

Paper Title: *Exploring Entrepreneurial Actions of Creative Entrepreneurs: How do Creative Entrepreneurs Create and Grow Their Companies?*

Keywords: Medium-sized companies, Corporate Growth, Creative Entrepreneurship, Effectuation

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Abstract

This article takes on an exploration into the specific entrepreneurial behaviors creative entrepreneurs typically follow. One of the key assumptions commonly used in published research on entrepreneurship is that it is the task of the entrepreneur to discover and exploit opportunities, which is coined in literature the ‘causation logic’. However, research has shown that not all entrepreneurs follow this logic in reality. The ‘effectuation logic’, does not assume that opportunities await to be discovered, but that opportunities arise when they are created by an entrepreneur and its partners. This article posits that the latter logic has a natural fit with the manner of working for creative entrepreneurs. By analyzing interviews with creative entrepreneurs using a directed approach to content analysis, this study shows that following the effectuation logic is indeed prevalent in creative entrepreneurship, as is also highlighted in two illustrative case examples.

Research question

According to the effectuation logic, the ex-ante information many companies have about the market is both incomplete and overwhelming, with a result that the information seems to be confusing and even contradictory. The market can therefore not clearly be defined, or predicted. Moreover, consumers are unaware of their future needs and preferences, while changes (such as new technologies and practices) can arise constantly. The term effectuation hinges on the notion that entrepreneurs proactively effectuate a transformation (Sarasvathy, 2001, 2009) and attempts to explain how entrepreneurs make decisions in the face of non-existent markets (or not existing today), uncertainty, risk, and unpredictability. This theory postulates that entrepreneurs (collaboratively) create new opportunities outside of a causal framework (Ohlsson-Corboz, 2013).

This environment, which forms the basis for the effectuation logic, is on many accounts similar to the situation which many (aspiring) creative entrepreneurs face. The principles that underlie the effectuation logic, therefore, seem to be adjacent to the way of working in the creative industries, as it is often

described. Consequently, it could be argued that the effectuation logic is an approach that many creative entrepreneurs follow intuitively, which forms the main hypothesis under question for this paper.

The effectuation logic has a natural fit with the usual manner of working for creative entrepreneurs.

Method

This study is based on a continuing research project, set out to enhance knowledge of entrepreneurship in creative industries, coordinated by Flanders DC (the Flemish organization for entrepreneurial creativity). In order to examine our hypothesis, a multiple case study design has been constructed. This design allows the researchers to collect detailed information on both the entrepreneurial practices under scrutiny, and the contextual circumstances as well, which is necessary in the construction of explanatory middle range theory (Fredrickson, 1983). In middle range theory building, the researcher disaggregates complex contexts and situations into more discrete, carefully defined chunks, and then reintegrates these bits with an explicit analysis of their context (Pauwels & Matthyssens, 2004).

Introduction

First we explain what is usually understood in the main literature by 'entrepreneurship' and 'entrepreneurial behavior' and what kind of shift the effectuation theory wants to make in reflecting on and defining 'entrepreneurship'. Second, we describe how effectuation theory fits in very well with the way entrepreneurs in the creative industries are working. Next, we want to validate our hypothesis on the base of the cases of our empirical research. Finally we will draw a number of conclusions and suggestions for further research.

Entrepreneurial behavior and the effectuation theory

There is yet no generally accepted definition of entrepreneurship in the research community (Brixy, Sternberg, & Stüber, 2012). However, one can distinguish at least two important meanings. First, entrepreneurship can refer to owning and managing a business on a person's own account and at his or her own risk. This is the occupational notion of entrepreneurship. Second, entrepreneurship can refer to 'entrepreneurial behavior' in the sense of incorporating economic opportunities. This is the behavioral notion of entrepreneurship (Brixy et al., 2012).

This second definition is important, as this article takes on an exploration into the specific entrepreneurial behaviors creative entrepreneurs typically follow.

One of the key assumptions commonly used in published research on entrepreneurship is that it is the task of the entrepreneur to discover and exploit opportunities. For example, Drucker (1998) claims that most opportunities are discovered through a purposeful search process. Here one often assumes a 'causal logic', where the desired effect, final goal or endpoint is the basis of the actions to be carried out.

