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Effectual Processes in Nonprofit Start-Ups and Social Entrepreneurship: An Illustrated Discussion of a Novel Decision-Making Approach

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Abstract

While effectual decision making has been studied in the private sector entrepreneurship literature as a way to explain the entrepreneurial start-up process, it also has potential application in the public and nonprofit sectors. Effectuation can be used to explain the decision process used by actors in the nonprofit sector, particularly in understanding how social entrepreneurs make decisions during the development of a nonprofit or social venture. We distinguish between causal and effectual decision making and illustrate the latter through two case studies of nonprofit start-up in the community development arena. These studies indicate that effectual decision making is particularly suited to the start-up social entrepreneurship venture. Differences between causal and effectual decision making influence the way actors prepare for the future and have pedagogical implications for how we teach social entrepreneurship. Training social entrepreneurs in effectual decision making has potential to better mirror real-world applications and may increase a venture's ultimate success. Effectuation could also potentially explain decision making in other public arenas.

Keywords

social entrepreneurs, decision making, nonprofit start-up social ventures, effectuation, community, development

Nonprofits have been encouraged in recent years to become more entrepreneurial and behave in a more businesslike manner by making such changes as adopting market strategies and incorporating structured planning processes. Yet, this style of development assumes a causal decision-making approach and a clear understanding of the result. Under this scenario, means are gathered systematically to achieve a predetermined end.

The developmental path of the nonprofit often does not fit this causal, linear approach. Since nonprofit organizations can be created quickly, the immediate resources available can themselves become agents for organizational direction and development. In addition, while the motive for

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nonprofit creation is often a desire on the part of the social entrepreneur to "do something," the precise nature of that something is not always certain at the outset. Missions can be nebulous and provide room for a variety of paths. The acquisition of partners through coalition building brings numerous perspectives and ideas for solutions. Although the theory of voluntary sector failure considers philanthropic amateurism (Anheier, 2005; Salamon, 1999) a common cause of organizational failure, this pattern may in fact describe the early development of many successful ventures. Treating the effectual approach as a legitimate and novel mode of decision making provides a less pejorative way to consider the nonlinear and less rationally constructed patterns of nonprofit entrepreneurs. In this article, we demonstrate the use of effectuation in the nonprofit start-up process.

Effectuation has been studied in the private sector entrepreneurship literature as a way to explain decision making in the entrepreneurial start-up process (see for example Gartner, Carter, & Hill, 2003; Sarasvathy, 2001, 2008). While its use in the social entrepreneurship literature is not yet common, some scholars have suggested the utility of effectuation for the study of social entrepreneurship. Dacin, Dacin, and Tracey (2011), for example, believe that "effectuation theory has particular resonance for the study of social entrepreneurship. [. . . It] offers fascinating possibilities to study decision-making strategies in this context" (p. 1210). VanSandt, Sud, and Marmé (2009) propose that using effectual logic could catalyze social entrepreneurship effectiveness.

We suggest that effectuation can be used to explain the decision-making process used by actors in the nonprofit sector, particularly in understanding how social entrepreneurs make decisions during the development of a nonprofit or social venture. Given the social, economic, and political context that nonprofits operate in, coupled with the high levels of uncertainty and resource constraints faced by social entrepreneurs, the effectual approach may be particularly well suited to nonprofit creation and has implications for research, practice, and pedagogy.

But what exactly do we mean by effectuation? Dew and Sarasvathy (2002) define effectuation as a problem solving and decision-making method under conditions characterized by (1) Knightian uncertainty where predictions are useless (Knight, 1921), (2) Marchian goal ambiguity and the absence of markets (March & Olsen, 1989), and (3) Weickian enactment where rational choice is not valid (Weick, 1979). Effectual problem solving or decision making apply in situations where predictability, pre-existing goals, and an independent environment are not available to the decision maker.

Building on the entrepreneurship literature, we make the distinction between causal decision making and the effectual decision making that parallels the policy decision approach introduced by Lindblom (1959). The causal approach, somewhat analogous to Lindblom's rational-comprehensive or "root" approach, describes a linear, structured process where the decision maker must first identify the end and then must decide on the appropriate means to achieve that end. The effectual approach, analogous to Lindblom's "branch" approach, takes the resources available to the actors (the means) as given; the decision involves making choices about the end. Training social entrepreneurs in effectual decision making has potential to better mirror real-world applications and may increase a social venture's ultimate success.

There are several well-established organizational theories to help explain nonlinear and imperfectly rational organizational behavior within firms and nonprofit organizations (Anheier, 2005; Ott & Dicke, 2012; Scott & Davis, 2007), including the human relations model (March & Simon, 1958; Simon, 1976), garbage can model (Cohen, March, & Olsen, 1972), contingency theory (Drazin & Van de Ven, 1985; Schoonhoven, 1981; Van de Ven & Drazin, 1984), institutional theory (DiMaggio & Powell, 1991), and population ecology (Aldrich, 2008; Hannan & Freeman, 1977). This literature, with the exception of population ecology (Aldrich, 1990), largely focuses on decision making and behavior within established organizations. In contrast, the literature on emerging organizations, and more specifically the literature on social entrepreneurship and the nonprofit start-up process, almost exclusively explains that process as very structured and completely rational (i.e., causal). Models begin, for example, with assessment of needs, development of a plan, determination of value proposition, calculation of social return on investment, and development of financial statements, among other activities.[1]

Using two case studies, we illustrate how social entrepreneurs may use an effectual approach to the process of starting a new social venture or nonprofit organization in addition to the more structured causal model. This case study approach responds to those nonprofit scholars calling for more in-depth case studies to broaden our understanding of nonprofit organizations and how they change (Galaskiewics & Bielefeld, 1998). The examples of nonprofit start-ups demonstrate the use of effectual processes by engaging in short-term experimentation to identify opportunities, focusing on projects where the loss in a worst-case scenario is affordable, emphasizing pre-commitments and strategic alliances, and exploiting environmental contingencies by remaining flexible.

