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Effectuation as a construct for new business formation in South Africa

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ABSTRACT

The field of entrepreneurship research offers differing theories regarding the underlying behaviours of entrepreneurs. These theoretical frameworks describe the behaviours and principal thought processes that entrepreneurs use to create new businesses. The unique attributes of the South African context, characterised by high unemployment and low entrepreneurial activity, together with new business formation make this field of research particularly important. Some of the major theoretical frameworks were reviewed in the study, and a qualitative study was employed using the Grounded Theory approach.

Ten successful entrepreneurs were interviewed for the study and the data collected was used to provide insight into their behaviour and particularly sought to determine whether principles from Effectual Theory were present. The findings of the research supported some aspects of the important theoretical frameworks, emphasising the need for a multitude of perspectives rather than a single best framework. Particularly strong evidence of effectual entrepreneurial behaviours were found in the data, supporting the Theory of Effectuation as a construct for new business formation in South Africa.

KEYWORDS

Entrepreneurship, Effectuation, Bricolage, New Business Formation

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination at any other University. I further declare that I have obtained the necessary authorisation and consent to perform this research.

Khaleel Sabdia

14 January 2015

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Currently, small and medium business enterprises employ approximately 60% of the employable population in South Africa (labour force) (Mukole, 2010). Despite the tremendous importance of small and medium enterprises in the South African Economy, the Global Entrepreneurship Monitor (GEM) Report for 2013 found that only 10.6% of South African of working age adults were involved in Total Early-Stage Entrepreneurial Activity (TEA). These findings paint a dire picture when compared to the activity rates found in neighbouring countries in Sub-Saharan Africa. The TEA for Sub-Saharan Africa without excluding South Africa was reported as 26.6% (Amoros & Bosma, 2014). This clearly shows that entrepreneurial activity in South Africa is very low, despite small and medium sized businesses employing the majority of the South African labour force.

Another major concern is the high failure rate of new businesses in South Africa. ABSA Bank reported in 2010 that 63% of new businesses in South Africa fail within their first two years, which is significantly higher than the global average considered to be around 50% (Jacobs, 2010; Sarasvathy, Menon, & Kuechle, 2013). The combination of low levels of entrepreneurial activity and high failure rates of new businesses in South Africa is evidence of a very challenging environment for entrepreneurs.

Figure 1: Prevalence of Entrepreneurial Activity GEM Report (2013)

Region		Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Economies								
Latin America & Caribbean	Argentina	10.5	5.6	15.9	9.6	5.5	29.8	47.4
	Brazil	5.1	12.6	17.3	15.4	4.7	28.6	57.4
	Chile	15.4	9.6	24.3	8.5	7.6	20.1	57.7
	Colombia	13.6	10.3	23.7	5.9	5.4	18.1	26.7
	Ecuador	25.3	13.6	36	18	8.3	33.6	32.1
	Guatemala	7.6	4.9	12.3	5.1	3	31.4	44.2
	Jamaica	8	6	13.8	6.3	7.4	40.6	34.2
	Mexico	11.9	3.3	14.8	4.2	6.6	6.7	26.3
	Panama	15.4	5.2	20.6	3.5	3.4	18.6	39.8
	Peru	17.8	5.9	23.4	5.4	4.2	22.5	54.2
	Suriname	3.9	1.3	5.1	1.7	0.8	17.8	57.6
	Trinidad and Tobago	11.4	8.5	19.5	11.4	4.1	11.2	76
	Uruguay	8.5	5.7	14.1	4.9	3.4	12	36.8
	Average	11.9	7.1	18.5	7.7	4.9	22.4	45.4
Middle East & North Africa	Algeria	2.2	2.6	4.9	5.4	3.3	21.3	62.3
	Iran	6.4	6.1	12.3	10.6	5.7	38	35.8
	Israel	5.3	4.8	10	5.9	4.8	17.4	49.2
	Libya	6.6	4.7	11.2	3.4	8.1	8.1	60.3
		Average	5.1	4.6	9.6	6.4	5.5	21.2
Sub-Saharan Africa	Angola	8	14.7	22.2	8.5	24.1	26.1	40.3
	Botswana	11	10.2	20.9	3.4	17.7	26.3	52
	Ghana	8.5	17.7	25.8	25.9	8.3	33.3	44.1
	Malawi	10.1	18.8	28.1	12	30.2	43.7	29.4
	Nigeria	20	20.7	39.9	17.5	7.9	25.4	52.3
	South Africa	6.6	4	10.6	2.9	4.9	30.3	31.5
	Uganda	5.6	20	25.2	36.1	20.1	25.1	47.5
	Zambia	22.6	18	39.9	16.6	19.8	38.8	37.2
	Average	11.5	15.5	26.6	15.4	16.6	31.1	41.8

Source: Global Entrepreneurship Monitor Report (2013)

Note: The extract above does not include all regions stated in GEM Report; an extract of the report was used for Figure 1 for illumination of entrepreneurial activity levels in SA, in particular to emphasise the low levels compared to the rest of Africa.

1.2 Research Motivation

The study is motivated by the urgent need identified above to increase entrepreneurial activity in South Africa and reduce the failure rates of new businesses. Determining the actions that entrepreneurs can take to increase their likelihood of success or at the very least to minimise the impact of potential losses, will go a long way towards increasing levels of entrepreneurial activity in South Africa as well as reducing the high rate of failure amongst new businesses. If entrepreneurs have confidence in their likelihood to succeed, they will be more likely to want start a new business (Townsend, Busenitz, & Arthurs, 2010).

In entrepreneurship research, theoretical frameworks describe the underlying behaviours and actions of entrepreneurs and relate these actions to the success or failure of their businesses (Alvarez & Barney, 2007). The aim of the study is to gain insight into the thinking and behaviours of successful entrepreneurs in order understand the actions entrepreneurs can take to increase their likelihood of their success. The findings of the study will enable entrepreneurs to make better decisions and maximise the potential value of their business idea. Importantly increased entrepreneurial activity will also lead to lower levels of unemployment, as new entrepreneurial ventures will absorb more people from the labour force (Mahadea, 2012).

1.3 Research Questions

The overarching research question that the study was concerned with and sought to address is: “How are Effectuation principles employed by South African entrepreneurs in the formation of a successful new business?”

1.4 Research Methodology

A qualitative research design that was heavily influenced by the Grounded Theory methodology was applied to achieve the objectives of the study. Thematic Analysis was applied to analyse the data. This methodology and mode of data analysis allowed the study to address the predominant research question, and research propositions. In addition, the research was driven by the data, which provided its own insights and theories on the subject that could be tested against the existing theoretical frameworks in the field of entrepreneurship (Corbin & Strauss, 2008).

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The previous chapter introduced the research problem that was addressed in this research study, and described the motivation for undertaking the research project. This chapter discusses and analyses the literature relevant to this research study. Firstly pertinent concepts are introduced, and then a comprehensive review of literature aids the researcher in determining whether the business owned by the entrepreneur in South Africa can be deemed successful or not. Thereafter the important theories pertaining to this field of study are examined.

The theories that are examined relate to the actions of the entrepreneurs in forming new businesses. The term actions broadly refer to the underlying behaviour, decision-making processes, and activities taken by entrepreneurs in creating successful businesses. The area of research is categorised in the domain of entrepreneurship, and although additional insights can be found or related to other areas of research, the study was mostly limited in scope to the field of entrepreneurship research. The theories examined were intended to provide insight into the subject as well as to provide a basis for the journey of inquiry.

The aim of the research project was not to identify the best theory explaining entrepreneurship behaviour, but rather to gain insight into the subject in order to determine the behaviours lead to success or minimise potential losses for the South African entrepreneur.

In the entrepreneurship domain of research, multiple theories can be used to explain and illuminate the same phenomena. In this respect there is consistency

with the Grounded Theory methodology, which was broadly applied in the study, as it requires that the study not be influenced by existing theories and preconceived notions. Grounded Theory requires that the study allows insights to emerge from the data and provide its own framework, which can then be compared to existing theories (Corbin & Strauss, 2008).

2.2 Entrepreneurs

To confidently understand the purpose of the study the term 'entrepreneur' needs to be defined, as well as the scope of that definition. Bygrave and Hoffer (1991) have stated that "good science has to begin with good definitions" (p. 13). They continued that despite the importance of a consistent definition in entrepreneurship research, there has been a continuous debate over what is meant by the term 'entrepreneur'. There is currently no consensus in the field of entrepreneurship regarding the correct definition of the word (Howorth, Tempest, & Coupland, 2005). Different studies have defined 'entrepreneur' in a variety of ways based on the context of the research.

2.2.1 Entrepreneurship Definitions

Cunningham and Lischeron (1991) classified the various definitions of an entrepreneur, which have emerged from entrepreneurship literature, into six main schools of thought. The six schools of thought, as listed by Cunningham and Lischeron (1991), are: great person, psychological characteristics, classical, management, leadership, and intrapreneurship. This is extremely useful as it categorises the existing body of knowledge in the field of entrepreneurship, and helps to make sense of the different ways in which entrepreneurship can be defined.

The great person and psychological characteristics schools are focused on the

personality and character of the entrepreneurs themselves. The central focus within this school of thought is on the entrepreneur's intuitive abilities, unique qualities, and attitudes. These schools of thought sought to discover the unique attributes that successful entrepreneurs possessed. The classical school of thought is focused on entrepreneurs as innovators, where the entrepreneur is perceived as a visionary and 'doer' rather than an owner. The leadership school of thought studies entrepreneurs as leaders of people and therefore in this school entrepreneurs are the leaders of the organisation. Intrapreneurship is defined as the area of research focused on people with entrepreneurial skills and characteristics who work in large organisations. This school of thought aids in understanding corporate employees and managers as entrepreneurs (Cunningham & Lischeron, 1991). Finally the management school of entrepreneurship is focused on entrepreneurs as the organisers of economic ventures. Within this school of thought the entrepreneur is the person who organises the venture and assumes the risk (Cunningham & Lischeron, 1991).

As discussed in Chapter 1 the researcher was motivated to undertake the study due to the lack of entrepreneurial activity in South Africa. The study was primarily concerned with individual entrepreneurs who undertook the risk of starting their own businesses and who managed to make these successful. The research is not concerned with entrepreneurs' personality traits or leadership capabilities, nor is the research focused on leadership in organisations. Instead, the study is concerned with the decision-making processes and actions of entrepreneurs who have created successful businesses. Therefore the researcher selected that the management school definition best encapsulated the area of research undertaken by the study.

2.2.2 Entrepreneurship Definition Summary

The researcher selected to apply the definition from the management school of thought concerning entrepreneurship. This best fits the purpose of the study, which was to determine the thinking actions used by successful entrepreneurs in creating new businesses. The management school of thought definition is simply that the entrepreneur is the organiser of the economic venture. More specifically, entrepreneurs are the people who “organize, own, manage, and assume the risk” (Cunningham & Lischeron, 1991, p. 47).

2.3 Successful Entrepreneurs

The study aimed to identify behaviour and decision-making processes of entrepreneurs who created successful businesses in South Africa. The researcher sought to determine the actions and processes that led to entrepreneurial success and helped the entrepreneurs avoid the fate of most new business owners who fail. It is thus important, at the outset, to provide a definition of a successful entrepreneur. Gorgievski, Ascalon and Stephan (2011) conducted a study whereby entrepreneurs were directly questioned about the criteria that defined their success. The results obtained from the study regarding the factors that entrepreneurs used to define their success, are listed below in order of importance (p. 222):

1. Personal satisfaction
2. Profitability
3. Satisfied stakeholders
4. Balance between work and private life
5. Innovation
6. Firm survival/continuity
7. Utility or usefulness

8. Contributing to society
9. Public recognition
10. Growth

Interestingly, the entrepreneurs categorised personal satisfaction as more important than profitability when defining their success. Entrepreneurs' criteria for defining their success were found, not surprisingly, to be subjective. The authors noted that personal goals might conflict with the goals of the business or enterprise. Whereas the business is primarily concerned with profitability, entrepreneurs valued other factors such as the satisfaction derived from their work and public recognitions (Gorgievski, Ascalon, & Stephan, 2011).

This particular research study sought to determine how entrepreneurs create successful new businesses in the South African context. It is therefore important to have a clear understanding of the criteria that defines a business (started by the entrepreneur) as being successful. There are many different ways that the performance of a business can be measured (Neely, Gregory, & Platts, 2005). Without an objective and standard measure however it makes comparisons amongst research in this field very challenging. In addition to different financial measures employed in measuring performance, there has been a recent increase in non-financial measures being employed like balanced scorecards, customer satisfaction levels, and human resource accounting (Chenhall & Langfield-Smith, 2007).

