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# Impact of Effectuation Principles on SMEs Performance: "A Conceptual Framework"

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## Abstract:

An integrated framework that explores the influence of effectuation principles on the performance of small and medium enterprises (SMEs) hardly exists, despite the significant role these principles could play in enhancing the performance of SME. The main aim of this paper is to propose a conceptual framework that is based on a critical of the literature on the relationship between effectuation principles and the performance of SMEs, and to develop new propositions related to this topic.

In contrast to past research which has examined the effects of effectuation on firm performance without disaggregating the individual effects of each of its five principles, this paper takes a different and fresh perspective by developing a novel conceptual framework and propositions for the individual effects of each of the five principles of effectuation (i.e. bird in hand, affordable loss, crazy quilt, lemonade and pilot in the plane) on SME performance. In particular, each of the 5 principles is identified to individually have a strong positive effect on the performance of SMEs. Implications are drawn for theory and practice.

**Keywords:** Effectuation, Principles, Small and Medium - sized Enterprises (SMEs), SMEs Performance, Entrepreneurship.

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## Introduction

Effectuation theory is crucial in today's business landscape, impacting entrepreneurs' mindsets and SMEs' performance (Eyana et al., 2018). According to Sarasvathy (2001), effectuation can be defined as "processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means". Effectuation is an emergent strategy that is concerned with uncertain circumstances, where the future is not supposed to be connected to the past or present (Karami et al., 2020). SMEs are vital for economic growth and development, providing employment opportunities and contributing to GDP (Abisuga-Oyekunle et al., 2020). However, although SMEs are important to a country's economic growth and development (Shirokova et al., 2020), they tend to face challenges due to limited resources, competencies, and market competition (Shirokova et al., 2020; Milanesi et al., 2020). Therefore, some scholars have recently investigated some entrepreneurial approaches that can assist SMEs to overcome problems and improve performance. Contextually, effectuation is a method emphasizing the use of existing resources to generate new opportunities rather than forecasting consequences (Karami et al, 2020).

Past research on SMEs and effectuation has examined the relationship between effectuation and strategy (Hauser et al., 2020), innovation (Roach et al., 2016; Vanderstraeten et al., 2020; Alzamora-Ruiz et al., 2021) e-commerce (Tolstoy et al., 2021), internationalization (Galkina et al., 2015; Karami et al., 2020; Uzhegova & Torkkeli, 2023) and decision making (Laine & Galkina, 2017). However, despite the contributions of past research, there are some important gaps that make current research inadequate.

First, there are limited studies that focus on the impact of effectuation on SME performance. According to Eyana et al. (2018), few empirical studies have investigated the relationship between effectuation and firm performance. Yet, researchers have sought to examine the influence of effectuation on a firm's

performance but there is still much to learn and explore in this relationship in the context of SMEs (Roach et al., 2016). There are a few exceptions found in the literature related to the impact of effectuation on SME performance. According to the Shirokova et al. (2020) study, which investigated the effectiveness of effectuation for SMEs in emerging markets during challenging conditions they found that effectuation leads to reliable performance improvements. This study particularly focused on firm performance and performance variability. Moreover, Roach et al. (2016) have found a positive relationship between effectuation and SME performance in terms of innovation. As noticed by McKelvie et al. (2013), the two decision-making logics effectuation and causation might be predicated on differing grounds and this is considered one of the reasons for limited findings about the impact of effectuation on firm performance. Moreover, another study has mentioned that there is a lack of comprehensive investigations on the influence of effectuation strategies on venture performance (Read et al., 2009). According to Coudounaris & Arvidsson (2019), there is still a gap in the understanding of why an individual consciously or unconsciously has chosen causation or effectuation within a specific context and how this will influence performance. Secondly, to date, there seems to be a noticeable gap in the existing literature about each principle of effectuation and its distinct impacts on the performance of SMEs. Although the concept of effectuation as a decision-making framework has received significant attention in the field of entrepreneurship, studies that explore the specific effects of each underlying principle on SMEs remain relatively rare. As noted in the literature, empirical research on effectuation and its principles remains limited, particularly their impact on firm performance (McKelvie et al., 2013). Moreover, there is a need for further rigorous investigation related to the relationship between each principle of effectuation and new venture performance, as most previous studies discussed very broad definitions of the principles of effectuation (Chandler et al., 2011; McKelvie et al., 2013).

Based on the available literature related to the concept of effectuation and SME performance, our current study will differ from previous studies in the following ways. Firstly, our study will focus on the specific impact of each effectuation principle on SME performance as a whole. Prior studies have mostly looked at the overall impact of effectuation on SMEs' performance but have not typically concentrated deeply on the impact of each principle. Our study will fill this gap by providing new insights into how each principle of effectuation can contribute to SMEs' performance. Therefore, by understanding the specific impact of each effectuation principle, SMEs can start developing more targeted strategies and techniques for using these principles to improve their performance.