This article's structure is as follows. First, we present a discussion of social entrepreneurship and the causation approach to nonprofit start-up commonly discussed in the literature. Next, effectuation as a contrast to the causation approach is introduced, followed by a review of how effectual decision making applies in the context of social entrepreneurship. This is followed by a discussion of the case study methodology and the presentation of case studies of two nonprofit organizations—the Center for Rural Development (CRD) and the Innovation Center—to illustrate the use of effectuation in the nonprofit start-up process.

Social Entrepreneurship as the Creation of Nonprofit Organizations

The past several years have seen social entrepreneurship becoming a focus of interest of researchers, nonprofit managers, and philanthropists alike. However, the definition and boundaries of the concept have been subject of much discussion (Christie & Honig, 2006; Haugh, 2005; Hill, Kothari, & Shea, 2010; Mair & Martí, 2006; Mort, Weerawardena, & Carnegie, 2003; Nicholls, 2006). For example, Light (2006) broadly defines social entrepreneurs as the key actors in social entrepreneurship, as individuals, groups, networks, organizations, or alliances of organizations that seek to achieve "sustainable, large-scale change through pattern-breaking ideas in what or how governments, nonprofits, and businesses do to address significant social problems" (p. 50). Bornstein (1998) defines a social entrepreneur as "a path breaker with a powerful new idea, who combines visionary and real-world problem solving creativity, who has a strong ethical fiber, and who is 'totally possessed' by his or her vision for change" (p. 37).

Social entrepreneurship definitions and research are grounded in multiple disciplines such as business, public administration, economics, and sociology (Austin, Stevenson, & Wei-Skillern, 2006). This has resulted in a divide between those drawing from the private entrepreneurship perspective and those taking the nonprofit perspective that draws from the sociological, anthropological, or public organization traditions. Yet, Mair and Martí (2006) point to the nebulous definitions and fuzzy boundaries of social entrepreneurship as offering a unique opportunity for the multi- and inter-disciplinary study of social entrepreneurship. While we adopt a definition of social entrepreneurship based on the traditional, business entrepreneurship literature, we believe that our application of effectuation to the study of social entrepreneurship is an attempt at bridging the business perspective with the nonprofit perspective.

Much of the literature on social entrepreneurship has borrowed from the broader entrepreneurship literature, and some treat the social entrepreneur as one species in the genus entrepreneur (Dees, 2001). While private sector entrepreneurship is associated with the creation of new business ventures, social entrepreneurship has been associated with the creation of social ventures (Mair & Martí, 2006; Mort et al., 2003). For example, Haugh (2005) defines social entrepreneurship as "those activities associated with the perception of opportunities to create social value and the creation of social purpose organizations to pursue them" (p. 4). Social entrepreneurship, therefore, conceptually involves the establishment or start-up of social ventures that often take the form of nonprofit or nongovernmental organizations,[2] to address a wide range of problems such as community development, unemployment, homelessness, and low educational attainment. This is the approach we take to defining social entrepreneurship, that of social entrepreneurship as the process of start-up or organizing a nonprofit.[3] The focus on social entrepreneurship in the context of nonprofit start-up is important, given the vital role nonprofits play in education, health and human services, arts and culture, political advocacy, and local development (Salamon, 1992). The two common characteristics that nonprofits share are their primarily social purpose and not distributing revenues as profits (Boris, 2006). Beyond these commonalities, nonprofits can vary in terms of their governance structures, relative dependence on different funding streams, the role of volunteers, public visibility, and involvement in commercial activities (Salamon, 1992).

Nonprofits are an organizational form uniquely situated to serve societal needs unmet by government and private firms (Morris, Webb, & Franklin, 2011). Their flexibility, diversity, frequently less bureaucratic structure, and lower costs distinguish them from government (James, 1997). Meanwhile, they differ from private firms/for-profits because of their legal structure and the nondistribution constraint that disallows distributing profits to individuals (Hansmann, 1987; Hansmann, 1980). This combination of traits may give nonprofit organizations an advantage over private enterprise (Anheier, 2005).

Nonprofits are also motivated by public benefit and an emphasis on values (Anheier, 2005; Frumkin, 2002). Indeed, supply-side theories of entrepreneurship emphasize the desire of the social entrepreneur to create social values where the returns are nonmonetary (Anheier, 2005; Young, 1998). The values focus yields higher levels of trust for nonprofit organizations by outside constituencies (Anheier, 2005; Arrow, 1963; Nelson & Krashinsky, 1973) and may result in higher levels of internal trust that would encourage social entrepreneurs to rely more on their identities within the community and interpersonal networks, which are effectual tendencies. In addition, nonprofits can provide services whose direct revenues do not cover their costs and engage in cross-subsidization to finance the production of other services that are intrinsically valuable but are not revenue-generating (James, 1983). As such, nonprofits tend to externalize benefits and internalize costs, making them inherently less focused on profit than their for-profit counterparts (Murdoch, 1999). Nonprofit entrepreneurs may be less likely than for-profit entrepreneurs to have a business background or potentially the financial backing to start an organization, and the nonprofit sector offers an opportunity with low barriers to entry (Frumkin, 2002). Entrepreneurs with low resources are also drawn to effectual logic (Sarasvathy, 2008). For these reasons, we might expect social entrepreneurs to be even more inclined to effectual decision-making processes than their for-profit counterparts. Finally, the nonprofit management literature specifically acknowledges the uncertainty in the nonprofit environment (Anheier, 2005). Social entrepreneurship within the nonprofit sector is marked by innovation and creativity, perhaps more so than start-ups in other sectors (Frost, 2008). This may also incline the social entrepreneur toward using a more effectual approach than is typical in for-profit ventures.

The Causation Approach to Nonprofit Start-Up

Beyond borrowing from the private sector entrepreneurship definition, much of our thinking about social entrepreneurship has been shaped by the opportunity-recognition approach to entrepreneurship. In the traditional way of thinking about new venture creation, entrepreneurs begin with an idea, then search for and recognize the opportunity to exploit the idea, and marshal resources to realize the opportunity through creating a firm. Entrepreneurship scholars identify this highly structured and planned process of firm formation as a causation process. The causation process, which will be contrasted to the effectual process in the next section, assumes that the entrepreneur's goal (the end) is to maximize returns (e.g., sales or profit) and that making decisions about realizing the idea and opportunity involves selecting between different resources available (means) to achieve this goal.