Even when considering only financial measures of performance, it was still difficult to find one universal approach that could be applied in the study. There is little consensus amongst researchers regarding the correct financial measures to employ as standardised criteria of business success. In a study on measuring performance on entrepreneurship research, the authors classified the various financial measures that can be employed into five categories/dimensions,

classified by frequency that they were used (Murphy, Trailer, & Hill, 1996):

1. Efficiency: As a group, it includes returns obtained on investments (equity, assets, and net worth).
2. Growth: Encapsulates growth in sales, market share, margins and so forth.
3. Profit: Includes net and gross profit margin and levels, as well as return on sales and a few other related measures.
4. Size: Of sales and cash flow levels.
5. Liquidity: Measures the ability of businesses to meet short-term obligations like the current ratio, etc.
6. Success/failure: Includes subjective measures as well as the return on net worth.
7. Market share: Share of market the business possesses measured by sales relative to industry.
8. Leverage: This category covers leverage of the firm as measured by interest cover and debt-to-equity ratio.

These dimensions provided the study with some perspective on how business performance can be measured and how the success of a business can be determined. The authors noted however that there is no consensus amongst researchers on these measures; however the authors provided insight regarding the measurements that are important. The authors further argued that in many cases one single measure is not sufficient and applying a few different measures helped to gain an enhanced insight regarding the performance of a business (Murphy et al., 1996).

As discussed above, the goals of the business may differ from that of the owner/entrepreneur. Whereas business success can be measured with performance ratios and measures, entrepreneurship success is more subjective

as it can only be measured by what entrepreneurs themselves deem important (Gorgievski et al., 2011). The study sought to understand entrepreneurs who created successful businesses. Applying the insights obtained from surveying the literature that determined the nature of a successful business, allowed the researcher to classify that successful businesses are essentially profitable, viable, and is growing or has achieved some level of growth since inception. This is consistent with the important categories of performance measurement discussed above.

2.4 Theories of Entrepreneurship Decision-Making

2.4.1 Background

Alvarez and Barney (2007) argued that despite the field of entrepreneurship covering a wide variety of phenomena in recent history, theories of entrepreneurship action have not advanced much beyond the insights of classic seminal works by Knight (1921), Schumpeter (1934), and Kirzner (1973) until very recently. Since the early 2000s, there has been a renewed and growing interest in the area of entrepreneurship research. This has led to new theoretical perspectives and frameworks that explain the actions and logic of entrepreneurs (Fisher, 2012). From the reviewed literature, the most prominent and widely researched theories on entrepreneurship behaviour are discussed further in this section.

2.4.2 Individual-Opportunity Nexus Approach

Opportunity is a central component in the field of entrepreneurship research, and provides an alternative view of how opportunities arise (Short, Ketchen, Shook, & Ireland, 2009). Shane (2000) argued that entrepreneurial opportunities arise as a result of exogenous shocks, like changes in technology, or economic shifts and

events. Shane (2000) called this theory the Individual-Opportunity Nexus approach to entrepreneurship, similarly referred to as the 'Discovery Theory of Entrepreneurship' (Alvarez & Barney, 2007). Essentially, the theory states that as shocks or major events take place, entrepreneurs appear to fill the new gaps in demand. Therefore these exogenous factor or shocks create opportunities for entrepreneurs to start businesses that fulfil the new needs that have arisen (Shane, 2000).

The Discovery Theory therefore implies that entrepreneurial activity is more a result of external events than internal creative process of entrepreneurs. The role of the entrepreneur in Discovery Theory is a passive one, as the entrepreneur relies on the environment to create opportunities. As Alvarez and Barney (2007) reasoned, the Individual-Opportunity Nexus or Discovery Theory approach concerned about the search for opportunities, in the sense that entrepreneurship is primarily concerned with opportunity identification, evaluation, and exploitation. The opportunities arise as a result of exogenous factors on existing industries and markets. Shane (2000) stated that the difference between entrepreneurs and non-entrepreneurs are the characteristics that affect their ability to perceive these opportunities to produce new products or services.

2.4.3 Creation Theory of Entrepreneurship

Shane (2000) also described an alternative theory for understanding entrepreneurship, which has been branded as the "Creation Theory of Entrepreneurship" (Alvarez & Barney, 2007). In Creation Theory, opportunities are described as those that arise endogenously by the actions of individuals who explore ways to create a new product or service (Alvarez & Barney, 2007; Baker & Nelson, 2005). Creation Theory is therefore not a passive theory of entrepreneurship whereby the sole purpose of the entrepreneur is to identify opportunities; rather it requires action from the entrepreneur to discover new

business ideas where there appear to be none.

In Creation Theory the concept of searching for opportunities that is so important in the Individual-Opportunity Nexus (Discovery Theory) plays a significantly smaller role. Entrepreneurs in Creation Theory do not search—but rather act—and then observe how the market responds to their actions. Entrepreneurs do not only seek opportunities in existing industries but venture into creating new products or services that were not initially identified as defined markets (Alvarez & Barney, 2007). Creation Theory can be considered more emergent than causal, and is more closely related to the Theory of Effectuation that underpins this study.

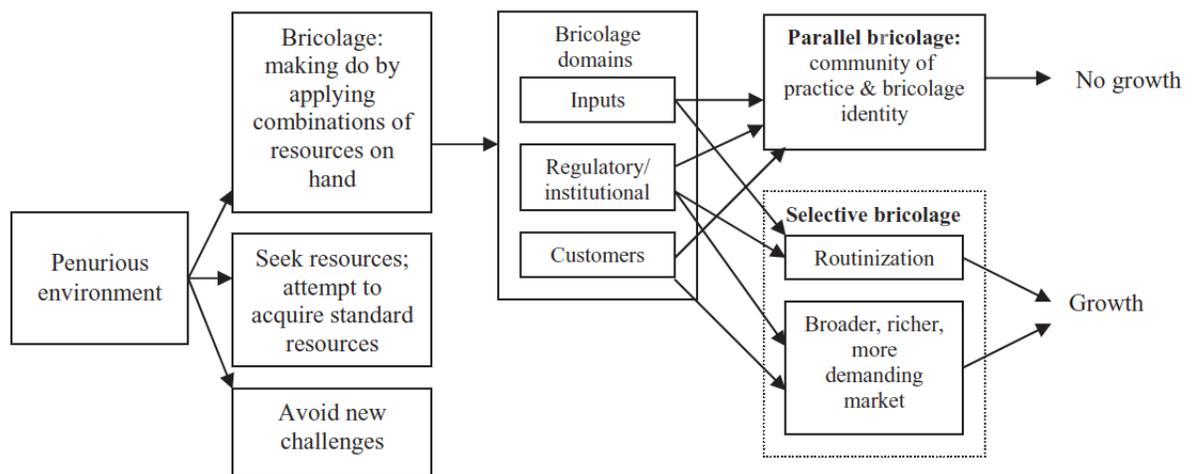
2.4.4 Entrepreneurship Bricolage

Entrepreneurial bricolage (Baker and Nelson 2005; Senyard, Baker, Steffens, & Davidsson, 2014) is an important and relatively new theory that has advanced the field of entrepreneurship. The concept was originally introduced by Levi-Strauss (1966) to describe the differences between the behaviour of an engineer and that of a handyman, also known as a “bricoleur”. Levi-Strauss described the actions of the engineer as gathering what was required for a particular intended design; while the bricoleur instead uses what is at hand. This allows the bricoleur to find novel ways of using available resources that might otherwise have been discarded by the engineer (Fisher, 2012).

Baker and Nelson (2005) defined Entrepreneurship Bricolage as “making do by applying combinations of resources at hand to new problems and opportunities” (p. 333). In an entrepreneurial context Bricolage is theory describing how entrepreneurs can create something from nothing; put differently, the theory describes how the entrepreneurs use resources at hand to solve problems and exploit opportunities. Similar to Creation Theory, Bricolage can be understood as

being emergent rather than causal. Bricolage does not follow a linear process as with the Individual-Opportunity Nexus Approach (Shane, 2000), whereby the entrepreneur identifies the opportunity and then finds ways to collect the resources required to exploit it.

Figure 2: Bricolage Approach to Entrepreneurship (Baker & Nelson, 2005)



Bricolage is an important theory because it describes how entrepreneurs commence with only the means at hand. This is critical for entrepreneurs with limited resources who operate in a tough economic environment, because beginning with what is at hand can potentially reduce losses that are traditionally expected from starting a new business. Bricolage however is not just concerned with making something out of nothing; it is also about finding novel, innovative ways to use resources. It therefore allows new businesses to be created even when the optimal resources required for those businesses are not possessed. This is important for start-up entrepreneurs as it opens up a new a window of opportunity, whereby entrepreneurs may use forgotten or discarded resources to create a product or service (Baker & Nelson, 2005; Senyard et al., 2014).

2.4.5 The Theory of Effectuation

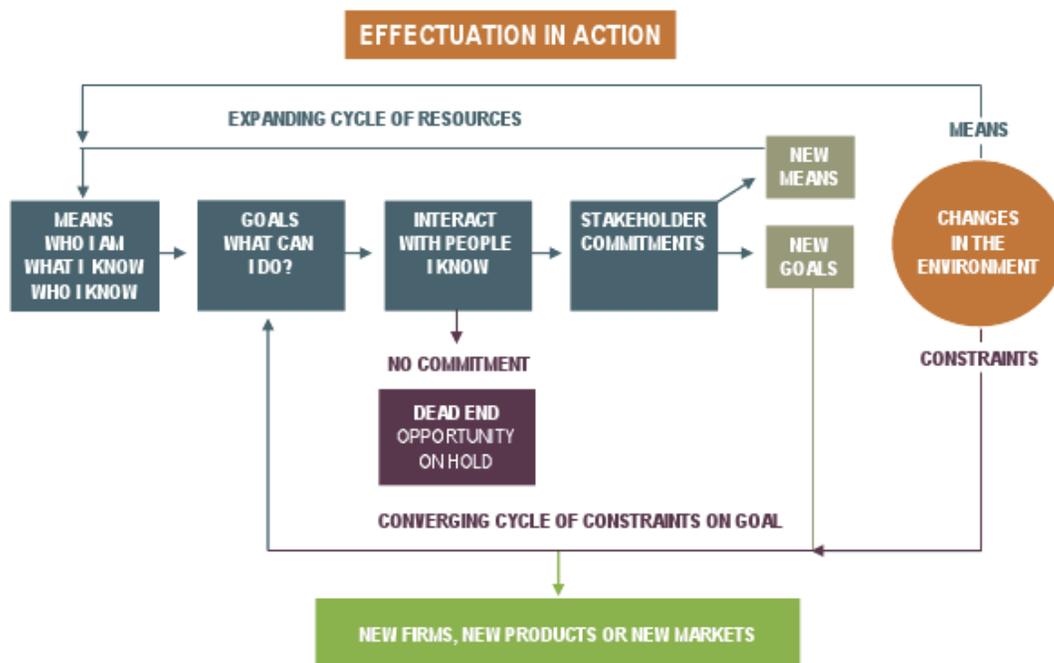
Sarasvathy (2001) introduced an alternative theory of entrepreneurship behaviour that has been labelled the “Theory of Effectuation”. Sarasvathy introduced this theory as an alternative to traditional causal theories that focused on a linear process of opportunity identification, resource allocation, and opportunity exploitation. Effectuation was argued as being a new way of understanding how entrepreneurs behave, although not necessarily considered as being better than existing theories (p. 249). It is important to understand this distinction, because entrepreneurship as a field of research has no intention of finding the best theory but rather hosting theoretical perspectives that improve understanding of how entrepreneurs think and behave by formulating processes that can quantify which factors led to their success.

Sarasvathy (2001) offered a simple example to explain the essence of Effectuation. This example aids in understanding Effectuation, as well as how it differs from traditional thinking on entrepreneurship that Sarasvathy labelled as Causation. The example begins by imagining that a chef is asked to prepare dinner. There are two methods that the chef can employ to cook dinner. One method for preparing dinner is to select a menu in advance, following which the chef can purchase all the ingredients and find a recipe to make the meal. This denotes the process of causation where the desired outcome begins with a menu (goal) and focuses on selecting effective ways to prepare to meal. The resources required are also pre-defined. The second method allows the person consuming the meal to request the chef to analyse the contents of kitchen cupboards and based on those findings, the chef must prepare a meal for dinner. In this instance, the chef examines the cupboards and must imagine the best possible meal that can be prepared. This process is called effectuation, as it begins with what is given (resources at hand) and focuses on creating one of many possible desirable meals (p. 245).

