



Exploring the applicability of effectuation theory in distressed venture environments



Authors:

Thabang Madigoe¹ 
Marius Pretorius¹ 

Affiliations:

¹Department of Business Management, Faculty of Economic and Management Sciences, University of Pretoria, Pretoria, South Africa

Corresponding author:

Thabang Madigoe,
thabang.madigoe@up.ac.za

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Orientation: Once appointed, business rescue practitioners and turnaround professionals are faced with critical decision making of whether a distressed venture contains an opportunity as judged by reasonable prospect.

Research purpose: This study investigated and explored the application of 'effectuation theory' principles and/or causation elements to the distressed venture opportunity (DVO) decision making.

Motivation for the study: Effectuation is applied by experts to an entrepreneurial opportunity, and it was important to investigate whether effectuation and its principles would inform practitioners for better decision making when evaluating a DVO.

Research design, approach and method: A qualitative study was conducted with 15 business rescue practitioners (BRPs) from the Gauteng province. The data were collected through in-depth semi-structured interviews and a thematic analysis was used to analyse the data.

Main findings: This study reveals that all five effectuation principles and some causation elements are applicable to the DVO judgement. The findings indicate that both effectuation and causation are applied in a complementary manner depending on the context.

Practical and/or managerial implications: This study highlights the importance of applying effectuation and causation elements for practitioners to achieve success. By applying both logics, BRPs can build resilience in their strategies, be creative in adapting to solutions as they arise and engage with stakeholders in the business rescue process.

Contribution and/or value add: This study extended the application of effectuation theory to distressed venture environments, offering insights into how practitioners can make better decisions when evaluating a DVO.

Keywords: distressed venture opportunity; effectuation; decision making; business rescue practitioners; turnaround professionals; business rescue.

Introduction

'When fate throws a dagger at you, there are only two ways to catch it - either by the blade or the handle. - A Chinese proverb.' (see Pretorius 2014:1)

Faced with a distressed venture, sometimes referred to as a poisoned chalice, turnaround professionals (TPs) and business rescue practitioners (BRPs) find themselves in situations where they must catch such 'knives' frequently and almost daily when they accept a rescue or reorganisation appointment (McCann in Pretorius 2013:1). In today's turbulent business environment, once dominant companies are often struggling to survive, and firms are going out of business faster than ever before. Turnaround professionals and BRPs are, therefore, faced with critical decision making regarding whether an opportunity to turn a distressed venture around even exists, as only distressed ventures assessed as having this opportunity, usually referred to as reasonable prospect (RP) can commence business rescue (BR) proceedings (Conradie & Lamprecht 2015:2).

Pretorius (2017:62) states that a distressed venture opportunity (DVO) could potentially be judged based on theory and criteria, similar to that of a new start-up venture in line with the venture capitalist perspective. That is, a business is functional when its business model is achieved within the resource munificence for potential actions in pursuit of an opportunity (Timmons & Spinelli 2003). The key difference between start-ups (considered as a new venture opportunity [NVO]) and distressed ventures is that start-up ventures mainly depend on 'unproven' research estimates, whereas with distressed ventures, there exists some history suggesting why things worked (or not)

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in the past (Pretorius 2017:62). Regardless of this difference in terms of the availability of evidence for why start-ups work or not, the underlying principles when asking whether an NVO or a DVO exists (or not) appear similar. In this study, a DVO is defined as an unexploited opportunity within a distressed venture, which is found in an initial judgement by a BRP; this opportunity has the potential for a distressed venture to be reorganised towards a solvent operating position (Casson & Wadeson 2007:286; Sarasvathy 2001).

Opportunity judgement by venture capitalists is the crux of entrepreneurial start-ups and investment decisions (Xia 2012) and distressed ventures for a turnaround should inherently be considered as opportunities. Core to the NVO is the opportunity to be pursued, which is presented to the financier for funding. Similarly, the distressed firm is an opportunity that, when addressed by turnaround strategies, follows the 'same' trajectory as the start-up opportunity (Pretorius 2017). Effectuation theory is applied by experts to the NVO (Sarasvathy 2001), and therefore the question arises whether the same (or its elements) can be applied to the distressed venture and its associated decision making. As far as it could be determined, no study could be found that explored the application of effectuation and its principles to the DVO, and thus research in this area remains scant. Given that effectuation is applied by expert entrepreneurs to the NVO (Read et al. 2017), BRPs and TPs may learn and benefit from the evaluation of an opportunity from an NVO perspective. Moreover, effectuation can be a useful lens for improving the understanding of how practitioners (BRPs and TPs) make decisions in distressed venture environments filled with uncertainty coupled with scarce resources (Sarasvathy 2001).

