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# Effectuation or causation as the key to corporate venture success? Investigating effects of entrepreneurial behaviors on business model innovation and venture performance

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### ABSTRACT

Corporate Venturing sets the stage for entrepreneurial behavior in order to create business model innovation (BMI). Moreover, prior literature indicates the importance of BMI as a source of performance advantage, especially in growing industries. However, an empirical examination of the effectiveness of entrepreneurial behaviors for achieving BMI is still lacking. Hence, this study investigates the effectiveness of effectuation and causation as primary entrepreneurial logics to create BMI. Analyzing data obtained from 128 corporate ventures with partial least squares structural equation modeling, the effectiveness of both entrepreneurial logics for BMI with respect to different industry growth levels is clarified: The results point out that both behaviors lead to BMI in situations of moderate industry growth while effectuation (causation) is more effective in high (low) industry growth settings. Furthermore, the results point out that BMI in turn enhances corporate venture performance. Thus, corporate entrepreneurs should carefully align their entrepreneurial approach with industry growth projections to effectively develop BMI and achieve high venture performance.

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### Introduction

New niche markets and customer desires arise alongside industry growth. Inherent sales potential and diminishing returns from core businesses have recently resulted in increased corporate venturing efforts of established organizations (Battistini et al., 2013). The common objective of respective activities is to improve the competitive position and performance of the parent organization (Darroch et al., 2005; Zahra, 1991). Thus, focal firms intend to leverage their existing strategic resources (Garrett and Neubaum, 2013; Kuratko et al., 2009) in order to create new value (Narayanan et al., 2009).

Thereby, internal corporate venturing (ICV) is theoretically manifested in the foundation of new business organizations within the organizational domain as a vehicle for innovation (Sharma and Chrisman, 1999). More specifically, ICV initiatives

*Abbreviations:* BM, Business Model; BMI, Business Model Innovation; E&C, Effectuation and Causation; ICV, Internal Corporate Venturing/Venture; PLS, Partial Least Squares; SEM, Structural Equation Modeling.

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are frequently designated to commercialize breakthrough innovation (Maine, 2008; Stringer, 2000) and in this manner to establish businesses which address markets that are adjacent to the existing core activities of the companies.

Commercialization within this respect requires setting up a business model (BM) for the business idea. This is necessary to orchestrate the boundary-spanning transactions of the firm (Chesbrough, 2010). Within the ICV context, new to the firm or even new to the world businesses are established (Kuratko et al., 2009). Such business model innovation (BMI) is particularly important as it has the potential to improve corporate performance (Kim and Min, 2015; Lambert and Davidson, 2013; Visnjic et al., 2016).

Despite BMI's important role for corporate long-term viability, normative decision making guidance on how to achieve BMI is still rare. Within this respect, innovation management and entrepreneurship scholars alike have recently suggested to investigate prerequisites for BMI using findings and concepts from entrepreneurial research (Dimov, 2011; Spieth et al., 2014; Venkataraman et al., 2012; Wiklund et al., 2011).

Effectuation and causation (E&C) (Sarvasvathy, 2001) are two promising behavioral logics for achieving BMI that have recently been discussed by a large plenum of entrepreneurship (Fisher, 2012) and innovation management researchers (Berends et al., 2014). Thereby, effectuation processes move from means to ends, basically taking the means at hand as the starting point from which different possible effects can be achieved; causation processes instead refer to a given effect that is then to be achieved by the right selection of means (Sarvasvathy, 2001). Both concepts have been used in order to understand effects of entrepreneurial behaviors not only in the start-up domain but also in adjacent contexts (Chandler et al., 2011; Sarvasvathy, 2008; Svensrud and Åsvoll, 2012). While first exploratory studies have introduced E&C in the corporate venture creation setting (Evald and Senderovitz, 2013; Harms and Schiele, 2012; Mainela and Puhakka, 2009), consequences of entrepreneurial behaviors for BMI and ICV performance remained widely unexplored.

Motivated by this research gap and using Sarvasvathy's (2001) emerging mid-range theory in the domain of ICV, this study intends to leverage effectuation's and causation's potential to understand the effectiveness of entrepreneurial behaviors in developing BMI. Thus, this study contributes to existing literature by empirically examining effects of E&C on BMI and its subsequent impact on ICV performance. In line with prior organizational research (Antoncic and Hisrich, 2001; Zahra, 1993), particular attention is paid to industry growth as an important environmental determinant for the effectiveness of such behaviors in developing BMI. Furthermore, this study builds on notions of Zahra (1993) and views the extent of growth opportunities as a driver for the uncertainty that a venture is confronted with.

The remainder of this study is structured into four main sections. The first section develops the framework of this research and thereby introduces the concepts effectuation, causation, and BMI. This section also highlights the important role of industry growth with regards to the effectiveness of the named entrepreneurial behaviors in order to create BMI. The subsequent section highlights the research design and methodology of the conducted study in the ICV domain ( $n = 128$ ). Thereafter, results of the study are presented. The final section concludes with a discussion of findings, important implications, limitations and options for future research.

## Conceptual development

### *BMI and entrepreneurial behaviors in ICV*

Recently, BMI has come into focus as source of competitive and performance advantage (Kim and Min, 2015; Lambert and Davidson, 2013; Visnjic et al., 2016). Moreover, the holistic approach of focusing on the BM as the object of innovation can lead to longer-lasting advantages as imitation within this respect is quite challenging (Amit and Zott, 2012). Ultimately, the perception "that business model innovation is key to firm performance" (Zott et al., 2011, p. 1033) has gained momentum.

Although the BM concept sparked a discussion on competitive and performance advantages (Brea-Solís et al., 2015; Kim and Min, 2015), conceptualizations of this concept are diverse (Morris et al., 2005; Zott et al., 2011). Overall, the BM concept is commonly depicted by several predefined core elements (Demil and Lecocq, 2010). Independent of potential context-specific peculiarities, four such core or primary elements that constitute a BM have emerged (Futterer, 2014): (1) The value offering architecture (Demil and Lecocq, 2010; Yunus et al., 2010), (2) the internal value creation architecture (Kindström, 2010; Yunus et al., 2010), (3) the external value creation architecture (Kindström, 2010; Yunus et al., 2010), and (4) the financial architecture (Chesbrough, 2007; Osterwalder et al., 2005; Schweizer, 2005). Once these core elements are defined, changes in those elements can consistently be assessed (Siggelkow, 2002). The value offering architecture thereby refers to an organization's offering in terms of its products and/or services as well as the customer to whom this offering is addressed to (Demil and Lecocq, 2010; Yunus et al., 2010). The internal value creation architecture refers to the resources, including both the tangible ones in the sense of assets (Dubosson-Torbay et al., 2002) and the intangible ones in the sense of competencies (Demil and Lecocq, 2010; Osterwalder et al., 2005), as well as the structures/processes (Demil and Lecocq, 2010; Kindström, 2010) needed for value creation and delivery while the external value creation architecture involves the exchange with external parties for that reason (Kindström, 2010; Yunus et al., 2010). Lastly, the financial architecture subsumes the applied revenue mechanisms and cost structure of the BM (Chesbrough, 2007; Osterwalder et al., 2005; Yunus et al., 2010). Based on the core elements that constitute a BM, literature proposes that a BMI comprises either innovating one of the core elements or several of them (Futterer, 2014; Spieth and Schneider, 2016). While the innovation of at least one core element is the necessary condition for BMI to be given, the sufficient condition is represented by a subsequent change of the BM's underlying logic (Futterer, 2014; Spieth and Schneider, 2016). Corporate reality shows that innovating one core element of a BM such as

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