

# Strategy and Entrepreneurship: Decision and Creation Under Uncertainty

Igor Tasic

MSc • Researcher at FGV-EAESP and Consultant at Booz & Company  
igorabt@gmail.com

Tales Andreassi

PhD • Professor at FGV-EAESP  
tales1@uol.com.br

*ABSTRACT:* This work looks at the decision process of entrepreneurs when they create a new business in an atmosphere of uncertainty and without clear objectives, using the notion of 'effectuation'. The effectual approach suggests that, when a new company is just beginning, entrepreneurs emphasize how much they can afford to lose and try as many different strategies and combinations of resource as possible, given the resources that are already under their control. The objective of this article, therefore, is to examine if, and to what extent, entrepreneurs build companies in the real world using effectuation.

*KEY WORDS:* Effectuation, Entrepreneurship, New Ventures

## INTRODUCTION

The idea that the mortality rate among companies is very high seems to be the consensus of opinion both among practitioners as well as with academics who study entrepreneurship and the rise of new companies (Aldrich & Martinez, 2001; Fichman & Levinthal, 1991; Hannan & Freeman, 1984; Low & Macmillan, 1988). Data confirm this idea. Statistics from the Brazilian Service for Supporting Small and Micro-enterprise (*Serviço Brasileiro de Apoio às Micro e Pequenas Empresas*) (Sebrae, 2004) clearly show that the success rate of new businesses is low throughout the first years of a company's existence. According to research, approximately 50% of all companies close down within the first two years, and this percentage increases to 56.4% in the first three years and is 60% in the first four years.

The same research also lists the traditional causes indicated by entrepreneurs for closing down their business activities. Among the main reasons given

are a lack of working capital, heavy taxes, high interest rates and a lack of customers. In this line of research many studies have sought to prove such hypotheses (Dornelas, 2001; GEM, 2005; Rimoli et al., 2004). Therefore, it is useful that there are a number of studies about entrepreneurship that raise questions like "What are the real causes for the success or failure of new undertakings?" and "What are the characteristics of successful companies and entrepreneurs?". We might also ask the question, "What should the business plan, or ideal competitive analysis for a new business be like so that its chances of failure are reduced?". In short, as a great number of publications about entrepreneurship in Brazil and abroad point out, these questions seem to be central to this field of study.

The replies to these questions are, however, not at all conclusive. In fact there seems to exist a consensus of opinion among academics and practitioners of entrepreneurship that the search for the 'Holy Grail' of a company's immortality and performance

is an essentially long, if not eternal, one (Sarasvathy, 2004). Therefore, it is virtually impossible to arrive at a final consensus about the ideal way or pattern for establishing a new enterprise, whether in Brazil, or in any other country.

As Sarasvathy (2004) points out, after decades of inconclusive and theoretically poorly founded studies, it is necessary to reformulate the questions posed about entrepreneurial activities. This opinion is shared by countless researchers who propose bringing together the questions posed in the field of entrepreneurship and those that have already been tried and tested for decades in other fields of knowledge. This will allow entrepreneurship not only to consolidate itself as a theoretical field of knowledge, but above all it begins to deal with questions that are in fact relevant to the rise of new businesses; questions that can only be formulated from a multifaced viewpoint, which is a fundamental characteristic in entrepreneurship studies (Venkataraman, 1997; Shane, 2000; Shane & Venkataraman, 2000; Venkataraman & Sarasvathy, 2000; Busenitz *et al.*, 2003).

It seems obvious that the traditional deterministic notion that is inherent to the process of forming new businesses – the analysis of opportunities, risk assessment, strategic choice and decisions (Ansoff, 1965; Porter, 1980) – are of little help in advancing our understanding about what the phenomenon of entrepreneurship really is, how this phenomenon occurs and how it can be fostered. After all, the environments and markets in which entrepreneurs operate are essentially uncertain and there is no possibility of knowing beforehand how future events will be distributed (Knight, 1921). Therefore, the evolution of markets and consumer behavior, *a priori*, cannot be known and analyzed until the moment when they are actually created. The destruction and creation of new markets (Schumpeter, 1934) seem to be the essence of capitalism, in general, and of entrepreneurship, in particular.

Furthermore, there is a consensus of opinion among researchers that the classic notion of the total rationality of individuals is, at the very least, questionable (Simon, 1959, 1966; Kahneman & Tversky, 1979; Kahneman; Slovic & Tversky, 1982). If there is uncertainty, the choice and decision processes of human agents are ambiguous, as are the objectives they establish (March, 1982). Therefore, the idea of limited rationality and ambiguity of objectives seems to characterize some of the instances which entrepreneurs have to deal with when they become involved with a new undertaking.

