Portfolio entrepreneurs: An effectuation approach to multiple venture development

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1 author:

Sussie C. Morrish
University of Canterbury

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Sussie Morrish
University of Canterbury, Christchurch, New Zealand

Abstract

Purpose – This paper aims to investigate how effectuation and causation logic influences portfolio formation among entrepreneurs.

Design/methodology/approach – The methodology used was a case study with 15 participants.

Findings – There is evidence of effectuation reasoning during the preliminary and early stages of venture and portfolio development. Portfolio entrepreneurs tend to adopt causation logic as ventures and portfolios mature.

Research limitations/implications – The study is exploratory and looks at cases of successful portfolio entrepreneurs only.

Practical implications – The findings will allow researchers and business mentors to provide more specific advice for other entrepreneurs such as nascent and novices, and potentially reduce the incidence of business failure.

Originality/value – The paper provides an understanding of how business portfolios develop from an entrepreneur's perspective.

Keywords Entrepreneurs, Busness development, Risk management, Portfolio investment

Paper type Research paper

Introduction

It is now widely acknowledged that a significant number of entrepreneurs are not one-off business founders. Most notably, the differences between novice, serial and portfolio entrepreneurs, the latter two being sub-types of habitual entrepreneurs, are now increasingly being recognised (Westhead and Wright, 1998; Rosa and Scott, 1998; Birley and Westhead, 1993). In particular, portfolio entrepreneurs are of special interest to many, not only because of the depth and breadth of their experience but also of the contribution that they make to society and the economy in general. They are also of great interest to scholars because they operate with a different model of entrepreneurship in comparison to single-business entrepreneurs.

Entrepreneurs engaged in multiple ventures go through unique processes, very little of which is explained and understood still. For portfolio entrepreneurs, this behaviour is repeated as they inherit, create or acquire not just one but a number of other businesses simultaneously. This study investigates how portfolio entrepreneurs employ effectuation reasoning in entrepreneurial decision-making as they develop multiple ventures.

Literature

Ucbasaran *et al.* (2001) suggest that research focus should go beyond just the founding of new firms by first time entrepreneurs, a significant proportion of which go on to

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build a portfolio or group of businesses. Some unexplored aspects include why some entrepreneurs get involved in multiple ventures while others are content with a single business.

Although many entrepreneurs share similar characteristics and behaviours, they are not necessarily a homogeneous group. In fact much work has been done on classifying types of entrepreneurs. Early attempts at typologies used descriptive approaches. For example, Smith (1967) labelled entrepreneurs as either craftsmen or opportunists, the former being motivated to be in business for intrinsic reasons such as autonomy or independence, whereas the latter are those with a more managerial orientation and are attracted to business for financial gain and business growth. Braden (1977) categorised them in the role of either “caretaker or administrator”. Caretakers are mostly centred on the activities that they enjoy, whereas administrators are attracted by financial objectives. Distinguishing from Smith (1967), Filley and Aldag (1978) took goals into consideration and classified them into “craftsman”, i.e. those associated with comfort-survival; the “entrepreneur”, i.e. those associated with personal accomplishment; and the “professional”, with goals associated with adaptation to market.

Portfolio entrepreneurs

In order to make research more meaningful toward the development of a theory on entrepreneuring and useful for would-be entrepreneurs, MacMillan (1986) argued that entrepreneurial experience should form the basis of entrepreneurship studies and classification of entrepreneurs. He identified three types of entrepreneurs – type 1 is what he refers to as the “one-shot entrepreneur”, who successfully builds a big enough business and becomes a CEO of his own company. Type 2 is the “drop-out entrepreneur”, i.e. those who build successful businesses before either selling or being forced to move out of the businesses they created. These entrepreneurs then drop out of business involvement and invest the proceeds of their effort in safe investments. The problem with studying them is that both types have only had a single entrepreneurial experience, unlike type 3 entrepreneurs, who are “business generators”. They are more usually known in literature as habitual entrepreneurs. MacMillan observes that these entrepreneurs enjoy the excitement and challenge of start-ups so much so that once successful, they become bored. Although they continue to own the business, they prefer to employ professional management and then turn and start other ventures. This process is then repeated many times throughout their entrepreneurial careers. Since these habitual entrepreneurs have had the opportunity to learn how to efficiently and swiftly overcome the stumbling blocks they encountered in their first efforts, MacMillan (1986) argues they build an “experience curve” in entrepreneuring.

A much later classification took into account entrepreneurial intention and experience and classified them into nascent, novice or habitual entrepreneurs. Individuals considering establishing a business are called nascent entrepreneurs. Novice entrepreneurs are first time entrepreneurs, and hence have no prior business experience, whereas habitual entrepreneurs engage in repeated entrepreneurial behaviour and are therefore experienced entrepreneurs.