This causal decision-making approach is mirrored in the literature on social entrepreneurship and nonprofit start-up. For example, Guclu, Dees, and Anderson (2002), in discussing the social entrepreneurship process, state that "[a]ll acts of entrepreneurship start with the vision of an attractive opportunity . . . one that has sufficient potential for positive social impact to justify the investment of time, energy, and money required to pursue it seriously" (p. 1). Their depiction of the social entrepreneurship process involves two sequential stages: generation of a promising idea and development of that idea into an opportunity. The social issue addressed or the social impact desired (the given end) guides the identification, prioritization, and selection of the idea. The development stage is also causally structured and planning intensive, involving the development of an operating model and resource strategy driven by the social impact theory.

Similarly, Martin and Osberg (2007), in attributing commonalities between entrepreneurs and social entrepreneurs, suggest that social entrepreneurs are "strongly motivated by the opportunity they identify, pursuing that vision relentlessly, and deriving considerable psychic reward from the process of realizing their ideas" (p. 34). They define a social entrepreneurship process that includes identifying an opportunity, developing a social value proposition, and marshaling resources. For Mair and Martí (2006), social entrepreneurship is a process of creating value through offering services and products, through the creation of new organizations, by combining resources in new ways intended to explore and exploit opportunities to create social value by stimulating social change or by meeting social needs. These authors and many others suggest that social ventures develop through a systematic goal-oriented process that begins with the idea and progresses in a linear fashion: idea to opportunity to resources to organization creation with the intent of specific social impact or creating social value.

Alongside causal models, the entrepreneurship literature also acknowledges alternative approaches to decision-making and organizational creation, including supply-side models that focus on the motivations of the social entrepreneur, value creation, and collective goods provision (Frumkin, 2002; Powell & Steinberg, 2006). Steinberg's theory, for example, posits that entrepreneurs consider the costs of entry, agency costs, resource availability, regulation, and enforcement before deciding to find a new organization, transform an existing nonprofit, or utilize government or another organization to accomplish their desired results (Steinberg, 2006). These approaches still consider that decision making for the potential entrepreneur possesses a high degree of rationality and knowledge of the external environment.

Another alternate approach to the causal decision model, called effectuation, was introduced and developed by Sarasvathy (2001). The next section describes effectuation and the effectual decision model, contrasts it to causation, and then describes how the literature on social entrepreneurship incorporates elements of effectuation.

Effectuation and Effectual Decision Making

Rather than working under assumptions of rational human behavior and predictable outcomes, effectuation assumes goal ambiguity, isotropy, and uncertainty. With goal ambiguity, the entrepreneur's preferences for goal achievement are not determined *a priori* and not ranked in any given order. Isotropy refers to an environment where it is unclear how the entrepreneur should divide attention between competing elements, and more specifically what to acknowledge and what to ignore, particularly when the future is uncertain. Furthermore, under conditions of uncertainty, the potential outcomes of the entrepreneurial process are both unknown and unknowable.

Concisely, effectual problem solving or decision making is most appropriate in situations where predictability, pre-existing goals, and an independent environment are not available to the decision maker. In this way, effectuation mirrors Mintzberg's (1994) assumptions about strategic thinking where uncertainty is certain and the most productive thought processes are informal and personal. In an atmosphere characterized by uncertainty, goal ambiguity, and isotropy, the entrepreneur cannot depend on the logic of cause and effect to order the entrepreneurial process, but must order the environment through other means. Because uncertainty about goals and outcomes is inevitable, "[e]ffectual rationality lies in exercising control over what *can* be done with resources at hand, rather than optimizing decisions about what *ought* to be done given a set of predictions about what happens next" (Dew & Sarasvathy, 2002, p. 7). Nonprofit entrepreneurs, often operating on slim budgets, draw from connected resources within their grasp, deriving control from wielding such resources, not from predicting outcomes. One of many positive outcomes of this behavior is that organizations can absorb unexpected outcomes and create opportunities through them. In other decision-making models, "[s]urprises are usually relegated to error terms in formal models . . . [i]nstead an effectual logic suggests they may be the source of opportunity for value creation" (Sarasvathy, 2008, p. 91).

The logic of effectuation is that to the extent that an individual can control the future, he or she does not need to predict it. This control proceeds from the entrepreneur's open-ended aspirations and the given means for the creation of unanticipated, new, and sometimes multiple ends. By contracting or structuring certain dimensions of the future, such as through pre-commitments from stakeholder-partners and strategic alliances, the effectual entrepreneur controls the future by making it look very much like the agreed upon contracts. The focus is on creating new markets in the chosen image of their partners, rather than attempting to guess through business planning or predictive competitive analysis. Control is achieved through choices made through an expanding network of stakeholder relationships. This network, as it unfolds, creates the path on which the development trajectory of the firm, and in many cases even the structure of the new market, comes to depend.

Effectual decision making may be particularly suited to nonprofit start-ups. According to Sarasvathy (2008), effectuation concentrates on the means at hand and what can be produced with those means, focuses on creating markets rather than competition in existing markets, and is concerned with loss capacity. These three attributes characterize many nonprofit endeavors.

First, while nonprofit entrepreneurs may have a specific mission in mind, oftentimes the mission is vague or generalized, particularly at the outset. For example, the mission initially may be to create jobs, help the poor, or provide opportunities for youth. In order to realize those missions, social entrepreneurs begin with the resources or means available to them as they take steps toward specifying how to fulfill the mission. These actors pool resources from what is readily available rather than spending a great deal of time and money designing the perfect program to address the mission. Sarasvathy (2008) writes,

> . . . the process of effectuation allows the entrepreneur to create one or more effects, irrespective of the generalized end goal she started out with . . . Effectuation not only enables the realization of several possible effects (although generally one or only a few are actually realized in the implementation), but also allows the decision makers to change their goals and even shape and construct them over time, making use of contingencies as they arise. (p. 78)

Thus, in an effectuation environment, the social entrepreneur interested in helping the poor might end up with an organization that provides public transit in a community with no public transit system, a day care program providing at-risk youth with educational programming, or a health and nutrition training program aimed at getting the most nutritional menus on a fixed income. Any of these outcomes, or other different outcomes, is possible under effectual decision making since there are numerous potential outcomes depending on the particular means. The development toward one or more of these outcomes (or effects) results from the means that are available to the social entrepreneur at a particular time, including partnerships and networks.

