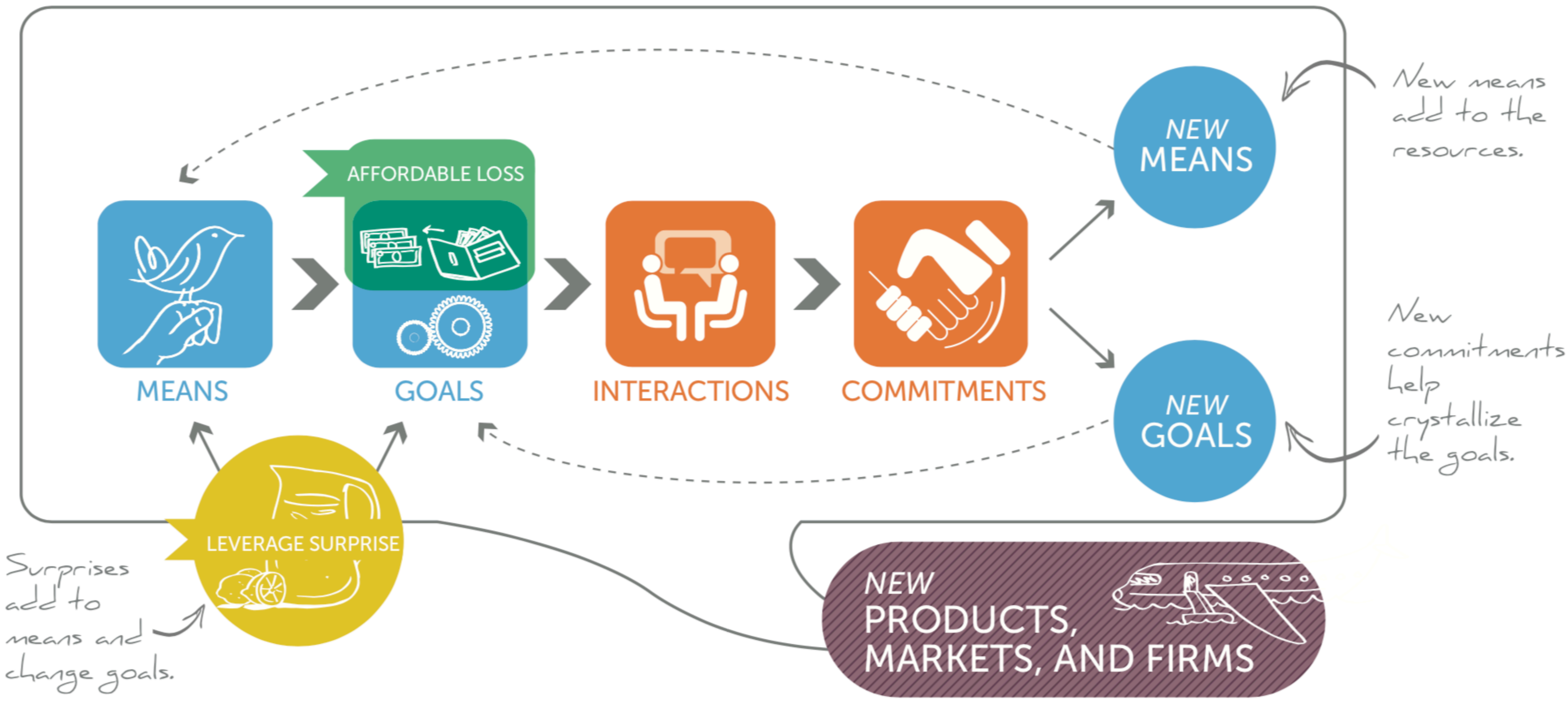


DESIGN
DOING

this + that (this)
thinking + doing (think + act)
outside-in thinking (ST) + inside-out thinking (NF)
causal thinking + effectual thinking
left-brain thinking + right brain thinking
management thinking + leadership thinking
thinking deductively or inductively + thinking abductively
knowledge + imagination
classical + lean



Effectuation is a set of patterns observed in the way expert entrepreneurs act and decide