Further studies have shown that habitual entrepreneurs had a different predisposition to ownership. Although they all engage in repeated entrepreneurial behaviour, two distinct types emerged:

(1) the serial entrepreneur, i.e. those who own one business after another but only one business at a time; and
(2) the portfolio entrepreneur, i.e. those who own more than one business at a time (Hall, 1995).

This typology differs from previous classifications in that it is based on the entrepreneur's propensity to own multiple businesses. Westhead and Wright (1998) define habitual entrepreneurs as individuals who have established, inherited or purchased more than one business. Serial entrepreneurs are individuals who have sold or closed their original business but at a later date have inherited, established or purchased another business. Portfolio entrepreneurs are individuals who own two or more businesses at the same time. In effect the main difference between the two habitual entrepreneurs in terms of ownership is that serial entrepreneurs have a propensity for sequential ownership whereas portfolio entrepreneurs own multiple businesses simultaneously.

Entrepreneurs may choose to have full or partial ownership of a business. This may occur for a variety of reasons and could vary from one business to the next. Taking this into account, a much later definition was adapted by Westhead *et al.* (2005), where they categorised portfolio entrepreneurs as "individuals who currently have minority or majority ownership stakes in two or more independent businesses that are either new, purchased and/or inherited", and serial entrepreneurs as those "who have sold/closed a business in which they had a minority or majority equity stake in a independent business that is either new, purchased or inherited" (p. 73). This definition of the portfolio entrepreneur is adapted for this study.

The concept of portfolio entrepreneurship that Westhead and Wright (1998) have identified and defined are also referred to in the literature as multiple business starters (Donckels *et al.*, 1987), parallel business founders (Alsos and Kolvereid, 1998), and multiple business owners (Rosa and Scott, 1998). The habitual entrepreneurs in Carter (1999) and expert entrepreneur in Sarasvathy (2001) are also similar to Westhead and Wright's (1998) portfolio entrepreneur category.

Given these definitions, the habitual entrepreneurs that MacMillan (1986) describes as business generators are no different to portfolio entrepreneurs (Hall, 1995). MacMillan reports that these business generators employ a formal set of techniques that is well honed to deliver high returns on investments, one of which is the use of networks at different stages of the ventures they are involved in.

Effectuation theory

A theoretical development that is gaining popularity is effectuation theory (Sarasvathy, 2001). It is a collection of non-predictive strategies that are primarily means- (instead of goal-) driven. Based largely on the work of Sarasvathy (2001) which was originally developed with Simon (see Sarasvathy and Simon, 2000), effectuation theory provides evidence from a protocol analysis study of 27 expert entrepreneurs showing that 75 per cent of the time, 63 per cent of the participants preferred to use effectual (instead of) causal reasoning in creating markets for new products. Where causation focuses on the specific end-goal, which guides the accumulation of means, effectuation focuses on the means that may result in any one of the many probable ends:

> Effectuation is a dynamic and interactive process of creating new artifacts in the world. Effectual reasoning is a type of human problem solving that takes the future as

> fundamentally unpredictable, yet controllable through human action; the environment as constructible through choice; and goals as negotiated residuals of stakeholder commitments rather than as pre-existent preference orderings[1]

Effectuation is based on the logic of control that eliminates the need of prediction. In contrast, causation is based on the logic of prediction. In collaboration with other researchers, Sarasvathy has published a body of work over the previous decade that applies effectuation to a broad area of entrepreneurship. This covers theory development, evidence, research directions and extends it to specific areas such as cognition, ethics, entrepreneurial opportunities, new markets, risk management, and financing and strategy. These are available at www.effectuation.org

Overall, it is a problem solving process in a fundamentally unpredictable future where decision-makers draw on their given means (such as resources, networks, etc.) in order to shape or control an outcome. Entrepreneurs constantly operate in uncertain environments where it is not always possible to predict the future. This is especially true with highly innovative offerings, where demand for a product is nigh impossible to ascertain. Effectuation theory offers an alternative course to the widely taught causation thinking, where decision makers start with pre-determined goals (for example, specific rate of return, number of units to sell, market share targets, etc.) and gather needed resources to achieve that goal. In effectual thinking, entrepreneurs start with what is available to them, where goals are not pre-determined and outcomes maybe just one of multiple possibilities.

How firms come to be is firstly conceived in someone's mind. Sarasvathy (2001) suggests that before there are products, there is human imagination, and before firms and markets, there is human aspiration. Based on effectuation theory, she contends that firms come to be as an outcome of effectual (as opposed to causative) processes. This theory suggests that firm designs are reflections of the entrepreneur's individual situation, in particular who they are, what they know and who they know. These three categories are the "means" or resources that entrepreneurs start with, the combination of which determines what types of ideas and opportunities they should pursue. These so-called "means" reflect the entrepreneur's "own traits, tastes and abilities; the knowledge corridors they are in, and the social networks they are a part of" (Sarasvathy, 2001, p. 250).

