

# Effectuation and its application in youth entrepreneurship training

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*YBI Insights for Success*



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# About YBI

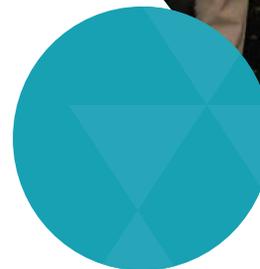
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**Youth Business International (YBI)** is a global network of expert organisations in over 50 countries supporting underserved young people to turn their ideas into successful businesses, creating jobs and strengthening communities.

*Since 2014 alone, YBI has supported 95,102 young people to start or grow a business by delivering a range of entrepreneurship support services, from training and mentoring to access to finance and other business development services.*

YBI's vision is that youth entrepreneurship is recognised for driving sustainable economic development, and that all young people who want to set up a business are able to fulfil their potential.

YBI believes in the power of the network approach through which it connects across regions and globally to share expertise and collaborate on solutions to increase the impact of services for young entrepreneurs and influence the field of youth entrepreneurship support.





## About Insights for Success

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In 2018, YBI commissioned a series of research studies, *Insights for Success*, to gather learnings on priority themes in order to inform the work of the YBI network and share this with others supporting young entrepreneurs globally. Gathering evidence and knowledge from YBI member organisations, the young entrepreneurs they work with, and other relevant sources, the papers provide learning and recommendations to improve the programmatic and organisational effectiveness of the youth entrepreneurship sector.

*This paper sheds new light on the effectuation methodology and its role in entrepreneurship training, as applied by Aliança Empreendedora, YBI's member in Brazil.*

We hope this piece of work will be a valuable contribution to global learning on this topic and help shape more impactful training programme design so that in future even greater numbers of underserved young people can successfully develop themselves and their businesses.

# Acknowledgements

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For more information on Aliança Empreendedora's entrepreneurship training programmes, visit: [aliancaempreendedora.org.br](http://aliancaempreendedora.org.br)

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# Introducing Effectuation

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The teaching of entrepreneurship at universities and business schools has evolved over the last two decades to include a greater focus on experiential learning, allowing participants to experience entrepreneurial activities in practice and learn from them. This builds on the work of practitioners such as the International Labour Organization (ILO) who have been applying experiential approaches to entrepreneurship development since the 1970s, and has gained momentum recently with the publication of popular texts such as *The Lean Startup* (Ries, 2011), *Business Model Generation* (Osterwalder & Pigneur, 2010) and *The Startup Owner's Manual* (Blank & Dorf, 2012), which propose a more iterative process of company development. Among the new methodologies developed during this period was the effectuation logic, which appeared around the start of the new millennium as a new way of looking at the process of entrepreneurship.

Effectuation is centred on the idea that entrepreneurs develop their business based on what they can create with the set of resources (or 'means') they have. When the concept of effectuation was formed, most academic entrepreneurship courses focused on teaching entrepreneurs how to draw up a business plan.

This was in line with the main approach to management at that time, centred on strategic planning – an approach grounded in 'causation logic' which assumes that a new business will be launched based on certain premises that are not necessarily related to the resources the entrepreneur has in his or her possession.



Using causal reasoning, entrepreneurs will determine goals to achieve and look for the resources to enable them to do so, whereas with effectual reasoning – defined as the opposite of causation – entrepreneurs will

