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The Entrepreneurial Decision Making: Use of Effectuation and Relation with Perceived Financial Performance and Innovation in the Firm

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ABSTRACT

During the start of the venture entrepreneurs rely on a number of techniques and strategies to make decisions. Effectuation and causation are important modes of this decision making process. The theory on effectuation is advancing from an early to a mature phase globally thus it's important to understand its dimensions and their influence on the firm's performance. This study explores the use of this effectual logic in micro and small firms operating in Pakistan and its influence on the financial performance and level of innovation in these firms. Although few researches have been focused on the antecedents and dependents of effectuation but none have arrived at a consensus on the appropriate variables. In Pakistan, as it's a relatively new concept although being applied, there is all the more need to assess the nature of effect these variables could have on some of the important outcomes of the firm. This research contributes to existing literature by providing relationship of effectuation with, another important, variable of innovation in the firm. In this empirical study, a sample of 166 micro and small firm entrepreneurs was used all operating businesses within Pakistan. A survey, through a questionnaire, was conducted using snowball sampling. Findings indicate that use of effectuation is positively correlated with both higher perceived financial performance and level of innovation employed in the firms. Also not all effectual constructs have uniform influence on the variables which explains the formative nature of the logic of effectuation. A few implications of this study and future research areas have also been identified.

KEYWORDS Effectuation; firm performance; innovation