To further explain what effectuation is, it is necessary to explain what it is not and that means highlighting that it is the inverse of causation. Where causation is based on the logic of prediction that purports "to the extent that we can predict the future, we can control it", effectuation theory is based on the logic of control – "that is to the extent that you can control the future, you do not need to predict it" (Sarasvathy, 2001). Effectual logic holds that the future is shaped by human action (the entrepreneur) and is concerned with controlling the future rather than predicting an uncertain one. Sarasvathy argues that human life after all is not easily analysed or predicted; rather it is seized and exploited. Where causal logic would drive the entrepreneur to predict how it will capture the market space, effectual logic sees many different outcomes – one of which could become reality depending on how the actors play it. Effectuation processes therefore provide an effective means to analyse the spheres of human action, while also affecting business decisions in a positive way, allowing for one or more possible effects irrespective of the generalised goal with which one started. In addition, the adoption of effectuation within entrepreneurial settings means the decision-maker can change goals and also shape and construct them over time, making use of contingencies as they arise, hence that ability to control the future rather than predicting it. Three core principles of effectual logic embody this logic of control:

(1) *Affordable loss rather than expected gains*. Whereas causal rationality focuses on expected returns, effectuation generally emphasises affordable loss such that given a new product idea effectuators test the market first instead of setting returns-related goals.

(2) *Partners rather than competitive analyses*. In causal reasoning, the emphasis is on competitive analysis and trying to outdo the competition. Effectuation reasoning is built on strategic alliances and partnerships with the entrepreneur's networks.

(3) *Leveraging contingencies rather than avoiding them*. Causation centres on the exploitation of existing knowledge (of firms, markets, customers, etc.) and using this to pursue pre-determined goals. In effectuation, entrepreneurs explore contingencies such that new business ideas are launched before worrying about who the customer is. In a "surprise me" attitude, entrepreneurs leverage off the contingencies that arise from a business venture believing that not all surprises are bad. It is built on the acceptance that one will never know what could become of an idea unless it is out there. Many great entrepreneurial firms are in fact a product of contingencies – behind which are individuals forging ahead despite early setbacks.

This study is framed against the background of these three principles and is explained more fully in the next section.

Conceptual framework

The framework as depicted in Figure 1 shows how this study is conceptualised. It tracks how entrepreneurial decision-making is driven by a given set of means that then impacts on the three principles of effectuation theory. The framework shows a portfolio of ventures and a direction towards the use of causation logic that is contrasted by the logic of prediction driven by goals. This argument is based on Sarasvathy (2001) proposing that entrepreneurs use both logics.

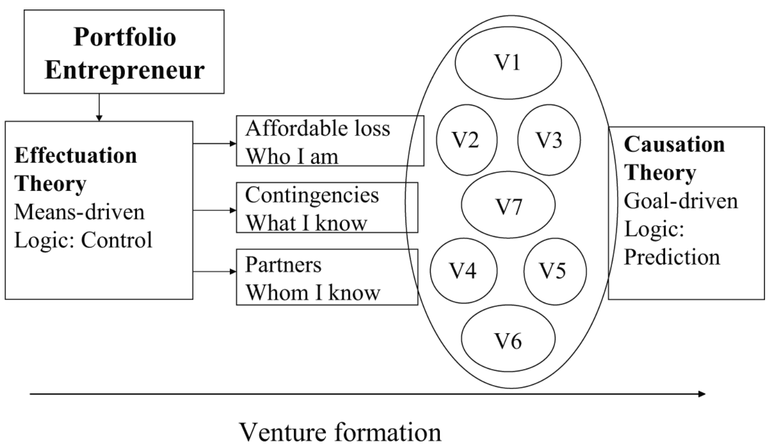

Figure 1.
Conceptual framework

Effectuation is deemed a suitable theoretical basis for this study because it relates well to expertise (Read and Sarasvathy, 2005). Portfolio entrepreneurs can be regarded as experts in their field. Experts generally make decisions based on their own unique expertise. Experts like portfolio entrepreneurs engage in effectual decision making that is more creative and innovative because it looks at the means one has and allows that to decide the end goal which may change several times. For example, entrepreneurial marketing is second nature to expert entrepreneurs because they work in a changing environment where the market is relatively unstable. As such a protracted market research will be obsolete by the time it is concluded. They require up-to-date information about the market that is timely and reliable, and this can be achieved through networking with their stakeholders (e.g. suppliers, manufacturers, customers, consumers, etc.). Entrepreneurial marketing can be regarded as a form of effectuation. Effectuation processes are the decision units of how artefacts (firms, markets and economies) come to be, where the belief is – to the extent that we can control the future, we do not have to predict it. Effectuation is therefore characterised by exploration, where its conditions thrive in an unstable, unstructured environment, exactly the environment that entrepreneurial people, and more importantly for the purpose of the present study, portfolio entrepreneurs constantly find themselves in.

Methodology

The study aimed to explore evidence of effectuation logic and its role in the formation of ventures and the portfolios of successful portfolio entrepreneurs as depicted in the framework in Figure 1.