Effectuation can therefore be understood as describing the process of new business formation amongst entrepreneurs, where they commence with given means rather than pre-defined goals. The entrepreneur who follows a process of Causation will start with the idea for a business, have a plan, and then go about acquiring the resources to start the business. The entrepreneur in effectuation theory conversely starts with the available resources at hand, and takes action to use what is at hand to create a business.

The Effectuation Theory is very similar to entrepreneurship Bricolage as they both begin with means (resources) at hand and thereafter the entrepreneur seeks to create a business from these means. However there are subtle differences between these two theories. Bricolage is focused on using and combining resources in creative ways, while Effectuation has a broader theoretical perspective regarding the actions and thoughts of entrepreneurs.

Figure 3: Effectuation in Action (Society for Effectual Action, 2014)



Effectuation involves beginning with means at hand (as with Bricolage) and then experimenting with multiple variations of a product or service as the business develops. Effectuation also allows entrepreneurs to focus on affordable loss rather than on potential gains. From the outset, the entrepreneur must understand the maximum possible loss and the focus thereafter shifts to limiting losses. This makes sense, as forecasting future gains requires numerous assumptions that are hard to validate at the beginning of the new venture. Furthermore, Effectuation describes leveraging change and adapting to it rather than trying to control it, and leveraging relationships with stakeholders rather than focusing on competitive analysis. The last aspect of leveraging relationships has parallels in Bricolage, as it describes the use of all resources including stakeholders in creative ways. It is evident that the theories are similar, but each theory offers a rich perspective regarding the thoughts, actions and decisions of entrepreneurs.

2.4.6 **Practical Applications of New Theories of Entrepreneurship**

The new theories of entrepreneurship have given rise to numerous applications in practice. The two most notable offspring of the new theories of entrepreneurship are briefly discussed below. These are important as they help relate the theoretical frameworks to practical applications amongst entrepreneurs.

1. *The Lean Start-up*: A practitioner's model that has developed an enormous following, particularly in Silicone Valley in California, USA (Blank, 2013). The fundamental components of the lean start-up are:

- Build-Measure-Learn: Entrepreneurs must create a minimum viable product (MVP), test early (measure) with customers, and learn from customer feedback (Ries, 2011).

- Validated learning: Experimenting and scientifically testing all aspects of the entrepreneur's vision frequently (Ries, 2011).
- Pivot: The learn aspect allows the entrepreneur to determine whether to pivot (change course) or persevere with the original idea (Ries, 2011).
- Innovation Accounting: Non-traditional forms of accounting based on measure the start-up's progress and priorities (Ries, 2011).
- Waterfall planning: Dividing work into sequential phases (Eisenmann, Ries, & Dillard, 2012).

2. *The business model canvas*: The business model canvas is a visual process where the entrepreneur maps out the business idea on a canvas that is divided into key areas such as the value proposition, customers, key partners, revenue streams and channels, cost structure and others. The canvas forces the entrepreneur to think about the business idea from a multitude of angles and question his/her initial assumptions. It offers a way to create a clear and simple business plan that identifies crucial aspects of the business without making unsubstantiated assumptions and financial forecasts of a traditional business plan (Osterwalder & Pigneur, 2010).

Mason and Stark (2004) noted however that the business plan is still required in practice at the funding stage. Financial institutions and venture capitalists may want to see a business plan if only for the fact that it shows that the entrepreneur has done his due diligence.

2.5 Principles of the Theory of Effectuation

Sarasvathy (2008) described the behaviour and actions of entrepreneurs in five principles that encapsulate the full thrust of the Theory of Effectuation. These five principles provide a full theoretical perspective of how entrepreneurs would act and think in the process of starting and creating a successful new business. The

five principles below are described by five different metaphors; these encapsulate Effectuation Theory and encompass new ideas that have been added to the theoretical perspective since the theory was first introduced in 2001. The five key principles of Effectuation are discussed below:

Bird-in-Hand: Effectuation begins with the entrepreneur who is the central actor, and who has three categories of means: identity (who I am), knowledge (what I know), and networks (whom I know). It focuses on the entrepreneurial question “What can I do?” rather than “What should I do?” Effectuation relies on means rather than ends, thereby allowing the entrepreneur to be open to new possibilities and to be attuned to his/her own capabilities. This principle emphasises means driven rather than being goal driven. Bird-in-hand means creating something new with existing means, rather than using new ways to achieve a given set of goals.

Affordable loss: Effectual entrepreneurs focus on what they can lose rather than making predictions of future gains. This implies less time engaged in the planning and researching process. Maximum losses that can be sustained are calculated quickly and the entrepreneur can commit to the idea and get started quickly. Focus is on mitigating and limiting potential losses rather than predicting gains.

Crazy quilt: In Effectuation Theory, partnerships are important as a central method to expand resources. Instead of planning and research to identify specific stakeholders and performing competitive analyses, the effectual approach posits that entrepreneurs must rapidly engage in conversations with a variety of people with which they come into contact. Effectual entrepreneurs see value in partnering with stakeholders and opportunity in co-creating the business with others. The business comes to represent a patchwork quilt; it is a mix of different pieces that come together as opposed to a puzzle with set pieces and that must

be assembled in a pre-defined way. For the quilt to come together, the entrepreneur must be open to engaging with all stakeholders, and leveraging relationships. Chandler (2011) argued that entrepreneurs may build relationships, but should only invest in those in which both parties share the risk of the venture and benefit from the success if the venture and benefit from the success constitute effectual partnerships.

Lemonade: Entrepreneurs leverage uncertainty by treating surprises as opportunities rather than trying to control or avoid these surprises, i.e.: making lemonade (a sweet drink) out of lemons (an intrinsically sour fruit). Entrepreneurs should embrace uncertainty rather than follow a linear and goal-oriented process that seeks to avoid deviations from the plan. Chandler (2011) suggested that embracing new, discomfoting information allows unfruitful experiments to be abandoned and emergent possibilities to be leveraged. Turning lemons into lemonade by embracing contingency develops from the effectual process based on evolving means, goals, and stakeholders of the venture.

Pilot-in-the-plane: This principle contains the overarching logic of the theory of Effectuation. Entrepreneurs must focus on what they can control and shift their focus from attempting to predict the future. Entrepreneurs must co-pilot history by not allowing exogenous factors to control them but rather by embracing change; and through their endeavours they are able to impact the course of history.

2.5.1 Summary Principles of Effectuation

Fisher (2012) summarised the theory of effectuation and its fundamental principles succinctly:

- 1) Start with means as opposed to ends.
- 2) Apply affordable loss instead of expected returns.

3) Leverage relationships instead of competitive analysis when assessing relationships with other individuals and organisations.

4) Exploit instead of avoid contingencies.

The fourth principle discussed above is an overarching rather than stand-alone principle; it emphasises the idea that entrepreneurs should focus on what they can control rather than attempting predicting what they cannot (Sarasvathy, 2008).

2.6 Review: Major Theories of Entrepreneurship behaviour

Table 1: Behaviours Underlying Entrepreneurship Theories

Old Theories of Entrepreneurship	New Theories of Entrepreneurship	
Causation	Bricolage	Effectuation
<ul style="list-style-type: none"> ▪ <i>Identifies an opportunity before doing anything</i> ▪ <i>Assesses long-run opportunities and work out returns of various opportunities</i> ▪ <i>Develops a business plan</i> ▪ <i>Gathers information about market size and growth</i> ▪ <i>Analyse competitors</i> ▪ <i>Have visions and goals for the future</i> ▪ <i>Develop a project and marketing plan</i> <p><i>Essence: Searching for and identifying opportunities created by gaps or changes in existing markets/industries. Planning and acquiring the resources necessary to exploit the opportunity</i></p>	<ul style="list-style-type: none"> ▪ <i>Takes identifiable action to solve problems</i> ▪ <i>Combines existing resources in order to create solutions</i> ▪ <i>Re-use resources for purposes other than what it is designed for</i> ▪ <i>Use existing resources</i> ▪ <i>Involve customers and suppliers</i> ▪ <i>Encourages use of self-taught skills</i> ▪ <i>Work around rules and standards</i> <p><i>Essence: Begin what is at hand to create something new without reliance on exogenous factors. Use and combine resources at hand in novel ways</i></p>	<ul style="list-style-type: none"> ▪ <i>Experiment with multiple variations of a product or service</i> ▪ <i>Change the product as the business develops</i> ▪ <i>Commits only limited resources</i> ▪ <i>Focuses on resources that could be lost</i> ▪ <i>Respond to opportunities as they arise</i> ▪ <i>Avoid taking actions that restrict flexibility</i> ▪ <i>Adapts business based on resources on hand</i> <p><i>Essence: Use what is at hand, start and test the idea early, embrace uncertainty and leverage relationships. Focus what is possible to control rather than what is not possible to predict</i></p>

Sources: Fisher (2012) & (Sarasvathy, 2008)

2.7 Conclusion

The literature review analysed the important concepts and theories sustaining the study. A definition of an entrepreneur was identified from the literature and applied to the study. Some insight was also revealed regarding the classification of a successful business (performance measurement). The major theories of entrepreneurship behaviour that have emerged in the field of entrepreneurship research were analysed and compared. Central to this research study are the new emergent theories of entrepreneurship that provide theoretical perspectives in the field of research as well as new understanding for practitioners. The Individual-Opportunity Nexus Approach (Discovery Theory), Creation Theory, Entrepreneurship Bricolage, and the Theory of Effectuation were introduced and discussed. Models for practitioners that were derived from these theories were also briefly discussed.

These theories have many commonalities, particularly Bricolage and Effectuation. However the aim of the research is not to identify the 'best' theory but rather to gain an understanding of the processes used by entrepreneurs in making decisions, and determining the underlying behaviour of their actions. Effectuation was selected as the primary theory supporting this study, as it has gained a wide following in the field and offers the broadest theoretical framework of entrepreneurship behaviour amongst the theories reviewed.

CHAPTER 3: RESEARCH QUESTIONS

From the literature review it is evident that newly emerging theories in the field of entrepreneurship, like Bricolage (Baker & Nelson, 2005), Creation Theory (Alvarez & Barney, 2007), and Effectuation (Sarasvathy, 2001) are useful constructs that explain how entrepreneurs successfully create new businesses. The theory of Effectuation, in particular, has gained a widespread following in the field of entrepreneurship as well as empirical support (Fisher, 2012; Sarasvathy, 2008).

The primary research question that the study sought to address was: “How are Effectuation principles employed by South African entrepreneurs in the formation of a successful new business?” By utilising a qualitative research design, influenced by Grounded Theory, the study was concerned with Effectuation as a construct for explaining how entrepreneurs create new businesses in South Africa. The research propositions are therefore derived from the four pertinent principles of the Effectuation Theory (Fisher, 2012; Sarasvathy, 2001). These research propositions that were addressed in the study included the following:

3.1 Research Proposition 1

New businesses are created as a result of the entrepreneur starting with an existing means rather than working towards pre-defined goals.

3.2 Research Proposition 2

Entrepreneurs start businesses with a minimal amount of planning, and focus on the maximum they stand to lose instead of forecasting future financial gains.

3.3 Research Proposition 3

Entrepreneurs are focused on leveraging relationships with stakeholders rather than performing competitive analysis.

3.4 Research Proposition 4

Entrepreneurs embrace uncertainty rather than attempting to avoid or control it.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Research Design

The aim of the study was to explore the steps that are taken to create successful new businesses in South Africa. A qualitative research design was applied to determine the behaviour and decision-making processes of entrepreneurs who have successfully created those new businesses.

4.2 Grounded Theory

The research was not strictly a Grounded Theory study as its purpose was not to derive new Grounded Theory from the research without the influence of existing theory. However the design of the study was substantially influenced by the Grounded Theory methodology. Grounded Theory allows the participants in the study to shape the results generated, as the purpose of Grounded Theory is the building of theory from the data (Corbin & Strauss, 2008). All of the participants in the study have been through the process of creating successful new businesses, and the participants therefore have the same-shared experience of this process. Grounded Theory allows the shared experiences of the participants to generate a general explanation or framework as opposed to other methodologies that take existing theories or frameworks and then test for applicability and relevance to those frameworks.