The main purpose of this article is to develop a conceptual framework for understanding the impact of effectuation on SMEs' performance, particularly the impact of each principle of effectuation on the performance of SMEs. This conceptual framework will be based on a critical literature review of the impact of effectuation principles on the performance of SMEs. Also, this paper will develop propositions and possible implications for the framework. By investigating this dynamic interplay, this study will contribute to the existing body of knowledge on effectuation and SME performance and shed light on the relationship between effectuation principles and SME performance. This conceptual framework can help entrepreneurs, policymakers, and researchers who are seeking to enhance SMEs' performance in the current competitive marketplaces.

The rest of the paper is structured as follows. First, there will be a review of the literature on effectuation theory and its principles, effectuation, and SME performance. Following that, a conceptual framework and propositions will be developed. Finally, there will be conclusions, limitations future research directions, and implications for policymakers and managers.

## Literature review: Effectuation theory

In recent years, the concept of effectuation has gained significant attention in the field of entrepreneurship and SMEs (Galkina and Chetty, 2015). Effectuation theory provides a unique perspective on entrepreneurial decision-making processes and their subsequent influence on the performance of firms and SMEs performance (Khurana et al., 2022). Effectuation is an important concept in entrepreneurship that provides a framework for how entrepreneurs think and act when launching and starting new businesses and ventures. It is a strategy based on the notion that entrepreneurs can create new opportunities by utilizing their existing resources and networks rather than depending on external variables such as market trends or competition (Mansoori and Lackeus, 2020). Effectuation is the process of creating something new by exploiting what is already accessible and available instead of attempting to forecast or control the future (Khurana et al., 2022). The concept of effectuation was first proposed by Saras Sarasvathy, a professor at the University of Virginia's Darden School of Business. She conducted extensive research on successful entrepreneurs and discovered that they all started their ventures using a similar approach (Sarasvathy, 2022). This concept can be considered a contrast to the more traditional causation-based approaches in entrepreneurship. Effectuation entails using the currently available resources to think critically and strategize a plan to start a business (Khurana et al., 2022).

The effectuation concept is based on the five principles of affordable loss, bird-in-hand, crazy-quilt, lemonade, and pilot-in-the-plane (Hensel & Visser, 2020). These principles provide a framework for how entrepreneurs can think and act upon starting new ventures and businesses (Pérez et al., 2022). Also, these principles are assumed to facilitate effective entrepreneurial decision-making in the face of uncertainty (Welter & Kim, 2018). The five main principles of effectuation theory are widely known as essential pillars for

entrepreneurial success, giving a structured approach that allows individuals to navigate ambiguity while maintaining a professional and calculated performance (Hensel & Visser, 2020). By understanding and adhering to these principles, entrepreneurs can strategically manage risks, leverage existing resources, and foster productive collaborations (Grégoire & Cherchem, 2020).

The first principle is affordable loss which emphasizes the importance of taking calculated risks and being willing to accept potential losses that are within one's acceptable limits (Sarasvathy, 2001). According to this principle, entrepreneurs should measure the largest possible loss before deciding whether or not to pursue an opportunity (Fischer, 2021). This principle directs entrepreneurs to shift their perspective from focusing on potential gains only to considering the amount of time, money, and resources they can afford to risk losing (Martina, 2020). It changes how people think about risk, from being afraid to try anything new to evaluating how much risk they can handle given their specific circumstances (Martina, 2020). To make choices in line with their risk tolerance, entrepreneurs might reduce their fear of failure by creating a maximum acceptable loss (Fischer, 2021). Furthermore, affordable loss implies that entrepreneurs should approach their ventures with a mindset of experimentation and learning mentality, realizing that the outcome is uncertain and that losses may occur. Entrepreneurs can explore new opportunities and adapt their strategies based on real-time input from the market if they are willing to accept affordable losses (Sarasvathy, 2001).

The second principle is bird-in-hand which suggests that entrepreneurs should start their ventures with what they have. This means that entrepreneurs should use their existing resources such as expertise, network, and talents to create new opportunities (Prashantham et al., 2019). This principle plays an important role in shaping the required entrepreneurial decisions. According to the bird-in-hand principle, entrepreneurs who seek to develop a new venture,

start by using their three means (Qureshi and Mahdi, 2014). The first mean is about "Who I am" which refers to the entrepreneur's abilities, traits, and tastes. The second meaning is "What I know" which is related to the entrepreneur's experience, education, expertise, and training. The last mean is "Who I know" which refers to the professional and social networks of the entrepreneur (Qureshi & Mahdi, 2014). A combination of these three means will allow the entrepreneur to find new opportunities, think of possibilities, take the right action based on the available resources, and pursue their entrepreneurial goals (Prashantham et al., 2019).