The research approach was to allow the entrepreneurs to explain how their ventures came to be formed. A multiple case study design was deemed appropriate for this purpose, following Rosa and Scott (1999), Wright *et al.* (1997) and Sarasvathy (2001). The selection started with a search of featured entrepreneurs from business periodicals and other publications including the New Zealand Business Who's Who directory. In drawing the initial list, the researcher also sought the advice of prominent individuals in the local business community. The names of those selected were cross-checked with the official records of the New Zealand Companies Office to confirm their status as "portfolio entrepreneurs". Six of the 11 participants appear in the National Business Review Rich List of New Zealand, one has won a national Young Entrepreneur of the Year Award, and most of the participants already have or are intending to set up overseas operations. The participants owned between three and 51 businesses at the time the interviews were conducted.

The field study involved semi-structured interviews using open-ended questions, which allowed the interviewees to expand on different issues if they wished. The interviews, each of which took between two and three hours to complete, were audio-taped and then transcribed for coding using both QSR6 and N-Vivo, supplemented with hand and visual coding. The nature of the analysis undertaken here partly follows Rosa and Scott (1998) and Sarasvathy (2001), where coding and interpreting of verbal protocol was undertaken to track down emerging patterns of data. Creswell (1994) suggests replicating procedures used by other reported studies; thus this is deliberate in order to improve reliability and validity. A profile of the participants is presented in Table I.

Table I.
Effectuation means matched to effectuation principles

ID	Number of businesses Current	Overall	Who I am/affordable loss (risk profile)	What I know/leveraging contingencies	Whom I know/strategic partners (P)
A1	3	13	Low to low risk	Multiple ideas	100 per cent + P
G2	3	9	Low to low risk	Family/experience	100 per cent
C3	4	8	Low to low risk	Necessity/education	100 per cent
D4	11	25 +	Medium to medium risk	Knowledge/experience	Pa
P5	5	21 +	Medium to low risk	Family/knowledge	P + 100 per cent
J6	9	13	Medium to medium risk	Serendipity/knowledge	P
J7	4	9	Low to low risk	Necessity/experience	P
E8	51	51 +	Low to medium risk	Serendipity/knowledge	P + 100 per cent
D9	9	11	Low to high risk	Serendipity/money	100 per cent + P
B10	4	7	Low to medium risk	Necessity/experience	P + 100 per cent
G11	8	11	High to medium risk	Knowledge/money	100 per cent + P
B12	4	9	Low to medium risk	Serendipity/experience	100 per cent + P
H13	3	5	High to medium risk	Aspirations	P + 100 per cent
B14	25	25 +	Medium to low risk	Family/experience	P + 100 per cent
M15	15	16	Low to medium risk	Necessity/experience	P

Results and discussion

This study set out to find evidence of effectuation reasoning amongst a cohort of portfolio entrepreneurs. The results are broken down into the three categories that characterise effectuation reasoning. In particular, these are the given means that are instrumental in the pursuit of entrepreneurial ventures. These means are also matched specifically to one of the three principles that best relate to them. These are contained in Table I. The matching of means to effectuation principles is in the following order:

(1) "who I am" with "affordable loss";

(2) "what I know" with "leveraging contingencies"; and

(3) "whom I know" with "strategic partners".

A more detailed discussion of these means is also reported.

Who I am

Whereas within the above framework "who I am" reflects the risk profile of the entrepreneur, a large part of this is explained by their personal characteristics and appetite for uncertainty. A general impression one gets of the participants is their drive to achieve higher and the willingness to work towards that:

> You just get driven along or pushed perhaps along a path as you see of self-achievement ... so as you see the prospects for achievement for yourself, you work harder at them and you try to identify what they are and push hard for them (J6).

Family and personal background. Despite the differences in their financial standing, a majority grew up in happy and contented homes with encouraging and supportive parents. In summary, their parental background ranged from working class to professionals. Four of the participants had parents with professions in medicine, law and accountancy; five were involved in a variety of businesses and six were in paid employment.

The participants display a combination of traits that, to their belief, account for their success in business. All the participants, for example, exhibit a high degree of intelligence, passion, discipline, persistence and enjoyment in what they do. At a business level, some admit to being quite ruthless, shrewd, hard and driven, but are also sensible, ethical and operate business with integrity.

On a personal level, their attitudes to others embody some higher-order values such as predisposition to fair dealing, and an inner drive to help others not only in terms of being business mentors, but also helping those who are less fortunate or through supporting various charitable causes. They exhibit an inner confidence and do not seek publicity. In fact, many of them prefer to keep a low public profile. They take satisfaction from their accomplishments and revel in them quietly:

> I've done really well in most different things that I've been really focused on ... and I don't need anyone to tell me that "oh, hell ... you're good, you're good in business" ... I know where I'm bad ... so I'm not looking for kudos from people because pretty much invariably, you don't get it anyway. But a lot of people expect it (J6).