This article therefore aims to investigate and explore the application of 'effectuation theory' principles and/or causation elements to the DVO decision making. Effectuation was applied to inform practitioners (BRPs and TPs) for better decision making when dealing with distressed ventures. This study focussed specifically on BRPs (TPs and BRPs from a liquidation and legal background, namely liquidators and attorneys, referred to as BRPLLs) based in the Gauteng Province of South Africa. The data were collected through in-depth semi-structured interviews.

Research question(s)

The main research question that the study sought to answer is *What principles of effectuation and/or causation elements are relevant to the DVO decision making?*

In answering this research question, this study contributes to the field of knowledge in two key areas. Firstly, the study extends the application of effectuation theory to distressed venture environments, offering insights into how practitioners can make better decisions when evaluating a DVO. Secondly, the study suggests that integrating effectuation principles with causal elements could serve as a benchmark, guiding decisions when

evaluating a DVO. This integration may enhance DVO decision making as judged by RP and potentially become a standard requirement by courts and creditors, thereby increasing the success rates of distressed ventures undergoing BR processes.

The remainder of the article is structured as follows: a literature review discussing the contextual background to distressed ventures, effectuation theory and its principles, the questionability of effectuation theory and its applicability in the context of distressed venture environments. Next, the methodology used is discussed, followed by the findings, conclusions and implications of the study.

Literature review

Contextual background to distressed ventures

Businesses are expected to operate on a solvent basis and consequently have a perpetual life but in reality, this may not be the case as companies are more likely to fail under unforeseen circumstances because of financial distress (Wangige 2016:6). The *Companies Act* defines a distressed venture as 'financially distressed', which refers to a company that (1) appears reasonably unlikely to settle its debts when they become due in the ensuing 6 months or (2) in the next 6 months, will seem likely to become insolvent (Cassim et al. 2021:882). Distressed ventures operate in uncertain environments characterised by lower resource slack that often results in an attempted restructure or an involuntary closure of the business (Francis & esai 2005:1204; Guha 2016). In most cases, these distressed ventures lack the cash and/or assets that could simply be changed into cash, which can be used in funding operations; these are directly associated with the significance of turnaround success (Cassim et al. 2021:882).

When a venture becomes financially distressed or over-leveraged because of reasons that are beyond its control, obtaining post-commencement finance (PCF) becomes progressively challenging, if not almost impossible and this PCF is regarded as one of the important elements that determine BR success (Jijana & Chetty 2015). Acquiring external funding (PCF) has therefore proven to be a thorn during venture distress as investors are wary of the risks associated with investing their money in what has been termed a failing entity (Du Preez 2012:6). Stakeholders also play a fundamental role in the recovery of the business when a company is experiencing a decline and attempting a turnaround and practitioners must identify influential stakeholders in the process (Trahms, Ndofor & Sirmon 2013:1293). Stakeholders may have the needed resources to control interactions and the flow of resources and they are most likely to naturally exert a strong level of influence on the firm's survival (Pajunen 2006:1266).

Effectuation theory

In order to generate a theoretical understanding of the DVO, this study builds upon the theory of effectuation introduced by Sarasvathy (2001) and their two contrasting logics of

decision making, namely causation and effectuation. Effectuation is defined as a decision-making approach utilised by expert entrepreneurs in dealing with problems in business environments filled with high uncertainty, where a market may not even exist yet (Duening et al. 2012:213). The effectuation process therefore begins when an entrepreneur is confronted with an uncertain and resource-restricted environment (similar to distressed environments) (Arend, Sarooghi & Burkemper 2015:3). When using effectual logic, expert entrepreneurs consider the resources at hand (those that are currently controlled) and make attempts to create a variety of successful outcomes in the future (Duening et al. 2012:205). Effectuation is therefore characterised by the use of available resources, the consideration of the affordable loss level, emphasis on partnerships and networks rather than conducting competitive analyses as well as the exploitation of contingencies through adaptability and flexibility (Sarasvathy 2001:252). Sarasvathy (2001) postulates that neither effectuation nor causation is better than the other; however, one would be more appropriate depending on the context. Similarly, Fisher (2012) argues that both effectuation and causation may co-exist, used in a complementary manner, and the entrepreneur may be able to navigate between both logics.

Principles of effectuation

Effectuation is built on five principles that encapsulate the full thrust of the theory, and these are contrasted with causal logic (Sarasvathy 2001:252).

Bird-in-hand principle

The bird-in-hand principle is the foundational principle of effectuation that delineates that entrepreneurs start with a set of means (resources) that are currently controlled and utilise those means in achieving a broader range of prospective goals, which may be deemed a 'success' (Duening et al. 2012:20; Nguyen et al. 2018:1057; Sarasvathy 2001:245; Sarasvathy et al. 2014:72). In contrast, causation focusses on goal selection first, which is followed by seeking to acquire the necessary means to achieve the selected goal (Sabdia 2014:16).