Overview of Effectuation

Principle	Causation (the “MBA-Approach”)	Effectuation
Starting point for venturing	Goal orientation Goals define the resources required for a particular venture	Means orientation Own means / resources / contacts define potential goals
Risk perception	Focus on expected returns Venture should maximize risk-adjusted return	Focus on affordable loss Venture should not risk more resources than can be afforded to be lost
Attitude towards outsiders	Potential competitors Protection of ideas is important, as one needs to position oneself in competitive environment	Potential partners Partnerships emerge as stakeholders commit resources to the common venture while influencing its development
Attitude towards contingency	Avoidance Planning and focusing on goals help to avoid contingencies	Leverage Contingencies provide opportunities that can be used to own advantage
View of the future	Forecast Future environment is externally given, forecasts help to adapt to it	Create Prediction is not possible, since future environment depends on own actions

Issue	Effectual reasoning	Causal reasoning
View of the future	Creative: The future is co-created (at least in part) by willful agents that may include investors, partners, and customers who “pre-commit” to the venture.	Predictive: Causal reasoning casts the future as a continuation of the past. Accurate prediction is both necessary and useful.
Givens	Means: Goals emerge by imagining courses of action which start from available means.	Goals: Goals, even when constrained by limited means, determine sub-goals and actions.
Attitude toward others	Partnerships: Build your market together with customers, suppliers, and even prospective competitors, by sharing what you have.	Competitive analysis: Protect what you have and maximize your share of the opportunity.
Predisposition toward risk	Affordable loss: Limit downside potential and risk no more than you and your stakeholders can afford to lose.	Expected return: Pursue new opportunities based on the (risk adjusted) expected value. The focus is on the upside potential.
Predisposition toward contingencies	Leverage contingency: Surprises can be positive. Leverage unexpected events into new opportunities.	Avoid: Surprise is negative. Prediction, planning and focus enable the firm to minimize the impact of unexpected events.

Table 1: Differences of effectual and causal reasoning divided into the five principles



EFFECTUAL LOGIC IS
LIKE **1ST & 2ND GEAR**



*You need them to start your business but
eventually you shift away from effectual logic.*

effectuation **IS**

- A thinking framework
- a set of heuristics
- doing the do-able
- how to get the sellable products and services established

effectuation **IS NOT**

- a system to tell you what to do
- an algorithm
- “not planning”
- a way to launch an entire business

*HEURISTIC VS. ALGORITHM

An **ALGORITHM** is a step-by-step procedure with a finite number of steps that seeks a specific outcome. It's recursive.

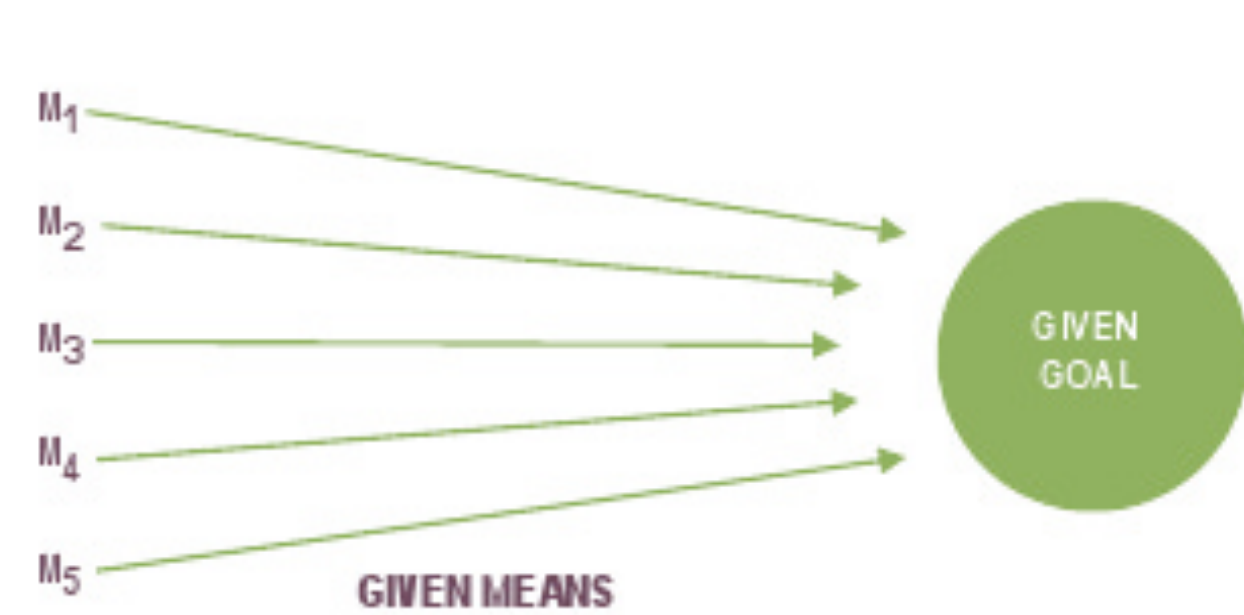
A **HEURISTIC** is a problem-solving technique that involves creating a speculative formulation and self-led investigation to reach some desired outcome. The most quintessential heuristic is "trial and error."