Second, although nonprofit organizations do compete with each other for resources, including human and financial capital, competing in a pre-existing market for the sake of making a profit is not their primary objective. Nonprofit density theory demonstrates that organizations are created where markets essentially do not exist, especially in cases of market and government failure (Salamon, 1999; Weisbrod, 1988; Young, 1998). As such, they are filling in the gaps to provide services, essentially creating a market for a particular service where the public demand and government demand did not produce the service. For example, the market may not provide arts programming in rural communities since the marginal costs outweigh marginal profits. The government may desire that such activities take place, but be similarly unwilling to provide the service. However, a nonprofit organization may create a market by providing the service.

The nondistribution constraint ensures that profits garnered through organizational activity go back into that organization instead of enriching board members or affiliated partners. Rather, these organizations operate programs by assessing how much they can lose on a particular project and remain a viable organization. This operating framework affects the definition of the organization's market. By creating the market, whoever becomes the first customer, by definition, becomes the first target customer. By continually listening to the customer and building an ever-increasing network of customers and strategic partners, the entrepreneur can then identify a workable segment profile. Sarasvathy (2008) writes,

> [a]ffordable loss forces effectuators to seek stakeholders within their immediate vicinity, whether within their geographic or sociocultural vicinity, within their social network, or within their area of professional expertise. Furthermore, by choosing not to tie themselves to any theorized or preconceived "market" or strategic universe for their idea, effectuators open themselves to surprises about which markets they will eventually end up building their business in or even which new markets they will create. (p. 88)

To summarize, effectuation begins with a given set of means (who I am, what I know, whom I know) and contingent aspirations, then uses them to select from a set of possible effects imagined by the entrepreneur. Both the means and the aspirations may change over time. The particular effect selected is a function of the level of loss or risk acceptable to the entrepreneur, as well as the degree of control over the future that the entrepreneur achieves through strategic partnerships along the way.

Effectuation Versus Causation

Effectuation is defined as decision making where the set of means is given and the entrepreneur's focus is on selecting possible effects to create using that set of means. Causation, in contrast, begins with the particular effect as given with the focus being on selecting between means to create that effect. The distinction between the two "is in the set of choices: choosing between means to create a particular effect, versus choosing between many possible effects using a particular set of means" (Sarasvathy, 2001, p. 245). However, it is important to note that effectuation and causation are not mutually exclusive in the nonprofit organizing or start-up process. Social entrepreneurs may employ both causal and effectual strategies. For example, a nonprofit start-up involving a group of social entrepreneurs may use a combination of effectual and causal decision making depending on the approaches taken by the individual entrepreneurs (as demonstrated in

Table 1. Comparison of Effectual and Causal Decision Processes.

	Effectual	Causal
Starting point	A given set of means, usually consisting of relatively unalterable characteristics/ circumstances of the decision maker	A pre-determined given goal to be achieved
Decision options	A set of effects or possible operationalization of generalized aspirations, to be generated through the decision process	A set of alternative means or causes that can be generated through the decision process
Constraints	On possible effects (also pose opportunities)	On possible means
Decision criteria	Selecting between effects, based on pre-determined level of affordable loss or acceptable risk	Selecting between means, based on maximizing expected return with respect to the pre-determined goal
Appropriateness	Actor dependent Excellent at exploiting contingencies	Effect dependent Excellent at exploiting knowledge

the cases). Furthermore, as dictated by the needs, a causal-oriented social entrepreneur may adopt an effectual decision-making frame, and vice versa. Table 1 summarizes the differences between the decision processes.

Effectuation in the Social Entrepreneurship Literature

According to the effectual approach, the characteristics of the decision maker, such as who she is, what she knows, and whom she knows, form the primary set of means that combine with contingencies to create an effect that is not preselected but that is constructed during the effectuation process. Social entrepreneurs using the effectual model, therefore, begin with three categories of means: who they are (e.g., their traits, tastes, and abilities), what they know (e.g., their knowledge corridors), and whom they know (e.g., the social networks they are part of).

Leadbeater's (1997) discussion of social entrepreneurs most closely approaches an effectual perspective for thinking about the social venture creation process. He believes that the social entrepreneur's most important resources are the knowledge and ideas of stakeholders including staff, volunteers, and customers. This highlights the important role, as specified in the effectual model, of customers as strategic partners in constructing the goal of the organization. Stakeholder-partners and strategic alliances are important elements of control in the effectuation perspective, and Leadbeater concurs that "[s]ocial entrepreneurs are great alliance builders. Their organizations are usually too poor and too frail to survive on their own resources" (p. 55). For most nonprofit organizations, this strategic alliance approach is also reflected in a "complex and creative relationship with their funders" (p. 63).

Leadbeater also emphasizes the entrepreneur's social capital and social network. He proposes that establishment of the nonprofit or social organization involves six steps, and calls the complete process a "virtuous circle of social capital" which starts with the entrepreneur's inherent social capital and ends with the returns from the investment of social capital (pp. 67-70). According to Leadbeater, the entrepreneur's endowment of social capital is a vital component of the entrepreneur's initial means. In establishing the relevant social end, the entrepreneur uses her social capital to attract physical, financial, and human capital and leverages these to create the desired effect.

Of the two theories of decision making, the causal approach is more firmly ensconced in the literature and in pedagogical approaches to entrepreneurship. While the effectual approach is gaining academic attention, it is not as widely accepted as causal models. We use case studies to illustrate how effectual decision making functions within two organizations and to exemplify how well effectual theory suits nonprofit social ventures. These case studies offer examples of effectuation and the effectual process in social entrepreneurship.

