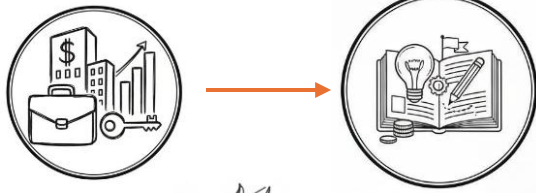


Effectual thinking to unlock entrepreneurial growth

It's never been easier to access models, theories, tips and tools to help you become an entrepreneur. You'll find toolkits that teach you the basics, podcasts that hype you up, and online courses which show you every step from zero to launch. And if you're struggling to build something in an environment that's not entrepreneur-friendly, there are often grants, incentives, or subsidies willing to fill the gap.

However, these resources don't reflect how 75% of the world's most successful businesses actually got started.

Our common knowledge around entrepreneurship doesn't speak to what actually drives success. Current logic prioritises market analysis, business planning and implicitly suggest that you won't achieve your goal unless. While this is true in some cases, there is another school of thinking, popularised by a leading entrepreneurship professor, Dr Saras D Sarasvathy, that has a completely different view on the keys to success in entrepreneurship. It is, effectual thinking.



Causal thinking

What means do I require, in order to reach my vision of success?

VS



Effectual thinking

With the means that I have, what are some possible opportunities I could explore?

What is effectual thinking and causal thinking?

Think of it this way: effectuation is means-based thinking—“what do I have access to, and how do I make the most of it?” It prioritises experimenting with what the entrepreneur already has available and learning from those experiments. By nature, it doesn’t set out to achieve a fixed business outcome but instead remains open to the undetermined direction a business may take.

Causation thinking is outcome-based—“what steps do I need to take to achieve this outcome?” It prioritises planning and mobilising resources to execute a predetermined blueprint or business plan.

What’s better? Neither is necessarily better in all contexts. However, effectuation as an entrepreneurial approach is far less understood and promoted.

Effectual thinking in practice – U-Haul case study

In 1945, Leonard Shoen started U-Haul with almost no capital, no formal plan and no market research. A traditional business plan would have shown the idea to be financially impossible because it required expensive assets, complex logistics and offered no protection from imitators.

Instead of planning, Shoen used the effectual approach. He relied on who he was, what he knew and the people around him. He bought trailers one at a time, lived with family, worked part time and learned by doing. As he discovered what customers needed, he and his extended family built the first U-Haul trailers on a ranch in Washington.

Shoen then used creative partnerships to grow. He let early renters establish new dealerships in the cities they moved to. He spread ownership of the fleet by selling trailers to friends and investors and leasing them back. He partnered with national gas stations to use their empty space as rental points. This created a wide network of stakeholders that made it costly for others to imitate the model at scale.

U-Haul could have failed at many points, but effectual reasoning kept the cost of failure low by spreading investment and allowing learning to happen early. The key insight is that effectual logic does not guarantee success, but it reduces the cost of failure and helps entrepreneurs create markets as they grow.





Why is effectuation thinking relevant for the Pacific marketplace?

Many studies have identified two main barriers to market growth—whether through entrepreneurs, startups or existing industry in the Pacific:

- lack of market access and small domestic markets
- less formal business management and business finance capability and training

Here is why an effectuation approach could help address these barriers.

Why is effectuation thinking better for smaller, more isolated markets?

Causation thinking, and the initiatives that promote it, aim to push market actors toward the same desired outcomes. It gives support and enablement for many firms to capitalise on the same opportunity. This drives oversupply in a given area and can even destabilise the existing market. Furthermore, while these kinds of initiatives may prepare actors to execute on a specific activity, they fail to equip them with the *mindset* to identify and act on changes and opportunities emerging elsewhere in the environment. Effectuation thinking does not start with an endpoint in mind. Instead, it encourages experimentation, which drives the entrepreneurial process and leads entrepreneurs to explore diverse and unexpected opportunities across the economic landscape. In a small market, this is far more likely to generate economic benefit for more participants and expands “the pie” rather than increasing competition for a narrow slice.

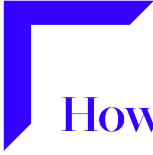
Effectuation also encourages leveraging existing networks, resources and relationships, which tend to be more condensed in smaller markets like we see in the Pacific, making them easier to access and easier to build with.



How does effectuation thinking create change in markets with lower business management capability?

Studies have shown effectuation approaches to be more effective in lower-capability settings for two main reasons.

1. Causation assumes you can set a goal, analyse the market, design a plan, gather resources and execute. In low-capability environments, the required inputs simply do not exist. Effectuation, however, starts from what is already available: the entrepreneur's current resources, networks, cultural knowledge and lived experience. This makes progress possible without needing the capabilities that causation relies on.
2. Causation assumes the entrepreneur has (or can acquire) a wide set of skills early—financial literacy, market research, formal strategy, product development, etc. These capabilities are often scarce in emerging ecosystems. Effectuation uses the “crazy quilt” principle, where entrepreneurs co-create ventures with partners who self-select into the opportunity and bring their own resources. This dramatically increases the capability of the venture without requiring the entrepreneur to have it upfront.




How could development programming evolve to introduce a more effectuation-led mindset for market development and MSME growth in the Pacific?

Shift from predetermined outcomes to “affordable-loss portfolios”

The current mindset defines fixed endpoints, logframes and targets before the market has signalled what is possible. With an effectuation mindset, donors can create smaller, low-risk experimental portfolios that allow entrepreneurs and market actors to explore multiple possible directions before scaling the ones that show traction. The outcome is that markets reveal their own viable paths, which improves donor sustainability and expands the scope for innovation.

Fill gaps in the market through relationships, not technical assistance

The current model sees donors identifying missing capabilities and bringing in external assistance to fill these gaps temporarily. An effectuation mindset views markets as relationship-driven systems, where actors complement the deficiencies they see in each other, producing a more locally sustainable way of building economic strength. This could shift interventions toward facilitating co-creation activities where local entrepreneurs, government and the private sector jointly shape ventures. Donors could also require managing contractors to demonstrate how interventions leverage existing assets rather than importing new ones.



Treat uncertainty as a resource, not a constraint to be designed out

Donors and governments could encourage experimentation in new sectors where understanding is incomplete. Support could focus on an “affordable-loss” mindset rather than an expectation of return. Value could be placed on new propositions created rather than only existing propositions improved.

If we want more actors to thrive in Pacific markets, let's imagine a shift in how we think about market development and entrepreneurship itself.

Instead of pushing actors towards similar outcomes, or training entrepreneurs to address their deficiencies, can we celebrate exploration of discovery, exploration and iteration, a strength based approach where actors collaborate and co-create to address deficiencies. Is this mindset more appropriate for the Pacific? Is it more aligned with Pacific approaches? **Let us know in the comments.**