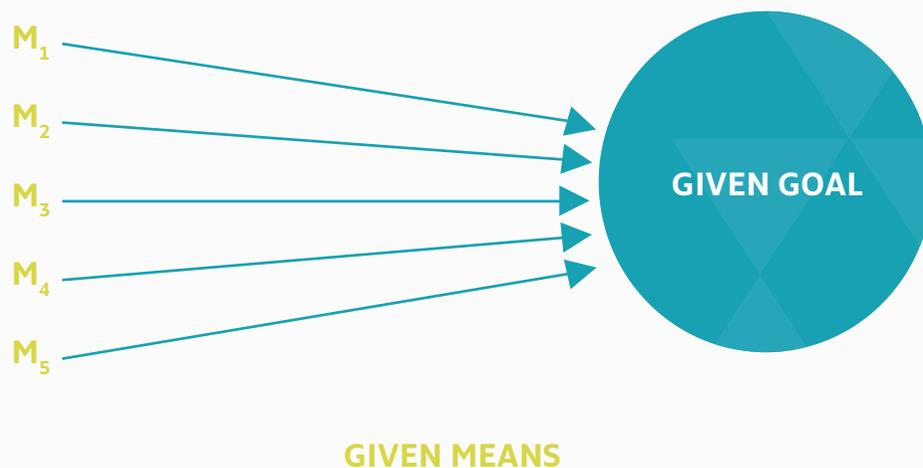
determine goals according to the resources or means already in their possession (see diagram).

## Causation vs Effectuation

### Managerial Thinking (Causal)

#### Distinguishing Characteristic

Selecting between given means to achieve a pre-determined goal



### Entrepreneurial Thinking (Effectual)

#### Distinguishing Characteristic

Imagining a possible new end using a given set of means



*Read, Sarasvathy, Dew, Wiltbank, 2011*

Effectuation was first proposed by Saras Sarasvathy as “the process by which the entrepreneur in a pre-firm identifies, defines and often creates a market for their idea, and also creates a resource base and a stakeholder network.” (Sarasvathy, 1998, p. i). The theory became more important after Sarasvathy published the article ‘Causation and effectuation: Toward a

theoretical shift from economic inevitability to entrepreneurial contingency’ (Sarasvathy, 2001) where she presented the basis of effectuation by means of two practical examples and defined for the first time the principles of effectuation that are at the centre of her theory.

Nowadays, one important source of knowledge on effectuation is the website [Effectuation.org](https://www.effectuation.org), where specialists contribute articles and training materials. The evolution of the theory is especially portrayed in the five guiding principles described in the table below.



### The bird-in-hand principle

When expert entrepreneurs seek to build a new venture, they start with their means. These means can be grouped into three categories:

Who I am—my traits, tastes, and abilities

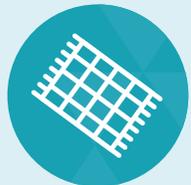
What I know—my education, training, expertise, and experience

Who I know—my social and professional networks



### The affordable-loss principle

Expert entrepreneurs turn [traditional] logic on its head—they think in terms of affordable loss rather than expected returns. They decide what they are willing to lose rather than what they expect to make. Instead of calculating upfront how much money they will need to launch their project and investing time, effort, and energy in raising that money, the effectual entrepreneur tries to estimate the downside and examines what they are willing to lose.



### The crazy-quilt principle

The crazy-quilt principle of effectual reasoning is the focus on building partnerships rather than beating competitors. Since entrepreneurs tend to start the process without assuming the existence of a predetermined market for their idea, they don't know who their competitors will be, so detailed competitive analyses have little value. Instead, entrepreneurs generally take the product to the nearest potential customer.



### The lemonade principle

The principle of effectual reasoning is at the heart of entrepreneurial expertise—the ability to turn the unexpected into the profitable. Expert entrepreneurs learn not only to work with surprises but also to take advantage of them. In most contingency plans, surprises are bad—the worst-case scenarios. But because entrepreneurs do not tie their idea to any theorised or preconceived “market,” anything and everything is potentially a surprise that can lead to a valuable opportunity.



### The pilot-in-plane principle

Many entrepreneurs instinctively recognise the importance of personal control: fundamentally, many chose entrepreneurship because they want to be their own boss and choose their own course. Control enables entrepreneurs to work on things they think are important, set their own schedules and work with whom they want.