Case Studies of Nonprofit Start-Ups in Community Economic Development

Two case studies illustrate how elements of effectuation are at play in the nonprofit start-up process. These case studies of the CRD and the Innovation Center detail the process of starting and organizing nonprofits in the area of community economic development. Both are examples of the creation of community-led social ventures, where nonprofit organizations operate within the specific context of serving community economic development needs. This focus on community economic development is appropriate and relevant, as several researchers (e.g., Pearce, 2003) identify local development and regeneration as an area of abundant opportunities for social entrepreneurship. Similarly, as noted by Mair and Martí (2006), a large number of social entrepreneurship studies have centered on community development in the United States, Canada, and the United Kingdom.

Community-led social ventures “have the potential to revitalize communities via meeting local needs, developing the capacity of a community to be independent, and generating social capital between individuals and communities” (Haugh, 2007, p. 161). These organizations have gained prominence with the increasing emphasis on communities being more responsible for their own development as the public sector has slowly withdrawn from the business of providing development-related services. According to Hayton (1995), the distinguishing characteristics of community-led social ventures are that they are controlled by the members of the community within which they are based, and that financial surpluses are either reinvested into the organization or used to support other activities that further enhance community benefit.

This research used an exploratory perspective and a qualitative case study approach (Yin, 2011). The nonprofits were selected because members of the research team were involved in their development, allowing for an ethnographic approach for the qualitative case study analysis. Empirical data were collected via multiple sources, including interviews with board members, staff, funders, and clients, and document analysis of organizational meeting minutes, annual reports, and other reports created by the organizations. The researchers also observed board meetings and developmental meetings in the early stages of organizing.

The two case studies, while not related, both represent nonprofits involved in community economic development activities. However, the decision-making processes involved are not unique to community-led social ventures involved in economic development activities. There are no reasons to believe that these nonprofits and their contexts are unique or that the research results from examination of their decision-making processes cannot be generalized to the broader world of nonprofits.

The CRD

The CRD is a nonprofit focusing on economic development strategies for rural Southern and Eastern Kentucky. Its 26,000 square foot facility includes a convention center, theatre, video wing, and office space housing various other development nonprofits. In addition, the CRD supports a variety of outreach programs including telecommunication services, training and education, arts programming, public safety, and other ventures. Through partnering with other nonprofits serving the same region and focusing on the numerous aspects of economic development such as tourism, agriculture, and commerce, the CRD strives to fulfill its mission “that no young person will have to leave home to find his or her future.” However, this broad range of activities associated with the CRD was not envisioned at its beginning.

Start-Up Process

In 1980, the U.S. Census demonstrated that the 42 counties of the 5th Congressional District of Kentucky was one of the poorest and least educated regions in the nation. The area has historically been plagued by poor infrastructure, high poverty and unemployment rates, low educational attainment, high outmigration, and a lack of political collaboration across county lines. Each county viewed itself as very distinct from its neighbors, a vestige of early history and geographic barriers.

U.S. Representative Harold "Hal" Rogers is the primary social entrepreneur associated with the CRD's start-up process. To improve economic opportunities for his constituents and encourage growth in the region, Rogers began gathering stakeholders to collectively address the region's problems. In the early 1980s, Rogers encouraged the creation of three outreach organizations to address different aspects of poverty: the Southern Kentucky Economic Development Association, the Southern Kentucky Tourism Development Association, and the Southern Kentucky Agricultural Development Association. Other partners also emerged. Somerset Community College later approached the Congressman for assistance building a campus performing arts center. Over the next five years, the economic development affiliates evolved, and each began hiring staff and developing its own programs. The agricultural group had a close relationship with the state's flagship research institution, the University of Kentucky, and a joint agreement provided for one of University of Kentucky's researchers to head the regional agricultural development organization as part of the University's land grant mission. The Congressman, the local mayor, city council members, and prominent businesspeople in the community began to discuss the idea of housing all these organizations in the same facility, providing a one-stop shop for regional economic development services.

While considering how to do this and how to provide a performing arts center for the college, the group brainstormed other facilities that could stimulate the community and regional economies, including a convention center. Over the next couple of years, these leaders decided that one building could house performing arts, regional development organizations, and the convention center, with the goal of creating a national model for economic development. This project came to be known as The CRD.

In the late 1980s, the Appalachian Regional Commission (ARC) provided financial support for a feasibility study. After the ARC study affirmed the feasibility of combining a one-stop development center and convention center, the ad hoc planning committee moved forward. The group partnered with the University of Kentucky, which provided leadership for the agricultural economic development group and whose community college sought the performing arts center. The University would build the facility and the emerging organization would manage it. Funding for the facility came from various local and federal sources in the form of grants from the federal Small Business Administration along with the city and county governments.

As the university's architects began planning the facility, its purposes and scope expanded further. Originally designed to house the economic development organizations, an exhibit hall, and a theatre for the college, the building grew to include some federal offices (a Department of Commerce Import-Export Center and Small Business Administration branch), University of Kentucky Extension Agent offices, art exhibition space, and a technology suite including a distance learning classroom, a broadcasting area, and a video production room. Although the first architectural plans did not include the technology suite, members of the planning committee sought a mechanism for improving access to educational programming and courses for residents in disparate counties. The state's public broadcasting station, Kentucky Educational Television, agreed to partner in connecting the region through its satellite technology, particularly to the three other community college campuses located in the service area, and the architects began adding the technology wing.

During this time, the planning committee and affiliate organizations managed the project, but as its complexity increased, the group began seeking an executive director to head the fledgling organization. In 1994, while the facility was still under construction, the first executive director was hired. The first tasks for the CEO were to formulate the organizational by-laws and create the more permanent board of directors, who would supplant the planning committee and interim executive committee. The University and each of the economic development organizations held permanent positions on the CRD board along with Lake Cumberland Performing Arts, a local arts nonprofit that worked in conjunction with Somerset Community College to provide arts programming in the area. In addition to these permanent positions, the board included representatives from each of the service area's 42 counties.

In 1994, the organization received its 501(c)(3) status, and final construction was completed in 1996. As all of the components of the organization and its partner groups came together, each with its own programming goals but with a collective target area, questions arose about how to make the organization relevant to the region and fulfill the directive of serving as a national model for economic development. The existing mission statement did not offer a prescription for how opportunities were to be created or how the partner groups would work together. This flexibility actually helped the organization achieve these goals by fostering innovation and creative partnerships, resulting in a wide variety of pilot programs and projects to address educational, economic, and business development that continue to the present.