The third principle crazy-quilt highlights the importance of developing collaborations and partnerships to utilize the skills, strengths, and resources of others (Sarasvathy, 2001). This and the resources principle suggest that entrepreneurs should establish and build their ventures by engaging with a diverse network of stakeholders. Also, this principle encourages entrepreneurs to actively seek out and connect with individuals or organizations that can contribute with skills, knowledge, or assets to their ventures. Furthermore, the crazy-quilt principle highlights the formation of a self-selecting network that functions as a supportive partnership for the emerging venture, rather than focusing on outperforming competitors. The emphasis on developing multiple networks increases the chances of success and improves the performance of ventures (Kitching and Rouse, 2020). Also, the formed partnerships and alliances will enable entrepreneurs to combine resources and increase the capacity to overcome challenges, grasp opportunities, and generate value collaboratively (Dutta & Packard, 2022).

The fourth principle is lemonade which emphasizes utilizing contingencies by accepting uncertain circumstances, maintaining flexibility, viewing them as valuable inputs, and transforming them into opportunities (Prashantham et al., 2019). In the context of effectuation theory, this principle suggests that

entrepreneurs have an effective mindset that identifies and recognizes the unexpected obstacles that might arise throughout their entrepreneurial efforts. Rather than being discouraged by these obstacles, entrepreneurs adapt and find innovative ways to use them to their advantage. Furthermore, they remain open to new opportunities and are willing to change their strategies and plans based on emerging circumstances. Entrepreneurs do not give up in these conditions, but rather see these challenges and barriers as an opportunity for growth and creativity (Pacho & Mushi, 2021).

The final principle of effectuation theory is the pilot-in-the-plan which is based on the concept of "control", which can be in terms of controlling the future by applying effectual logic to the current resources. The pilot-in-the-plan principle refers to the idea that entrepreneurs in their entrepreneurial journey are not passive passengers, but rather they are active pilots who have control over the decisions and directions of their venture (Sarasvathy, 2009). Entrepreneurs focus on adapting to their environment rather than adjusting to their current conditions to achieve their desired goals. With this principle, entrepreneurs should be proactive, take responsibility for their achievements, and focus on things they can influence rather than relying on external circumstances and worrying about things that are outside of their control (Sarasvathy, 2009). Entrepreneurs believe that the future of their ventures is shaped by people, and they are confident in their own skills and abilities to influence that future (Ghorbel & Boujelbène, 2013). The pilot-in-the-plan principle relies mostly on the work with the human agency as the major driver of different opportunities, rather than restricting the entrepreneurial activities to technological and socioeconomic aspects only (Ghorbel & Boujelbène, 2013).

- Effectuation and SME Performance

SME stands for Small and Medium-sized Enterprises (Condon, 2004). In the context of entrepreneurship, the term "SMEs" refers to small-scale firms with limited resources in comparison to larger corporations and entities. These enterprises are known for fewer employees, lower annual revenues, and a stronger presence in localized markets. That means that SMEs have revenues and employees below a certain threshold level (Keskġn et al., 2010). Several criteria and factors are considered when defining SMEs which are the size, age, location, sector, number of employees, ownership driven by technology and innovation, assets value, sales volume, organization, management practices, annual turnover, production capacity, and others (Rahman 2001; Prasanna et al., 2019).

SMEs can also be defined differently based on the venture sector, industry, country, and, region (Prasanna et al., 2019). SMEs operate in many sectors such as service, trade, manufacturing, construction, agriculture, education, real estate, and many more (Prasanna et al., 2019). The concept of SMEs has gained significant attention worldwide, as one of the most important aspects of the national and regional economic growth in many countries around the world (Freiling, 2007). According to Keskġn et al (2010), SMEs are adaptable to new technologies and demands, capable of being resilient to different economic crises, and support in generating income and employment opportunities. Due to the importance of SMEs, many countries have implemented various policies and initiatives to support and foster the development of SMEs (Keskġn et al., 2010). According to Schumacher (1973), SMEs have several advantages including increased efficiency, resistance to different economic crises, adaptation to new technologies and demands, a competitive structure, and playing an important role in generating revenue and employment opportunities.

SMEs play a vital role in the economies of both developing and developed countries (Chiao et al., 2006). In many countries, SMEs are considered an essential engine for economic growth in terms of generating income and employment opportunities (Bocconcelli et al., 2018). Based on previous literature, several indicators identify the performance of SMEs. These indicators include the degree of innovation in terms of product, management systems, applied processes, competitiveness level, and survival (Prasanna et al., 2019).