In other words, entrepreneurship starts with the determination of the goal(s) that one wants to achieve. Subsequently, means are sought that help achieving that goal. Consistent with this approach, competitive advantage for emerging firms is conceptualized to be largely determined by competencies related to finding and exploiting opportunities and the resources controlled by the firm. This widely followed approach makes that the predominant entrepreneurial decision model taught in many business schools is a goal-driven, deliberate model of decision making referred to by Sarasvathy (2001) as a causation model (Perry, Chandler, & Markova, 2012).

However, research has shown that not all entrepreneurs follow this logic in reality. The ‘effectuation logic’, does not assume that opportunities await to be discovered, but that opportunities arise when they are created by an entrepreneur and its partners (Sarasvathy, 2001). When using effectuation processes, entrepreneurs start with a generalized aspiration and then attempt to satisfy that aspiration using the resources they have at their immediate disposal (i.e., who they are, what they know, and who they know). The overall objective is not clearly envisioned at the beginning, and those using effectuation processes remain flexible, take advantage of environmental contingencies as they arise, and learn as they go (Perry et al., 2012). Starting from the resources available, their own traits, tastes, and abilities; the knowledge corridors they are in; and the social networks they are a part of, the entrepreneur in a multitude of iterations seeks to achieve steps forward towards an ex-ante undefined and unpredicted goal (Sarasvathy, 2001). From this point of view, a different set of ideas and competencies are important in understanding (start-up) entrepreneurship, such as what does each party contributes in the process of creating possibilities, how does each party handle risks, and how flexible are all parties when faced with surprises and challenges (Read, Song, & Smit, 2009). The effectuation theory states that at each step of the effectuation process, expert entrepreneurs use a combination of five guiding principles. These principles depict key decision-making criteria these entrepreneurs follow. Table 1 is derived from Sarasvathy (2009, p.15-16) and gives an overview of the effectuation principles.

Table 1 Effectuation principles

Principle	Description
The bird-in-hand principle	This is a principle of means-driven (as opposed to goal-driven) action. The emphasis here is on creating something new with existing means rather than discovering new ways to achieve given goals.
The affordable-loss principle	This principle prescribes committing in advance to what one is willing to lose rather than investing in calculations about expected returns to the project.
The crazy-quilt principle	This principle involves negotiating with any and all stakeholders who are willing to make actual commitments to the project, without worrying about opportunity costs, or carrying out elaborate competitive analyses. Furthermore, who comes on board determines the goals of the enterprise. Not vice versa.
The lemonade principle	This principle suggests acknowledging and appropriating contingency by leveraging surprises rather than trying to avoid them, overcome them, or adapt to them.
The pilot-in-the-plane principle	This principle urges relying on and working with human agency as the prime driver of opportunity rather than limiting entrepreneurial

	efforts to exploiting exogenous factors such as technological trajectories and socio-economic trends.
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Both searching for causal logics as effectuation are integral parts of human reasoning. Entrepreneurs thus use both causal and effectual approaches in different combinations at different moments and in different contexts. The use of, or preference for a particular approach is related among others to the expert level of the entrepreneur, the resources available, and the progression the company has made in its life cycle. Effectuation processes are not posited as 'better' or 'more efficient' than causation processes in creating artifacts such as firms, markets, and economies (Sarasvathy, 2001).

Creative industries

Due to the specific context, many scholars are convinced that entrepreneurship within the creative industries adhere to different circumstances, regularities and thought processes, both on the supply as on the demand side. Hearn, Roodhouse, and Blakey (2007) therefore suggest that it would be unwise to adopt uncritically models derived from other industry sectors without considering the particular dynamic of the creative industries.

Despite their apparent importance, economists have largely ignored questions about why these industries are organized the way they are (Caves, 2002). Leadbeater and Oakley (1999) argue that entrepreneurs in the creative industries may have much to teach companies in other sectors, from retailing and consumer goods to software and biotechnology, in which competition is increasingly driven by innovation. Hamel (2000) argues that far more than technological resources, it is imagination that will make the difference between entrepreneurs in the new millennium. The dilemmas experienced by managers in the creative industries are therefore also to be found in a growing number of other industries where knowledge and creativity are key to sustaining competitive advantage (Lampel, Lant, & Shamsie, 2000). In a time of age where the world is increasingly giving importance to the personalization of an individual consumer's experience (Pralhad & Krishnan, 2008), the creative industries are exemplary of industries where unique personalized co-created content is delivered (Hearn et al., 2007). A better knowledge of the determinants of entrepreneurial success within the creative industries can therefore prove to be valuable.

