

SUMMARY

EFFECTIVE HEURISTICS FOR NEW VENTURE FORMATION

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Principal Topic

Entrepreneurs are often under time pressure and may only have a short window of opportunity to launch their new venture. This means they often have no time for rational analytical decisions and rather rely on heuristics. Past research on entrepreneurial heuristics has primarily focused on predictive modes of control. Studies have analyzed the heuristics that entrepreneurs use when they try to predict the future value and success chances of opportunities.

There is increasing awareness – particularly resulting from studies on effectuation – that entrepreneurs engage in non-predictive control as well. While entrepreneurs also use heuristics in this alternative mode of control, these have hardly been studied so far. This conceptual paper addresses this gap in the literature by exploring the heuristics associated with both approaches and by theorizing the conditions under which they are likely to be effective.

Method

We followed three conceptual steps. First, we made an inventory of the heuristics described in the literature on psychology and entrepreneurship. Second, we linked these heuristics to the five dimensions of effectuation and causation as they were introduced by Sarasvathy and colleagues. This resulted in five pairs of heuristics that reflect trade-offs entrepreneurs face when deciding about their new ventures. Finally, we theorized on the effectiveness of the heuristics by linking them to characteristics of the entrepreneur and the market in which the new venture is started.

Results and Implications

The paper provides a typology of entrepreneurial heuristics that is directly connected to the causation-effectuation model and a set of propositions on their effectiveness. By demonstrating that the use of heuristics is not limited to prediction-oriented entrepreneurship the paper creates awareness of the broad impact heuristics may have on entrepreneurial decision-making.

Furthermore, by explicating the differences in heuristics between effectuation and causation, the paper provides a means to guide choices by entrepreneurs. By showing trade-offs the paper shows some of the risks associated with the two approaches, thereby supporting entrepreneurs in the choice between them.

Finally, the paper contributes to the broader discussion on the use of heuristics by going beyond a comparison of entrepreneurs and non-entrepreneurs. By relating heuristics to the two entrepreneurial approaches, the paper facilitates a comparison between types of entrepreneurs as well.

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