Elements of Effectuation

The CRD's start-up process exemplifies several features of effectuation. Actors within the organization created markets for several different programs related to the overall goal; however, those programs were not prescribed *a priori*. For example, the organization expanded to include a public safety program; the original planning committee never conceived of it, but the program grew out of a partnership with a funding agency. Partnerships between the organizational actors, their immediate networks, and those organizations and citizens within the proximate geographic area provided the framework for many of the programmatic emphases during the start-up phase. Formal and informal partnerships and networks continue to drive program development at the CRD.

The way in which the CRD was able to create markets is also illustrative of the effectuation process. Telecommunications service is one area of programming which demonstrates this market creation. Within the CRD's first year of operation, a series of strategic planning meetings were held throughout the service area with the goal of asking individuals in every county what services they sought. Across all the counties, people who attended the meetings requested services the center could not provide, such as infrastructure. However, the meetings provided an opportunity to market the services the CRD could immediately supply through its existing programs, such as telecommunications services. Therefore, while the strategic planning meetings served a primary purpose of gathering information from potential clients, the secondary, and perhaps defining purpose, was to educate potential clients about services, essentially creating markets.

In this way, the first telecommunications clients became the target population for telecommunications services, the first arts patrons became the target audience for the arts program, and so on. As new ventures, or surprises, arose, staff incorporated these ideas as contingencies. One of the most enduring and popular programs, a youth camp emphasizing telecommunications, entrepreneurship, and service, was created in the fourth year of operation in response to an idea from the executive committee. Staff created the program based on the availability of resources within the facility and the local community and created the market for this activity through existing board member relationships in the immediate geographic region.

The original actors focused on their immediate resources, or means, in terms of what they knew in their various professions and whom they knew in their various networks and moved forward with plans that could be accomplished within those particular contexts. Through interactions with other people and stakeholder commitment, the CRD developed both new means (additional financial and human resources) and new goals (additional programming ideas). The CRD was able to fulfill its overall mission by taking the means available and attaining multiple effects, some of which could not have been foreseen at the outset.

Innovation Center

The Innovation Center is a nonprofit community incubator in northern Indiana that focuses on the development and growth of entrepreneurial-based companies. Its current vision is to be a growth, research, and commercialization center that creates, attracts, and retains high-quality, high-paying jobs; enhances learning at all educational levels; and contributes to the vitality and competitiveness of its community. Its current mission is to create jobs and grow companies by accelerating innovation and energizing entrepreneurship.

The Center provides a variety of programs and services to help entrepreneurs develop, launch, and grow their businesses. These include facilities' services and infrastructure, business coaching and mentorship, product development assistance, and access to financial capital. The Center also provides comprehensive consulting and marketing research studies, and support through mechanisms such as feasibility plans and studies, competitiveness/cluster strategies, new product development plans, educational programming and market assessments, asset mapping of regional strengths, revitalization of downtown efforts, competitive landscape assessments, and strategic/scenario planning.

Start-Up Process

The Innovation Center was the brainchild of a group of local leaders with ties to the government, education, and the manufacturing, medical, and technology industries. They represented the local government's economic development office, the chamber of commerce, the regional university's chancellor, prominent doctors, and are business leaders. Their hope was to address entrepreneurial needs in the local community, and in March 1998 they formed a task force to investigate their options and to identify a select group of social entrepreneurs to lead the start-up process. The task force commissioned a feasibility assessment and best practices overview, the findings of which shaped the selection of the social entrepreneurs. The Innovation Center was formalized in December 1999, achieving 501(c)(3) status as a public–private partnership between the city and the county, the primary regional university, the Chamber of Commerce, and local community stakeholders who were committed to growing a more vibrant regional economy.

However, the nascent organization lacked leadership and direction; it was not until a year later, in late 2000, that a CEO was identified and put into place. In the time between receiving the nonprofit designation and naming a CEO, a business plan was commissioned. However, the feasibility analysis, best practices overview, and business plan were developed by outside consultants, and did not reflect the human capital and social capital of the social entrepreneurs who would later develop and expand the organization. Not surprisingly, these plans and analysis were rarely referred to during the start-up and growth of the nonprofit organization. As the idea for the Center materialized and the Center became more established, its partners expanded to include the state, other area colleges and universities, and local corporations.

Beyond the core group of social entrepreneurs and key stakeholders, the different programs under the Innovation Center umbrella each had a different set of partners and stakeholders. For example, the Center for Entrepreneurial Excellence, which resulted from a partnership with a local philanthropic foundation, involved a network of partners including three colleges and universities, local chambers of commerce, and the city. The Digital Kids Initiative, which was intended to build the region's economy by helping young people, families, and adults who work with youth to understand and embrace entrepreneurship, involved a much wider partner network, including the Boys and Girls Club, the Junior League, the state's regional education service center, after-school programs, and other learning organizations.

As the Center evolved over the course of the start-up and early phases, its founders and staff slowly progressed from a very broad base to a more focused approach. While the shared common aspiration was supporting local entrepreneurship, the Center's initial vision statement was "to develop future community leaders by bringing hope to people's dreams and possibilities to people's plans." This very generic vision was then supported by a similarly broad mission of being a community-based system of resources that would foster the adoption of innovative and entrepreneurial processes that lead to greater individual self-sufficiency, community vitality, and regional competitiveness. This breadth of the vision and mission gave the entrepreneurs involved a high degree of flexibility in making programming decisions.

In its early years, despite the broad vision statement, the initial conceptualization of the Center was as a business incubator. But while the Center searched for its identity, its programming expanded beyond the incubation program to include a biomedical research center, an entrepreneurial education and training component, and a youth entrepreneurship program. The Center's earliest strategic plan, adopted in 2002, identified three focus areas that encompassed these programs: (1) supporting enterprise opportunities and acceleration; (2) supporting local technology genesis; and (3) fostering an entrepreneurial culture and mind-set. As the organization became more established, however, the objective shifted to focus more exclusively on supporting enterprise opportunities and acceleration, with minimal emphasis on the remaining two programming thrusts.