Therefore, understanding the decision process of entrepreneurs when they are creating new businesses in a climate of uncertainty and without clear objectives seems to be of special interest to the field of entrepreneurship studies. In this sense the notion of effectuation (Sarasvathy 2001a, 2001b) contributes in an innovative way.

As this is a new approach in the field of strategy and entrepreneurship the effectual approach proposes that at the start of any new company entrepreneurs emphasize how much they can afford to lose and try as many different strategies and combinations of resource as possible, given the resources that are already under their control. In this model the purpose is not necessarily to maximize potential financial returns, but to reduce the uncertainty of certain strategies and resource combinations. In effectuation the entrepreneur, by means of his activities, creates results from these resource combinations and from leveraging contingencies as the uncertainties that surround him decline. As entrepreneurs they decide to start up companies and structure new business without having a clear definition of pre-established objectives and without the capacity to analyze all the future environmental variables that may have an impact on this business.

Therefore, it would appear to be particularly interesting **to examine if, and to what extent, entrepreneurs build companies in the real world using effectuation.** This is the aim of this article, which, more specifically, will seek to explain this process from the seminal contributions made by Sarasvathy (2001a, 2001b) on the effectuation approach in explaining the decision processes of entrepreneurs.

## THE EFFECTUATION MODEL

The classic idea of prediction and causality (Porter, 1980) seems not to provide the necessary foundation for understanding the phenomenon of how new artifacts (and therefore companies) are created. On the contrary, evidence about the rationality limits of individuals and decision-makers seems to indicate that when economic agents start a new artifact they do not necessarily follow rational patterns (Simon, 1959, 1966; Kahneman & Tversky, 1979; Kahneman, Slovic, Tversky, 1982)

The idea of effectuation is structured using this logic. In general terms one can say that “*effectuation is the inverse of causation*” (Sarasvathy, 2001b, p.D1). In this sense effectual rationality is not merely a de-

viation from classic casual rationality, but is rather an alternative form of rationality, based on a logic that is different from that of causal logic (Sarasvathy, 2001b). It is therefore important to carry out a critical assessment of the limits imposed by classic logic (rational-causal).

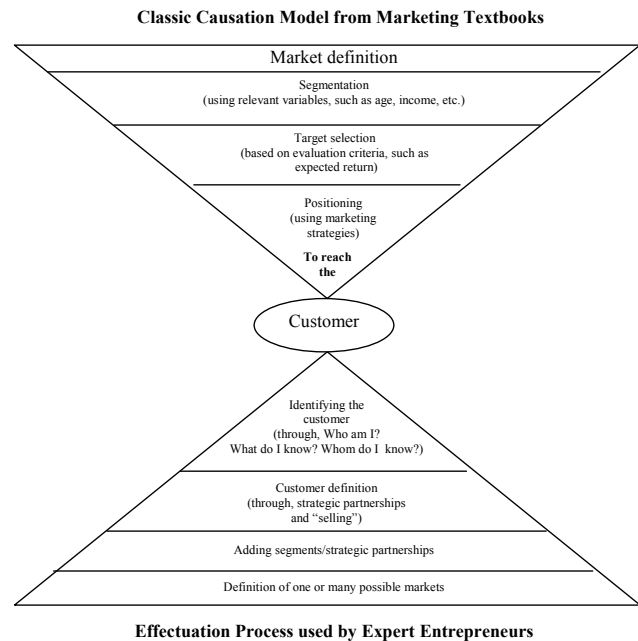
In general classic studies in the field of entrepreneurship provide few clues for answering questions like those previously posed, in which markets and companies cannot be merely pre-existing data, but rather, are capable of being constantly destroyed and created (Schumpeter, 1934) by an agent (Weick, 1979) endowed with limited rationality (Simon, 1959, 1966, Kahneman & Tversky, 1979) and with ambiguous objectives (March, 1982).

**CAUSALITY VS. EFFECTUATION**

The classic vision is that the market is a pre-established and knowable entity. According to this approach, in order for a new business to become a reality it must start by defining and segmenting its target-markets and then establish marketing and positioning plans for a set of products and services (Kotler, 1991). Traditionally known as the STP (*segmentation-targeting-positioning*) process, this “top down” approach (Figure 1, upper part) has, since the mid-1960s, been the prevalent way of analyzing new business

The effectual viewpoint, in turn, inverts the cause-effect relationship (Figure 1, lower part). As it is an approach for building new markets from “the bottom up”, the entrepreneur in this case starts by defining one of the many markets in which he could work and chooses to start the business based on less information (in an attempt at predictability), but taking advantage of the contingencies and partnerships he forges by means of experimenting the actual selling of his products and services. Therefore, the effectual entrepreneur never stops trying to understand his clients needs, but as he starts from the assumption that by definition the future is uncertain (Knight, 1921), he prefers to construct an environment and a set of relationships that will allow for the desired future to be, in fact, much closer to the one he initially aspired to.