Affordable loss principle

Effectual entrepreneurs concentrate on what they can afford and are also willing to lose rather than predict what can be gained in the future or focussing on maximising returns (causal logic); this is captured by the affordable loss principle (Berends et al. 2014:9; Sabdia 2014:9; Sarasvathy 2001:252). Decisions are therefore made considering the level of possible loss, ensuring that any loss encountered does not exceed the acceptable level (Berends et al. 2014:9). Expert entrepreneurs who adopt the affordable loss principle when creating or entering new markets keep control over risk (Sabdia 2014:44; Sarasvathy et al. 2014:74).

Crazy quilt principle

While effectuation favours building relationships and bringing self-selected stakeholders on board to co-create the

venture together, causal logic puts more emphasis on competitive analysis to define the market, select market segments and thereafter use the specifications of the specific market in determining the stakeholders to be pursued (Dew et al. 2009:293). Effectuation emphasises the formation of partnerships, building strategic alliances and acquiring self-selected stakeholders as a way of reducing uncertainty (Nguyen et al. 2018:1058; Sarasvathy et al. 2014:72).

Lemonade principle

The lemonade principle is grounded on an old adage that states 'When life throws you lemons, make lemonade'. Effectuation employs a 'learn as you go approach' and exploits contingencies as they arise while causation focusses on exploiting pre-existing knowledge as well as previous predictions (Berends et al. 2014:8). That is, effectual entrepreneurs cope with what comes their way and learn to transform negative contingencies into new opportunities instead of making explicit efforts aimed at avoiding surprises (causal logic) (Dew et al. 2009:293).

Pilot-in-the-plane principle

The pilot-in-the-plane principle is grounded in the concept of control. There is a distinctive facet of control that exists in having no certainty regarding the future (Duening et al. 2012:209). Expert entrepreneurs refrain from adapting to their environment (causation) but instead focus is placed on adapting the environment to them (effectuation). In essence, this principle emphasises creation, doing and execution thus moulding the future (Sarasvathy 2001:252). Effectuation thus seeks to control a future that is unpredictable while causation is set on predicting an uncertain future (Sarasvathy 2001:252).

The questionability of effectuation theory

There is a conceptual debate among researchers of effectuation. The validity of effectuation as a theory is questionable, and it is argued that the theory is underdeveloped and lacks empirical testing (Arend et al. 2015:18; Perry, Chandler & Markova 2012). The major criticism of effectuation may be that presented by Arend et al. (2015), who argued that effectuation was established as a thought experiment where the precondition was already set that entrepreneurs were a group of individuals that were homogenous to a certain extent. Arend et al. (2015) argue that means-driven action (using only the available means) is somewhat restrictive as it limits the entrepreneur from obtaining more resources. Arend et al. (2015) further highlight another assumption made by effectuation concerning the affordable loss principle, where the author argues that effectuation does not consider options of leveraging the upside volatility explicitly in decision making.

Applicability of effectuation in the context of distressed venture environments

The sense-making and judgement of DVO are made in the Zone of insolvency (ZoI), which is characterised by uncertainty and ambiguity – the context dimension for

distressed ventures (Lopes 2020). Distressed ventures are regarded to have relatively lower levels of resource slack compared to those operating on a solvent basis and decisions are made under conditions of information asymmetry and liability of data integrity (Pretorius & Holtzhauzen 2008). In addition, there exists environmental isotropy, particularly concerning the information used in the decision making concerning a DVO, which is subject to misinterpretations, obscuring and suppression. This information needs verification and authentication (due diligence) (Pretorius & Holtzhauzen 2008). That said, resource constraints coupled with the use of information that is subject to misinterpretations, suppressions and obscuring makes it difficult to plan and predict future actions by practitioners and thus, potentially make effectuation a fundamental tool for opportunity judgement and sense-making of a DVO.

Research methodology

Research design

This study was exploratory in nature and a qualitative research design was used. This research specifically made use of a generic qualitative design. Generic qualitative research was appropriate and a natural choice for this study, as the research aimed to develop a deeper understanding of the application of effectuation theory in a new context of distressed venture environments (Quinlan et al. 2015:125). This required in-depth information and insight involving experiences, views and perceptions (Sandelowski 2000:338) that were solicited from senior and experienced expert BRPs who also conduct informal turnarounds (TPs) and BRPs from a liquidation and legal background (BRPLLs) while the data were collected through in-depth semi-structured interviews.