The study differed from the Grounded Theory methodology; however as it was influenced by existing theories (these were reviewed in Chapter 2). The study sought to identify whether an existing construct explaining entrepreneurship behaviour (Effectuation) was present in the participants' behaviours and decision-making processes. Creswell (2007) noted that although existing theories

may be present, they might be incomplete, as they do not address all variables that are important to the researcher. Although not strictly a Grounded Theory study, the method of data collection and analysis applied was consistent with the Grounded Theory methodology.

4.3 Scope the Study

The scope of the research was limited to successful entrepreneurs in South Africa. An entrepreneur was defined in the literature review as the person who owns, manages, and assumes the risk of the business (Cunningham & Lischeron, 1991). Additionally, the study was concerned with successful entrepreneurs, as the research study sought to determine the thoughts and actions of those entrepreneurs who managed to create profitable businesses.

The researcher defined successful entrepreneurs as those who own a business that is at least two and not more than ten years old, that has reached profitability/viability, and was started by the entrepreneur him/herself. These criteria were used to eliminate businesses that were not viable, and also to eliminate entrepreneurs who did not start the business themselves (for instance, in the case of family owned businesses and those who purchased existing businesses). Finally the researcher selected to only include businesses formed in the last ten years, as these entrepreneurs were likely to have a better recollection of the nascent stages of the business. The scope of the study was limited to South Africa as the research was aimed at exploring effectual processes amongst entrepreneurs in South Africa.

4.4 Population

The population that the study was concerned with was all successful entrepreneurs in South Africa, meeting the criteria defined in the section above. Due to the fact that the selected criteria that defined successful entrepreneurs were quite specific to the research, there was no existing population available to the researcher. Saunders and Lewis (2012) noted that in order for a group to be regarded as a population it needs to consist of all the members of a specific group. Such a population could not be defined based on the criteria, as discussed below.

The population that was required to conduct the study needed to meet the following criteria:

- I. Population must be entrepreneurs in South Africa.
- II. Population members must currently have a viable business (profitable or likely turn a profit in the near future).
- III. Population members own or co-own a business that is least two years but not more than ten years old.

4.5 Unit of Analysis

The research was concerned with action and logic of entrepreneurs. Therefore the primary unit of analysis that was selected for the study was entrepreneurs as individuals. The specific unit of analysis chosen was the entrepreneurs who participated in the study.

4.6 Sampling

4.6.1 Sampling Techniques

As there was no available or known population that consisted of entrepreneurs who meet the criteria for the study, non-probability sampling techniques were used (Lewis & Saunders, 2012). The researcher used a combination of purposive and snowball sampling to obtain a sample for the study. Purposive sampling is a method whereby the researcher selects participants based on their unique characteristics or their experiences, attitudes and perceptions (Cooper & Schindler, 2014).

Snowball sampling requires that the researcher utilises initial interview respondents identified through the purposive sampling method to help identify other potential respondents (Lewis & Saunders, 2012). The researcher requested that the initial respondents help provide leads to find other entrepreneurs that were acceptable in terms of the sampling criteria for the research study. This process was efficient, as entrepreneurs fitting the criteria were discovered more easily than through purposive sampling alone.

4.6.2 Sample Size

Cooper and Schindler (2014) recommended that a researcher keep sampling as long as the depth and breadth of knowledge under investigation keeps expanding, but cautioned to stop when no new knowledge or insights are being gained. The interviewer found that no important new insights were being discovered after the first eight interviews, however the researcher continued to interview scheduled respondents as appointments had already been made to with the next set of respondents.

A total of 12 interviews were conducted. However it was discovered during the interview process that two of the respondents clearly did not meet the criteria (clearly explained in Section 4.3 of this chapter). The researcher could not make an exception as the respondents had characteristics materially different from the sampling criteria. The two interviews were removed from the data set, and the final sample consisted of 10 entrepreneurs. As no salient insights were being discovered once the final interview was completed, the researcher determined that the sample size was sufficient for the purposes of the study.

4.7 Data Collection

In depth, semi-structured individual interviews were used to collect the data required for the study. This process allowed the researcher to uncover relevant insights relating to the research questions, while allowing some flexibility for additional insights that were not related to the previously reviewed theories, to emerge. Interviews were voice recorded and transcribed. Following this, the transcribed interviews were scrutinised, and a minimal amount of data cleaning was required for inaudible words in the data set. The transcribed interviews (data set) were loaded into the Atlas.ti software for data analysis.

4.8 Data Analysis

4.8.1 Thematic Data Analysis

Thematic analysis is a form of data analysis that allows a researcher to identify, analyse, and report on themes discovered in the data. A theme captures important elements about the research question and denotes patterns within the data (Braun & Clarke, 2006). The ultimate goal of thematic analysis is to emphasise the most salient meanings and groups of ideas (constellations)

garnered from the collected data (Joffe, 2011). Thematic analysis was selected, as it is very useful when studying qualitative data. Additionally, it was well-suited to the Grounded Theory research methodology.

The transcribed interviews were also analysed by using in Atlas.ti. This allowed the researcher to identify salient features and insights and to classify these insights into themes. This analysis was performed to allow the researcher to analyse the data effectively, to address the research propositions, and gain an understanding of entrepreneurship behaviours and decision-making processes in South Africa.

4.8.2 **Stages of Thematic Analysis**

Braun and Clarke (2006) explained that the process of thematic data analysis occurs in six stages. The researcher followed the six-stage process, thereby analysing raw data (interview transcriptions) in a meaningful manner. The six stages are described in Table 2:

Table 2: Stages of Thematic Analysis

Stage	Description of the process to be followed
1. Familiarising yourself with the data	At this stage the researcher must be immersed in the data by reading it, understanding it, and making notes on initial ideas. In order for verbal data to be analysed using thematic analysis, the data must be transcribed.
2. Generating initial codes	The researcher must analyse interesting or salient features in the data and assign codes to these. The researcher needs to systematically work through the entire data set to ensure all the data is coded and no important features are missed.
3. Searching for themes	Once the initial list of codes is obtained in Stage 2, the long list of codes can be classified into potential themes. All the codes relevant to a particular theme must be assigned to that theme.
4. Reviewing the themes	Stage 4 involves a refinement of the themes. If data is insufficient for a specific theme it may be added to another theme or removed entirely. Themes can also be expanded further into additional themes. At this stage a 'thematic map' of the analysis is generated and needs to be examined to determine whether the themes are valid in relation to the data set.
5. Defining and naming themes	Recognise the essence of the themes identified in earlier stages, and name these clearly in relation to the essence of the theme. Each theme tells a story about the data and it is important to understand how the themes relate to each other.
6. Producing the report	The final stage involves the write-up of the thematic analysis. It must tell the complicated story of the data in a convincing, concise and interesting way. Vivid extracts must be used to relate the analysis to the research question/proposition without unnecessary complexity. The aim is to produce a scholarly report that convinces the reader of the merit and validity of the analysis

Source: Braun and Clarke (2006)

4.8.3 Data coding

From Table 2 it is evident that thematic analysis requires data to be coded in various phases within the six-step approach to thematic analysis. This is consistent with the Grounded Theory research methodology (Corbin & Strauss, 2008). The coding phase consists of stages two to five in the thematic data analysis process. The interviews conducted were all voice recorded and transcribed to prepare the data for analysis. Subsequently the transcribed interviews were loaded into the qualitative data analysis software Atlas.ti. The Atlas.ti software was then used to code the data in phases consistent with thematic analysis methodology.

Phase 1: Open Coding

The open coding process as described by Corbin and Strauss (2008) was used to deconstruct data and identify concepts that are attributable to the data (p.108). This phase was stage two in the thematic data analysis process. Open coding was performed on three interviews (data sets). Codes were assigned to all features that seemed to be salient within the transcribed data. The open coding process was performed in two ways: 1) Researcher assigned codes to salient features by labelling salient features (created new codes) and 2) *In vivo* coding whereby salient phrases in the data sets were assigned as codes themselves.

Phase 2: Axial Coding

Thematic analysis requires that themes are identified and individual codes are then assigned to these groups (Braun & Clarke, 2006). The themes are reviewed and then defined and named. Literature that discusses qualitative methodology commonly refers to this phase of the coding process as axial coding (Corbin & Strauss, 2008).

During this stage the researcher assembled salient ideas into groups of codes. These groups of codes or code families were analysed to determine whether some of the groups could be collapsed into others (reviewed), or if they needed to be removed. When this process was completed, the remaining groups of codes were labelled and these constituted the themes for the data analysis.

4.9 Research Limitations

The qualitative research design and specific sampling criteria make the study high susceptible to researcher bias. Observer bias is particularly notable as the researcher was the only person conducting the interviews. This could have influenced the data collection, as the researcher's own biases and preconceptions could not have been completely eliminated (Lewis & Saunders, 2012; Charmaz, 2014). The coding process was another area that could have been influenced by bias. Finally the sampling criteria selected were particular to this specific study. The findings therefore cannot be generalised across all South African entrepreneurs.

4.10 Summary

This chapter discussed the chosen methodology, population to be studied, sampling techniques, and mode of data analysis for the study. The study was heavily influenced by the Grounded Theory research methodology, and the processes of studying the data were consistent with this methodology. Finally thematic analysis was applied to analyse the raw data. This allowed the researcher to make sense of the raw data, identify salient concepts, and classify them into constellations of ideas or themes. This method of data analysis allowed the research propositions to be addressed.

CHAPTER 5: RESULTS

5.1 Introduction

The previous chapter explained the methodology, sampling method, and data analysis mechanisms that were used to conduct the study. The study is concerned with the actions and thought processes of successful entrepreneurs. In particular, the researcher sought to study the validity of effectual models amongst South African entrepreneurs.

Thematic analysis was selected as the appropriate research methodology and mode of data analysis as it allowed salient features to be identified quickly in the data set. Furthermore thematic analysis allowed the researcher to classify salient features into themes or constellations. The themes derived from the data analysis were then explored to examine the validity of the research propositions.

5.2 Interview Participants

The researcher conducted interviews with the ten entrepreneurs who constituted the final sample for the study. The ten entrepreneurs represented a wide range of industries and types of businesses. This was important to the study, as the researcher sought to understand the actions and logic of entrepreneurs in general, and not in a specific industry.

Table 3: Profile of Participants

Entrepreneur	Industry/Type	Gender	Race	Years in operation	Number of employees/partners
1.	Digital Marketing	White	Male	5	11
2.	Asset/Fund Management	White	Male	7	2
3.	Engineering (Green Building) Consultants	White	Male	4	3
4.	Recruitment	Coloured	Female	4	20
5.	Vegetation Management	Black	Male	5	25
6.	Digital Marketing	White	Female	2	2
7.	Education	White	Female	2	40
8.	Healthcare	White	Male	7	19
9.	Recycled Products	White	Female	5	22
10.	Start-up Accelerator	White	Male	3	5

5.3 Results

5.3.1 Initial Codes

The interviews conducted were transcribed and subsequently coded using the Atlas.ti software programme. The coding was completed line by line to ensure every relevant word was coded. Consistent with Grounded Theory methodology, interviews were analysed as the transcriptions were completed, rather than transcribing a full complement of interviews at the end of the process.

Open coding was performed on half of the data set (five interviews), which ensured that all salient features in the data were captured. Salient features of the data were assigned codes (names), and some salient phrases were coded *in*

vivo (the phrases themselves became codes). The open coding phase resulted in the generation of 258 unique codes. These unique codes were then assigned inductively to the rest of the data set (the second five interviews).

5.3.2 Identify and review themes

During this phase the initial list of codes was analysed to identify constellations or themes (Joffe, 2011). The 258 codes were deconstructed into groups or code families based on similarities. Initially 16 themes were discovered. However upon review some themes were collapsed into others, as the researcher decided that some were not substantive enough to stand on their own. Codes were re-assigned where necessary during the review process. The final result was 12 unique themes or constellations that emerged from the data.

5.3.3 Themes

Below is a list of the emergent themes after the coding process was completed:

- Idea conception
- Viability of the idea
- Planning and research
- Fear of failure
- Required resources
- Mitigating risks
- Determinants of success
- Credibility and track record
- Changing and adapting
- Communication
- Stakeholders
- Emotional factors

5.4 Discussion of Themes

The section below discusses the major themes that emerged from the data. Evidence from the data set is also provided confirmation of each theme. Evidence from the data was provided for each of the themes. Pseudonyms were used in place of the entrepreneurs' real names in order to preserve the respondents' anonymity.