CAUSAL vs. EFFECTUAL REASONING

Managerial Thinking (Causal)

Distinguishing Characteristic

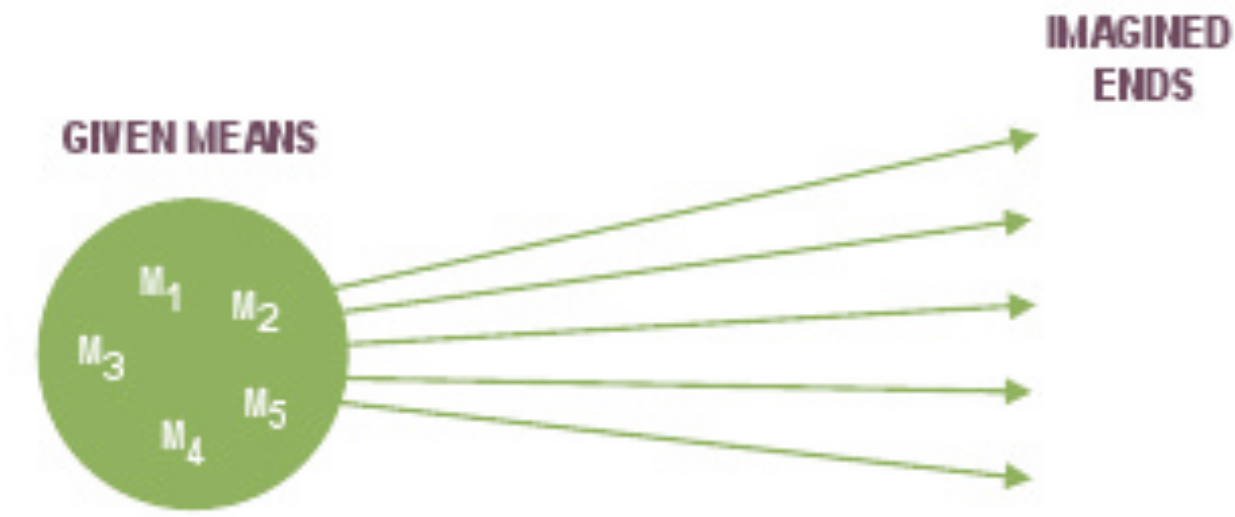
Selecting between given means to achieve a pre-determined goal