They all enjoy being in business and operating multiple ventures at the same time. For example, D9 enjoys the mental stimulation of trying new ideas and opportunities and making them work. However in doing so, he ensures that he also keeps "focused on the other operations as well". Like D9, H13 also likes a good challenge. He was always a top performer and often took on leadership roles as he was growing up and right through school. These entrepreneurs do not sit on just one idea. They tend to move on to the next challenge. J7 says he operates instinctively and likes to work on something unique, losing interest as things go from the unique towards the sort of mundane.

There are many uncertainties in business and portfolio entrepreneurs display a high tolerance for uncertainty and complexity. This means being "able to deal with complexity, doesn't mind about having their plans turned upside down, doesn't mind about the world not being the way you expected it, then they aren't wearing their conscious mind out trying to drive structure into things, and . . . can focus on where we are going, what's the outcome, how can we change the dynamic, what is the issue here, what are the priorities" (J7).

Affordable loss and risk taking

Risk taking is something that is often associated with entrepreneurs and with entrepreneurial ventures generally. Given this, portfolio entrepreneurs are unique in this sphere because it means that with multiple ventures, they expose themselves to more risk than single-venture or serial entrepreneurs. J7 describes entrepreneurs as having "an intense focus and an appetite for risk associated with that focus . . . and takes risk beyond commonsense." In this section, the participants' attitudes to risk and risk-taking are reported.

In the main, the participants view risks in a financial context. Effectuation holds that effectuators generally emphasise affordable loss as opposed to focusing on expected returns such as market share and ROI. All things considered, risking it means taking a gamble and whatever the outcome is, the consensus seems to be that at least they have "given it a go" and that surely is much better than not having tried at all. Many of the participants admit to getting into ventures and recognise that there is a probability that one could also lose everything therefore the decision is made with the expectation that the outcome may not be as hoped for. D9 explains the magnitude of his risk-taking:

> Huge! I think . . . I always go into things . . . and I'd say right be prepared to lose it. However much you put . . . if you're putting a million dollars every year, be prepared to lose it. And I always can . . . .

However, the degree of risk could also depend on the stage of their entrepreneurial career. For example, in the following statement, M15 appears to be willing to take a huge financial risk but he started out at a very low risk level. When he sold the first company for a huge amount of money, he put aside enough to set his family up and pursued other ventures for the thrill of it:

> I put a lump of money aside after XX systems which I sent all to my family . . . But otherwise I'm prepared to risk everything. So in a way, then I'm saying I don't actually want to leave everything for my family. That's too hard on them and I don't need to involve them in that. But in terms of putting aside the least of my wealth in saying I'd rather chase the idea a well planned idea, because you could make a billion dollars out of this than to be more risk averse of losing . . . oh well I'll be careful here . . . it's far more exciting to go down that route (M15).

The above quote not only captures the excitement that risk-taking brings. It shows that they are sensible in terms of providing for the well-being of their family. It also shows that portfolio entrepreneurs can continue to chase such things as new ideas, concepts or products and take risks without necessarily losing sight of their other responsibilities.

Being in a certain risk space brings on different dynamics. H13 called this "the leap" and for him it came with a mix of different thoughts and emotions. This had ranged from being scared to excited and back again:

> Oh, it was a massive rush … really scary but also really exciting and … scare the living daylights out of you, it makes you so excited you can't wait … What if it all goes wrong and I end up being broke and you got to come back and what if it's harder than you think and was it exciting? Absolutely!

Although this appears to be a high-risk move, underlying it was the fact that he was restless in his accounting career. At that stage, he was only starting and thought he did not have much to lose unless he was made partner. His initially foray into business had many hitches but persistence won the day, such that he admits "looking back at it, it was the classic thank God, I was naïve! I wouldn't be here now if I hadn't been so naïve".

There are many instances in this study where risk can be mapped out but in general, the participants can be classified into a 3 × 3 matrix where their risk profile at the start of their entrepreneurial career is mapped against their subsequent ventures. This shows that a majority of the participants had started out at a low to medium level risk profile. Figure 2 shows where the participants fall in the matrix.

The matrix shows that the two participants that started at high risk had sought to pursue less risky strategies with their subsequent ventures. Of particular interest are those that have medium risk profiles. These five entrepreneurs are among the most highly successful business people in the country, with very extensive asset bases. In addition, the two on the low to high space own very fast growing businesses. Those in the low to low and low to medium space are dependent on the operational success of their businesses.

What I know

Generally, an entrepreneur's knowledge and skill sets influence the kind of business they get involved in. Most of the participants have indicated that their knowledge of the business or industry often determines whether they will enter a venture or not. As their businesses grow and mature, they learn more about business and other industries and their knowledge expands.