Recently, the advancements in the competitor's capabilities have resulted in a shorter product life cycle, increased complexity of the product, and broader access to new technological breakthroughs. The increase in global competition has forced firms and entities to elevate and enhance their performance standards across several dimensions such as cost, quality, product launch timeline, productivity, and the operational efficiency of products (Singh et al., 2008). SMEs will need to ensure high-quality products, incorporate desirable features and attributes in the products, maintain competitive pricing, and deliver the best performance to improve their performance and survival in the competitive marketplace (Singh et al., 2008). In addition, to have effective outcomes, SMEs will be required to maintain continuous and reliable production and business processes (Lagace & Bourgult, 2003).

SMEs' performance might be affected by several challenges such as insufficient finance, limited management competencies, struggle with the utilization of technology, low productivity levels, and compliance with regulatory requirements (Doh & Kim, 2014). Furthermore, technological advancement can be viewed as another challenge for SMEs due to several reasons such as the high cost of deploying new technology, and a limited number of expertise that will lead to high demand to hire more professional employees (Kleindl, 2000). Moreover, SMEs might face challenges in terms of managing their supply chain which can be accomplished through collaborations with suppliers, customers, competitors, distributors, and others (Singh et al., 2008).

Effectuation is considered one of the decision-making approaches in the entrepreneurship field, the decision-making effects on SMEs and their performance. Unlike the traditional approach causation, the effectual logic emphasizes leveraging the available resources, adapting to uncertainties to accomplish desired outcomes, and taking calculated risks (Khurana et al., 2022). SMEs need to operate effectively in a dynamic and uncertain environment, and the effectual logic approach is crucial to improve and enhance their performance (Bocconcelli et al., 2018). The implementation of effectual logic by SMEs enables them to leverage their human capital, experiential knowledge, skills, education, and diverse experiences to attain successful performance internationally (Karami & Tang, 2022). In competitive and uncertain environments, effectuation can provide SMEs with essential traits such as adaptability, flexibility, resourcefulness, and resilience, which will lead to SMEs having sustainable growth, improving performance, and achieving competitive advantage (Alzamora-Ruiz et al., 2021; Khurana et al., 2022). According to Read et al. (2009), many performance indicators can be used to measure SME's performance which are SMEs' revenue, growth, Return on Assets (ROA), employment growth, venture terminations, total sales, profitability, market share, cash flow and others. Moreover, according to Karami & Tang (2022), effectuation theory provides a useful framework for understanding the importance of intangible means of effectuation as well as the process of transforming these means into superior performance. Also, in effectuation theory, these means are conceptualized as dynamic capabilities that can be evolved and enhanced over time. This will offer insights into the resources available in SMEs and their impact on overall performance and success (Karami & Tang, 2022).

There are limited studies that have investigated the impact of effectual logic decision-making on the SME's performance. However, some existing studies have found a positive relationship between effectuation and venture performance

(Laskovaia et al., 2017). Implementing an effectual logic approach enables SMEs to be proactive and innovative, allowing them to discover and create new opportunities, generate competitive advantage, and improve their performance (Alzamora-Ruiz et al., 2021). Understanding the impact of effectuation on SME performance will enable entrepreneurs and business leaders to make better decisions, develop effective strategies, handle the challenging conditions of the market, and lead ventures to have suitable success.

There have been few studies that have looked into the direct or indirect impact of effectuation on the performance of SMEs (Pacho & Mushi, 2021). According to Read et al. (2009), there is preliminary empirical evidence about the positive relationship between effectual logic to start the positive and achieving superior performance for new ventures. Moreover, according to Cai et al. (2017), effectuation has a positive impact on the performance of new ventures, and exploratory learning has a full mediating role in the relationship between effectuation and venture performance. Also, based on Pacho & Mushi (2021) effectuation's set of means "who I am, what I know, who I know" has a positive and significant effect on the performance of a new venture performance. Also, this study revealed that in an uncertain environment, the lemonade principle of effectuation can be used as a connecting link between effectuation's set of means and venture performance. Moreover, the flexibility principle has a partial mediating role in the relationship between effectuation and venture performance (Pacho & Mushi, 2021). Another study by Eyana et al (2018), has also revealed that effectuation has an overall positive impact on the financial performance of new ventures and this effect varies based on the effectuation's dimensions in terms of assets, profit, and sales. Moreover, according to Osiyevskyy et al. (2023), prior studies have indicated that effectuation and causation can have a positive impact on SMEs' performance, especially during uncertainty and challenging conditions.

However, the concept of effectuation has been frequently used as a mediator in various studies to better understand the link between different variables and venture performance. According to Laskovaia et al (2017), the two principles of effectuation theory flexibility and experimentation has been explored as a mediator for socially supportive culture (SSC) and venture performance. The results of this study revealed that the two principles of effectuation theory mediate fully the relationship between SSC and venture performance (Laskovaia et al., 2017). Also, according to Karami et al. (2023), entrepreneurial orientation has a positive impact on firms' and new ventures' performance through the mediation role of effectual decision-making logic. Furthermore, Laskovaia et al (2022) have examined the relationship between harmonious passion and firm performance and found that there is an indirect positive relationship. Also, effectuation had a mediator role while entrepreneurial experience had a moderator role in the relationship between harmonious passion and firm performance. Additionally, effectuation has been used as a moderator to explore how various variables impact the SME or new ventures' performance. According to Deligianni et al (2017), effectuation has been examined as a moderator to test the relationship between product diversification and the performance of new ventures. The study results indicated that effectuation has a positive impact on the diversification and performance relationship in terms of experimentation, flexibility, and pre-commitments (Deligianni et al., 2017).