Sampling

This study was conducted to explore and address the research problem by collecting data from a group of 15 licensed senior and experienced expert BRPs registered with the Companies and Intellectual Property Commission (CIPC) (10 TPs who were specifically involved with informal turnarounds and five BRPLLs who were BRPs from liquidation and legal background). Purposive sampling was used to select expert BRPs who are knowledgeable in BR and operate in the BR space within the Gauteng province. The final sample size was deemed to be sufficiently in line with the guidelines by Guest, Bunce and Johnson (2006:61), with data saturation achieved after 13 interviews. Homogeneous sampling was used in selecting participants who held either a senior (>10 years experience) or experienced (5–10 years) BRP license. Participants included 12 seniors and three experienced BRPs.

Data collection and analysis

The data for this study were collected through a mixture of face-to-face and online in-depth semi-structured interviews. Most of the interviews were, however, conducted online using platforms such as Google Meet, Zoom or MS Teams, as participants found them more convenient. In-depth

interviews were selected for this study as they enabled the researcher to document multiple perspectives of reality and allowed for detailed descriptions from respondents (Truong & Dang 2017:79). In collecting the data, 15 interviews were conducted on separate occasions from the end of January 2023 until early May 2023. Each interview lasted between 33 and 104 min, with an average duration of 58 min. At the beginning of each interview, participants were requested to sign the informed consent form, which outlined the details of the study and guaranteed confidentiality.

The data collection instrument developed was pre-tested with one participant, a BRP who is also a TP who had similar characteristics to the final target sample for BRPs (TPs) and minor changes were made based on the pre-test results. The data collection instrument was developed to offer interviewees a choice between two statements – either Statement 1 (causal) or 2 (effectual) – that they resonate with and thereafter rate the strength of their agreement from strongly agree, agree and slightly agree. Afterwards, participants had to qualify their statements by explaining in detail the reason why they had chosen the statement they chose. In total, this instrument consisted of 20 questions for participants to choose from. The data collection instrument was developed based on the five principles of effectuation (right-hand side of the research instrument) contrasted with causation elements (left-hand side of research the instrument).

A thematic analysis was conducted to analyse the interview data collected in line with Braun and Clarke (2006:57). All the interviews were recorded and the researcher listened to the audio recordings to familiarise themselves with the data. The recordings were transcribed and thereafter the transcribed interviews were loaded into the qualitative software Atlas.ti, which was used to code data and organise the data and grouping similar and overlapping codes to form key themes and sub-themes. In addition, an Excel spreadsheet was also used to analyse the data from the research instrument. The first part of the Excel spreadsheet analysis entailed calculating the mean scores for each set of questions. This was followed the second part, which entailed calculating the average score for each set of questions that were linked to the five principles of effectuation. The overall average scores were then used to determine whether practitioners leaned towards effectual or causal logic.

Trustworthiness

To ensure credibility, the researcher made use of a well-established primary data collection method used in qualitative research, namely semi-structured interviews (Polit & Beck 2012:585). Participants were provided with a thick description of the context of the study (research design, sampling methods and inclusion criteria for participants) to ensure transferability; a comprehensive and detailed description of the processes employed in the study was given to ensure dependability (Shenton 2004:70). Lastly, the researcher safely stored all audio recordings and transcripts to ensure confirmability (Milne & Oberle 2005:416).

Ethical considerations

This study received approval from the Research Ethics Committee of the Department of Business Management at the University of Pretoria in November 2022. The ethical clearance number is EMS/189/22. Before commencing the interviews, each participant was obligated to review and endorse the informed consent form. This document elucidated the study's purpose, emphasised the voluntary nature of participation and assured participants of their right to withdraw at any point. In addition, it provided guarantees of anonymity and confidentiality. Anonymity was maintained by using pseudonyms and eliminating any mention of individuals' or companies' names in both the interview transcripts and the ultimate presentation of the data.

Findings

The findings of this study are reported in this section.

Principles of effectuation relevant to the distressed venture opportunity

Principles of effectuation relevant to the DVO are expounded namely, pilot in the plane, bird in hand, affordable loss, crazy quilt and the lemonade principle. Various factors moderating the inclination towards effectuation and/or causation are explored.

Pilot-in-the-plane principle

Participants showed a strong inclination towards effectual thinking for the pilot-in-the-plane principle when evaluating a DVO. Factors that moderate the inclination towards effectuation and/or causation for this principle are expounded.