Initial Venture	Subsequent Ventures: Low	Subsequent Ventures: Medium	Subsequent Ventures: High
High		H13 G11	
Medium	P5 B14	J6 D4 E8	
Low	A1 G2 C3 J7	B10 B12	D9 M15

Subsequent Ventures

Figure 2.
Participants' risk profiles

Education. Effectuation holds that what entrepreneurs know will influence their entrepreneurial decision-making. In this study, the author looked at how these attributes are exhibited. However, higher education and good career prospects appear to have both positive and negative influences on some entrepreneurial aspirations.

All but one of the participants has acquired tertiary qualifications. Six of the participants have a postgraduate qualification to a Master's or PhD level and two teach in MBA courses. Their degrees are in law, commerce, engineering and science. Although education is regarded as important, it was not generally considered crucial to their success in business. The only participant that did not pursue higher education has the highest net worth among the participants. Of the six that are in the New Zealand National Business Review Rich List, three have postgraduate degrees and three have non-university qualifications.

A majority of the participants had leveraged their education in the pursuit of business interests. For example, G2 believes that on top of the business knowledge he has gained from the family business, his university degree has given him the extra confidence to create multiple businesses and to pursue larger accounts. However, a number of the participants did not have a smooth business ride owing to outside influences, particularly family expectations. For example, H13, J7, C3 and A1 were all university educated and expected to pursue professional careers. H13 and A1 had promising careers but wanted to be in business. They both struggled with family approval even as they have become successful business owners.

In contrast, C3 and J7 would have been quite happy to stay in employment but found the prospects diminishing due to external influences. Ironically, it was the lack of good employment options that propelled them both into business. C3, who had a postgraduate degree in science, found the path to scientific research was no longer rosy and had to change career directions very quickly. Despite being rather bitter about all the effort he put into getting his degrees, he does admit that the skills he gained have been useful.

With A1, being a chartered accountant was a way to understand and learn about business. However, he asserts that one has to see beyond the books because they do not usually tell the full story:

> The books only tell you what it wants to show … You have to look at other things that are happening within the company in order to understand what is really happening. So that is the reason I did my chartered accountancy.

Experience. In other cases, the participant's training and background expands into different but somehow related areas. B10's UK Diploma in Building also taught him other aspects like project management, the law of contracts and torts, economics, structural mechanics, chemistry, the history of building. It was a natural progression for him to go into the building business in New Zealand.

D4 is an electronic design engineer whose biggest claim to fame in his words is that he is a "bloody good designer" and attributes this to being a good lateral thinker. He does so by "playing with stupid things … some of my toys have got a lot more expensive. But when it comes to design, I'll give anything a go. Some people as they get … get more and more inhibited and say, oh, you can't do that … or the convention says you can only do this … or traditionally, this has been the answer … and I'm different in that. I'm always searching for a different way or better ways".

B14 values hands-on experience more than higher education. He left school in the fifth form and went to his father's business starting as a building contractor where everything he learned was "sort of a bit of a management baptism by fire type of thing, because we had quite a diverse business, he was farming, building, plumbing, building trades, and he had a staff of about 140 and we had no decent administration set up at all, and there was no one apart from him that really knew roughly what we did everywhere".

Instinct. Although knowledge of processes and systems is vital in business success, it is often insufficient. Some participants often rely on "gut instinct" when making business decisions. For example, D9 often calls on this when he is unsure of a business proposal or a likely business partner: "I have a feeling about a business that would work, yeah. And I have a feeling about people".

J6 would ask himself "can I trust this person or is he somebody I can work alongside with?". He demonstrated this through an encounter with some American businesspeople:

> . . . the sense that I got from those people is nothing, it was all about protection of themselves and their boss and looking behind for someone that might stab them and ensuring that the very short-term results were arrived, the short-term being weekly. So monthly is long-term! We didn't know what we can do . . . I would never employ this person if I was employing . . . I mean they're very competent in their sphere, I just did not feel that I liked anyone.

Leveraging contingencies. Unlike causation logic, effectuation holds that entrepreneurial decision making explores contingencies. We expect effectuators to pursue business ideas with the expectation that the result can be any one of many possible outcomes. The motivations and/or reasons for starting their businesses are many and varied but can generally be classified along the themes of career, opportunity, lifestyle, interests/hobbies and financial. The first three appear to be more prominent in the early stages of their entrepreneurial careers, whereas the latter two featured strongly as their portfolios grew:

> . . . it is realignment of resources, so that means I take what I have, or what I can get access to, I put them together creatively, for what reason? A better return, but of course when I do that there is no guarantee, so it is the anticipation of a better return (J7).

Career situation. Whether entrepreneurship was propelled by necessity or choice, career and job situations were a major factor in the decision of many participants. For example, H13 and A1 wanted the excitement of chasing a dream to build big business and escape the trappings of a professional career. By the same token, G11 found accounting became less attractive when he "realised I can employ an accountant cheaper than being one". M15 meanwhile realised he no longer fitted the 8.30-5.30 working mould and was frustrated with working for someone. Dissatisfaction with the job when management expectations drew him away from the task he enjoyed made D4 leave a well-paid job to start his own electronics manufacturing business, while B12 just wanted something different when a business opportunity came up. While the above cases were a matter of choice, three other participants (C3, J7, B10) went into business due to lack of or termination of employment.