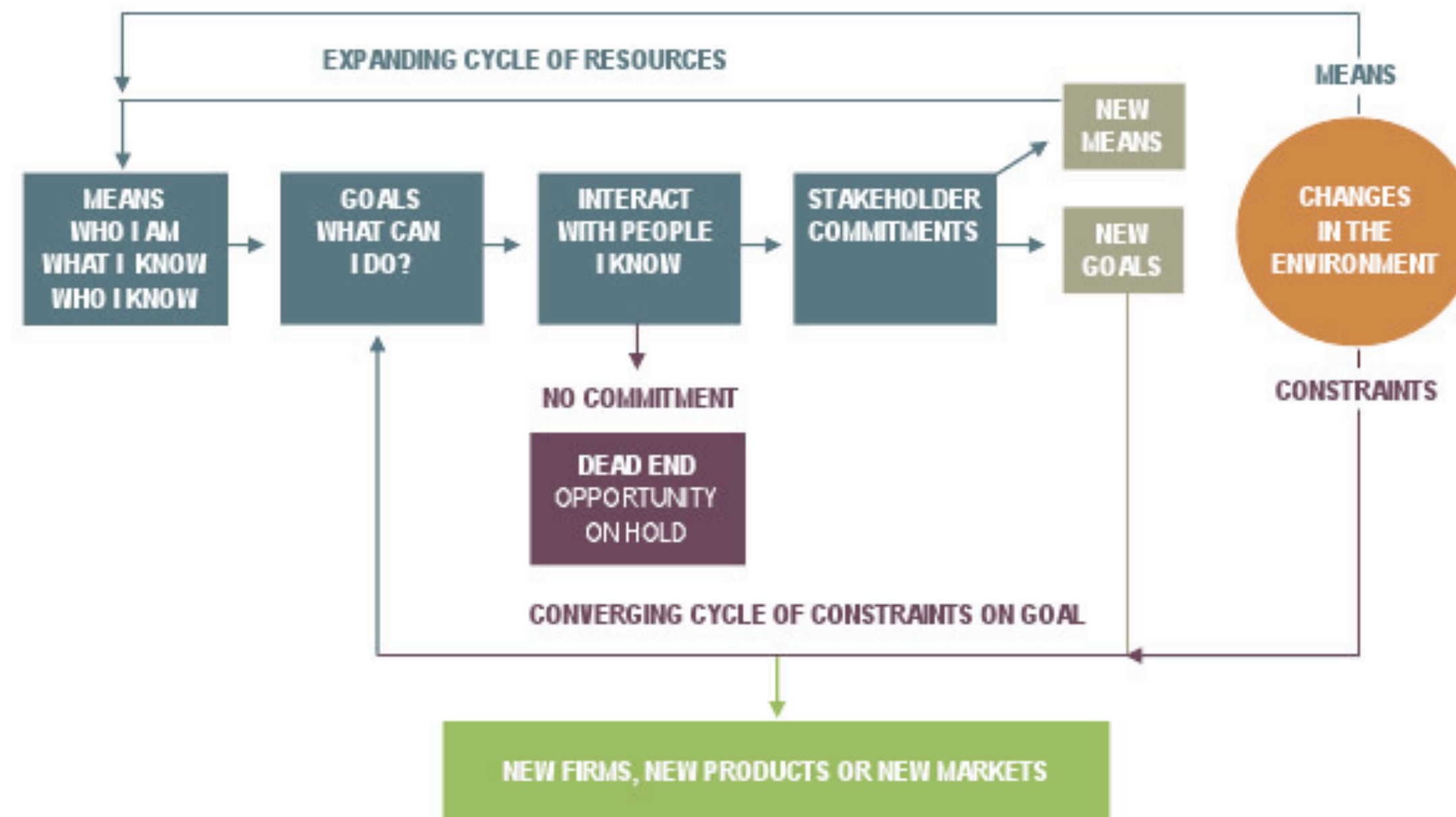
Entrepreneurial Thinking (Effectual)