**Figure 1 - Causal And Effectual Decision Models**

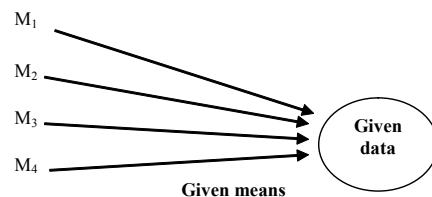


Source: Adapted from Sarasvathy et al. (2005)

In using effectuation processes to start up a company the entrepreneur may build different types of company in completely different industries. This means that the original idea (or set of causes and means) does not imply a single strategic universe (or effect) on which the firm may be established. Instead, the effectuation process allows the entrepreneur to create one or more possible effects despite not having very clear objectives, initially. The process not only allows for the effective realization of several possible effects (even though only one or a few ideas are in fact implemented), but also allows the entrepreneur to change his objectives, by adapting them and even constructing many of them over time as he takes advantage of the countless contingencies that appear in his path. Schematically, we can summarize the principles of effectual logic, as shown in Figures 2, 3 and 4.

*Distinguishing characteristics:* choosing between given data to achieve a pre-determined objective

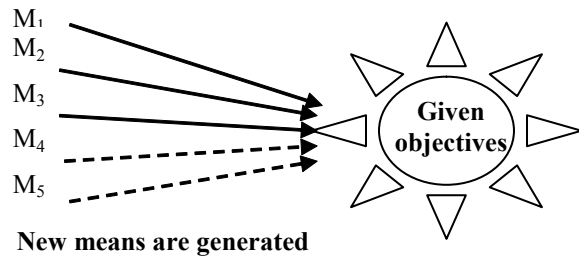
**Figure 2 - Causal Process**



Source: Adapted from Sarasvathy et al. (2005)

*Distinguishing characteristics:* generating new means for achieving pre-determined objectives

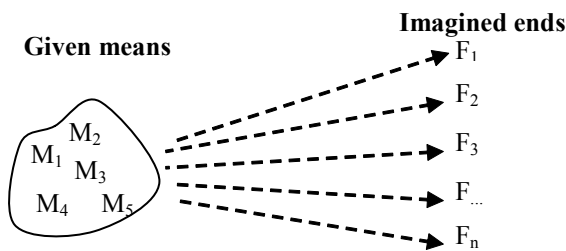
**Figure 3 - Creative Causal Process**



Source: Adapted from Sarasvathy et al. (2005)

*Distinguishing characteristics:* imagining possible new ends, using a given set of means

**Figure 4 - Effectual Process**



Source: Adapted from Sarasvathy et al. (2005)

In a general way, the idea of effectuation is similar to the discussion started by March (1991), in which organizations must look for a balance between the invention of new products and services (*exploration*) and maximization of the use of products and services already offered (*exploitation*). A direct association of these concepts with the concept dealt with in this work allows causal logic to be defined as “effect-dependent”, in which the exploitation of previously acquired knowledge provides the conditions for the rise of a new business. Alternatively, effectual logic may be defined as “player-dependent”, in which it is from the exploration of contingencies that an environment favorable to the appearance of new companies is forged. The main differences between the two logics are summarized in Table 1.