Opportunity/serendipity. Other participants who were engaged in some form of employment or study at the time of starting their business were attracted to or encouraged by the opportunities and circumstance at the time their first ventures were founded. Consistent with effectuation logic, these entrepreneurs started by "testing the water", so to speak, and see if they work. For example, D9 saw an opportunity to trade in livestock and got excited, then bought one rental property, which gradually expanded to ten. This was the beginning of becoming a property developer, which eventually expanded into finance and insurance.

G11's interest in cars was the beginning of a portfolio of car businesses that eventually expanded to importing, retailing, rentals, mechanical repairs and service in addition to other business interests. J6 was a manager of a large food processing company that was having trouble with the meat worker's union. In order to circumvent their restrictions, he created a company that contracted the processing work. He then went on to found a diverse portfolio of businesses. These scenarios are repeated among the other participants like H13, whose restlessness was fuelled by a motivational speaker and an opportunity in adventure tourism. E8 had a 25 per cent stake in a hotel business; when his business partner passed away, he bought the entire business and now has the largest chain of hotels across the country and a very diverse property portfolio.

Lifestyle choices/family situation. For at least two of the participants, there was an expectation that they would go into the family business, hence they were groomed in the business as they were growing up. They both had to buy their siblings out and grew both their core businesses and portfolio to two of the most successful in the country. They are both in the country's 100 Rich List.

Interests and hobbies. Personal interests and hobbies have influenced some of the portfolio decisions. Given initial business involvement, some participants have pursued other business ventures out of interest or on account of their hobbies. Some of these interests were not always for the pursuit of profit. Some businesses were founded to help specific sectors of the community, to set up other family members and to help friends.

Financial and economic. Whereas there is an income expectation in the early stages of their entrepreneurial careers, how much they made from their business was not so important as long as it allowed them to live off the income. However, as their businesses matured and their portfolios grew, there was a higher expectation of financial and economic returns. This appeared to be more evident in those who have not yet achieved the financial status that they aspire to. A1 and H13, for example, now have very high financial objectives. They both want to become extremely wealthy and are still chasing big business with ambitions to float at least one very large company. M15, G2 and C3 are all in the IT industry and want to conquer the world. B12 and E8 both want to expand their core businesses and cover a wider geographical area. D9, B10 and J7 aim to achieve a level of rate of returns on their investments.

Being highly accomplished and with good business portfolios, P5, D4, B14 and J6 are more relaxed about chasing opportunities and are no longer worried about working as hard. They are able to pick and choose the business that they want to acquire or pursue. At their level, chasing challenges is more to do with excitement than the financial reward.

Whom I know

In effectuation logic, whom the entrepreneur knows become an integral part of their business operations. Effectuators are likely to have strategic partners and leverage relationships to pursue ventures and other opportunities otherwise not possible if they did so on their own. It is fair to expect that the longer the entrepreneur has been in business, the larger their network would be. These can range from those that have direct impact on their business like family, friends, business partners, finance providers, suppliers and customers, to those that indirectly affect their operations such as government, local bodies, community groups, insurance providers, etc. To a certain extent, the wider social and professional networks are also caught in this net.

Family. A majority of the participants agree that family has very strong influences not only on them becoming entrepreneurs but also in terms of continuing their entrepreneurial careers. Parental influences have been positive for some and negative for others. Fathers in particular have a strong influence on the participant's business decisions. Generally, parents were either supportive, hence able to provide financial and other necessary support or totally averse to them going into business. Professional parents were generally more averse to business preferring instead for their children to take the professional route.

Those that had parental support had usually started in business by working in the family business and eventually taking the family business over and expanding their portfolio. Their entrepreneurial experience were usually characterised by different family dynamics to those that did not enjoy family endorsement. Despite parental disapproval, however, there was evidenced that parents did help them when they were in financial trouble.

Social and professional networks. Becoming successful in business means one's personal networks expand naturally. A participant explains that this just happens, as the people one does business with become a part of one's network. However, the main interest of this study is the effect of networks in business formation.

Evidence from this study shows that social networks are generally not exploited to pursue business interests. Professional networks like those formed from university study are maintained and may be regarded as a good source of services like legal, medical and finance. There is no evidence from the participants that these had been instrumental in business formation apart from the occasional advice or opinion. In one case, going into business with his so-called "professional friends" ended up in a falling out and huge loss. Another participant found those contacts a liability to business pursuits and admitted to purposely distancing himself from his peer group in order to build his own business networks:

> The networks follow because as you get into business and you contact people and their companies or customers and suppliers, they become your network. I don't know of many people that have a great network and then they form a business out of it. Normally the business arrives first (G2).