It is important to note that decisions about what programs and services the organization would offer were not made based on a structured planning process. Despite its name, the early strategic plan was more documentation and rationalization of the direction in which the entrepreneurs wanted to proceed with organizational creation than product of a formal planning process. The choice of industries to support, for example, was driven more by a combination of the expertise areas of the founders and by the Center's early clients, who were predominantly in the technology industry, than by a preconceived notion of service goals. The strategic plan explained the organization's vision and mission, identified organizational goals and objectives, described the different programs and services offered by the Center, and provided the reasoning behind the need for these programs and services. The strategic plan also included the summary of a needs assessment, service gap analysis, and SWOT analysis, but these were all conducted ex-post to decisions regarding programs and services; the analyses were tailored to the decisions that had already been made, instead of using the analyses to inform decision making.

Elements of Effectuation

The social entrepreneurs involved in the creation of the Innovation Center exhibited a high degree of effectual decision making, relying much more heavily on network connections, readily available resources, and their own skills to control the future rather than planning and analysis activities to predict it. The entrepreneurs had very broad and open-ended aspirations that revolved around supporting entrepreneurship and entrepreneurial activity to improve the region's economic vitality. By tapping their pre-existing and evolving assets—the human capital and technical expertise of the entrepreneurs and key stakeholders, and the social capital that derives from the extensive network of these entrepreneurs and stakeholders—the entrepreneurs developed and established a nonprofit organization in an incremental fashion, taking advantage of uncertainty and contingent information to adopt and then adapt different programming elements.

The human and social capital—more specifically, what the entrepreneurs knew and whom they knew—greatly shaped the Center's programming. The founders and key stakeholders primarily had technology and medical backgrounds, and not surprisingly, they targeted those industries for the Center's programs and services. Furthermore, the founders and stakeholders were connected to individuals in these industries, who later became clients, service or support organizations, and even funders. Funders, especially, had much influence in deciding the programs and services. For instance, in its second year of operations, the Innovation Center was approached by a funding organization to develop a youth program. Since the funder was less explicit about the specifics of the program, the collaboration evolved from the Center's existing technology and entrepreneurship focus to create the Digital Kids Initiative. It is important to note that the decision to establish this initiative resulted not from formal planning and analysis, but instead from a funding arrangement between the two organizations. The Biomedical Research Center, another early program created by the organization's founders, was created through a similar partnership structure, one involving a local health care organization, the Center, and several of its early clients that were in the medical industry.

In the effectuation model, organization creation is also driven by the early customers. In essence, whoever becomes the first customer, by definition, defines the target customers. The Innovation Center had two early client companies; as strategic partners and allies in the organizational development process, both were pivotal in deciding the Center's programs and services. The entrepreneurs developed agreements with the client companies to provide specific incubator facilities and services, and business planning support. These services then became the core services offered by the Center to all its client companies. By continually working with the early clients and then building a growing network of customers who in turn became strategic partners, the Center's founders developed a more focused target client profile. This network, as it unfolded, created the developmental trajectory for the nonprofit's programs and services. The entrepreneurs were able to create new markets in the chosen image of their clients/strategic partners, rather than through formal strategic planning, needs assessment, or competitive analysis.

The Innovation Center example also illustrates how, over time, the effectual process allows the entrepreneurs to create multiple effects—given the same means—irrespective of the original goal. Effectuation-based decision making allows the entrepreneurs to shape and change their goals over time. This is evident in the case of the Center, as the organization's vision and mission have changed over time, along with the programming emphasis. In its current form, the Center serves all industries, but has re-focused its efforts on providing programs and services that help entrepreneurs develop, launch, and grow their businesses. The Innovation Center's activities are now focused under its Center of Entrepreneurial Excellence, but the Biomedical Research Center and the Digital Kids Initiative, which were peripheral to entrepreneurial support, are no longer in operation.

Conclusion

This article presents a novel way of thinking about and understanding decision making that is based on the theory of effectuation explicated by Sarasvathy (2001) and originally applied primarily to the private sector entrepreneurship process. This is achieved by describing and then illustrating, using two case studies, the effectual decision-making approach to nonprofit start-up and social entrepreneurship. While our approach focuses narrowly on social entrepreneurship and the nonprofit sector, there are many parallels and points of convergence between effectuation and other public administration and policy theories that suggest effectuation may have applicability to theory building in a wider range of public sector issues and areas.

Effectuation theory offers a promising and challenging rethinking of assumptions about the entrepreneurial mind-set. As an alternative to the widely accepted causal model of decision making, effectuation is particularly relevant for the nonprofit sector. This paper describes the importance of effectual theory within the nonprofit social venture process and illustrates effectual decision making in a real-world context. The effectual decision-making approach, in contrast to the causal decision-making process that is commonly used to describe organizational creation, applies where the set of means is given and the focus is on selecting possible effects that can be created with the set of means. The particular effect selected is a function of the affordable or acceptable level of loss, as well as the degree of control achieved through strategic alliances.

Using the case studies of the CRD and the Innovation Center, we are able to show how the nonprofit start-up exemplifies the decision-making approach associated with effectuation. While both contain trace elements of the causal approach, effectuation processes dominate their initiation and development phases. In an atmosphere of uncertainty and goal ambiguity, the social entrepreneurs in these organizations sought to control their environments by controlling the means of creation, not by predicting specific outcomes. They did not impose cookie cutter shapes onto the organizations, but rather rolled out a variety of new and innovative shapes.

These are just two of the many examples of effectuation that could be discussed. Sarasvathy (2008) discusses at least three categories of effectual organizations that are particularly suited to nonprofit activities (incentivized, celebrity, and social entrepreneurship), and also highlights Jane Addams' Hull House and Mohammed Yunus' Grameen Bank as examples of effectuation in practice. VanSandt et al. (2009) use the founder of Ashoka, Bill Drayton, as an exemplar of a social entrepreneur using effectual logic. Like these examples, our case studies illustrate how the asset base of the social entrepreneurs—their human and social capital—establishes the means with which the nonprofit is founded. Furthermore, the initial clients and funders in both nonprofits were critical strategic partners in the organization's development and were extensively involved in determining its programming and services. Finally, as the means and overarching aspirations of the social entrepreneurs changed over time, so did the programming and services, reflecting how the results may vary over time. While causal models of decision making are appropriate in some cases, these studies indicate that effectual decision making may be particularly suited to the start-up social entrepreneurship venture.

