

Causation and effectuation theory

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As Sara D. Scratchy states: " Causation processes take a reticular effect as given and focus on selecting between means to create that effect. " The underlying assumption in this theory is that if one can predict the future, it can be controlled. Causation focuses on using different means In order to achieve an agreed upon goal. Lets look at a simple example to clarify the notion. A chef In a kitchen wants to prepare a meal. HIS first step Is to contact the clients, and ask them what they want to eat.

From there, he goes to the shop and buys the necessary Ingredients to complete his menu. This qualifies as causation, as the chef begins with the final dish in mind, ND later decides which ingredients are necessary to make the desired meal. The example simplifies the causation theory. Indeed, under this notion, entrepreneurs envision a clear notion of the outcome they want to achieve, and from there, take necessary measures to achieve this goal. Thus, causation involves a great amount of time and research in order to come out with realistic outcomes and expectations for the project.

Entrepreneurs start with the big picture of the project, and then take their decisions progressively on all the details of their venture, In order to attain their ultimate goal. The theory of causation requires some detail in order to be applied. Along with having set a specific goal, alternative means need to be established. The means of this process may be applied within three different levels: on a personal level, at the organization's level, or at the economy's level.

On a personal level, managers are knowledgeable of their own traits, characteristics, as well as the social networks that they can access and use.

At the organization's level, the means represent the physical resources one has at his disposal. These encompass human, technological, and uncial resources. Lastly, at the economic level, the means of the causation theory include, among others, demographic and sociopolitical institutions. Another detail needing to be considered when applying the causation theory is the constraints facing the means being applied.

These involve any limitations one can encounter while trying to apply the means to get to the goal. Limitations might include Atlanta constraints, such as Educate, or unman resources constraints, such as a lack of personnel. The last detail needing to be considered is the criteria used to choose a set of means over another. This last detail is influenced by how good the outcome will actually be. Indeed, every entrepreneur and manager tries to maximize revenues and profits at all times and thus, at every stage of the causation theory. Causation deals with both pros and cons.

First, the theory analyzes into detail every possibility to a venture, and requires the decision-maker to focus on every aspect of it. This analysis proves to be excellent in exploiting knowledge and reaching the best decision according to the acquired understanding. Moreover, causation implies that the future is controlled, given the goal is to achieve an already set and agreed-upon objective. Therefore, the theory of causation is very effective in terms of static, linear and rather stable environments. The fixed goal leaves little room for adaptation and changes.

Thus, the causation theory is more applicable for existing markets. Indeed, entrepreneurs wishing to enter a business have the sources, along with the

necessary information that is required to analyze and assess the desired goal, as well as the means necessary to acquire that goal. Indeed, when the entrepreneur knows receives what firm he or she wants to create, rather than just having a general idea of what he or she wishes to achieve, such as making a lot of money, the entrepreneur can look at these existing markets to determine the outcome that is likely to be attained, and come out with a realistic objective.

In a nutshell, causation rests on the logic of prediction, expected returns, a competitive analysis, the exploitation of preexisting knowledge, and the prediction of an uncertain future. Effectuation is another process through which firms are created. The word effectuate symbolizes the action of putting into force or operation. The word effectuation reminds us of the process of causing something to happen. In Economics, the effectuation process is the alternative to the causation process. Contrarily to causation, effectuation is actor dependent.

It focuses on the aspect of controlling the future rather than predicting it. The underlying assumption under the effectuation theory is that, if one can control the future, it does not need to be predicted. Thus, this theory focuses on how to exploit the available contingencies in order to control an unpredictable future. Rather moving inwards like the causation theory does, the effectuation theory moves outward. Indeed, entrepreneurs and managers exploit the contingencies they have available at hand, and try to create an outcome within these available means.

Instead of looking at the result wanted and then choosing the means to achieve them, they focus on what is available at the moment and concentrate on how to exploit these channels. Looking back at our cent example, if we were to describe the effectuation process, a chef would first look at what is available in the kitchen cupboard. From what is readily available, he would create a menu that he would then present to his customers. Thus, the contingencies are the ingredients and instruments available in the kitchen, and the possible outcomes are any dishes that are able to be prepared with these available contingencies.

Indeed, as Sara Scratchy would explain, "effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means" (Scratchy, 2001). Effectuation process rejects the rational and goal oriented thinking which follows the causation process. Indeed, the effectuation theory leaves room for flexibility and creativity. When using this process, entrepreneurs are required to come up with solutions according to the available means, which can prove to be a very difficult process, as it requires a great deal of creativity.

The set of means used within the effectuation theory are the same used in the causation theory; personal means (who the person is), organizational means (human resources, financial resources), and economic means (demographic). The effectuation process starts with a course, possible effects conceivable through the various resources of these means, constraints on these possible effects, and ultimately the criteria for selecting between the various potential outcomes.

Under the effectuation theory, given the future is highly unpredictable, entrepreneurs and managers look at the most affordable loss that the chosen effect will lead to. This opens up the notion of risk, which is essential to the effectuation theory. To be sure, while the causation theory focuses on maximizing profits, the effectuation theory chooses to concentrate on the effects that will lead to the most affordable loss. Effectual thinkers emphasize worst-case situations.

The effectuation theory is most efficient when used in highly unstable environments and nonexistent markets. In such uncertain environments, the effectual thinkers have the ability of adapting and creating the best venture for the given environment. It is also better to use this process when the entrepreneur only has a general idea of where he wants to go. Thus, effectuation processes focus on affordable loss, strategic alliances, exploitation of contingencies and controlling an unpredictable future.