As mentioned in the introduction, the overall structure of the creative industries is often polarized, where a small number of large firms account for a significant proportion of industry output and employment, and the rest of the industry is made up of large numbers of smaller enterprises (SME's), catering for niche markets (Jeffcutt & Pratt, 2002). These industries commonly revolve around entrepreneurial, innovative and often unorthodox collaborations, whereby numerous large, small and micro-businesses come together for the duration of a single project, then disband and form new partnerships for the next project (Warren & Fuller, 2009). These industries often display a need to coordinate diverse creative activities within a relatively short and often finite time frame. Since sunk investment costs are often only potentially realized in the first few weeks after products are released and highly dependent on publicity and reviews for sales (e.g. in films, music) organizations in these industries are sometimes referred to as being 'chart businesses' (Jeffcutt & Pratt, 2002).

Furthermore, the market in which these entrepreneurs operate is often complex due to a specific set of characteristics that set these industries apart from conventional conceptions of an industry. For instance in a wide-ranging study on the economics of the creative industries, Caves (2002) identified several distinctive characteristics that point to major risk and uncertainty about the economic outcomes of creative activities. These include a considerable uncertainty about the likely demand for a creative product, an unpredictability in the quality levels consumers see in the outputs, and an unpredictability in the capacity of their producers to continue to extract economic rents. Moreover, Colbert (2009) warns for saturation of the markets, a surplus of supply relative to demand and an almost infinite variety of creative products available.

Many entrepreneurs in these industries run fragile, low-growth companies in markets that have low barriers to entry and a high turnover of talent and ideas. Their businesses are often under-capitalized and lack the management skills and bargaining power to deal with national and international publishers and distributors. As a result, many of these businesses do not realize their full potential for growth (Leadbeater & Oakley, 1999). Moreover, it is also widely acknowledged that management attempts to economize creativity and artistic motivation run the risk of damaging these resources; “Creative people tend to rebel at efforts to manage them overly systematically” (Florida, 2002, p.133). Moreover, entrepreneurs producing creative goods and services often pursue objectives that are not simply economic, but are conditioned by the content of the output they are generating (Hutter & Throsby, 2008). Eikhof and Haunschild (2007) add that a central paradox of creative production is that economic logics tend to crowd out creative logics, and thus endanger the resources vital to creative production. Overall, these market conditions and intrinsic characteristics of industry players make creative entrepreneurs behave in a certain, industry-particular way, which can for many cases be generalized in the following process elements:

- Creative entrepreneurs often start their activities based on their strong, intrinsic interests, their corresponding skills and structured within networks they have at their disposal. This forms the basis from which their creative inspiration flourishes, and (vague) ideas come into life.
- To further develop these ideas, they often work in project-based collaborations with open structures. For example in the production stage of a movie, several creative individuals and organizations from different backgrounds come together on the basis of their skills and joint interests.
- These open structures are typically not bounded by solid rules that impose natural limitations, but tend to have a flexible character that leaves room for contingencies and ‘out-of-the-box’ thinking, which is necessary for the highly unpredictable creative marketplaces.
- The collaborations are further enabled by (informal) commitments of the participants to the project.
- Once the project is finished, the temporary partnership-structure dismantles and new collaborations are formed based on new ideas and interests.

Common themes in the inner workings of the creative industries are therefore a high degree of experimentation, many collaborations, open structures and communication, action-oriented way of working, and a holistic view on the total process.

Analysis

To analyze the hypothesis, the two opposing theories of entrepreneurial logic (causation and effectuation) have been further operationalized into five dimensions, resulting in a 5x2 matrix (Table 2). These five dimensions were based on the underlying rationality of the five effectuation principles. These principles invert key decision-making criteria in common management practices used by expert entrepreneurs. For more information on the five principles (bird in hand, affordable loss, crazy quilt, lemonade, pilot in the plane), we refer to Sarasvathy (2009). For both of the entrepreneurial logics, indicators have been developed that capture each of the five dimensions for that particular way of reasoning. Using this framework, nine small and medium-sized creative companies have been analyzed in terms of entrepreneurial growth and corresponding planned actions. The 9 selected companies represent different sectors within the creative industries: fashion (2), digital production (2), publishing (1), photography (1), product design (1), stage production (1), and media production (1). Interviews have been held with the companies' CEO or strategic director following a semi-structured interview protocol. Topics discussed were the company's definition of growth and their growth ambitions, thresholds for achieving growth, and planned steps for achieving growth. Besides these interviews, industry specialists have been consulted that have a particular knowledge of entrepreneurship in creative industries from an academic, and/or practitioners point of view.