**Table 1 - Differences Between Causality And Effectuation**

Differentiation categories	Causal processes	Effectuation processes
Data	<ul style="list-style-type: none"> <li>Effect is given</li> </ul>	<ul style="list-style-type: none"> <li>Only some means and tools are given</li> </ul>
Selection criteria for decision-making	<ul style="list-style-type: none"> <li>Helps to choose between means for achieving the given effect</li> <li>Selection criterion based on hoped for returns</li> <li>Effect-dependent: choice of means is guided by the characteristics of the effect that the decision-maker wants to create and his knowledge of possible means</li> </ul>	<ul style="list-style-type: none"> <li>Helps to choose between possible effects that may be created with given means</li> <li>Selection criterion based on tolerable losses or acceptable risk</li> <li>Player-dependent: specific given means, the choice of the effect is guided by the characteristics of the player and his skills for discovering and using contingencies</li> </ul>
Competences used	<ul style="list-style-type: none"> <li>Excellent at exploring knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Excellent for exploring contingencies</li> </ul>
Context of relevance	<ul style="list-style-type: none"> <li>More present in nature</li> <li>More useful in static, linear and independent environments</li> </ul>	<ul style="list-style-type: none"> <li>More present in human activities</li> <li>Explicit supposition of dynamic, non-linear and ecological environments</li> </ul>
Nature of what cannot be known	<ul style="list-style-type: none"> <li>Focus on the predictable aspects of an uncertain future</li> </ul>	<ul style="list-style-type: none"> <li>Focus on controllable aspects of an unpredictable future</li> </ul>
Central logic	<ul style="list-style-type: none"> <li>To the extent we can predict the future we can control it</li> </ul>	<ul style="list-style-type: none"> <li>To the extent that we can control the future we do not need to predict it</li> </ul>
Results	<ul style="list-style-type: none"> <li>Market share of existing markets by means of competitive strategies</li> </ul>	<ul style="list-style-type: none"> <li>New markets created by means of alliances and other cooperative strategies</li> </ul>

Source: Sarasvathy (2004)

Therefore we can establish, in general terms, some of the main contributions of the theory of effectuation in entrepreneurship studies (Sarasvathy, 2001a, 2001b; Sarasvathy et al., 2005):

- Uncertainty begins to be seen much more as a resource and a process (on which the decision will be made), than as a constant state of disadvantage;
- Likewise, the initial ambiguity of objectives is also a creativity factor and a generator of op-

portunities to the extent that the entrepreneur is more open to taking advantage of the contingencies that arise along the way;

- The action capacity (*enactment*) of the entrepreneur over the environment and structures that surround him eliminates one of the suppositions of causal logic, the objectivist notion of markets and the passive stance of the entrepreneur vis-à-vis the environment and contingencies;
- Finally, and perhaps this is the greatest contribution of this approach, the notion of control over what can be done with currently available resources, instead of optimizing decisions about what one would hope could be done, given a set of predictions.

## RESEARCH METHODOLOGY

As Sarasvathy and Kotha (2001) point out, the entrepreneurial process adopted by companies in their structuring and development phase may be unique and consequently difficult to identify and measure. This situation leads to questions of the type; "How can researchers study a unique phenomenon and then generalize from such situations and circumstances?". The challenge, therefore, is to identify these processes and the principles of rationality that underlie them when new companies are being created.

Therefore, it seems that the challenge posed in this article, of understanding how some entrepreneurs decide to move towards building new companies despite having imprecise objectives and with uncertainty, may be correctly overcome by a qualitative research method, particularly by the case study methodology.

After all, as Yin (2001) points out, generally case studies are the preferred strategy for research when questions of the type "how?" or "why?" are posed, when the investigator has little control over events and when the focus is on contemporary phenomena that occur in a real context. This would seem to be precisely the case involving a study about the entrepreneurial process.

Yin (2001) also specifies three situations in which case studies are particularly appropriate, (i) there are more variables than data, (ii) multiple evidence sources are available so that one can carry out data triangulation and analysis convergence exercises,

and (iii) there are prior studies with theoretical positions that may provide a guideline for the data collection and analysis processes. These three key elements form the methodological basis of this article.

As Yin (2001) says, the chosen case is "revealing" in the sense that it is unique and provides a good opportunity for observing and analyzing the entrepreneurial process phenomenon from its origin. As the factors that have an influence over organizational processes frequently include the path dependency notion that is accumulated and historically conditioned (Sarasvathy and Kotha, 2001), designing research that seeks to be analytically generalist in nature may be an historical retrospective in time; this was the research design used in this article. Furthermore, the design should allow the multiplicity of factors that may have molded the process to be observed and analyzed. In this sense, the Buscapé case would seem to be suitable.

## CASE STUDY

### *Background*

Created during Internet boom times, at the beginning of the 2000s Buscapé became one of the best and only successful examples of Brazilian Internet companies. With its mission of being a search site allowing for product comparison and price research, Buscapé also distinguishes itself as being an innovative company from the technological and marketing points of view, having survived when the bubble burst and the presence of the 'giants' of the technology sector.

It was founded in 1999 by four young university students from São Paulo and the company's first office of just 10<sup>2</sup> meters was located over a bar. Without money to buy database software the partners developed their own solution, which gave rise to the first site in Latin America for comparing prices.

In this way, operating by means of 'spider' technology that collects, stores and makes product information available in real time, Buscapé began to help consumers in their purchasing decisions by offering information about products, stores and prices.