The upcoming (Table 1) summarizes some previous studies about effectuation and firm performance. Overall, most of the existing studies on effectuation have not defined or explained the principles of effectuation clearly or did not comprehensively discuss them. To the best of our knowledge, comprehensively discuss the impact of each principal on SME performance. Instead, most studies have discussed these principles in a general way or focused on a few of them (Eijdenberg et al., 2017; Jisr and Maamari, 2017; Laskovaia et al., 2019). In addition, most of the previous studies on effectuation

have focused on the venture or firm level, and have not adequately considered the context of SMEs (Roach et al., 2016; Laskovaia et al., 2017; Smolka et al., 2018). This can be considered a significant gap in the literature, given the rising importance of SMEs in the global economy. In addition, based on the previous empirical research discussed below (Table 1), we have found two studies that do not support the impact of decision-making logic causation and effectuation on firm performance (Eijdenberg et al., 2017; Laskovaia et al., 2019). One of the studies examined the relationship between effectuation and firm performance, while the second study focused on effectuation and small business growth.

**Table 1: shows existing studies related to effectuation and performance of our research concept**

| # | Author | Key Findings | Gaps |
|---|---|---|---|
| **1** | Read et al. (2009) | A positive relationship between the effectual approach to strategy-making and the performance of the new venture. | Focused only on three principles of effectuation and some aspects of performance. |
| **2** | Parida et al. (2016) | A positive relationship between the effectuation and the initial sale of ventures. | Focused on the sale aspect only. Didn't concentrate on any specific principle. |
| **3** | Mthanti and Urban (2014) | Effectuation and the firm's level of entrepreneurial orientation (EO) are positively correlated, and this effectuation moderates the relationship between EO and firm performance. | Focused on four principles of effectuation and focused on financial, market, and innovative performance. |

| | | | |
|---|---|---|---|
| **4** | Welter and Kim (2018) | Effectuation is considered a dominant decision-making strategy in both risky and uncertain environments. The study model suggests that effectuation provides a more consistent path to higher performance levels. | Focused on four principles of effectuation and focused on search performance. |
| **5** | Deligianni et al. (2017) | Effectuation processes (except the affordable loss principle) have diverse experience relationships. | Focused on affordable loss principle only and other dimensions of effectuation such as experimentation and pre-commitments. |
| **6** | Smolka et al. (2018) | Combination of both effectuation and causation has a higher positive impact on venture performance. Each of these decision-making logics has an impact on performance. | Principles of effectuation were discussed in brief and the performance was examined in comparison to the competitors of the ventures. |
| **7** | Laskovaia et al. (2017) | Effectuation and causation have positive effects on new venture performance. These two decision-making logics are significant moderators in the relationship between firm performance and national culture. | Effectuation principles were discussed very briefly and the venture performance was examined in general. |

| | | | |
|---|---|---|---|
| **8** | Eyana et al. (2018) | Effectuation has a positive impact on financial performance, while causation on the employment size. | Impact of some of the effectuation principles was discussed in brief. |
| **9** | Roach et al. (2016) | Affordable loss principle is related positively to firm performance. Whereas, the available means and leverage contingencies principles mediate the relationship between orientation and product innovations. | Principles of effectuation were used as mediators only for orientation, product innovations, and firm performance. |
| **10** | Urban and Heydenrych (2015) | A positive relationship between effectuation and technology orientation. The dimensions of effectuation pre-commitments, flexibility, and experimentation have a positive impact on firm performance. | Focused on four principles of effectuation in a general way. |
| **11** | Cai et al. (2017) | Effectuation has a positive impact on the performance of new ventures, and exploratory learning mediates this relationship. | Focused on four principles of effectuation in a general way. |

| | | | |
|---|---|---|---|
| **12** | Yu et al. (2018) | Combination of effectuation and causation has a positive impact on firm performance in uncertain environments, and at the same time, causation itself has a priority in less uncertain situations. | Principles were discussed briefly in comparison to causation principles. The main focus of the performance was on the uncertainty levels. |
| **13** | Jisr and Maamari (2017) | A direct positive relationship between the principle "what I know" and innovation performance. | Focused on one principle, didn't mention other principles, and focused on the innovation performance. |
| **14** | Laskovaia et al. (2019) | Effectuation and causation have no significant effect on a firm's performance. Entrepreneurial orientation interacts significantly with both decision-making logics in its influence on performance. | Focused on four principles of effectuation in a brief and general way. Focused on the firm's financial performance. |
| **15** | Eijdenberg et al. (2017) | Effectuation and causation orientations do not impact small business growth. Small business owners who perceive the surrounding environment as uncertain are more likely to be effectuation-orientated than causation-orientated. | The principles of effectuation were discussed briefly in comparison to causation principles. The proofs of this study are the uncertain environment and the small business growth only. |