Table 2 Operationalization

	Causation	Effectuation
Starting point	Starting point is the achievable goal. Means are selected based on the chosen goals.	Starting point are the means at hand and the effects that can be achieved with these means.
Decision criterion	Focus lies on maximizing possible profits.	Focus lies on what you're willing to lose.
Contingencies	Surprises are negative, they interfere with achieving the goal.	Surprises are opportunities that can help shape goals and directions.
Partners	Partners are predetermined with the achievable goal in mind	Partners are self-selected and help to determine and define goals
Management of uncertainty	The future can be managed by accurately predicting it.	The future can be managed by focusing on the aspects you can control yourself, through which you can shape your own future.

During the interviews, the researchers made no particular reference to a certain (effectuation or causation) practice or theory. Directly after each interview, the content was transcribed and analyzed using a directed approach to content analysis. The goals of a directed approach to content analysis (also referred to as deductive category application) is to validate or extend conceptually a theoretical framework or theory, in which existing theory or research help focusing the research question, and determining the initial coding scheme (Hsieh & Shannon, 2005). The main strength of a directed approach to content analysis is that existing theory can be supported and extended. In the analysis, the researchers searched for particular references to actions or thought processes that can be related to one of the options from the operationalization table.

The results of the content analysis of the transcripts found that during the interviews, 34 mentions were found that directly refer to one of the practices from the operationalization table. Table 3 provides an overview of the findings, separated for each of the five dimensions.

As the findings indicate, there is a strong indication that effectuation practices are more utilized in the nine cases studied with 26 occurrences for effectuation practices versus eight occurrences of practices stemming from the causation logic. This means that the hypothesis that the effectuation logic has a natural fit with the standard manner of working for creative entrepreneurs holds, based on our research pool.

Table 3 Results

	Causation	Effectuation
Starting point	5	5
Decision criterion	0	5
Contingencies	0	7
Partners	3	7
Management of uncertainty	0	2
Total	8	26

Illustrative cases

To illustrate entrepreneurial actions and reasoning of creative entrepreneurs, two cases are selected exemplifying specific entrepreneurial choices creative industry actors make in shaping their business.

Roos Productions

Roos Productions was founded five years ago as a spin-off of silk-screen printing company Ara nv . "When Ara started to lose customers, due to the financial crisis and the rise of digital printing, we created Roos Productions as a new customer," CEO Els Van Houtven explains. Together with her mother and a friend who develops patterns for the Belgian fashion industry, she created ' DressYourDoll', a toy concept whereby children can make clothes for their (Barbie) dolls themselves. "Our starting point is always: what can we do with the resources and knowledge we have," says Van Houtven. "We are growing in a very organic way and have no fixed roadmap or vision of where we want to be within 5 years. I always told myself: we jump into it and look how far we get. I've always seen DressYourDoll as an experiment."

It is clear that the start-up of Roos Productions was set up according to the '**bird in hand**' principle. Prior to the establishment of Roos Productions, there was no extensive market research, nor competitive analysis or scenario planning. Van Houtven got the idea during a brainstorming session with a client and liked it so much that she decided to work out the concept herself. She tried to enter the market in an efficient and low-cost way with good products, processes and partners. While building her brand, she comes across new markets, new audiences, new partners,... Because of the flexible and open mindset

and the step-by-step way of developing, Van Houtven and Roos Productions can anticipate new possibilities and unexpected situations.

When it comes to the **affordable loss** principle, Roos Productions started off without large investments and with a limited start-up capital. The risk was small, because of the precarious situation of parent company Ara. However, affordable loss is not just about the financial investment made by the entrepreneurs, but also the sacrifices and compromises they make as a person to keep their organisation up and running. This means Van Houtven sticks to the spirit of the organization, even if that might be financially difficult. Currently she is looking for an investor, but she wants to stay in control: "We know where we are and where we want to go. I am always very happy with feedback and advice, but I'm not looking for someone who wants to be part of the daily business at Roos Productions."

Building a strong network of partners, a **crazy quilt** of people who believe in DressYourDoll and want to support the product is crucial for Van Houtven: "If you want to grow, especially abroad, you have to surround yourself with the right partners. In the beginning, you are happy with anyone who is interested in your company, but to build a lasting relationship, there must be an effort in return." For Roos Productions, this was especially important when looking for the right distributors. This is an important principle when you start looking for distributors. Van Houtven found that a small distributor who believes in the concept and is willing to invest time and effort is sometimes better than a large distributor with a broad network. Even if working with a small party requires more financial efforts.