5.4.1 Idea Conception

The theme of idea conception relates to how ideas to start businesses are conceived. Starting a new business, must by necessity, begin with an idea. The data demonstrated that entrepreneurs conceive of ideas in a multitude of ways. While some of the entrepreneurs in the study identified trends or gaps in the market, others felt there was a market that was not being served well by larger players. In addition some of the respondents stumbled upon the idea accidentally. These entrepreneurs were not analysing the product/service they would eventually sell when the idea was conceived but rather, the business idea was discovered serendipitously.

- **Wayne:** *"I think the opportunity arose when because green building is quite new in South Africa, it only dates back to 2008 and when this came on the market, a lot of the big engineering consultancies didn't know how to approach it."*
- **Ross:** *"As an entrepreneur, it wasn't a unique idea that I was taking to market. I felt the way I could service the market was more unique than my competitors, that is why I started my business."*
- **George:** *"So I saw an opportunity to kind of do the same thing that everybody else was doing in this industry, but to do it in a way that I thought was more logical and sensical."*

- **Yates:** *“The client wants this little part, then oh but could you also do this part and could you also do that part. So us when you develop it, you present it and then it keeps growing and keeps growing and you start realising that actually we’ve got a viable product here. So it wasn’t a business plan transaction.”*

5.4.2 Viability of the Idea

This theme was identified as relating to entrepreneurs determining the viability of their business idea. It is important for entrepreneurs to have a viable product or service offering in order to succeed. Entrepreneurs need to ensure they have something that people want or that serves some unfulfilled need. Participants indicated that regardless of quality of the product or service, if it is something the market does not demand the business will not be viable. The respondents found value in testing their idea early to determine the viability before venturing into the business properly.

- **Yates:** *“Hey I developed this App that makes coffee but you’re a tea drinker and everybody is drinking tea. Well this might be the best coffee App in the world but there’s not a market for it.”*
- **Stephanie:** *“There’s, you know it’s that concept of like Henry Ford when he asked the people like what do you want in the days before the car was invented they said a faster horse you know and people don’t know unless, until they see it.”*
- **Lusanda:** *“I essentially started while I was working. The reason also being my understanding was that you can’t just drop everything and get up and go. You need to take your time to investigate the opportunity, investigate the viability and also you know do some background checks and foundation work.”*

- **Linda:** *“At the end of the day, you know, I believe you should try, I call it throwing things against the wall, so throw it against the wall and see what sticks.”*

5.4.3 Planning and Research

There is a great deal of debate around the validity and usefulness formal planning before starting a new enterprise, particularly concerning the usefulness of the business plan. There are dichotomous views regarding the level of planning required and its value for entrepreneurs just starting off (Brinckmann, Grichnik, & Kapsa, 2010). Entrepreneurs in general demonstrated that getting started with minimal planning was best and over planning would hamper their new ventures. They emphasised the need to get started without over analysing or planning too much.

- **Michael:** *“They don’t take it to market because they want it to be perfect, before they go to market, so they insist on giving a product or a service that the market thinks they want, and they generally don’t. Nine times out of ten, those entrepreneurs are going to get a slap in the face.”*
- **Ross:** *“Fix/plug the holes as they appear, not make sure it is waterproof and then launch to the public.”*
- **Wayne:** *“Pretty much no research. I generally take the view that planning is guessing and I mean I have put business models together. I just don’t put much faith in them.”*
- **Stephanie:** *“I think just get started, like a lot of people analysis paralysis I think you know just make it happen because the biggest lessons you’ll learn is when you actually doing it.”*

Some respondents found value in a business plan. They found that the process of writing a business plan helped to allow them to think through the relevant

issues beforehand. However the value of a business plan was most relevant when it was kept as a dynamic document rather than a static once-off plan.

- **George:** *“Well to be honest with you, we didn’t write a business plan, and we didn’t, we didn’t really follow formal processes as to you know, what they suggest you should do to start a business. But you know business plan is nothing more than a way to force you, as an entrepreneur, to think about those aspects of your business before you actually start it.”*
- **Michael:** *“I see a lot of value in the business plan, as long as it remains dynamic, so it really depends on the discipline of that particular entrepreneur. If I were to start another business now, I would put a business plan together but only because I keep business plans alive. When I say ‘keep it alive’, for me, a business plan changes every day.”*
- **Ross:** *“I am very aware that a business plan is not a static one.”*

5.4.4 Fear of Failure

Many people are afraid to start a new business. Overcoming the fear of failure is significant for a country that exhibits low levels of new business formation like South Africa, as more businesses are likely to be formed if entrepreneurs believe they can succeed. These fears stem from many sources, fear of losing a livelihood, historical issues, fear of losing funds/savings, lack of expertise in a particular area and more. The respondents indicated that it is valuable to be direct and transparent about could be lost through the venture. It is also evident that fear cannot be eliminated and at some point a leap of faith is required to get started.

- **Michael:** *“There’s a big fear of failure, in that, I guess, is deeply rooted in South Africa’s history, particularly around apartheid and protection and*

survival tendencies, value and dynamics, supporting parent versus supporting children or supporting yourself, so not a very capitalist society. Although we've got a history of absolute capitalism, we've got a majority of where capitalism is not the play."

- **Katherine:** *"Yes, so it's like, to me it was like a natural next step and I was like well if it doesn't work, it doesn't work. I don't have a house, I have no debt, like the worst for me is like a couple of months and it's a disaster and I go look for a job you know so I didn't really, like, let's just give it a shot and see if it works you know."*
- **Linda:** *"At the end of the day, you know, I believe you should try, I call it throwing things against the wall, so throw it against the wall and see what sticks."*
- **Wayne:** *"The one thing I've always referred to is that as we know so few people are starting business, so there is actually very little competition. So you can go right ahead and you know, get out there and start it because it's not like you're in Silicone Valley or in a country where people are, every dog and his cat is starting a business."*
- **Lusanda:** *"Yes look I quite honestly, there was, the fear element was there but I think the determination was much stronger than the fear in that I was determined to succeed."*

5.4.5 Required Resources

The results indicated that having access to the required resources plays a role in the creation of new businesses. While obtaining funding remains a concern for most of the entrepreneurs interviewed for the current study, skills and resources that are already possessed are also an important factor in decision-making. Participants in the study found that their education, background, and experience all contributed to their success.

- **Linda:** *“I had to do that in the previous you know sort of industry and that has stood me in such good stead for any, any business that I’ve done, and another thing that stood me in massive stead was my BCom, I mean I would never have achieved what I have achieved now just on the basis of a UNISA BCom, essentially.”*
- **Wayne:** *“Yeah, I think I’ve, you know I’ve always had the debate of taking of funding versus boot-strapping and I flip-flop between those two so much but right at the end of it, I’ve actually come to the conclusion that absolutely boot-strap.”*
- **Alicia:** *“If you go into any business, I would say entrepreneurs need to think about, that is the first thing, is about the finance side. I think people think that they have this money and it’s going to last forever and they will do well. The planning around how long that’s going to last is very important. You know, are you going to have enough money to sustain yourself? When will the first deal hit?”*
- **Wayne:** *“We ran the business from home for about two months, before we got an office base. I just, all I used was my laptop, it was the only thing I needed.”*

Some of the participants were particularly wary about obtaining external funding and emphasised the need to get started with existing resources, as external funding can often not be relied upon.

- **Michael:** *“The entrepreneurs in South Africa don’t understand if or when they are ready to meet the relevant venture capitalists. They think that their best friends are investors, and they are actually not. They’re the worst.”*
- **Yates:** *“It will take you between nine months and three years before you get any funding for your business. So that means keep your cost an*

absolute minimum. A nice office, a desk and a chair and fancy laptop and the latest phone are absolute wastes of money.”

5.4.6 Mitigating Risks

Mitigating risks relates to how entrepreneurs minimise potential losses and reduce the risk of starting a new venture. The data indicated that entrepreneurs should minimise expenses in nascent stages of the business. Participants also recognised that detachment from the idea is important and at some point the entrepreneur should know when to quit and try something else. Finally it was observed that losses could be avoided by being conservative in early stages with regard to expenses as well as projects selected, with a view of avoiding losses.

- **Yates:** *“Get a Blackberry with R100 unlimited data kind of connection, get an old laptop and work in somebody’s garage. Keep your cost to a minimum, find the revenue, find the clients...”*
- **Yates:** *“So nobody else is to blame. So if I, because I realised what the mistake was, I said well maybe that’s actually, then I can rectify it but if I don’t know why it went belly-up then yes, go back to work because you don’t know what you made wrong. So there’s no point doing the same mistakes again and again but the interesting question that is a sub-text to that is when do you give up? When are you being stubborn and when are you being persistent and I don’t know the answer.”*
- **Michael:** *“One of the major pitfalls is falling in love with an idea.”*
- **George:** *“So the first thing that we did was built a very conservative risk management framework, and we, everything we did, we did with the view of preventing an occurrence of losing money to the extent that our business would be in jeopardy.”*

5.4.7 Determinants of Success

This theme relates to aspects that entrepreneurs believed were instrumental for their success and that helped them to succeed. Many of the participants found that making only necessary expenses was attributed to their success. In addition participants found that maintaining a core idea and being careful not to grow too fast were also important. These participants explained that there is a 'right size' for a business and that new business owners must be careful not to grow too fast or conversely, keep the company too small.

- **George:** *"Of course, I mean there's no, unnecessary infrastructure is detrimental to the success of your business, and it feeds into what I was saying now about protecting the down side and managing the business in a conservative manner. You know, you should always have what you need to run the business, but you never really should have more than that so you know. If you need a factory to create the widgets that you want to sell, then you need a factory."*
- **Ross:** *"What will the upside be almost instantly as opposed to the cost and can I mitigate that cost within 30 days? That was my rule."*
- **Alicia:** *"Keep the costs low, understand your market, know your product and who's buying it, all the time, continuously."*
- **Wayne:** *"A lot of people try and hire and grow too quickly and they try and say that they want to brag that they have twenty people or but you know you look at universities, no-one says Harvard would be a lot better if it grew two more campuses or brought on a million people. You know why do we do that with business? So sometimes there's an idea of the right-sized business."*

5.4.8 Credibility and Track Record

Credibility and track record determines the manner in which entrepreneurs could overcome scepticism from initial clients in order to get started. It also relates to the importance of image and reputation in business and how to develop a good track record. The entrepreneurs who were interviewed who were operating in the service industry considered this particularly important. They found it was difficult to get business initially without having a track record or a prototype product that other entrepreneurs in non-service related businesses might have. Therefore convincing sceptical clients was a hurdle the entrepreneurs had to overcome to make their businesses successful.

- **Yates:** *“We could say ‘please we’ve got plenty of customers’, we didn’t have plenty of customers, we had two customers of each but we could say no we’ve got references. We can give you one but if you want more I can give you also the other one and if you want more, there’s more but I didn’t have more.”*
- **Ross:** *“My belief is you fake it until you make it and perception is everything. If you come across confident and you talk a bigger game than you can deliver initially; then when you get the deals you have to deliver on what you said you were capable of doing.”*
- **Ross:** *“Appearance is everything. I was always quite embarrassed about the fact I drove a Hyundai Getz...So often I would park my car outside or around the block and walk, to make sure that the perception that the client had of me was of the best possible level. Business cards are actually exceptionally important. I spent more money on business cards than anything else in my business because the business card in a service industry is the first tangible product someone ever touches of your brand. If the quality is poor, it’s a massive factor.”*

- **Stephanie:** *“Where a lot of people pushed us away saying you know once you’ve proved something, come back and it’s like it’s ridiculous, it’s too late then.”*

5.4.9 Changing and Adapting

This theme covers the aspects of how entrepreneurs deal with change, how they adapt, and how their initial business idea evolved over time. While some entrepreneurs felt they were running the businesses they initially set out to start, others felt their business is vastly different from what they first conceived. The importance of adaptability was emphasised by most of the participants. They found that adapting to change rather than resisting it was important, as well as adapting to the environment in which they operated.

- **Wayne:** *“If it was a percentage it would be in the 1000’s or the millions. It is fundamentally different, yet fundamentally the same.”*
- **Wayne:** *“I think it was just that it, you know we’ve sort of started to find price point mainly because we had no idea what we should charge. We knew we had to be cheaper but we also wanted to be more profitable and we were able to do both of those things.”*
- **George:** *“Adaptability is a very important aspect of any entrepreneur’s approach and any decent business in the world has a lot of adaptability.”*
- **George:** *“You know people, generally speaking, are very averse to change in any sort of format in which it comes along, but in the business world adaptability and the ability to evolve and you know sacrifice [are] sacred cows in the interest of the success of the business is a very, very important characteristic.”*

5.4.10 Communication

Communication encapsulates the role that communication and feedback played during the formation of the new business. Participants stressed the importance of being open and seeking advice. More surprisingly, the interview participants emphasised the idea that entrepreneurs should not be afraid of people stealing their idea. The participants found that just by talking to people about their business, they received valuable ideas, contacts, and leads. The benefits obtained were in general far greater than potential costs that could have arisen from people copying their idea. Involving the customer in creating the right product/service was also observed to be important to entrepreneurs.