However, having gone to the right school and belonging to the right club opens doors. Apparently, there is still a very strong "Old Boy's" network that operates within the business community. To break into this network, one has to have gone to the right private high school. Two of the participants have found this helpful and had purposely pursued the social calendar that allows for this "bonding" sessions for business purposes. Another participant admitted to not having broken into this network, and not for lack of trying. A participant who was a member of the All Blacks found his sporting background made getting a job easy an had some impact on the development of his early business ventures.

Strategic business partners. Although social and professional networks do not appear to impact strongly on business formation, it appears that participants in this study surround themselves with a tight business network composed of a select number of people only. This is evident in the way participants would often use the word "we", despite the business being under their full control. This would sometimes refer to business partners or the top management team within the business. Table I shows that a majority of the participants own a combination of 100 per cent and part-owned businesses. Here we explore the role of partners in the formation of their businesses.

M15's flat-mate was hugely influential in his business career. This friend encouraged him to stop working for someone else and either do his own thing, or work with him in his engineering business. Their initial association started in a small way, where he set up in an office in his friend's engineering workshop rent-free in exchange for doing his accounts. Where he was just looking at enough to support his family and pay the mortgage, the accounting software he developed became big business. This friend is now a major business partner and they have both started many businesses and still work very well together.

Two of the participants in this study were original partners in an electronic manufacturing business. They went their separate ways after the company sold. Although they both pursued different business interests, when one started another electronic design company, they once again teamed up. What appears to work in this relationship is the way the two entrepreneurs complement each other, creating a synergy and mutual recognition of the other's strengths and weaknesses. This is also reflected in G11's case, where he admits he is not very good with people. His partner is able to step into this role quite easily while he does backroom negotiations. When H13 teamed up with a friend to start an adventure-based business, his interest in personal development and business also complemented his partner's outdoors background well. Unfortunately, as the business grew, their interests drifted apart and resulted in a messy separation that set the business back for a period.

B12 prefers to work with people he knows. With co-investors, trust is very important and he tends to go back to the same people when he puts consortia together. While trust is also necessary for D9, he believes partners should also be comfortable with each other and in this context he tends to surround himself with a small team.

Whether networking amongst portfolio entrepreneurs is actually fruitful is perhaps summed up by the experience of D9. He admits to "not being big" on networking. In the early days, he thought it would be fun to "have a talk with some other entrepreneurs about what they think", but found that quite difficult and suspects that is because "in some ways maybe there's actually a competitive streak" in them that makes "shop talk" difficult. He does not attribute any of his successes to networks where entrepreneurs network with other entrepreneurs. Like many of the participants, he creates that network with people he trusts. Admittedly, they have preferred partners or advisors that they would be in constant contact with. This is a necessity, but somehow for those that have made it they do not care much for quantity. It appears that the more successful they are, the tighter the network becomes.

Conclusion and limitations

Overall, the results show that portfolio entrepreneurs do employ effectuation processes at the preliminary and early stages of venture and portfolio development. The study has provided evidence that portfolio entrepreneurs start out as effectuators and manifest this through the three basic principles of affordable loss, leveraging contingencies, and taking on strategic partners. While the first two can be reasonably expected as evidenced by the many studies that have already been conducted, it is remarkable that for this select group of entrepreneurs, networks do not play such a significant role in their portfolio. In this study at least, their networks tend to get tighter as their portfolios get bigger.

In the later stages, however, there is evidence that they tended towards more causative reasoning. This may be an indication that they have already tested the water, set some goals and have gained confidence in achieving them. Evidence of this logic is reflected in the goals and aspirations that the participants had put forward, such as:

- floating a very large company;
- world domination;
- growth goals;
- rates of return;
- opening up more branches;
- company buy-outs; and
- minimising competition through acquisitions.

Whereas using multiple case studies is designed to improve reliability and validity, the study's limitation rests largely on the context and in its exploratory nature. Further studies that replicate the present study will strengthen evidence. It will also be helpful to look at how different the risk profiles are of portfolio entrepreneurs from other types such as novice and serial entrepreneurs.

Entrepreneurship is a complex process, and knowing the factors that lead to successful entrepreneurship has far reaching implications over a wide area. This study primarily adds weight to the recognition that portfolio entrepreneurs are a relevant area of research and there is a need to understand and explain the many different aspects that lead to their emergence. Successful portfolio entrepreneurs are unarguably experienced business founders. As such, they are expected to have acquired and developed knowledge and skills essential in developing strategies to overcome challenges encountered in new ventures. It is important to derive lessons from the wealth of experience that they possess. There is a need to identify the skills that successful habitual entrepreneurs have accumulated and learned so that they can be disseminated. Pragmatically, it may allow researchers and business mentors to provide more specific advice for other entrepreneurs such as nascent and novices, and potentially reduce the incidence of business failure.

Note

1. See www.effectuation.org (accessed 1 April 2007).

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Further reading

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Corresponding author

Sussie Morrish can be contacted at: sussie.morrish@canterbury.ac.nz