Distinguishing Characteristic

Imagining a possible new end using a given set of means

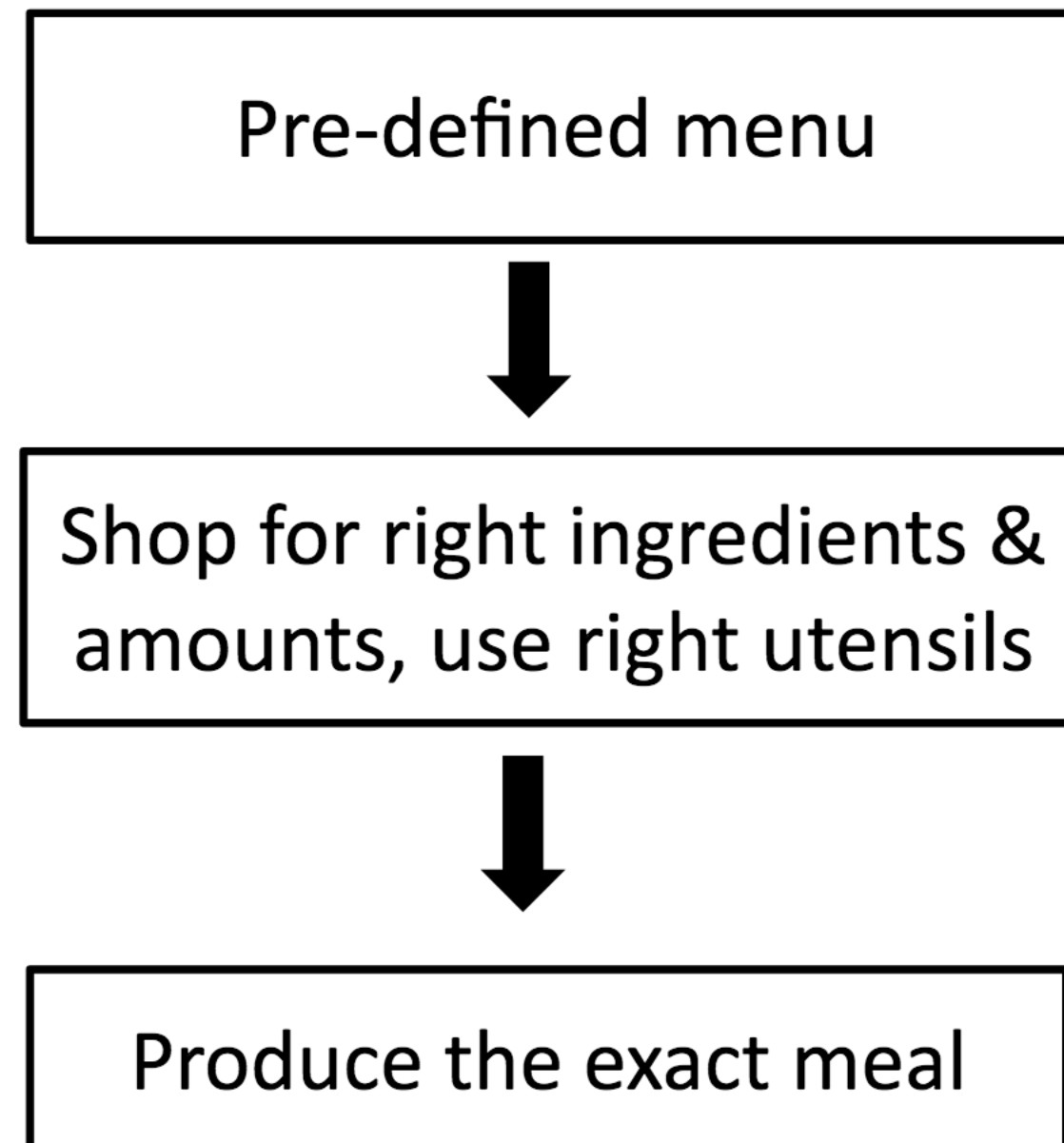


EFFECTUATION IN ACTION





Causation



Sarasvathy (2001, 2008)

6





Causation

Competitive market analysis

Define a market & conduct competitive market analysis



Effectuation

Alliances & pre commitments (the crazy quilt principle)

Negotiate with stakeholders & form strategic alliances



Sarasvathy (2001, 2008)





Causation

Predictive control

Relies on projections on how the market will behave in the future to take decisions



Effectuation

Non-predictive (the pilot-in-the-plane principle)

Take decisions using the entrepreneurs' own experience



Sarasvathy (2001, 2008)





Results continued.