- **Linda:** *“Yeah, I had advice on everything. You know I’m a very collaborative person and it’s a very, very good trait to be collaborative because you are never going to know everything.”*
- **Linda:** *“Communicate, talk to as many people as possible and let them see that you [are] keen to because it’s amazing how many people have phoned me just out of the blue and said, ‘you know I was thinking about you because I saw this and maybe you should do this.’”*
- **Linda:** *“I cannot stress how much people are not going to steal your idea; like ninety-nine percent of the time they are not going to steal your idea.”*
- **Yates:** *“Involve the customer from the beginning so that you shape something that will fit that customer and at the back of your mind make sure that there’s lots of those, that customer, so that once you found a perfect solution for that customer, it can be sold to another 500 customers.”*
- **Alicia:** *“There were lots of conversations. So I was working, it would be like at night, trying to find out, am I doing the right thing, you know, vetting with people.”*

- **Stephanie:** *“I mean if anything, like we have spoken to a lot of our competitors, our competitors are welcome, I’m like come and see, the point is what they, a lot of them are waiting for us to prove it.”*

5.4.11 Stakeholders

It was discovered that stakeholders like customers, investors, business partners, and suppliers played an important role in the participants’ successes. Many participants delineated the importance of hiring good people and having good business partners. Particularly, entrepreneurs found it important to have skills in the business they themselves did not possess, and part of this involved letting go and allowing other people to take over some tasks. In addition the participants emphasized the value of networking.

- **Katherine:** *“Oh, it’s amazing what it does for you but honestly relationships and being able to, do you know how many people took us on board, just because they liked us.”*
- **Stephanie:** *“I think it’s absolutely critical to have a partner, especially when you [are] pitching. It’s a business partner because you have literally the highest highs and the lowest lows and you’ve got to balance each other and you’ve got to bring it to another like up-and-down and but then also I think it’s the thought and the networks, nothing is ever achieved.”*
- **Ross:** *“I realised I was going to be a small, one man show, for the rest of my life I didn’t hire people. To me that is one of the only risks I took in the business was taking on the expense of salaries and people.”*
- **Linda:** *“You are streets ahead, you are streets ahead of where you would be, and you know and the thing is your success rate is so much higher, I mean again you don’t know what you don’t know, that’s the reality.”*

- **Lusanda:** *“It’s good to grow a network. A network both of other people who have already been in business and fellow “start-uppees” that are still starting up because you share a lot of valuable lessons in that association.”*
- **Yates:** *“I found great people to work with that complemented my deficiencies.”*

5.4.12 Emotional Factors

Emotional Factors encapsulate passion, persistence, resilience and other ‘softer’ issues that entrepreneurs revealed when talking about their thoughts and actions when they started a new business. Having a love for the business or for the idea was emphasised by some of the entrepreneurs interviewed; it was regarded as a necessity for making the business successful. This was further expanded upon by some participants when they observed that sometimes entrepreneurs have to deal with people around them (or people they pitch to) who believe that the business will fail, which makes it difficult to stay committed to the idea.

Determination, resilience, and persistence were also discovered to be important to the entrepreneurs who were interviewed. This was consistent across the participants and alludes to the fact that the entrepreneurs found the process of starting the new business difficult. Some entrepreneurs also emphasised the value of building the business so it can exist without the founder, i.e.: that the business must not just be built on one person.

- **Ross:** *“Your business, if it is not an extension of you as a human being, you are doing the wrong thing. You have to eat, breathe and speak that company for the first 5 to 8 years before it is successful.”*
- **Ross:** *“When your business fails, you fail as a person. That is a very important lesson, I believe in that. If you don’t believe in that then you*

shouldn't be an entrepreneur, you should work for someone else. Sounds like a very hard rule but I truly believe that."

- **George:** *"But the second part of it is you know, to actually make that happen, is a different set of characteristics, that are more to do with determination and desire and passion and aspects that I think fewer people have than perhaps those who have the skill set to do so."*
- **Yates:** *"It's fantastic, absolutely; I'm the happiest person in the world. Look, I'm not saying every day is perfect, you know you've been in business quite a while. There's days when you say screw it, I want to give up on this because just everything, you know nothing is perfect, so everything hits your table at the same time but then there's those moments of satisfaction that make it all worthwhile."*
- **George:** *"So we had such a high degree of conviction in our idea that we went to people and said 'like, you know, here's your opportunity, here is it explained very simply, here's why it's going to work, and we're inviting you to join us, but if not, maybe we'll see you in a few years.'"*
- **Alicia:** *"And so it's that, you've got to build something that actually functions eventually without you."*

This chapter presented the results from the study obtained from the data analysis. The interviews of the participants were transcribed and coded, which resulted in the generation of 258 unique codes from the open coding process. These codes were then clustered into themes or constellations to enable more efficient analysis the data, consistent with the Thematic Data Analysis method (Braun & Clarke, 2006). Twelve final themes around which the evidence could be clustered were presented, and evidence for each theme was presented within this category. The following chapter discusses these results in relation to the literature that was reviewed in Chapter 2, and the research propositions outlined in Chapter 3 in order to address the aims of the study.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

The previous chapter presented the results obtained from the study from the thematic data analysis. In this chapter evidence obtained from the data analysis is discussed in relation to the theories that were analysed in the literature review. The research propositions, which were derived from the principles of the Effectuation Theory, serve as a departure point for the discussion. Evidence from Chapter 5 is used to address these research propositions, either to substantiate or disprove them. The aim of the discussion is to determine the behaviour of the entrepreneurs who participated in the study and to compare the evidence of these behaviours to the research propositions stated.

While the research propositions serve as a departure point and a basis from which to commence the discussion, any insights from the data (even those contrary to the research propositions) are valuable for both the field of entrepreneurship research, as well as for entrepreneurs and potential entrepreneurs in practice. The propositions serve as a point against which the evidence can be compared and contrasted. Entrepreneurship theories deal with complex human behaviours and their elemental thinking, making it impossible to prove one theory and simultaneously disprove another. Thus the aim of this chapter is to understand this behaviour from an empirical standpoint against the backdrop of prior research in the field.

The overarching question of the study is “How are Effectuation principles employed by South African entrepreneurs in the formation of a successful new business?” This question is addressed by the discussion of the evidence relating to the research propositions. The research question provides a backdrop and

serves as the consistent single thread from which the discussion in this chapter unfolds.

6.2 Discussion of Research Proposition 1

New businesses are created as result of the entrepreneur starting existing means rather than pre-defined goals

The purpose of Research Proposition 1 is to understand how entrepreneurs acquire and utilise the necessary resources when creating a new business. From the results presented in the previous chapter, three of the themes are closely related to the first research proposition, namely Idea Conception, Required Resources, and Credibility and Track Record. These themes are discussed in detail below in relation to both the evidence presented in Chapter 5 and the literature reviewed in Chapter 2:

6.2.1 Idea Conception

Idea Conception is important as it relates to one of the central aspects of entrepreneurship namely: opportunity identification (Short et al., 2009). As discussed in the literature review, entrepreneurship theories differ in the way in which opportunities arise, and hence they differ in their view of how entrepreneurs conceive ideas to start their businesses. Section 5.4.1 reflects this contrast in the presentation of evidence from the data. Some entrepreneurs conceived of the idea to start their business by identifying skills or resources they possessed, and determined ways to create a product or service, which they could sell. This supports both Bricolage and Effectuation theories, as both argue that businesses are created from resources/means at hand rather than from a pre-defined goal. However other entrepreneurs found that changes in the market or environment gave rise to an opportunity for them to sell a product or service.

In this instance they had a pre-defined goal for the business and found ways to acquire the necessary resources to put the idea into effect and attain success from the venture. These instances as confirmed by the respondents support the Individual-Opportunity Nexus Approach (Discovery Theory). The contrasts in results achieved are emphasised the opposing examples, from the results, shown below:

- **Linda:** *“So, anyway I looked at materials that were similar to that concept but that I could actually use in a functional way that wasn’t a craft, so I basically looked round and said what raw materials exist, currently that I know of, that I can use to make into a product...what can I manufacture that competes in the market place? So it’s not like rocket science, essentially what I do, I just try and replace, you know, essentially like the stuffs going to go to landfill, so I would rather it spends two hundred years degrading in your house then it spends two hundred years degrading in landfill, and the thing is that these raw materials are super sturdy, I mean again because they take two hundred years to, they don’t bio degrade, they degrade, you know?”*
- **Wayne:** *“I think the opportunity arose when because green building is quite new in South Africa, it only dates back to 2008 and when this came on the market, a lot of the big engineering consultancies didn’t know how to approach it. So we figured that we would be better able to serve clients and respond, as a small business we would be more agile than the bigger companies which were struggling to make sense of how to include it in their standard service offering.”*

The first statement clearly affirms that the entrepreneur began with resources at hand (in this case, articles that people typically throw away) and found a novel way (by creating bins and iPad cases from this recycled material) to create a

viable business from it. The process followed by this entrepreneur is essentially the same process described by Entrepreneurship Bricolage (Baker & Nelson, 2005). The second statement extracted from the data can be described as being similar to the Individual-Opportunity Nexus approach. A change in the industry resulting from a major event/shock (in this instance, global warming) gave rise to the demand for a new service (a sustainable building) (Shane, 2000). The evidence from Chapter 5 indicated that both of these theories are useful in describing how entrepreneurs derived the ideas for their businesses, and helped to determine the factors that gave rise to new opportunities.

6.2.2 **Required Resources**

From the analysed data it was evidenced that beginning a business with means at hand, and minimised initial costs were crucial to success. Section 5.4.5 delineated the results obtained from the data, which confirmed that it was possible for entrepreneurs to start-up their businesses with minimal resources. Additionally, there was evidence that funding was a major constraint for many of the entrepreneurs who were interviewed, and it had to be overcome by using resources at hand and keeping expenses to a minimum (bootstrapping). This is closely related to the bird-in-hand principle of Effectuation (Sarasvathy, 2008) as well as the process of applying Bricolage (Senyard et al., 2014).

6.2.3 **Credibility and Track Record**

Entrepreneurs clearly faced the challenge of establishing credibility in nascent stages in order to gain the trust of potential customers to whom they sell. The evidence from Section 5.4.8 indicated that it is important for entrepreneurs to manage customers and potential customers' perceptions. Perceptions of the entrepreneur can either ensure great successes or failures the business and are therefore crucial. The data collected proved that entrepreneurs often have to

‘fake it till they make it’, i.e.: portray the image that their service or product is capable of meeting the customer needs, and then ensuring that after the sale the need is undoubtedly met. Both Ross and Yates provided examples of this strategy (see Section 5.4.8).

6.2.4 **Conclusion to Research Proposition 1**

The evidence supports Research Proposition 1 with regard to the manner in which entrepreneurs begin their businesses with given means as opposed to pre-defined goals. There is contrasting evidence in the data that suggests that causal theories are also relevant for describing the process of how new businesses are conceived. However, Effectuation Theory is confirmed its usefulness in terms of a concept that explains entrepreneurship behaviour. The data provided support for the concept of beginning with means at hand, and for focusing on getting businesses started with resources on hand rather than waiting until resources are acquired. While theories like those offered by Shane (2000) that focused on opportunity identification are relevant, Effectuation offers additional insight into the process of idea conception and new business creation. The evidence from the qualitative interviews generally supported the first proposition. There was also evidence to support efficient resource allocation as described in Bricolage Theory, as the data showed that Bricolage is a useful theoretical perspective. However, it is best analysed in conjunction with Effectuation as it covers aspects on the use of resources that are not fully addressed by Effectuation Theory.

6.3 **Discussion of Research Proposition 2**

Entrepreneurs start businesses with a minimal amount of planning, and focus on the maximum they stand to lose instead of forecasting future financial gains.