Conducting assessments/investigations: Conducting an assessment/investigation appears to be a moderator that strengthened the use of effectual thinking and shaped the solutions that BRPs pursue. The better the assessment, the more participants could lean towards effectual thinking. In determining the solution to be pursued, expert BRPs who leaned towards effectual logic preferred to use investigations to better understand the distressed venture. They used investigations to develop a well-founded solution instead of coming up with a preferred solution from the first meeting with management. However, expert BRPs may also have an envisioned solution in mind (causation), referred to by a participant as a 'gut feel', which is based on experience. Experienced practitioners understand that their gut feeling must be confirmed or refuted by the information on the ground as circumstances may change:

'Once you start investigations you become confident. You soon realise what's the creditor appetite, you realise all the different factors which then finalises your decision as to what the solution would be.' (TP 4, Male, Experienced BRP)

'I think I will first look at the information, even though I have a gut feel of what's happening.' (BRPLL 2, Male, Senior BRP)

Data integrity or certainty: Consistent with the findings by Pretorius and Holtzhausen (2008), one of the uncertainties in

BR is the issue of data integrity. In BR, much of the information provided by management may be misrepresented, hidden or untrue. The findings showed that participants leaned towards effectual thinking as they understood that in BR, the information provided to them may not be accurate. Practitioners were often forced by circumstances to confirm the accuracy and validity of the information received via an investigation. The issue of data integrity as uncertainty in BR is also consistent with the study by Sarasvathy (2001), who postulates that the effectual problem space is characterised by environmental isotropy and ambiguity:

'You have to do your investigation, because you may find that the management may be hiding stuff, they might be misrepresenting stuff, they might be lying to you.' (BRPLL 3, Male, Experienced BRP)

Pre-assessments: Expert BRPs recommend conducting a pre-assessment (before appointment) as part of the solution determination. This allows practitioners to determine the possibility of success of the BR. Business rescue practitioners who conducted a pre-assessment before taking on a matter did not need to predict the solution and thus leaned towards applying effectual logic. These BRPs understood that they could not be certain of the future and the exact outcome of the solution because of BR's creditor-driven process alongside constantly changing circumstances. This is consistent with Duening et al.'s (2012) findings, who assert that the pilot-in-the-plane is about exercising control and the distinctive facet of control is that there exists no certainty regarding the future. Expert BRPs find the need to conduct a pre-assessment as part of executing their tasks to avoid predicting what the solution will be:

'We first have to do a proper pre-assessment, which is an independent debt review that will tell you what the issues are and out of this pre-assessment, you also on a high level come up with action points or recommendations that you need to put in place.' (BRPLL 5, Male, Senior BRP)

Reasonable prospect: While participants found no need to predict the solution, an important aspect for them was the ability to issue an RP statement as required by the *Companies Act*. Consistent with the study by Conradie and Lamprecht (2015:2), to issue the RP statement, BRPs must assess the distressed venture to explain their RP logic. Business rescue practitioners who lean towards effectual logic therefore choose to investigate and explain throughout the BR process to provide an understanding of RP. Expert BRPs emphasised the importance of having an idea about RP in the beginning although this RP may change along the BR given the uncertainty of the process:

'When I say there is no need to predict, you do need to know is there RP, yes or no, but the exact outcome is invaluable as you go through the process. You can have an idea and there can be enough RP to get to work on it and then it can still change over time and that's fine.' (TP 9, Male, Senior BRP)

Bird-in-hand principle

Participants applied both effectual and causal logic for the bird-in-hand principle although they showed dominance

towards causal logic in practice. Factors that moderate the inclination towards effectuation and/or causation for this principle are expounded.

Assessment of resources: Expert BRPs understood the importance of assessing the available resources in a distressed venture such as PCF, working capital, assets, skills and investments, among others, before determining the solution (a prospective goal they want to achieve). Business rescue practitioners who applied effectual logic thus conducted an assessment to get a better sense of the available means (endowed resources) and future resources that would be required. Expert BRPs specifically conduct an assessment to evaluate the ingredients (resources) they have, such as the existence of a marketplace, a product, means of production and funding, as supported by the study by Timmons and Spinelli (2003:79–113):

‘Well it goes to whether I have a business. Do I have a marketplace, the product, the means of production and if I unpack these things and take a little bit of a resource-based view, I can start to assess whether I have the ingredients for a solution.’ (TP 8, Male, Experienced BRP)

Viability assessment: The findings showed that if a practitioner conducts a viability assessment (RP assessment) and establishes that there are not sufficient resources to work with, this does not limit them from pursuing additional resources. If a business has great viability prospects (strong RP) but resources are lacking, the practitioner should not just rely on available means but should find the resources to achieve their envisioned solution. That said, in BR, there are times when the solution is determined first (the prospective goal to be achieved [causation]), followed by the action to pursue the resources to achieve the envisioned goal and a causal approach is used, and this is supported by Sabdia (2014:16) and Sarasvathy (2001). However, when viability is weak, it becomes difficult to obtain resources such as funding and even convince new stakeholders to join the distressed venture, which made the rescue challenging. In this case, BRPs were confined to work within available resources (effectual approach) and thus supporting Duening et al. (2012:20) and Nguyen et al. (2018:1057). The use of available means and pursuit of additional resources supports the criticism and argument made by Arend et al. (2015) that the assumption of the means-driven action of using only the available means is somewhat restrictive if not accurate, as it limits the ability of the attempt to obtain more resources:

‘If you’ve got a plan that will work and the resources aren’t currently available, you can always look for additional resources. If it’s a weak solution or if the viability is marginal, it strongly relies on available resources.’ (TP 2, Male, Senior BRP)

Affordable loss

Participants applied both causal and effectual logic with regard to the affordable loss principle but strongly leaned towards causal thinking in practice. Factors that moderate the inclination towards effectuation and/or causation for this principle are explored.

