared that incorporating effectuation into youth EE&T programs itself was not a challenge; in fact, most found the approach to be transformational in terms of training impact. In particular, stakeholders shared that **effectuation resonates with youth; its focus on working within an individual's means responds to the common challenge that youth lack access to resources**. Due to effectuation's overlap with core soft skills, lessons from effectuation-based trainings are also **transferrable to other aspects of everyday life (e.g., problem-solving)**.

Question 4: How is effectuation theory being used in training, and what are the results of integrating this model into youth entrepreneur training programs?

Limited rigorous testing with youth-specific populations has been conducted globally and within Africa on the effectiveness of effectual approaches to entrepreneurship training. The literature does not offer any insights into the results of integrating effectuation theory into youth EE&T



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programs; instead, results highlighted here have been sourced directly from practitioners' experiences. Among youth EE&T programs observed during field visits in Ghana and Mozambique, teaching and applying bird-in-hand was most frequently employed, because of its focus on resources, networks, and knowledge youth already have. "Crazy quilt" was also popular across programs. Programs found applying the other three principles to be challenging for youth. Of the three, "affordable loss" came naturally to participants given their resource-limited situations; "lemonade" was difficult to apply since participants had not experienced setbacks, and "pilot-in-the-plane" was hard for young people to deploy.

EE&T program staff interviewed during the research process were **positive about the impact of their effectuation-based training**; however, quantitative data detailing program **results were somewhat limited**. For organizations measuring impact, most used business creation as a measure of success, but also considered indicators, such as entrepreneurs' well-being and social capital. A program based in Pakistan observed increased success when they transitioned from a causal to an effectual approach to EE&T, resulting in an 80 percent success rate in business creation and increased promotion for new agriculture start-ups. A Myanmar-based program's random control trial (RCT) found improved psychological and financial well-being and social capital in addition to lower drop-out rates with their effectual model. A Brazil-based effectual model observed a 75 percent business creation rate, 71 percent business survival rate, 25 percent increase in staff size, and 59 percent increased income after the training program. A program in Ghana found that their effectuation-based EE&T program had an 80 percent business creation rate, 75 percent business survival rate, and 25 percent increase in staff size. However, these diverse youth EE&T programs applied effectuation differently, with some incorporating effectuation principles by name, while others were more "inspired by" an effectual approach. **Furthermore, since many of these programs, including global EE&T programs and those employed in African settings, combine effectuation with other complementary methodologies, it is difficult to attribute any results specifically to the use of effectuation theory in training.**

Question 5: Does effectuation theory in entrepreneurship training help to promote access of youth to start-up resources? What are the key strategies that the theory promotes to link youth to start-up resources?

Youth's lack of access to start-up capital was a commonly cited challenge among stakeholders across global EE&T programs—an issue that is not exclusive to an effectuation-based model. The literature on effectuation also identified securing finance for start-up as a challenge among youth entrepreneurs employing effectual approaches.² Organizations tried to address start-up capital challenges via linkages to financial institutions, village savings and loan associations (VSLAs), and financial management services. However, stakeholders appreciated how effectuation emphasizes starting small, within one's means (bird-in-hand) and using concrete partnerships as the mechanism for increasing one's access to resources (crazy quilt). Practitioners relied on these principles in the training setting to, in effect, **shift the overall premise that lack of finance precludes business start-up**, instead helping youth recognize the myriad resources, financial and otherwise, already at their disposal that could be leveraged in the entrepreneurial process. However, recognizing that financial resources can make the business start-up process more efficient, effectuation-based youth EE&T programs also help youth access capital by making **linkages to financial service providers and setting up youth savings groups**.

RECOMMENDATIONS

We offer the following recommendations to practitioners considering the integration of an effectual approach into youth EE&T programs:

- Anecdotally, effectuation-based youth EE&T programs seem effective; however, the theory's application to the youth EE&T setting is still nascent and more research is needed to understand if and how training models create impact. Thus, practitioners and funders should **support pilot testing of effectuation-based youth EE&T programs**, including substantive research to advance the evidence base. Programs should also seek to **learn more about the effectiveness of combining different applied entrepreneurial methodologies** to identify the most effective program design.
- Practitioners should **intentionally design youth EE&T programs** and ensure intended program outcomes match participant profiles targeted by programs. The typology of youth entrepreneurs,

² Jones, Oswald, and Hongqin Li. 2017. "Effectual Entrepreneurship: Sensemaking in a Family-Based Start-Up." *Entrepreneurship and Regional Development* 29 (5–6): 467–99. <https://doi.org/10.1080/08985626.2017.1297854>

developed for YouthPower Action’s “What Works in Entrepreneurship Education and Training Programs for Youth?” evidence report is a useful tool for guidance during program design. Furthermore, youth EE&T programs should **offer a suite of wraparound business development services** (i.e., market linkages, mentoring, ecosystem development support) to enhance youth’s chance of success.

- Finally, youth EE&T programs, effectual or otherwise, are necessary but not sufficient for successful venture creation by youth. Thus, practitioners

and funders should look beyond individual capacity-building efforts to also **strengthen the entrepreneurial ecosystem**, a critical determinant of youth’s success. These efforts may include influencing entrepreneurship policy, supporting the development of specialized services, increasing access to equity financing initiatives, and strengthening learning and research institutions. In addition, shifting cultural norms on entrepreneurship is crucial, including influencing societal attitudes toward risk and failure as well as attitudes toward entrepreneurs themselves.



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USAID YouthPower Learning generates and disseminates knowledge about the implementation and impact of positive youth development (PYD) and cross-sectoral approaches in international development. The project leads research, evaluations, and events designed to build the evidence base related to PYD. Concurrently, YouthPower Learning employs expertise in learning and knowledge sharing to promote engagement and inform the global community about how to successfully help transition young people into productive, healthy adults. YouthPower Learning supports the implementation of the 2012 USAID Youth in Development Policy to improve capacity and enable the aspirations of youth so that they can contribute to, and benefit from, more stable, democratic, and prosperous communities.

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