The purpose of Research Proposition 2 is to gain insight regarding the planning processes followed by entrepreneurs prior to starting a new business. The main purpose of this portion of the research study is to determine the amount of planning that entrepreneurs do, which part of the planning they found valuable, and what they focused on in their planning and research. The literature review affirmed that Effectuation Theory propounds that the process of planning should be minimal; instead the focus should reside on identifying the maximum possible losses and starting the business as quickly as possible.

Four themes were found to relate to Research Proposition 2, namely Viability of the Idea, Planning and Research, Mitigating Risk, and Determinants of Success. With the evidence from the respondents' interviews, and in relation the theories reviewed, these themes are discussed in detail below in an attempt to successfully address Research Proposition 2.

6.3.1 **Viability of the Idea**

The data collected confirmed that regardless of theory, a business will not succeed without demand for the product or service offered. Evidence presented in Section 5.4.2 delineated that the entrepreneurs studied were keenly aware of this fact. To overcome the challenge of demand, many respondents indicated that early testing, prior to the acquisition and expansion of many resources is crucial. Alternatively, the interviewed entrepreneurs stated that it is also commendable to attempt many different pitches and processes to settle on a method that works; this was succinctly expressed by Linda as “throwing things at a wall to see what sticks”.

Entrepreneurs must define the viability of the business as soon as possible. This allows the entrepreneur to determine whether changes need to be made to the original idea to make it viable, or if the idea should be abandoned altogether.

This has a strong correlation to the contemporary idea of a Lean-Start-up, as discussed in Chapter 2 (Ries, 2011). Entrepreneurs in this research study provided some evidence of the importance of testing their respective products/services early, attempting different processes, and making changes to make the business viable. It was confirmed by the respondents, that ultimately, no matter how good an idea is, the business can only be viable if people purchase the product or service on offer. Ross expressed this pithily by saying “you don’t have a business if you don’t have a client”.

The evidence gathered within this theme provides support for the position implied by the Theory of Effectuation. Entrepreneurs benefit by starting early and testing their ideas before acquiring and expanding their resources. Additionally, the only way to determine the viability of the business is to test it, as this cannot be determined purely by planning.

6.3.2 Planning and Research

Most entrepreneurs who were interviewed emphasised the importance of going to market early and not wasting too much time on planning. Generally, the participants found that formal planning and research has limited benefits, and if a plan is created it needs to be dynamic and must be continuously updated. Most notably from the respondents who were interviewed, Ross, Wayne, and Stephanie stressed the need to simply get started to learn along the way and not to be paralysed by over-planning. Furthermore, Michael and Ross both expressed the need for business plans to be dynamic documents. There is support in the field of research on entrepreneurship for an approach that limits planning and instead takes action quicker. Brinckman et al. (2010) argued that there is evidence in favour of limiting planning to just “storm the castle”; however planning was found by the authors to be beneficial when it was dynamic and combined with learning.

Participants of the research study were averse to being overly reliant on forecasts, particularly financial forecasts. They generally found that this involved too much guessing and stated that assumptions make forecasts unreliable and of limited use. These findings correlate strongly with the principals of Effectuation. In fact the overarching principal of Effectuation (pilot in the plane metaphor discussed in Chapter 2) states that entrepreneurs should focus on what they control rather than predicting future events over which they have limited control (Sarasvathy, 2008).

6.3.3 **Mitigating Risk**

The results from the research study displayed that the main way to avoid losses and thereby mitigate the risk of starting a new business is to limit costs by expanding funds on only the most crucial resources required. The entrepreneurs who were interviewed were almost unanimous in expressing this view. Each of the research participants emphasised that entrepreneurs should start only with what is absolutely necessary and make expenses that are either absolutely essential or that can be recovered quickly.

Ross, one of the interviewed respondents, discussed how he started his business by working from home and relying only on a single cellphone and a computer. Another respondent, Katherine, explained that she and her partner conducted all meetings and did most of their initial work in coffee shops when they started out as they could not afford office space. The principle is that the less resources expended, the fewer entrepreneurs can lose. In Effectuation Theory affordable loss is one of the vital principles; the evidence categorised within the theme of mitigating risk supports the theory that entrepreneurs must focus on affordable loss rather than on future gain, and that restricting losses and understanding maximum losses at the outset is crucial to long-term business success.

6.3.4 **Determinants of success**

The results from the qualitative interviews indicated that entrepreneurs attribute a wide variety of factors that could have determined their success. The evidence that emerged from this theme was keeping costs low (as in the previous theme), understanding the market for the business, sticking to the core idea (Wayne and Stephanie both emphasised not over-diluting the idea), and not growing too fast. Alicia summarised the fundamental determinants of success shared by most of the entrepreneurs who were interviewed by saying, “Keep the costs low, understand your market, and know your product and who’s buying it, all the time, continuously.” These behaviours provide support for the theoretical perspective contained in entrepreneurial Bricolage as well as Effectuation Theory, both of which advocate efficient use of resources at hand.

6.3.5 **Conclusion to Research Proposition 2**

The data provided a great deal of insight into the planning and research process. The second research proposition was broadly supported by the evidence contained in the data. Most entrepreneurs emphasised that starting with minimal formal planning was imperative and they advocated focusing on learning and adapting as the business evolves as opposed to attempting to understand all aspects by planning. Entrepreneurs who were interviewed in this research study discussed some of the merits of planning, such as thinking through all of the aspects of the business, and identifying potential challenges. However it was noted that planning should be informal and dynamic. This view was expressed by four of the participants in the study.

With regard to the view on planning, where some of the entrepreneurs felt that planning should be done less formally and more dynamically, it perhaps indicates the need for and relevance of new tools like the business model canvas

(Osterwalder & Pigneur, 2010). However, overall the entrepreneurs were found to employ effectual principles with regard to planning and research. It was recorded that generally, the participants began their businesses with minimal formal planning and ascribed little value to formal planning and financial forecasting. It can therefore be confirmed that the second research proposition is supported by the data.

6.4 Discussion of Research Proposition 3

Entrepreneurs leverage relationships with all stakeholders rather than focusing on competitive analysis.

Research Proposition 3 is concerned with how entrepreneurs manage and think about relationships with stakeholders. New theories of entrepreneurship have emphasised leveraging stakeholder relationships rather than focusing on competition. Entrepreneurs must engage stakeholders and seek to benefit from these relationships rather than performing competitive analysis. Two themes were directly related to this proposition, namely Communication and Stakeholders. The evidence that was amassed for these themes enabled the research study to address Research Proposition 3.

6.4.1 Communication

The evidence classified within the theme of Communication in section 5.4.10 was surprising in terms of the consistency with which it was discussed across the entrepreneurs. Eight of the ten participants were in favour of discussing their ideas openly. The interview participants believed that the benefits they received from sharing included valuable advice, useful contacts, and they concluded that collaborations far outweighed the risk of their idea being copied. In fact a few participants emphasised the fruitlessness of being secretive about business

ideas. Furthermore the entrepreneurs stressed the benefits of involving the customers, suppliers, and in some cases investors in the process of creating the product or service. One of the interview participants, Yates, went so far as to say that the primary product of his business was a result of bits and pieces of work that clients demanded and which he later packaged as one service. This could not have been achieved without open communication and collaboration.

The evidence garnered from the research study lends strong support to Effectuation Theory, particularly to the principal described in the crazy quilt metaphor that emphasised the benefits of partnerships and co-creation (Sarasvathy, 2008). The near unanimous agreement of sharing ideas, being open to feedback, and involving stakeholders (in at least some of the processes) indicated that the theoretical perspective offered by Effectuation Theory on relationships in entrepreneurship is highly relevant for describing the behaviour of entrepreneurs. Without being prompted, most participants described the importance of openness and communication with stakeholders and in some cases even competitors. Effectuation Theory offers a sound description of the manner in which some entrepreneurs were able to achieve success by leveraging relationships. The evidence under this theme provided substantial support for Research Proposition 3.

6.4.2 **Stakeholders**

Closely related to the theme of communication, there was evidence of the importance of different stakeholders in the success of the business consistent with crazy quilt principle in Effectuation (Sarasvathy, 2008). Many participants emphasised the importance of hiring people that allow growth, bring in required skills, expand networks, and allow the business to exist and continue without the founder. The collected data from the qualitative interviews delineated that relationships, such as those with a business partner or investor, are crucial to the

success of a business. One of the interview respondents, Stephanie, emphasised that having an investor who gave her free rein avoided diluting her idea to appease the investor, and this ultimately led to her success. The benefit of relationships with stakeholders provides further support for Research Proposition 3. It must be emphasised, however, that this support is evident not only because of the value placed on it by the participants but also because of the unanimity amongst entrepreneurs regarding the value of these relationships.

6.4.3 Conclusion to Research Proposition 3

The entrepreneurs who were interviewed found tremendous value in sharing ideas openly and engaging with stakeholders to create their new businesses. They found that the benefits of collaboration and openness outweighed the risks of their ideas being copied. Additionally, most entrepreneurs emphasised the value of both internal stakeholders like employees and partners, as well as external stakeholders like investors and suppliers. These stakeholders can play a large role in determining the ultimate product or service, therefore it was overwhelmingly evident from the data the principal of leveraging relationships was supported in contrast to traditional ideas on competitive analysis. While some entrepreneurs in the study did not agree with sharing their ideas (two out of the ten interviewed) and preferred operating on their own, most of the entrepreneurs who were interviewed found value by leveraging relationships. The third research proposition was supported by the data collected. This does not imply that the all entrepreneurs treat relationships with stakeholders in this way; rather it illuminates the perspective offered by Effectuation Theory regarding relationships with stakeholders and places value on communication and collaboration.

6.5 Discussion of Research Proposition 4

Entrepreneurs embrace uncertainty rather than try to avoid or control it.

Research Proposition 4 aims to illuminate how entrepreneurs approach uncertainty and risk. The proposition states that in Effectuation Theory, entrepreneurs embrace change and leverage it rather than find ways to attempt to control it. Three themes were related to this proposition: Fear of Failure and Changing and Adapting were directly related to Research Proposition 4, while Emotional Factors were indirectly related and only provides a supplementary perspective. The evidence for this theme is discussed below in an attempt to address Research Proposition 4.

6.5.1 Fear of Failure

Entrepreneurs assign the reasons for fear of failure to various aspects, but they all emphasised that a point has to be reached whereby a leap is taken. The entrepreneurs interviewed all confirmed that no certainty can be found to determine whether the venture will be successful. As discussed in other themes, the viability of the idea can to some extent be determined, and understanding maximum potential losses that could result help the entrepreneur to understand what he/she stands to lose from starting the business. However entrepreneurship is risky and requires that the entrepreneur to take a chance. If the venture is unsuccessful, the idea can either be adapted or abandoned. Wayne, one of the interview respondents, said that because so few new businesses are started in South Africa, the market is less competitive and therefore less risky, thereby offering a refreshing perspective. The evidence from the research study indicated that Effectuation Theory offers a good theoretical explanation regarding how entrepreneurs can leverage uncertainty, as some of the participants took a huge leap of faith in starting their businesses. These entrepreneurs embraced the

uncertainty of the potential demand and viability of the business took a chance and got started.

6.5.2 **Changing and Adapting**

The evidence presented in Chapter 5 expressed that entrepreneurs in the study generally embraced change and were almost unanimous in the views of the importance of adaptability to success. Some of the entrepreneurs emphasised how radically different their businesses are from the initial idea; others noted how embracing these changes was crucial to their success. The data revealed that discarding perceived “sacred cows” and being open to changing and adapting the original idea was an important part of the development of the current product or service the entrepreneurs currently sell.

Effectuation Theory, and to some extent Bricolage Theory are both supported by the findings of the research study when change and adapting are considered. The entrepreneurs particularly emphasised adaptability as an important quality that they believed contributed to their success. Effectuation Theory describes entrepreneurs as embracing uncertainty and leveraging change, rather than trying to avoid risks. Sarasvathy (2001) argued that starting a business early and allowing change to happen quickly, enables the entrepreneur to determine aspects that could not be adequately determined from planning, such as price points. A few of the interview respondents, most prominently Wayne and Ross, expressed that they only learned how to price effectively long after the business was started. Embracing change allowed the entrepreneurs to let the market and the customers shape the business, which relates to the themes of communication and stakeholders, as well as to the theoretical perspective of Effectuation.