At the beginning the site compared the prices of 35 stores and 30,000 products. Currently the research involves more than 21,000 companies, with 2,000 of them on-line, and more than 8 million products and services on offer. The average number of users per

month went from 55,000 in 1999 to almost 9 million in 2006, and the number of employees from the four original partners to more than 130 in 2006, the year in which the company got a new investor (Great Hill Partners), which injected funds when it bought the share from the site's former capitalist partners (Merrill Lynch, Unibanco and Brasil Warrant). Recently the company merged with its former rival, Bondfaro, in an attempt to remain competitive and expand its business over the next few years, thereby further extending its portfolio of products researched and its customer base.

### Case description

In order to make this description systematic we used Buscapé's decision-events since the start of its activities as the analysis units. In this way we sought to describe if and how Buscapé's entrepreneurs used effectuation when they were building their company. The decision-events are presented below, in accordance with the four analysis instances:

- A. Clarity of initial objectives
- B. Tolerance to losses and initial investments
- C. Control of resources
  - a. Who are they
  - b. Who they know
  - c. What they know
- D. Leveraging contingencies

#### A. Clarity of initial objectives

As previously seen the history of the creation of Buscapé is intrinsically linked to the history of the rise of the Internet in Brazil, and as the theory of effectuation points out we can see an initial ambiguity in objectives, both from the point of view of the creation of the company, as well as the creation of the new Internet industry. In this sense the comment of one of the founding partners about clarity of objectives is seminal:

*"I couldn't see just how far we were going to go; how much money this was going to generate."*

In fact, as some of those interviewed report, at the outset there was no inspiration regarding the business model to be adopted; there was no adaptation of some foreign model. This also happened because there was no very clear definition of what the In-

ternet industry itself was. No one knew precisely in which segment they were, in fact, operating and therefore the idea of carrying out market research was inconceivable. In short, both the company and the industry were in the process of being born.

*"The idea was not based on any model adopted by an American website. It was purely and simply a site created with this focus."*

*"Since the beginning, the idea was to create a major business, not to create just another business. At the time we were frightened to death of UOL. Today, if I was setting up a hamburger place [...] I'd not be afraid of McDonald's or Burger King. I'd have to live with them [...]. In our case it was a very new industry, so we wanted to be the leaders and we always wanted to be the company we are today."*

*"Market research was very much an idea of ours, because at the time Internet research didn't exist."*

The partners focused on developing a technology and not on the business model or the company. In general, they all had an overall objective of having a company, but the notion of how this company would generate revenues and in which markets they would operate was still something vague.

*"If it's a good service there are going to be people accessing it; it's going to be a great tool on the Internet. Making money out of it is just a question of time [...] and with this we started developing the system. We were not very worried about money at the time."*

But despite having no clear objectives as to the *modus operandi* of the new company they were creating, the partners brought with them a set of experiences that allowed them to visualize the basic components that should be present in the new business.

*"We had already tried two companies before (a software company, business automation) that were not very successful."*

*"We learned about everything, from how to treat customers, how to deal with them, how to charge [...] and even to understand that it is more difficult to do things than it seems."*

In addition, we can see the flexibility of the entrepreneurs given the immature state of the industry. Despite the fact there was no clarity with regard to the

objectives the focus on building a company in this uncertain scenario put Buscapé in a different league in this market.

*“On the Internet at the time projects were very opportunistic, short term [...] in the case of Buscapé, the four partners always had a long term vision [...] this gave them a differential.”*

## B. Tolerance to losses and initial investments

Right from the time Buscapé started operating the commitment of the partners to the project was obvious. While still at college and with their only income coming from trainee grants, the entrepreneurs never showed any aversion to risk or concern that they were wasting their time or would lose the money they were investing in the company that was taking shape. Their willingness to start with very little is clear from the way the interviews describe things.

*“Each one put in their R\$ 100 to keep the site open and cover some of the most basic costs.”*

*“Until we received the money from E-Platform, we paid our expenses out of the trainee grants we received.”*

*“I always saw the four partners as geniuses [...] in addition to the idea itself, they’re persistent, they’re very dedicated. They stayed up night after night, sleeping on sofas, or on the floor [...] I see it as a company of real winners [...] they made it happen.”*

In this sense the entrepreneurs are unanimous in stating that if the business had not been successful even so they would have accumulated a lot of good experience that would lead them on to other undertakings in the future. The notion of loss-tolerance is also clear when the partners admit that, because they were still very young (average age, 21), their opportunity costs in setting up a business at that time were low. Furthermore, they could all count on great encouragement from their parents and teachers and this motivated them even more to begin the company at that particular time. The comments of some of the interviewees in this respect are good examples of this.