Source: [Effectuation.org](https://www.effectuation.org)

# Application of Effectuation in Entrepreneurship Training

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Effectuation can be observed in practice in formal and informal education. In formal education, some colleges and universities are teaching effectuation in entrepreneurship courses. A textbook named *Effectual Entrepreneurship* written by Read et al (2011) is available to support the teaching of this approach. Effectuation is also used in informal education and has been incorporated by several members of the YBI network, supporting underserved youth to start or grow their own business. The first YBI member to take on effectuation was Aliança Empreendedora in Brazil, but others have since followed, including ideiaLab in Mozambique, Youth Business Spain, and the consortium of youth business trusts in the Caribbean islands of Barbados, Jamaica, and Trinidad & Tobago. Most have used effectuation to enhance their training programmes. They already used methods based on active learning and found that effectuation could provide new insights and content for their training programmes.

The following case study on the application of effectuation by Aliança Empreendedora has been produced in order to better understand how effectuation logic can support the training of young entrepreneurs. Research for the case study included a review of materials and activities from Aliança's training programmes, observation of courses, interviews with Aliança staff and partners, and secondary research on effectuation. A detailed report was provided to Aliança and YBI while the key learnings are summarised in this document.

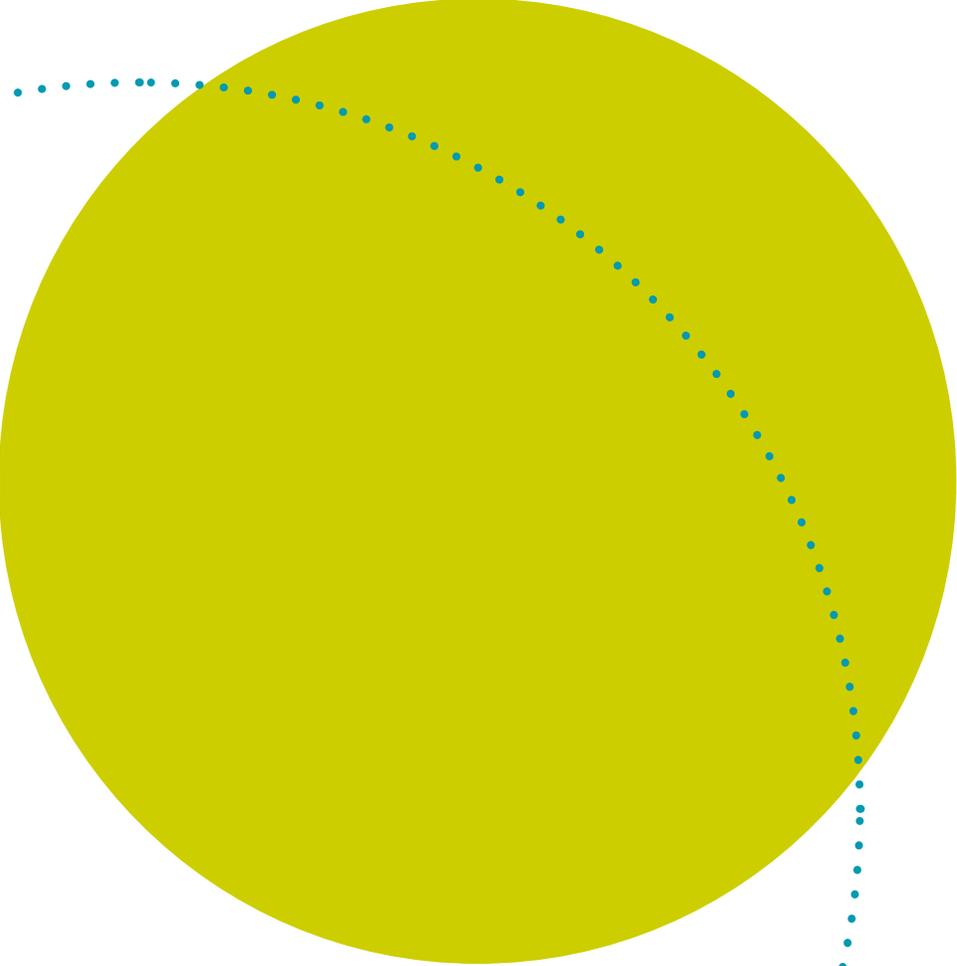


## Effectuation at Aliança Empreendedora

Aliança Empreendedora is a non-governmental organisation (NGO) focused on supporting companies, social organisations and government to develop inclusive business models and projects to support low-income entrepreneurs. It was founded in 2005 by a group of students from the Federal University of Paraná in the city of Curitiba, Brazil, to support small-scale entrepreneurs to develop their businesses. Since then, it has expanded its work to other places in Brazil and built partnerships to help this expansion. At the time of writing, Aliança runs a portfolio of services and maintains partnerships overseas. One of Aliança's services is a training programme known as the Entrepreneurial Journey, which applies a customised version of effectuation in some of its specific courses and thus is explored in this study