Business rescue practitioner optimism: Participants assert that BR is a forward-looking process and requires BRPs to be optimistic about their proposals, especially if they will be presenting their proposals to investors. Given that liquidation is considered the worst-case scenario, BRPs tend not to focus on liquidation but rather concentrate on the upsides to achieve the best possible outcome for all affected parties. Although the focus was on ‘upsides’, expert BRPs always had the worst-case scenario in mind and only used it to convince stakeholders with a voting interest to vote in support of the BR plan or to get their buy-in on the best-case scenario. By being optimistic, expert BRPs focussed on gains (upsides), which entailed saving the business, saving jobs, maximising returns for shareholders and creditors (causal approach), implementing their solutions and ultimately achieving a better return than in liquidation (BRiL):

‘As a Turnaround practitioner, you look at the best-case scenario, you will always have the worst-case scenario in your mind, we use the scenario in our mind to convince certain parties to come to the party, demonstrate to them that guys this is the best scenario and here is the worst-case scenario if you don’t support the best-case scenario.’ (TP 4, Male, Experienced BRP)

Risk: Business rescue practitioners who were concerned genuinely about the distressed venture understood the level of risk involved, thus applying effectual logic by curbing the downside potential and mitigating the risks within the venture. Practitioners knew that creditors have a lot to lose as they have invested their money into the business. Expert BRPs understood that in BR, one cannot afford to lose resources and therefore would not risk more money than they were willing to lose in the process although they still pursued the required resources, such as PCF, regardless of the risk involved. In addition, employees have a lot to lose given that should the business fail, they risk losing their jobs, salaries and livelihoods. Expert BRPs therefore focussed on mitigating risks and losses and ultimately saving the business. These findings are consistent with the studies by Sabdia (2014:9) and Sarasvathy (2001:252):

‘The employees have a lot to risk because you find that employees still go to work even if they are not paid or not paid on time. Similar with creditors, if they’ve got a lot invested they will probably say let’s resolve this historic debt in a plan and will probably still supply you because we want to keep the business going.’ (TP 6, Male, Senior BRP)

Business rescue practitioner reputation and fees: Business rescue practitioners are concerned about their reputation in the industry. If the business failed and the venture was put in a worse position than in commencement, they could be sued, which would damage their reputation in the industry. As such, BRPs who care about their reputation in the industry placed focus on balancing saving the business and jobs and maximising returns for creditors (causal approach) while also mitigating and taking control over risk (effectual approach). In this instance, both effectual logic and causal logic were important. Another moderator in BR decision making was BRP fees. Expert BRPs understood that if the rescue failed, they risked going unpaid. As such, practitioners focussed on

the upsides of saving the business and maximising returns for the creditors (causal approach) while also mitigating risks and losses in the venture (effectual approach):

'I would generally not risk more money than I am willing to lose in pursuing a specific solution because I need to be cognisant of the risk and the outcome for creditors. Something may suddenly go horribly wrong and then you enter into liquidation and somebody is not only going to sue the practitioner but it's not going to look good on his resume. And, I mean me personally there is probably a risk for my fees because of when the BR doesn't work.' (TP 2, Male, Senior BRP)

Chapter 6 of the Act: Chapter 6 of the *Companies Act* influenced BRPs to apply effectual logic given the obligation for practitioners to limit the risks and losses within the distressed venture and not put the company in a worse position than it was at the commencement date. Business rescue practitioners constantly reflected on their decisions to save the company or achieve a better return for creditors. The Act therefore guides BRPs to apply extended effectual thinking in the BR process. The ability to limit losses and mitigate risks is consistent with the study by Sabdia (2014):

'So, you can't place a company into a worse situation than it was on day 1 or the commencement date as per the Act.' (BRPLL5, Male, Senior BRP)

The crazy-quilt principle

Participants showed a slight inclination towards effectual logic for the crazy-quilt-principle and factors that moderate the inclination towards effectuation and/or causation for this principle are expounded.