*“I usually say that ignorance is a gift. When you’re still young, have no family or major financial commitments you don’t have a lot to lose [...] you don’t fully know about risks [...] and if you fall flat on your face you’re still at*

*college. There was no downside [...] and if it had gone wrong at least I’d have had a load of stories to tell.”*

*“I know there’s a big fight up ahead, but for the time being I’m just ‘enjoying the ride’.”*

## C. Controlling resources

In the Buscapé case we see that, right from the start of the project, the entrepreneurs chose to build a company using the resources and means they had or that they could quickly accumulate, without there having (or being even possible, at the time) any clear understanding of what returns they would obtain. As the basic resources available at the start of the company (who they are, whom they know and what they know) are analyzed, it seems that the control logic, as explored in the effectuation theory, is present.

### a. Who they are

The decision to set up in business seems to be one of the main resources that define who the partners of Buscapé are. Right from very early on in their lives all the partners showed some interest in being owners of a business - of being business-men. In fact, before creating Buscapé, and while they were still at college, two of them set up a software house together and were relatively successful.

In this sense it is interesting to note that the desire to have a company and become an entrepreneur occurs before any clear definition of a business idea or an opportunity to be explored.

*“Regardless of Buscapé, given my profile, I think I’d have set up my own business.”*

*“My decision to set up in business started when I was a kid [...] I remember when I was small talking to my father and looking for business ideas, for products. [...] I chose my college course because I already had the idea in my head of setting up my own business [...]. At college I was always looking to do this.”*

Furthermore, encouragement to become an entrepreneur (from family and friends) was always very apparent in the life of the partners. In particular, the partner, Romero Rodrigues, told the following episode to Oliveira (2006):

*“In 1995 the son, like every other person in their first year of college, asked his father for an automobile, since he had been accepted by a*

*public university where there were no monthly fees. The father's reply was direct. "My father said that he'd not buy me an automobile, but that he'd give me the very latest in computers and that if it was used well he might give me the car I wanted. And that's how it was."*

Throughout the history of Buscapé this entrepreneurial spirit seems to have been an important resource, especially at times when it was necessary to take decisions to leverage the contingencies and surprises that appeared as the company moved forward.

Another aspect that seems to characterize well who the entrepreneurs are is the complementary nature of the relationship between them. A set of complementary technical and emotional skills seems to create a good balance in the relationship between the partners and this ended up defining the management style right from the outset.

*"We complement each other well in terms of temperament, mood and a series of other things. I think this helped the project as a whole, a lot [...] one of us was more optimistic, another was more realistic. This ended up giving the project a very good balance."*

This management style, based on a balance of the partners' competences and a strong entrepreneurial spirit defined the company's culture. Throughout the history of the company this culture has become an important resource that not only defines who the partners are, but the way in which the employees and stakeholders commit to the organization.

*"There's a Buscapé way of being (by partners, staff), which is cool [...] it generates collaboration, an intimacy."*

*"The employees are very fond of the company [...] I wake up wanting to come to work."*

#### *b. Whom they know*

The notion of the commitment of partners and stakeholders to the project for constructing a new company seems to be a resource that is present in the effectual logic. In this sense the use of personal relationship networks not only allows the entrepreneurs to be self-motivating and self-sufficient, using very basic resources (taking advantage of the resources that come from these social networks), but also to restrict and refine their objectives over time.

According to this notion of leveraging social networks the partners actually used this resource right at the start of the project, as the interviewees state.

*"We used our personal network a lot. A friend helped me in the INPI [National Intellectual Property Institute]. She was a trainee in a patents' office. Another friend, who was a trainee in an office that dealt with corporations, helped us open the company. Another friend, who was a journalist [...] helped us create our first press-release [...] They were small, simple favors [...] Everybody was prepared to help at the time we were starting out [...] In fact, we even managed to capitalize on those friendships we had had for a very long time."*

Another resource, also related to the idea of leveraging social networks, is the hypothesis present in the effectual logic that entrepreneurs, at the start of their projects, will tend to take more advantage of cooperative strategies than of competitive ones (that is more linked to causal logic). This scenario seems to have been even more relevant in the case of Buscapé, because it was going into an industry that was itself being shaped. Everybody in the industry knew each other and, to a certain degree, nobody had any idea of the returns to be obtained with the Internet. Therefore, the logic to cooperate seems to have been very present at the outset of the company's activities.