Research by VanSandt et al. (2009) suggests that because "an effectual mindset compels social entrepreneurs to challenge conventional mental models, often leading to creative and innovative solutions." The effectual approach "results in a virtuous cycle leading to an ever expanding network, increased resources and ultimately greater impact" (p. 423). However, given causation's entrenched place in acceptable entrepreneurship teaching and practice, it is likely that social entrepreneurs adopt a combination of causal and effectual approaches to decision-making processes and frequently give the latter a veneer of causal logic (as seen in the Innovation Center case study's after-the-fact strategic planning or the CRD's feasibility study) during nonprofit start-up. Our research did not address why and under what circumstances the causal or effectual approach may be preferred. Future research may want to extend our understanding of decision making during the nonprofit start-up process by examining the relative effectiveness of the two approaches.

Although based on a small, purposive sample of two community-led social ventures in the United States, our analysis highlights the essential elements of nonprofit start-up through which effectuation is manifested. The nonprofit start-up process is often characterized as being a linear, causal process, and our analysis shows how the process follows an effectual model instead. This finding has implications for training future social entrepreneurs and others involved in the nonprofit creation process, in addition to offering new insights for scholars engaged in the study of nonprofits and social entrepreneurship.

What are implications of this different way of thinking about decision making as it pertains to the process of starting and organizing nonprofits? Acknowledgment and understanding of an effectual social entrepreneurship start-up process has implications for research, pedagogy, and practice. Our presentation of the effectual approach to decision making and illustration of this decisional approach in practice suggest additional directions or venues of research for those interested in studying and analyzing social entrepreneurship. In addition, effectuation could also be applied to different decision arenas in the public sector. For example, future research could examine whether leaders and managers of government organizations utilize the effectual approach in making decisions concerning multi-sector partnerships in a networked environment.

There are also pedagogical implications for the preparation and education of social entrepreneurs. As social entrepreneurship gains a foothold in academia, more schools now offer courses in social entrepreneurship. As part of the social entrepreneurship curriculum, many professors have adopted a similarly structured causal, linear approach to teaching social entrepreneurship. A typical social entrepreneurship course is one taught at New York University, which is oriented toward teaching students about all aspects of the traditional business planning process, with particular attention paid to the challenges of social venture creation (Robinson, 2004). Topics covered in the course include opportunity assessment, business models in the social sector, and acquiring necessary resources, and students are expected to complete a social venture plan. Many other courses are designed using the same pedagogical approach. Our analysis shows that this causal process is not necessarily the primary one used by effective social entrepreneurs; teaching social entrepreneurship in a more natural way, through a better understanding of effectual processes, would potentially benefit social entrepreneurs and others involved in the nonprofit start-up process. Adding effectual decision-making framework to the social entrepreneurship curriculum could help ensure that social entrepreneurs and those interested in establishing nonprofit organizations understand critical issues such as means vs. ends, resources and assets, competition vs. partnership, and planning and contingency.

While the pedagogical emphasis will have an indirect impact on the practice of social entrepreneurship, our analysis also has direct implications for practice. For nonprofit practitioners, effectuation suggests a different approach to strategic planning other than the very linear, structured and causal approach that is typically applied. Identifying effectual processes at work in social ventures alters the mechanisms for evaluating performance and how success is determined.

Our analysis has been limited to the application of effectuation in the nonprofit start-up process and applied specifically to community-led social ventures involved in community development. While these limitations do not reduce the contributions of our study, future research may want to examine effectuation across the broader spectrum of nonprofit development, and across different types of social ventures. There are several existing and emerging trends in the current public service landscape that point to the need for further study of effectuation in social entrepreneurship. First, greater recognition of social entrepreneurs and their ventures are pushing social entrepreneurship to the forefront of research and practice. Effectuation may be useful for understanding how the social entrepreneur addresses community/social issues by leveraging his/her social capital and creating partnerships. In addition, nonprofits are becoming more and more involved in addressing social issues and delivering public services. Furthermore, these nonprofits are operating in environments and service delivery structures marked by collaboration and networks, which may further emphasize the need for effectual approaches. The growing body of research on collaborations and networks may be very helpful in furthering our understanding of how (and why) nonprofits pursue partnerships during the start-up phase.

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Notes

1. For example, a seminal textbook for social entrepreneurship courses, *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs* (Dees, Emerson, & Economy, 2001), "covers the core elements of effective social entrepreneurship . . . from defining your mission to creating a business plan . . . The various steps in between include identifying opportunities, mobilizing resources, exercising accountability, managing risks, understanding customers, being innovative, and handling your finances" (p. xx).
2. The last few years have seen greater use of hybrid organizational forms as the vehicle for creating ventures with a social purpose. For example, since 2008, several states have recognized hybrid organizational forms such as the low-profit limited liability corporation (L3C) and the benefit corporation (B Corp.). These organizational forms were "proposed as a vehicle for "hybrid social ventures" to do social good while operating a business" (Gupta, 2011, p. 217). However, these organizational forms are fairly recent and while they may be the future of social entrepreneurship, we restrict our definition of social entrepreneurship to the organizational form (nonprofit or nongovernmental organizations) that is currently more prevalent.
3. This approach to defining social entrepreneurship as the organizing of nonprofit organizations also serves to further delineate social entrepreneurship from the concept of social enterprise. The concepts of social entrepreneurship and social enterprise have sometimes been confused because both have come to mean different things to different people given their different backgrounds. In the U.S. context, Kerlin (2006) defines social enterprise according to the academic and practice perspectives. For the former, social enterprise is a broader term that encompasses social entrepreneurship. From the practice perspective, social enterprise is "focused on revenue generation by nonprofit organizations" (p. 248), and therefore social enterprise can be subsumed within our broader definition of social entrepreneurship.

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