The above gaps in the literature suggest that there is a need to have an in-depth study about the impact of all five principles of effectuation on SME performance. Such research will contribute to the available literature in several ways. Firstly, it will provide a comprehensive understanding of the relationship between effectuation and SME performance. Secondly, it will identify the specific principles of effectuation and their effect on SMEs' performance. Finally, it will help to explain why the previous existing papers on this topic have shown mixed results. Moreover, based on the above literature review, some gaps exist in the literature that need to be addressed. First, there are limited studies that focus on the impact of effectuation on SME performance. Second, to date, there seems to be a noticeable gap in the existing literature about each principle of effectuation and their distinct impacts on the performance of SMEs. Although the concept of effectuation as a decision-making framework has received significant attention in the field of entrepreneurship, studies that explore the specific effects of each underlying principle on SMEs remain relatively rare. These gaps are important to address as both SMEs and effectuation are significant for innovation, growth, and creativity. Understanding how each principle of effectuation such as affordable loss, bird-in-hand, crazy-quilt, lemonade, and pilot-in-the-plane principles influences SMEs' performance can provide valuable insights and add theoretical contributions to the literature.

## The Conceptual Framework and Propositions

The below conceptual framework is developed based on the previous literature review on effectuation impact on the performance of SMEs (Laskovaia et al., 2017; Alzamora-Ruiz et al., 2021; Pacho & Mushi, 2021). Understanding the impact of effectuation principles on SMEs' performance is crucial. It can enhance the decision-making processes, support ventures to adapt to uncertain environments and encourage the usage of available resources (Read et al., 2016; Sarasvathy, 2001). Based on, our conceptual framework in below Figure 1, which incorporates effectuation's principles impact on SMEs performance.

First, the affordable loss principle fosters a learning mindset in entrepreneurs, viewing losses as opportunities for growth and adapting strategies to new circumstances (Sarasvathy, 2001). This iterative process improves decision-making processes and contributes to growth, development, and success. There are some previous arguments in the literature related to the impact of the affordable loss principle on performance directly or indirectly. Entrepreneurs who adopt this principle are more likely to calculate risks to maintain financial stability, directly or indirectly influencing their performance. This principle is expected to positively impact SMEs' performance (Sarasvathy, 2001; Prashantham et al., 2019). Based on the above arguments, extending past research, we argue that the affordable loss principle will have a positive impact on the SMEs' performance. Thus, we propose that:

- Proposition (1): SMEs that demonstrate the "affordable loss" principle and are willing to accept potential losses will affect their performance positively.

Second, bird-in-the-hand principle supports entrepreneurs to understand better their current available resources and the necessity to launch their new ventures based on the existing assets (Ahmed et al., 2023). This principle

minimizes the uncertainty and risk levels for future opportunities which are uncontrollable and unpredictable (Prashantham et al., 2019). Moreover, this principle fosters a proactive mindset and encourages entrepreneurs to take action rather than waiting for ideal conditions (Ahmed et al., 2023). There are some previous arguments in the literature related to the influence of this principle on performance indirectly. Since this principle is concerned with the three means "who I am, what I have, who I know", it can provide entrepreneurs with a greater understanding of their existing resources (Hensel and Visser, 2020). This process can reduce failure chances and increase the venture's performance by utilizing the available resources, minimizing the dependency on external factors, and taking necessary actions (Prashantham et al., 2019). According to Ahmed et al. (2023), this principle encourages entrepreneurs to move forward and take required actions instead of waiting for optimal opportunities and conditions that can improve the venture's growth. The impact of the bird-in-hand principle on different aspects can lead to enhancing performance. The discussed arguments offer us the opportunity for our second proposition:

- Proposition (2): SMEs that emphasize the "bird-in-hand" principle and leverage their existing resources and capabilities will impact their performance positively.

Third, the crazy-quilt principle suggests that no single organization or individual has all the necessary competencies to address all aspects of a venture. Instead, it encourages leveraging the resources and abilities of others through seeking continuous partnerships and collaborations (Dutta and Packard, 2022). This provides entrepreneurs with diverse knowledge, skills, and networks, which will result in a more resilient and robust venture (Dutta and Packard, 2022). This principle fosters innovation, and creativity, improves performance and increases the chances of success in the competitive marketplace (Kitching and Rouse, 2020; Dutta and Packard, 2022). There are few previous arguments in the literature

that discussed the impact of this principle on performance directly. According to Kitching and Rouse (2020), since this principle emphasizes developing various collaborations and networks this fosters the venture's performance and increase chances of success. In addition, this principle encourages entrepreneurs to form diverse partnerships with other businesses, allowing them to enter new markets, reach more customers, and increase revenues and sales. (Dutta and Packard, 2022). Based on the few arguments, we propose that:

- Proposition (3): SMEs that are engaged in the "crazy-quilt" principle and forming diverse partnerships and networks will positively impact their performance.