Chapter 6 of the Act: Business rescue practitioners are required by the *Companies Act* to involve all affected parties in the BR process. In line with Section 7k of the *Companies Act*, BRPs are obligated to balance the rights of all stakeholders and give everyone a fair chance to contribute to the solution, thus, applied effectual thinking in decision making in the BR process. Expert BRPs who leaned towards effectual logic understood that during the process, all stakeholders had to be involved and allowed to contribute towards the solution, regardless of their voting power. Expert BRPs engaged with all stakeholders such as employees, management, unions, customers, suppliers and creditors to balance their rights. The involvement of all stakeholders in BR is consistent with Trahms et al. (2013:1293):

'In my view, that is what the act requires us to do in terms of section 7k. You must not be biased in the system, you need to get everyone involved, everyone who is bringing a solution.' (TP 7, Male, Senior BRP)

Stakeholder salience: Consistent with Trahms et al. (2013), while BRPs underscored the importance of involving everyone in the process, it was argued that BR is a creditor-driven process, and as such, BRPs tend to give much preference to stakeholders with voting power. This then brings us to the second moderator regarding stakeholder salience, namely the extent to which practitioners give

priority attention to stakeholders who have a voting interest/power in BR. Expert BRPs understood that to have their plans approved, they needed to play to the bigger creditors, especially the secured creditors to obtain their buy-in (vote). Business rescue practitioners also understood that these stakeholders were the ones who could fund the rescue; without their support, the rescue was doomed:

'Usually the stakeholders that have the key voting power are usually the ones that can fund the turnaround and are usually the ones to vote on the plan. So, while everybody is important, creditors are more important than the others.' (TP 1, Male, Senior BRP)

Buy-in and stakeholder participation: Expert BRPs understood the importance of obtaining buy-in from creditors to have their plans approved. Some BRPs preferred the creditors committee to participate in the process, especially in larger engagements where they had a large consortium of creditors. In large engagements, practitioners experienced difficulty in engaging with each creditor on an individual level, and thus the creditors' committee made it easier for BRPs to communicate. By engaging with creditors, especially early on in the process, practitioners could solicit inputs into their plans, reduce hostility in the process, create a transparent process, obtain voting approval and obtain the required funding. However, the non-preference of the creditors committee was based on the smaller size of the engagements and smaller groups of creditors because, in those instances, BRPs found it to be a waste of effort and time. Regardless, the more buy-in and participation of stakeholders in the BR process, the more effectuation became possible:

'When you come to the listed level or your larger corporates, it's very useful specifically with your major secured creditor, it's very nice to use them as some sort of a hearing boardroom just to discuss possible options in outcomes. However, in smaller engagements, a creditor's committee may be a waste of time.' (TP 5, Male, Senior BRP)

Business rescue practitioner collaboration competence: Collaborative, competent BRPs understood the importance of collaboration, which entailed engaging with various people who understand the company, forming collaborative partnerships and bringing in potential partners who play a role in the future of the company. All affected parties were involved in the process – including the employees, potential funders, suppliers, creditors, customers and any other critical players who would contribute to the solution. Collaborative, competent BRPs also involved people who were previously within the distressed venture, given the institutional knowledge they possessed, while also identifying new partners who could bring in new ideas, skills and even funding as and when required. The more a BRP had collaboration competence, the more effectuation was possible, contributing to a higher chance of the BR plan being accepted and the rescue being a success. The use of partnerships and collaborations is consistent with the studies by Duening et al. (2012), Sabdia (2014) and Sarasvathy (2001):

'I think you need to engage with those that were previously involved because they've got the institutional knowledge, you

also need to identify bringing in new partners to bring in new ideas, new management skills and expertise and all of those things are dependent on the solution that you are bringing in.' (BRPLL 5, Male, Senior BRP)

Lemonade principle

Participants applied both effectual and causal logic concerning the lemonade principle but slightly leaned towards effectual logic in practice. Factors that moderate the inclination towards effectuation and/or causation for this principle are explored.

Chapter 6 of the Companies Act: Practitioners are obligated by the *Companies Act* to stick with an adopted plan and to implement it as is. That means that if there were changing circumstances and the plan had already been adopted, practitioners are legally obliged by the *Companies Act* to implement the original plan. Thus, practitioners may have been considered rigid (causation) although they argued it was because of the lack of permission granted them by the *Companies Act*, which limits/weakens practitioners' application of effectual logic. Business rescue practitioners were obligated to stick with an adopted plan and thus applied causal logic:

'In terms of the Act, the BRP is obliged to do everything in his own power to implement the adopted plan, the amendments to the BR plan is most probably the most difficult one at the moment in BR.' (TP 5, Male, Senior BRP)

Elastic thinking: Expert BRPs who applied effectual thinking understood the ever-changing state of circumstances, with new information requiring them to be adaptable and flexible. In this regard, if the BR plan had been adopted and there were changing circumstances that were detrimental to the plan, a new plan had to be proposed, which needed the approval of the creditors and thereafter implemented. In this instance, BRPs who possessed elastic thinking applied effectual thinking, as they were flexible to changing circumstances as and when they arose. These findings are consistent with the study by Duening et al. (2012):

