

Teaching Note

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For the effectuation view of entrepreneurship we recommend:

- o [Effectual logic: how entrepreneurs think, by Waverly Deutsch](#)
- o [Effectuation Theory of Entrepreneurship](#)
- o For those who want to provide a more technical reading we recommend:
Sarasvathy, Saras D. "Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency." *Academy of management Review* 26.2 (2001): 243-263.

Educational Objectives

1. Examine the concept of social innovation from the standpoint of an entrepreneurial venture.

The term corporate social innovation (CSI) refers to firms innovate in ways that create *shared* value. That is, create value that simultaneously accrues to the firm and to society ([Porter & Kramer, 2011](#)). Much of the work and cases focuses on how larger established firms should social innovations should behave are scarce. This case offers the opportunity for students to understand how to structure entrepreneurial ventures to create economic success and at the same time create value for the broader society.

2. Consider how creating shared value goes hand in hand with developing a long term competitive advantage for an entrepreneurial venture.

The CSI literature highlights how maximizing shared value requires the firm to consider how its behavior affects a variety of other stakeholders (e.g. customers, suppliers, distributors and even competitors). This view fits nicely with the view that expert entrepreneurs build partnerships with self-selecting stakeholders. By obtaining pre-commitments from these key partners early on in the venture, expert entrepreneurs reduce risk and co-create the new market with its interested participants. The quilting partners provide additional means with which the team can be creative with and limit the risks of the new venture. This case offers students the opportunity to understand how selecting partners with social innovation in mind can result in long term competitive advantage in an emergent growth industry.

Overview of Discussion Plan

This case centers around the evolution of Schilling Cider from a small startup to a major brand within the craft cider industry. It is important to understand that initially the partners aspired to grow but to do so as sustainably as possible. In particular the company is convinced that the future of the industry is delivering hard cider in aluminum cans because it is more economical and creates a smaller carbon footprint than the incumbent packaging of glass bottles. Ultimately, the brand becomes large enough to accelerate the acceptance of cans by consumers of cider in the Northwest. Thus, the case illustrates a classic example of a social innovation which is on its way to becoming an industry standard.

The discussion can start with the early years of Schilling (2012-2014). This should highlight the initial vision for the company and the challenges Schilling faced in the startup phase (e.g., limited funding and distribution as well as an inconsistent message). During this phase of the class it is appropriate to highlight key concepts from the effectuation view of entrepreneurship which helped them overcome these challenges (e.g., affordable loss and crazy quilt)

The next section of the class should focus on the evolution from a startup just scrapping for business to the growth of revenues and the challenges Schilling faced as it struggled to rationalize growth to gain consistent profitability. Here it is important to highlight a struggle many entrepreneurial businesses face at this stage—distinguishing between investments in growth at all costs and investments in sustainable advantage and profitable growth.

The third section of the class is crucial to the students understanding of how a commitment to social innovation can translate into strategic competitive advantage. Up to now Schilling had stayed committed to aluminum cans and developed relationships which allowed them to create a profitable business. It was at this stage that they made a major investment to really leverage that canning commitment to move much of the process in house. In doing so, they developed a significant expertise which gave them a major cost advantage over competitors and allowed them to extend their sustainability ethic. Up to now the focus had been on simultaneously red.024 649.3q0.0000n1 7 9

to create a cost advantage. Still others will say the real commitment to cans was when they made a major investment to take the canning line in house. An instructor can call on the appropriate students to reflect different points of view.

- 4) How did the pursuit of social innovation combine with the crazy quilt principle of entrepreneurship to help create competitive advantage for Schilling?

Note that the crazy quilt principle, which urges entrepreneurs to aggressively pursue partnerships not only provide resources and know how, but also can influence the firm to innovate in ways that they may not have imagined.

By pursuing partnerships with social innovation in mind Schilling developed the know how to ultimately develop an operational excellence advantage around the increasingly important option of marketing and producing craft cider in cans. They leveraged their partnerships with VN Graphics, Ball, and Crown to gain access to a wide range of world class canning facilities. This afforded Mark Kornei the ability to think creatively about how to build a customized canning plant that fit the smaller volumes, and the environmental and human resource sustainability ethic that really makes Schilling unique among cider brands.

- 5) How should Schilling respond to the Ball announcement?

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TN 1 Options Analysis

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