Aliança Empreendedora started out its work training underserved entrepreneurs using similar methods to those used in university business courses. However, after delivering some training programmes, Aliança realised the entrepreneurs were not applying many of the tools learned in the courses. The team at Aliança was anxious to have a more practical approach to solving the challenges and doubts common to new young entrepreneurs. A business plan, for example, was too far from their immediate reality and frequently wasn't used, or only parts of it were. Bearing this in mind, Aliança found in effectuation a more practical approach that could help solve daily challenges and also help identify the potential for entrepreneurship in anyone, through a process of self-discovery – something they thought could be motivational for their underserved target group.





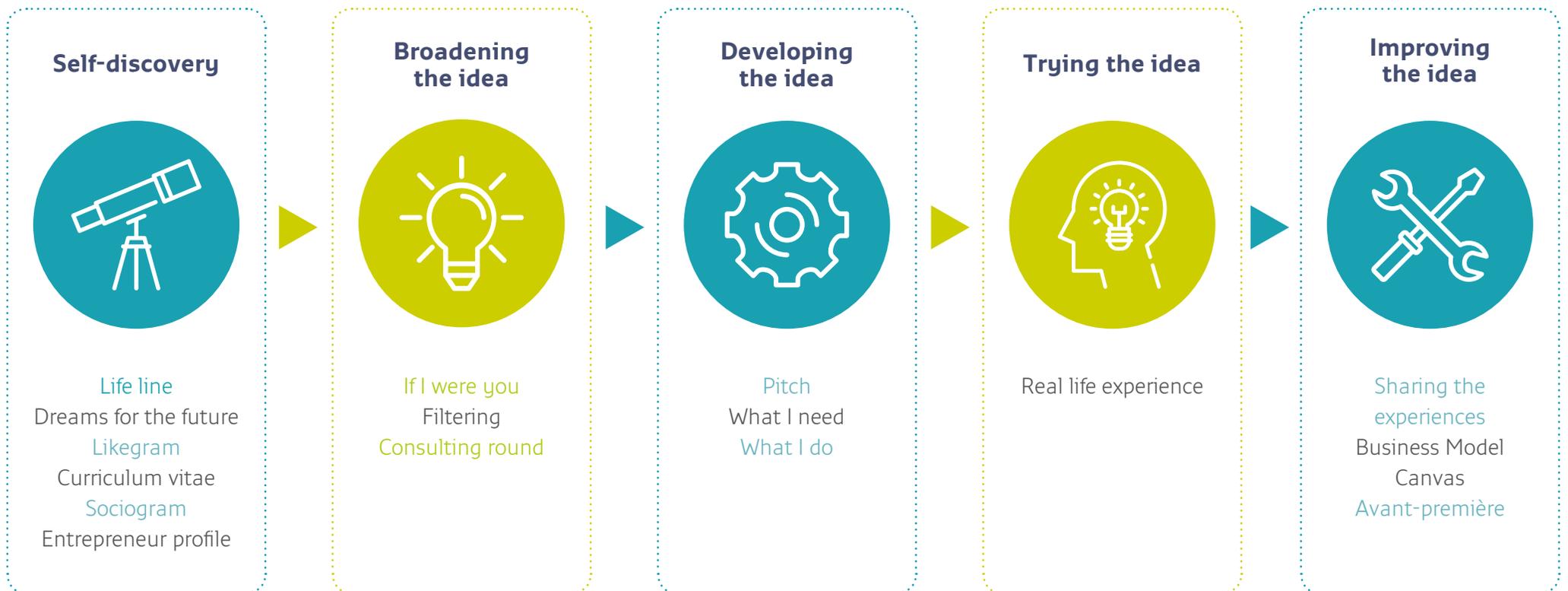
Aliança needed not only the right type of thinking logic for their entrepreneurship training but also to design a way of training their target group of young adult entrepreneurs or potential entrepreneurs in an engaging way. They found an ideal basis in andragogy (Knowles, 1970), whose main strength, according to the Aliança team, is in its practicality. The andragogy approach as defined by Knowles is an adult learning theory “centered on the idea that the lecturer does not possess all the knowledge and the students are encouraged to participate in the classroom by utilizing their own experiences.” (McGrath, V., 2009, p.100). Some practical implications in class design emerge from this approach. For example, andragogy suggests a process of self-diagnosis of learning needs, on the understanding that an adult will be more motivated to learn things he or she sees the need to learn. Also, training tools place greater emphasis on techniques that tap into the experiences of the adult learner, such as counselling, group therapy, or simulation exercises.