As said above, Van Houtven is not afraid to make **lemonade** when unexpected situations happen. "Clinging to plans and scenarios works restrictive", she knows. RoosProductions was able to grow the last 5 years by considering random events and meetings as leverages and being open to new, unexpected opportunities." At first we thought we were making toys, but along the way, we realized that we could explore new markets such as hobby and craft materials. Through meetings with distributors operating in other markets, we found that we can sell our products through many types of retailers. That was an important realization that definitely strengthened our growth."

Finally Van Houtven can be described as the **pilot in the Roos Productions-plane**. The Dress Your Doll Concept is absolutely unique, so the company has to pave its own path. "It's been a challenge", Van Houtven admits. When the environment is uncertain, it pays off to focus on the things that you can control. So when Roos Productions found significant growth opportunities for DressYourDoll in the U.S. market, a market with a dramatically different retail network, the company is starting its own webshop for U.S. customers.

La Fille d'O

Since 10 years La Fille d'O is the lingerie label of Belgian designer Murielle Scherre. After her studies in fashion and working in different ateliers, she started designing lingerie, firstly for herself and her friends,

because she couldn't find what she was looking for in the collections of traditional lingerie brands. Now Scherre sells her pieces in stores from London to Sydney. In her designs, as well as in the execution of the collection, Scherre stays true to herself, her style and principles. Since she calls herself a 'technical neurotic', she will for example only work with experienced stitchers with a lot of technical knowhow. This enables her to create technically very complex pieces that other brands can't execute. Typical for the **bird in hand** principle, Scherre starts from where she stands for, what her skills are and the people she knows. "I didn't start the brand with a big goal, i just created a collection because i felt the need to do it", she says.

The very specific approach and avant-garde style make La Fille d'O a niche brand, with a small, specific sales market. At international lingerie fairs, the brand is often overlooked because big international companies get all the attention. Participating these fairs is expensive: "Three days in Paris cost me about €10.000 and buyers don't even have the margins to take a risk and buy some pieces from an unknown brand. On top of that, by showing my designs on these fairs, I risk being copied by the big brands". However, Scherre considers the high fees and risk of being copied, as **affordable loss**, since she draws the attention from trendwatching articles in magazines and therefore gains street credibility that can't be bought.

Scherre considers her **crazy quilt** as one of her most important strengths: "Usually people think I 'm crazy when I say I want to cooperate. I think it can only make me stronger and gives me more possibilities". For example, she is now planning on working together with other small independent lingerie brands to start their own fair or showroom as a reaction to the dominance of the big international brands at the regular fairs. This example also shows how Scherre is the **pilot in the plane**. When she feels the established roads are not suited for her type of business, she tries to take matters into her own hands where she can. That is also why she decided to focus more on visiting (possible) customers herself - even when that means she has to travel all over the world - instead of attending every single lingerie fair. This way, she uses her strengths and her power as the woman behind the brand to tackle difficulties and problems she faces being a small company in a world dominated by big international corporations.

Conclusion and discussion

As stated, despite their alleged importance, specific knowledge on entrepreneurship within creative enterprises is still underdeveloped, even though many Western government explicitly state that creativity and innovation are key drivers for economic growth and competitiveness in the years to come. One of these 'blind spots' of knowledge lies in the existence of a 'missing middle' within the creative industries, indicating a common lack of medium-sized creative companies. This current study is an attempt to investigate the entrepreneurial practices of near-medium-sized creative companies to further understand their inner workings.

One of the values of this undertaking lies in the translation of these practical insights for policy and educational purposes. A deeper knowledge of the way creative entrepreneurs operate within their very specific contexts gives valuable insights that can be used in training and guidance purposes on the one

hand, and in mutual understanding and the creation of common language on the other. This study is a first indication on the proximity between effectuation and creative entrepreneurship, based on a relatively small selection of cases. In further research, the research sample can be extended to further our understanding and to find a stronger base for conclusions. Furthermore, future research can focus not only on relation between effectuation and creative entrepreneurship, but can also investigate if all parts of the effectuation process as described by Sarasvathy (2001) are represented in equal importance, or whether there are specific differences in the case of creative entrepreneurs. Furthermore, the research can be extended by combining the results with intervening factors such as the life stage of the enterprises or differences between creative sectors or clusters.

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