Fourth, the lemonade principle encourages entrepreneurs to see opportunities in challenges, think creatively and use resources efficiently (Prashantham et al., 2019). This mindset fosters flexibility and adaptability, enabling better performance in unpredictable environments (Duening et al., 2012). By embracing this principle, entrepreneurs will discover new markets and create unique and innovative products that will increase their chances of entrepreneurial success. As noted by Pacho and Mushi (2021), entrepreneurs who implement this principle embrace challenges as opportunities for growth and learning and find innovative ways to overcome obstacles. As entrepreneurs adopt the mindset of flexibility and adaptability this will lead them to cope with uncertain environments effectively and better outcomes and performance (Prashantham et al., 2019). The discussed arguments allow us the opportunity for our fourth proposition:

- Proposition (4): SMEs that implement the "lemonade" principle and find innovative ways to overcome obstacles will impact their performance positively.

Finally, the pilot-in-the-plane principle helps entrepreneurs minimize the uncertainty levels by focusing on activities within their sphere of control (Qureshi et al., 2016). This approach utilizes entrepreneurs' expertise, skills, resources, and networks to grasp opportunities without predetermined paths (Ghorbel and Boujelbène, 2013). This approach increases flexibility, allowing entrepreneurs to adapt to changing market conditions (Qureshi et al., 2016). In the existing literature, studies support the argument of the impact of the pilot-in-the-plane principle on some of the venture's aspects. Entrepreneurs who implement this principle are more likely to minimize the prediction which will allow them to shape their unpredictable path which can lead to better outcomes in different aspects (Ghorbel and Boujelbène, 2013). As noted by Qureshi et al. (2016), when entrepreneurs are focused on their skills and resources, this will increase their flexibility and adaptability to the challenging conditions of the market. The impact of this principle on the different aspects of the venture can lead to a better performance. Based on the above arguments, we propose that:

- Proposition (5): SMEs in which the founders take the role of "pilot-in-the-plane" principle and have control over their decisions will affect their performance positively.

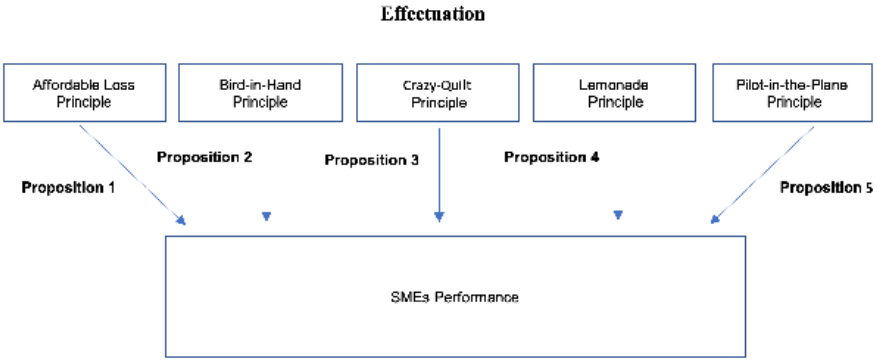



**Figure 1**

To the best of our knowledge, there is a significant gap in the literature when it comes to a comprehensive investigation of each of the principles of effectuation and its influence on SME performance. Based on previous studies, the crazy-quilt principle and lemonade principle are key to enhancing a venture's success and performance with unpredictable and dynamic environments (Prashantham et al., 2019; Kitching and Rouse, 2020). However, there is a lack of comprehensive studies on the five principles of effectuation and their influence on SMEs' performance. This gap highlights the need for a more extensive and holistic investigation of the five principles of effectuation and their influences on the performance of SMEs. Therefore, a conceptual framework has been developed to address this gap, examining the influence of the five principles on SMEs' performance. This approach will help entrepreneurs, researchers, and policymakers enhance SME performance and contribute to existing knowledge on effectuation principles and SME performance.