Aliança developed its Entrepreneurial Journey as an application of the andragogy approach to adult learning together with the effectuation logic and other practical tools, based on their own experience and rooted in the needs of the target group. It includes three training programmes, each with a different structure according to its target group: the *Vai que dá* ('Go for it') programme for anyone who wants to be an entrepreneur but is not sure about their idea, *Vai ou racha* ('Sink or swim') programme for those who already have a business, and *Agora vai* ('And we're off!') for Aliança participants and alumni who want to follow a programme of continuing development.

All programmes are designed to have a practical approach with a lot of interaction between participants. Each programme has a specific curriculum, with a different number of sessions, each lasting three hours (with the exception of *Agora vai* in which the length of the meetings can

vary according to need). There is no need for the entrepreneur to start from the first programme; it depends on what level they are at regarding business ownership and the needs of their business. The stages and activities of each programme are described in Figures 1-3.

**Figure 1. Steps of *Vai que dá* programme - for new entrepreneurs**



**Figure 2. Steps of Vai ou racha programme - for existing entrepreneurs**



**Figure 3. Steps of Agora vai programme – for alumni**



The *Vai que dá* programme (Figure 1) is the one in which effectuation principles are most evident, especially considering the bird-in-hand principle and its pillars: who I am; what I know and who I know. The programme helps with the process of self-discovery (who I am and what I know), during which business opportunities that can be developed by the potential entrepreneur are identified. After this initial phase, the idea (or various ideas) are developed and improved through a process of interacting with other participants in the class. The next step after broadening out the idea involves activities to identify the needs the entrepreneurs have in order to move forward. They then work on how to access the resources that are not available but could be found within their network (who I know).

To identify challenges and ways to improve their ideas, entrepreneurs are encouraged to try their project in real life, with the resources they have. Through this experience, entrepreneurs can improve their idea, incorporating feedback, and think about the business model they want to use. A final stage where the entrepreneur presents his or her project to a diverse audience (e.g. specialists and other entrepreneurs) helps them to keep improving the idea, using the feedback received.

Other effectuation principles are also used in this programme, although they are not as evident as the bird-in-hand principle. For example, during the whole programme, the entrepreneurs work on feedback they receive, from their customers in trialling their ideas, from other participants during the programme and from specialists in the final stage; this is an application of the idea behind the lemonade principle.

The *Vai ou racha* programme (Figure 2) has a very different approach from the entry-level programme, combining effectuation with more traditional methods. For example, traditional planning processes are covered, including business diagnosis, vision definition and identification of challenges.