*"There was a feeling of cooperation and collaboration in the Internet market. This was because we all suffered together and had the same joint challenges. Everybody was looking to prove that the tool worked [...]. This seemed to be true in the rest of the world, too. There was a great collective spirit. Everybody was building something new. It was great, it was 'hype'."*

*"(As a result of the strong relationship in the industry) [...] they ended up having a very good gauge of sales performance in their hands."*

In this sense the company always tried to establish the greatest possible number of partnerships right from the start of operations. Consequently, there is a very close relationship between Buscapé and its partners. They have created ties and the notion of commitment is mutual.

*"Every retailer that bet on Buscapé at the time, and that is still betting on us today, has directly contributed to the growth of the business, with*



*their ideas, suggestions and improvements. It's a very intimate, very close, very direct relationship [...] without the retailers betting on the channel and developing and letting us know what they need Buscapé wouldn't exist [...] without this input from retailers they would be extremely isolated."*

These relationships are, therefore, crucial to an understanding of the success of the business model. Fostered by Buscapé, the partners act directly on the company's business to the extent that they provide feedback and suggestions that are incorporated into it and refined over time.

Finally, in the history of Buscapé it is essential to highlight the relationship the partners had with investors at the start of the company. The commitment of the initial investors to the success of the business in its initial stage seems to be exemplary when the theoretical proposals of "effectual" rationality are evaluated. This is because the concern and commitment of everybody to the project is obvious.

*"E-Platform's partners came to me and said: I've got a career in Chase, and I'm going to give it up and I'm going to sit with you all day long and we're going to raise funds. The other came to me and said "Look, I'm going to become a partner at McKinsey in two years, but I'm resigning in order to stay here. And a further two entrepreneurs, who had already started other businesses, also said "We're giving up everything to stay here all day long [...] If the business hadn't gone well, their trade-off was huge [...] In this sense there was a natural fit"*

E-Platform's entry into the business not only brought Buscapé more management know-how, but above all it brought new relationships. As the social network expanded it brought the company new benefits (e.g.: the first investment round) that, in the final instance, allowed the entrepreneurs to refine and expand their initial objectives.

### c. What they know

The intellectual capital accumulated by Buscapé since it started has always been big. From the technical point of view the three partners who had degrees in engineering brought in a lot of knowledge about new technologies and applications, as well as having access to mentors and cutting edge laboratories at USP's Escola Politécnica [Polytechnic School]. From

the management point of view they relied on the management experience of the partner who had a degree in administration and, subsequently, on the intellectual capital coming from E-Platform.

It is interesting to note the focus of the partners on accumulating knowledge (management) that was complementary to the technical know-how they had already and/or had access to. This was a crucial factor in the choice of investor, despite the large number of offers they had at the time.

*"It's important to talk about how we chose the investor. We didn't choose a strategy that could limit our growth and we didn't only go for money. We looked for people who would bring us know-how, which was the case with E-Platform."*

With this balance between technical and management knowledge right at the start of the project the entrepreneurs always enjoyed a high degree of professionalism and responsibility in the company. Perhaps as a result of the entry of capitalist investors, the need to have processes and transparency in management allowed Buscapé to build on a professional management foundation that is still in place today.

*"They were obliged right at the outset to have very clear governance aspects [...] the discipline with which they were obliged to live right from the beginning [...] was very important. It was essential."*

### D. Leveraging the contingencies

*"We saw a window of opportunity to launch the site first and gain media coverage in the press since we didn't have any money to do advertising. I'm going to get public relations, I'm going to create a "buzz" in the media. Better than me sitting here thinking about how I'm going to sweeten the pill.... someone beats us to it and launches it and we lose time to market."*

The above comment made by one of the interviewees with regard to the moment when Buscapé was launched is perhaps the synthesis of the logic that was observed by the entrepreneurs at the start of the company. Little planning and lots of flexibility seemed to summarize their way of working. The notion of time to market and leveraging contingencies that then existed with regard to the Internet industry created the ideal environment for constructing Buscapé using logic.

## CONCLUSIONS AND FINAL CONSIDERATIONS

This work has tried to deal with the entrepreneurial process and with how entrepreneurs decide to start companies and structure new businesses without having clearly defined pre-established objectives and without the capacity for analyzing all the future variable environments that might have an impact on this business.

So we analyzed this process, starting with the theory of *effectuation*, according to which the entrepreneur is not independent of the context within which his decisions are made. He is part of a dynamic environment, involving multiple decisions that are interdependent and simultaneous. Various decision makers take part in the process of refining the entrepreneur's aspirations until they are crystallized into objectives.