## Conclusion

In conclusion, this study aimed to propose a conceptual framework that was based on a critical analysis of the literature already in existence that focuses on the connection between effectuation principles and the performance of SMEs. This study focused on effectuation theory and its principles, including affordable loss, bird-in-hand, crazy-quilt, lemonade, and pilot-in-the-plane, to examine the fundamental processes that entrepreneurs employ for decision-making. Based on the previous literature's findings, effectuation tends to have a positive impact on the performance of SMEs. The importance of this topic is based on the fact that many countries have recently emphasized the importance of SMEs for their economic growth. Therefore, understanding the approaches of these small business owners and entrepreneurs is key to reaching the goal which is improving the economies of these countries. This conceptual paper can provide significant contributions to the theory of effectuation and

the management field as a whole. The main contribution of this paper lies in clarifying and understanding the important connection between effectuation principles and SME performance. Also, this paper can help to challenge traditional decision-making theories and promote new innovative ways of thinking about improving the performance of SMEs. In addition, this study can expand the knowledge in the area of effectuation principles and SME performance. The current research paper will contribute to the theory by shedding light on how effectuation principles can result in enhancing SMEs' performance once the proposed propositions are tested.

## Limitations and Future Research Directions

Despite the ongoing recognition of effectuation being useful as a powerful decision-making framework for entrepreneurs, the relationship between effectuation and the performance of SMEs remains limited and few exist in the literature. There are a few limitations of this paper. Firstly, the propositions were formulated based on a comprehensive analysis of the existing relevant literature, and they remain untested. Second, this study focuses only on the impact of effectuation principles on SME performance, as these principles may have an impact on larger/bigger enterprises. Moving to future research directions, since the propositions of this research were based on critical review, future studies need to collect data to empirically test the validity of the proposed propositions. Also, future studies can focus on the context of larger enterprises to understand the impact of effectuation principles on performance. Moreover, given the discussed research gap, future research can offer an opportunity to deepen the understanding of how effectuation principles impact SME performance and this can be done by providing comprehensive literature about this topic to fill the gap. Investigating the influence of digitalization usage on SME performance can be a new promising area for research. As a result of the rapid development of digitalization in corporate operations, SMEs can benefit

from learning more about the interplay relationship between effectuation principles and digitalization. It would be interesting to explore how effectuation principles affect SMEs' decisions about whether or not to employ technology such as cloud computing, data analysis tools, or online retail. Future studies can also investigate how artificial intelligence (AI) plays a vital part in the performance of SMEs using its currently available resources (Baabdullah et al, 2021). In addition, future studies might also examine how the leadership style of SME managers affects the organization's performance in managing its available resources (Hubner and Baum, 2018).

## Implications for Policymakers and Managers

If the propositions are tested and confirmed, then the developed conceptual framework can be used as a useful tool by policymakers and managers of SMEs in the following ways. First, policymakers can support various SMEs by promoting entrepreneurship and effectuation courses, as these courses can introduce to the entrepreneurs the impact of each principle of effectuation on the ventures/SMEs which can increase the chances of success. Second, policymakers can support SMEs by providing a supportive environment for entrepreneurs where they can have access to different funds, resources, and programs. SME managers can benefit from this conceptual framework, by gaining a deeper knowledge about the impact of effectuation principles on SMEs' performance which enhances their strategic decision-making processes. Moreover, managers will have a greater understanding of how to leverage effectively the available assets, collaborations, and resources so they will be able to optimize their allocation, of assets and resources.

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# أثر مبادئ التأثير على أداء المؤسسات الصغيرة والمتوسطة: "الإطار المفاهيمي"

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**محمد مصطفى رازق**[3]

**ملخص البحث:**

مبادئ التأثير تشير إلى منهجية تفكير تتميز بخلق الفرص ووضع الحلول من خلال استخدام الموارد المتاحة عوضًا عن التفكير في الاحتمالات المتوقعة ووضع الخطط المستقبلية. على الرغم من أهمية وجود نموذج متكامل قادر على استكشاف تأثير مبادئ التأثير على أداء المؤسسات الصغيرة والمتوسطة لما تلعبه من دور هام في تعزيز أداءها، إلا أن هذا النموذج لا يكاد يكون موجوداً في المراجع الأدبية المتوفرة حسب علمنا. ولذلك، فإن الهدف الرئيس من هذا البحث هو اقتراح إطار مفاهيمي يستند إلى مراجعة نقدية ودقيقة للمراجع الأدبية حول العلاقة بين مبادئ التأثير وأداء المؤسسات الصغيرة والمتوسطة، وكذلك تطوير مقترحات جديدة حول هذا الموضوع لما له من أهمية في مجال ريادة الأعمال. وذلك على نقيض الأبحاث السابقة التي درست التأثير على أداء الشركات دون الأخذ بعين الاعتبار التأثيرات الفردية لكل من مبادئ التأثير الخمسة. وبناءً على التحليل النقدي للأدبيات، تم إيجاد تأثير إيجابي لكل مبدأ من المبادئ الخمسة على أداء الشركات الصغيرة والمتوسطة.

**الكلمات الدالة:** مبادئ التأثير، المؤسسات الصغيرة والمتوسطة، أداء المؤسسات الصغيرة والمتوسطة، ريادة الأعمال

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