However, effectuation logic is incorporated into the planning exercises by considering the resource limitations the entrepreneur has and not predicting the future, but trying to apply possible solutions according to the entrepreneur's means. Behind the more analytical methodologies lies the expectation of empowering the entrepreneur to solve their challenges (the lemonade principle) using their own means (the bird-in-hand), in a short timeframe, learning quickly (the pilot-in-the-plane principle) by sharing their solutions with the other programme participants or identifying 'helpers' in their own network (the crazy-quilt principle). In addition, the programme builds its technical training content based on the knowledge most needed by the group to solve their challenges (the self-diagnosis element of andragogy), helping the development of 'what I know' (one pillar of the bird-in-hand principle).

The final programme, *Agora vai* (Figure 3), is a group mentoring programme, with monthly sessions open to all entrepreneurs supported through the *Vai que dá* and *Vai ou racha* programmes (it is compulsory to attend at least one session of *Agora vai*). The programme aims to help entrepreneurs learn from each other's experience, improve their network and enhance their knowledge, thus developing their entrepreneurial capacity. In each session, a different successful entrepreneur is invited to tell their story. Participants can then ask questions and explore in more detail the most relevant and interesting aspects of their businesses or any problems they are facing.



### *Vai que dá*

Entrepreneurs are invited to create a 'Sociogram', using paper and post-it notes, where they represent the network of people they know who might be willing to support them in their entrepreneurial journey. They draw themselves in the centre and, using post-it notes, add names from their network. The closer the relationship with a specific person/organisation is, the closer the post-it note is from the centre. Through this exercise, entrepreneurs can analyse their current network and put into practice two of the effectuation principles: the 'bird-in-hand' (identifying their existing resources) and the 'crazy-quilt' (by inviting these people and organisations to co-create their future venture).

All three programmes follow effectuation logic to emphasise the development of the entrepreneur in three areas: who I am (entrepreneur's profile), what I know (entrepreneur's general knowledge), and who I know (entrepreneur's network). Additionally, the *Vai ou racha* programme includes 'what I do' (definition of goals and action plan) and the *Vai que dá* programme focuses on 'what I have' (available resources).



### *Vai ou racha*

Participants decide together the topics they will cover during the training, based on common problems they are facing in their businesses. For each topic, two sessions take place: one focused on the problem, where entrepreneurs identify the causes behind the challenges they are facing; and another one focused on the solution. Between the first and second sessions, entrepreneurs carry out their own research into ways to tackle the problem and its causes. After the entrepreneurs have presented their own solutions, the trainer (or an invited expert) shares further knowledge and tools. This builds entrepreneurial competencies such as initiative ('who I am'), promotes knowledge sharing ('what I know') and incentivises entrepreneurs to use their network ('who I know').

## Benefits of applying effectuation to entrepreneurship training

Aliança Empreendedora has found that applying effectuation within its Entrepreneurial Journey adds significant value to the young entrepreneurs it trains. As a recent course participant commented: *“Effectuation was new to me. The exercises based on it provided me with very interesting insights about myself and my business, and I used the theory to develop a new product, which has added value to my clients.”*

By combining effectuation, with its understanding of how businesses emerge and develop, with elements of experiential learning taken from andragogy, Aliança Empreendedora has built an effective approach to entrepreneurship training. As a result, their training programmes help entrepreneurs identify the means they have to build and develop their businesses, empowering and engaging them in moving forward. Carol Appel, YBI's Head of Innovation and Entrepreneurship Training, confirms its benefits: *“Effectuation is a strong methodology for training young entrepreneurs, because it presents entrepreneurship in a much more simple and achievable way. Young entrepreneurs don't necessarily have all the resources they need, but through the effectuation logic they can identify the ideas they can implement with the resources they do have and the resources they can additionally access through their networks. Aliança Empreendedora has found a great way of implementing the effectuation logic in their training programme and combining it with andragogy principles, allowing the young entrepreneurs they support to come up with and implement feasible ideas in the economically challenging environment of Brazil.”*

*“The programme enabled me to lose that initial fear of starting something and take the first steps to build my business.”*

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