The notion of effectuation as an alternative model for studying the entrepreneurial decision process may represent a fruitful field for developing new theoretical approaches to entrepreneurship. In this sense some of the possible questions of interest that might be asked are:

- When entrepreneurs start up a business do they tend to invest only what they can afford to lose?
- When entrepreneurs start up a business are they guided by the means/resources, i.e. (i) who they are, (ii) what they know, (iii) whom they know?
- When entrepreneurs start up a business are they deliberately open to surprises and do they try to leverage and capitalize on these contingencies?

The notion of true uncertainty of Knight (1921) and effectuation (Sarasvathy, 2001a, 2001b) seems to open up the discussion about an alternative entrepreneurial decision model, relative to the one that is usually accepted and fruitfully studied, whose main suppositions are the notion of causality and predictability.

Possible contributions to the theory of effectuation

As the implications of this case, as far as the creation of new companies and markets are concerned, we examined Buscapé's decision-events, using four analysis units:

1. Clarity of the initial objectives
2. Tolerance to losses and initial investments
3. Control of resources

## 4. Leveraging the contingencies

In accordance with these units, the data collected in interviews and other multiple sources, and presented here, not only show that the entrepreneurs from Buscapé used effectual logic when they were starting the company, but also indicate how they used the specific principles and the general logic of effectuation.

By contrasting the data described in the case study with the theory of effectuation, as presented, we observe the following:

- Uncertainty was always faced up to by the entrepreneurs as a resource to be explored and a process, relating to which decisions were taken. As various examples illustrate, uncertainty is not seen as a disadvantage during the process of building the company.
- Ambiguity and lack of initial clarity of objectives was usually a creativity factor and the generator of opportunities, to the extent that the entrepreneurs were open to take advantage of the contingencies that arose along the way. This is especially evident with the entry of capitalist investors and the changes in the business model.
- As adaptations to the business model throughout the history of the company show the objectives of the entrepreneurs were attractive because they were "doable" rather than because of any precise calculation that would maximize profits. The ideas appeared via experiences with customers and partners and not from any deliberate effort to look for them. An example of this is the fact that the entrepreneurs did no market research or planning at the start of the project.
- The entrepreneurs always preferred to work with partners who were really committed and involved with the Buscapé creation process, instead of looking for the "best" partner. This strategy not only gave the company more resources with which to work, but also allowed the partners to understand better their objectives and to refine their vision of the market over time.
- At various times the entrepreneurs showed a great capacity for action (enactment) over the market and the environment surrounding them, thus eliminating one of the basic suppositions of the causal logic, the objectivist notion of markets and the passive stance of the entrepreneur vis-à-vis the environment and contingencies.

- The option of the entrepreneurs to obtain maximum control over what could be done with the resources they had at their disposal, rather than preparing market forecasts and thereby losing time to market, is clear from the beginning.
- Finally, it is interesting to note that as the organization grows and gains in complexity with the entry of new investors and the formalization of processes, causal rationality is more apparent in their decision process. Gradually the theory of effectuation stops being a good model for explaining the way the entrepreneurs are operating.

Therefore, it is hoped that the results of this study may be considered relevant, given the fact that this analysis was carried out based on previous studies involving field experiments and historical evidence (Sarasvathy, 2001a).

Sarasvathy (2001b) showed that expert entrepreneurs consistently prefer to adopt effectual rationality as a counterpart to causal approaches when creating companies and markets. Therefore, this study seeks not only to be a test of the effectuation theory, but also it intends to provide an additional reliability test for studies previously carried out on this theme.

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## AUTHORS' BIOGRAPHY

Igor Tasic is currently a researcher at FGV-EAESP (Brazil) with several national and international publications, and a consultant at Booz & Company. Previously, he has held several executive positions at various multinational companies with assignments in Brazil and abroad. He holds a MSc. in Business Administration from FGV-EAESP and Columbia University (USA), a B.A. in Business Administration from FGV-EAESP as well as a B.A. in Economics from University of São Paulo (Brazil). His main research interests are entrepreneurship and corporate strategy for small and medium sized companies.

Tales Andreassi earned his Ph.D. at São Paulo University, his M.Phil at Science Policy Research Unit (SPRU), Sussex University and his B.A. at São Paulo University. He is Professor at EAESP/Fundação Getulio Vargas and Deputy Coordinator of GVCenn - Center of Entrepreneurship and New Business. Prior to his career in academia, he was Project Manager for 10 years at Anpei – an association that groups Brazilian companies with R&D centers. As an educator, he has researched, written, and lectured on various aspects of entrepreneurship and innovation. His work has appeared in more than 15 academical journals. He recently coauthored three books about innovation.