6.5.3 **Emotional Factors**

The evidence clustered here emphasised the roles of passion, resilience, conviction, and satisfaction associated with entrepreneurship. The entrepreneurs described the role of passion and love for their idea as the ultimate factor attributable to the success of their respective businesses. Ross, an interview participant, expressed the sentiment that the business must be an extension of the entrepreneur. Other entrepreneurs, like Lusanda were less passionate about their businesses, but they were passionate about wanting to have a business of their own and this provided the determination and conviction to succeed. This theme relates to embracing change, as entrepreneurs cannot take a leap without passion for the idea or the conviction to succeed. It is interesting to ascertain the determiners of entrepreneurs that allow them to continue to preserve and attempt to create a new venture while not knowing whether it will succeed. However this theme did not directly support of the theories underpinning the research, as the relationship between emotions and entrepreneurial actions and thoughts is more vague. Emotional factors are a dimension of their own and relate to other areas of research that fall beyond the scope of this research study.

6.5.4 **Conclusion to Research Proposition 4**

The results from the collected data seemed to indicate that entrepreneurs who are successful embrace change and leverage uncertainty. Most of the entrepreneurs who were interviewed in the research study described how their ideas evolved from what they initially conceived and they explained how being flexible and open to adapting to changes allowed the businesses to succeed. Some subtle issues related to the Theory of Effectuation were revealed. Two of the entrepreneurs emphasised that they were able to identify price points after getting the business started by gaining sales (testing the market). They were not able to obtain this useful information through planning and it could only be

obtained by a start-up of the business. The very same idea of determining price points once the business was started was explained by Sarasvathy (2001). The data from the research therefore supported the fourth research proposition, and displayed the effectiveness of Effectuation Theory as a theoretical perspective for describing how entrepreneurs deal with change and uncertainty. This is relevant and applicable to entrepreneurs in practice. It implies that practical issues like pricing, distribution, avenues of selling and so forth need not be pre-determined, but can rather be discovered dynamically once the business is operational.

6.6 Conclusion

This chapter discussed the results obtained from the research study, which were presented in Chapter 5 in addressing the research propositions. The findings indicated that the major theories of entrepreneurship all offered valuable theoretical insights on entrepreneurship behaviour. The principles of Effectuation Theory were most prominent in the evidence observed, revealing that Effectuation Theory is a sound theoretical construct for understanding the behaviours and processes of successful South African entrepreneurs. There was evidence in the data to support all of the research propositions of the study, and there was particularly strong evidence found that confirmed Research Proposition 3.

CHAPTER 7: CONCLUSION

7.1 Introduction

The previous chapter discussed the results obtained from the qualitative interviews that were performed, and addressed the research propositions, in relation to the overarching research propositions. The research study sought to gain insight into the behaviours and processes that successful entrepreneurs employed when starting their businesses. The aim was to determine the behaviours that contribute to the success of new ventures, which was motivated by the prevalence of low business formation and activity in South Africa (Amoros & Bosma, 2014), as well the high unemployment rates in the country (Statistics South Africa, 2014).

This chapter summarises the pertinent findings of the study and discusses limitations of the scope of these findings. Additionally the insights obtained from the research have practical implications for entrepreneurs, and therefore recommendations based on the evidence observed in the study are provided. The field of entrepreneurship research is very promising and there is a need in many areas of the field for future research to better understand the subject. The study concludes by providing some recommendations for future research.

7.2 Summary of Key Findings

The study found evidence in the data that was obtained through the interviewing of successful entrepreneurs in South Africa that supported the principles contained in the theoretical framework of the Theory of Effectuation. The findings revealed that many of the participants displayed Effectual behaviour in their thinking and actions when starting businesses.

7.2.1 **Opportunity Identification**

With regard to idea conception and opportunity identification, which are considered to be central concepts in entrepreneurship theory (Short et al., 2009), entrepreneurs in this research study to some extent displayed the contrasts that different theoretical perspectives offer on the subject. Some entrepreneurs identified opportunities in and out of industry/market changes (exogenous factors), while others started by attempting to take their skills and resources (means at hand) and convert those into viable businesses, and still some entrepreneurs, and one in particular, demonstrated evidence of finding novel ways to use discarded resources to create a product.

These findings confirmed that the theoretical perspectives offered by Shane (2000), Sarasvathy (2008), and Baker and Nelson (2005) provided some explanation of the phenomena. Regarding idea conception and acquiring of resources, the research study found support of the theoretical frameworks of Bricolage, Effectuation, and Discovery Theories. This implies that multiple theoretical frameworks are relevant and important in aiding the understanding of the identification and conception of opportunities amongst entrepreneurs.

7.2.2 **Planning**

Another strategic finding was that entrepreneurs in general found limited use in formal planning processes, like writing a business plan document or creating pro-forma financial models. The entrepreneurs who were interviewed evidenced the principle arising from Effectuation theory whereby entrepreneurs begin with minimal planning and focus on the affordable loss (maximum loss they can sustain) rather than trying to predict future gains. The entrepreneurs expressed that the business plans in and of it were not useful, but rather that thinking through potential issues and writing them down in a dynamic document offered value. It can be considered that perhaps concepts like the business model

canvass would be a more efficient planning tool than a business plan for entrepreneurs. The interviewed entrepreneurs emphasised that any planning document should be practical and dynamic rather than a static, once-off document that is never referred to again. The findings from the qualitative interviews further confirmed that forecasts are not a useful undertaking and that time should rather be spent on taking action and getting started on the actual business start-up.

7.2.3 **Collaboration**

A surprising finding from the study was that entrepreneurs perceived collaboration and communication with stakeholders as being highly valuable. The descriptions of relationships espoused by Effectuation Theory were clearly evidenced in the study. Most of the entrepreneurs found that the benefits of sharing ideas and collaborating helped to maximise their business potential and it led the entrepreneurs down paths they would otherwise not have discovered. All except two entrepreneurs who were interviewed expressed no concern for people stealing their ideas by communicating ideas. Rather, the interview participants found that the value obtained from collaboration far outweighed the potential cost of someone copying their idea. The data indicated that entrepreneurs made a success of the business not from the idea itself but from the manner in which it was executed, and the collaboration and feedback processes allowed the value of the ideas to be maximised.

7.2.4 **Embracing Uncertainty**

The study discovered that successful entrepreneurs embraced uncertainty and benefitted enormously from their ability to adapt to change. Embracing uncertainty allowed the entrepreneurs to evolve their ideas quickly, remain in touch with the market, and make the changes required to drive demand for their

products. The entrepreneurs tested their ideas quickly, some of them while still gainfully employed, to determine the viability of their idea and to assess whether or not it should be adapted into a business or be completely abandoned. Entrepreneurs were also able to improve their chances of success by ascertaining when an idea was not viable and being open to let go of preconceptions and make changes to their business ideas. A vital insight that emerged from the research data was that the viability of the idea should be determined early through testing, piloting products or services, and in some cases cold-calling potential clients. The feedback subsequently received has the ability to improve the chances of success and restrict losses that could arise from committing resources prior to testing the business idea's validity.

7.3 Limitations of Findings

The findings, while supportive of the research propositions, must be recognised in relation to the limitations of the findings. The ten entrepreneurs who were interviewed are not representative of all entrepreneurs. In particular, the study is biased as it is focused on successful entrepreneurs, most of whom were educated beyond the basic high school level. The evidence therefore may have less relevance for those most in need of it, namely poor uneducated adults who want to make a living by forming a business. The focus on understanding the behaviour of successful entrepreneurs by its necessity precluded insights from failed entrepreneurs, which could be valuable in developing a theoretical framework.

The data was also biased towards white males, who constituted 60% of the participants. In the South African context, this racial bias represents an important limitation of the findings. Finally the small data sample is not conducive to developing a sound theoretical framework with broad application and relevance.

A considerably larger data set would be required to eliminate biases and provide robust results in order to construct a theoretical framework.

7.4 Recommendations for Entrepreneurs

The research was motivated by the desire to contribute towards improving the low levels of entrepreneurial activity in South Africa. Despite the limitations of the findings discussed above, the insights discovered in the study could assist entrepreneurs to create a successful new venture and help avoid some pitfalls that cause entrepreneurs to fail. The significant recommendations are succinctly summarised below:

Recommendation 1: Do not become paralysed from over-planning, and get started as quickly as possible.

Recommendation 2: Understand the direct maximum losses are likely to be from starting the venture and decide whether you will be able to deal with these damages if the venture is unsuccessful.

Recommendation 3: Do not waste too much on forecasting based on assumptions that render the forecasts unreliable; focus instead on what can be controlled in the present and go from there.

Recommendation 4: Discuss your idea with as many people possible and find ways to pitch it, attain feedback, and utilise what others can offer to maximise the value of the business idea.

Recommendation 5: Determine the viability of the business as soon as possible. Great ideas can still lead to business failure. No matter how great an idea it is, it can only become a business if it can obtain customers. Find out quickly whether people will buy what you want to sell.

Recommendation 6: Make only necessary expenses and operate in as lean a fashion as is possible. Do not rent an office if you can work from home. If something is not essential to your business, do not spend money on it; rather keep the resources for unforeseen events.

Recommendation 7: Accept that circumstances and environments will change and your business will evolve along the way. Be open to change and willing to adapt and find ways to embrace the changes that are out of your control and leverage from them, rather than attempt to predict and control the future.

Recommendation 8: Use what is at hand first before looking outward; try to find ways to apply your skills and resources to make the business a success and if the current idea you conceive is beyond your reach find a way to adapt the idea to match the skills and resources at hand.

7.5 Suggestions for Further Research

The study found support for the principles of Effectuation Theory (Sarasvathy, 2001) amongst the entrepreneurs that were interviewed in the research study. Other related theories like Bricolage (Baker & Nelson, 2005) and the Individual-Opportunity Nexus Approach (Shane, 2000) were also found to provide valuable insight. Further research could be performed by focusing on failed entrepreneurs with the intention to develop a theoretical framework for understanding the reasons for entrepreneurial failures.

There is limited research available on entrepreneurship behaviour in South Africa. Therefore, a more robust study must be conducted to develop a framework that encapsulates the challenges in the South African context. The researcher recommends that research be done on developing a framework for how uneducated adults with limited resources can create businesses in South Africa. A framework must be developed beyond the findings that were derived

from educated and aspiring entrepreneurs, as this does not encapsulate the majority of South Africans.

Another suggestion for future research that could be an interesting and illuminating investigative inquiry is to develop a framework that compares the behaviours of long-standing, established entrepreneurs who created their business a long time ago to entrepreneurs who recently started their businesses. This would provide insight regarding how the challenges of entrepreneurship have evolved and should determine the relevance of old frameworks in the current context and *vice-versa*.

7.6 Conclusion

The researcher sought to understand whether Effectuation was a useful construct for entrepreneurs to follow when creating successful businesses in South Africa. Entrepreneurs were interviewed and the data was studied to establish evidence of Effectual principles. The data supported the research propositions and revealed that Effectuation Theory is a useful construct for business formation in South Africa and provides solid theoretical understanding regarding entrepreneurs' thoughts and actions. Other theories in entrepreneurship research that were reviewed were also found to be relevant in some respects and the study concludes that entrepreneurship theories cannot be considered in isolation. Multiple theories allow richness and a variety of insight into the phenomena of new business creation.

The study was motivated by the low entrepreneurial activity and high unemployment rates in South Africa, which are a cause for concern (Amoros & Bosma, 2014; Statistics South Africa, 2014). The research aimed to identify concepts that could better equip South African entrepreneurs to succeed in order to make a contribution to the problem of low entrepreneurial activity. Despite the

limitations of the study, the findings provided evidence that the principles of Effectuation Theory, if understood and applied, can help entrepreneurs to succeed. The objective of the research, namely to understand the behaviour of successful entrepreneurs locally and to determine the usefulness of Effectuation as a construct for describing new business formation, was achieved.

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APPENDIX A: INTERVIEW SCHEDULE

1. How did the idea for the business present itself or how was the idea conceived?
2. What was the problem you identified or a gap in the market you felt the business would address?
3. In what way was the business idea based on some skill/service you already had and thought you could profit from?
4. How much research and planning did you do before you attempted to start the business?
5. How long after the initial idea was conceived did you start the business?
6. Explain in as much detail as possible your research and planning process that you followed in forming the business.
7. How much planning was involved before the first expense (monetary) towards the business was made?
8. Was there a test product or service, which you put out to check the feasibility of the business?
 - a. Describe what you learned from this process?
9. Walk me through your early engagement with potential clients/customers.
 - a. For example, did you present the idea to potential clients first and determine the potential interest in the business?
 - b. How much of the initial feedback did you use before you launched the business?
10. After launching the business how soon before you made changes to your product, service, or target market?

11. How different is the current business idea that you are successfully operating from the idea you first had?