'Things are changing, business changes every single day, circumstances etc. These will require that the plan incorporate those changes. With amending the BR plan, you need to leave yourself room to change the BR plan, things change but amending a plan comes with a bunch of new risks.' (BRPLL 4, Male, Senior BRP)

Conclusions

Summary of findings

The study aimed to investigate and explore the application of 'effectuation theory' principles and/or causation elements to the DVO decision making and found evidence from the participants, which showed support for the applicability of effectuation theory to the DVO. The findings indicated that both effectuation and causation were applied in a complementary manner where BRPs could navigate between the two logics depending on the context although there were instances where participants leaned towards one logic more

than the other. The study further found that when it comes to the pilot-in-the-plane principle, BRPs showed a strong inclination towards effectual logic. Factors that moderate the inclination towards effectuation and/or causation with regard to this principle were: conducting assessment/investigations, data integrity or certainty, RP assessment and pre-assessment.

With regard to the bird-in-hand principle, the study found that expert BRPs apply both effectuation and causation – although there was an inclination towards causation. Factors that moderate the inclination towards effectuation and/or causation for this principle were: RP assessment and BRP competence and profile. The affordable loss principle was also found to be relevant to the DVO and while expert BRPs applied both causation and effectuation, there was an inclination towards causation. Factors found to moderate the inclination towards effectuation and/or causation for this principle were: BRP optimism, Risk, BRP reputation and fees and Chapter 6 of the *Companies Act*. With the crazy quilt principle, the study found that expert BRPs slightly leaned towards effectuation. The moderators identified were Chapter 6 of the *Companies Act*, stakeholder salience and BRP collaboration competence. With regard to the lemonade principle, it was found that while expert BRPs applied both effectuation and causation, there was a slight inclination towards effectuation in practice. Two factors were found to moderate the inclination towards effectuation and/or causation, and these were Chapter 6 of the *Companies Act* and elastic thinking.

Theoretical implications

This study contributed to the extension of effectuation and causation from a distressed venture perspective. It has also contributed to the theory of effectuation itself as it is currently conceptualised, thus providing an avenue for further studies to be conducted. Moreover, it was the first time that the theory of effectuation was extended from the entrepreneurship domain to the distressed venture environment, specifically in BR when evaluating a DVO. The findings showed that BRPs used effectuation in their decision making in all five principles (and some elements of causation), namely the bird-in-hand, pilot-in-the-plane, affordable loss, crazy quilt and lemonade principles. Effectuation was, therefore, used in a complementary manner with causal elements, and BRPs navigated between both logics in some instances. Based on the findings, it is clear that when it comes to DVO decision making, both effectuation and causation strategies may co-exist as noted by Sarasvathy (2001) and Fisher (2012).

Managerial recommendations

Effectuation is applied by experts to entrepreneurial opportunities, and it has proven to be useful in uncertain and resource-restricted environments, similar to distressed venture environments. To achieve success, the application of effectuation and its elements contrasted with that of causation

provides a useful lens for BRPs to cope with uncertainties and resource constraints when dealing with distressed ventures and more specifically evaluating the DVO. Through the use of effectuation and its principles, practitioners can employ/develop successful entrepreneurial thinking that is needed to reorganise distressed ventures. By taking an effectual approach supplemented with elements of causation, BRPs can work to build resilience in their strategies, be creative in adapting to solutions as they arise and engage with stakeholders in the process of turning distressed ventures around. By applying effectuation and some elements of causation, practitioners can make an assessment, focus on what is available, pursue what is required, co-create their solution with various stakeholders within the distressed venture, embrace uncertainty and adapt to changing circumstances – which may foster growth and innovation in distressed ventures.

Limitations and further research

This study mainly focussed on the perspective of expert BRPs who also work as TPs, supplemented by a perspective from BRPs from a liquidation and legal background, which may not be complete. Future research can include other decision-makers such as creditors who are most affected by the outcome of BR and also make decisions on how much money to invest and decide to vote on the BR plan. This study was qualitative in nature, and future research could benefit from a quantitative methodology application, specifically exploring whether there exists a relationship between RP and the principles of effectuation. Future research can benefit from exploring the nature of the relationship that exists between RP and the principles of effectuation in more depth, if there are any relations, with a quantitative methodology applied. Lastly, this study was limited to the BR regime in South Africa, which may present an opportunity for future studies to conduct a replication of the study in other contexts to extend the generalisability of the results. An interesting avenue would be to see whether effectuation would be applicable in other turnaround regimes in other developing countries.

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Authors' contributions

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Data availability

The data that support the findings of this study are available on request from the corresponding author, T.M. The data are not publicly available because of restrictions as they contain information that could potentially compromise the privacy of research participants.

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