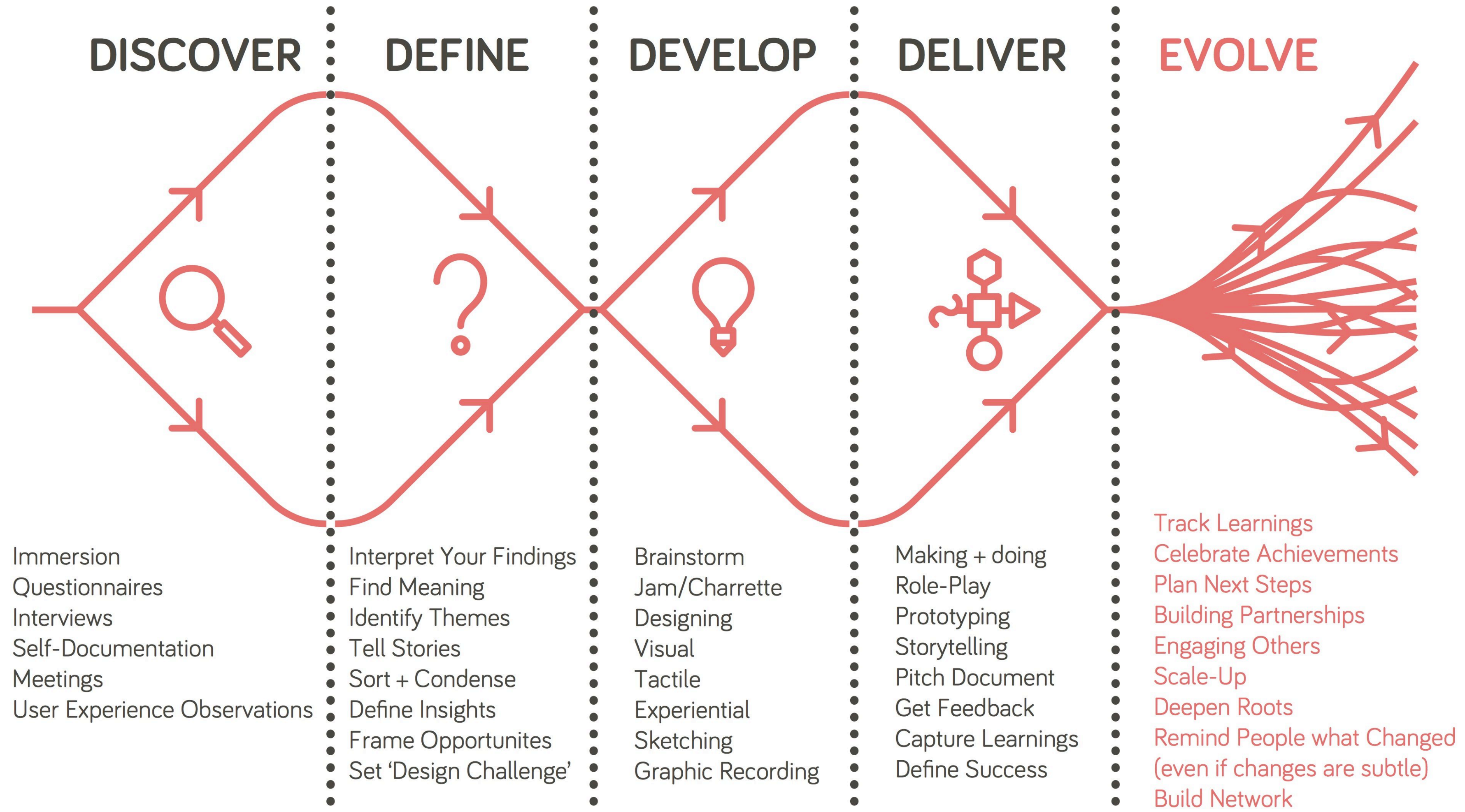
Effectuation and causation thinking

Overall, entrepreneurs' use of effectuation was significantly higher than their use of causation in the business start-up phase



Effectuation and causation thinking continued.

Effectuation statements	Mean (with loan)*	Mean (without loan)**	Sig. (.05)	Causation statements	Mean (with loan)*	Mean (without loan)**	Sig. (.05)
Means-driven approaches	4.08	3.97	No	Goals-driven approaches	4.05	3.88	No
Affordable loss thinking	4.07	4.03	No	Expected returns thinking	3.93	3.89	No
Acknowledging the unexpected	3.98	3.86	No	Overcoming the unexpected	4.04	3.77	Yes
Alliances/ pre commitments	3.72	3.41	Yes	competitive market analysis	3.90	3.70	No
Non-predictive control	4.14	4.11	No	Predictive control	3.91	3.45	Yes
* N ranged from 99 to 109 for each principle due to missing data							
**N ranged from 61 to 71 for each principle due to missing data							



Theory U

A model for Transformational Change

Suspending
Hold a space that invites
other perspectives

Sensing

Observing
Attend with your mind
wide open. Be aware
of assumptions

Let Go

Sensing
Connect with your heart

Realising
Act swiftly with
natural flow to create
a new reality

Acting

Prototyping
Engage heart and head.
Try a new way of operating

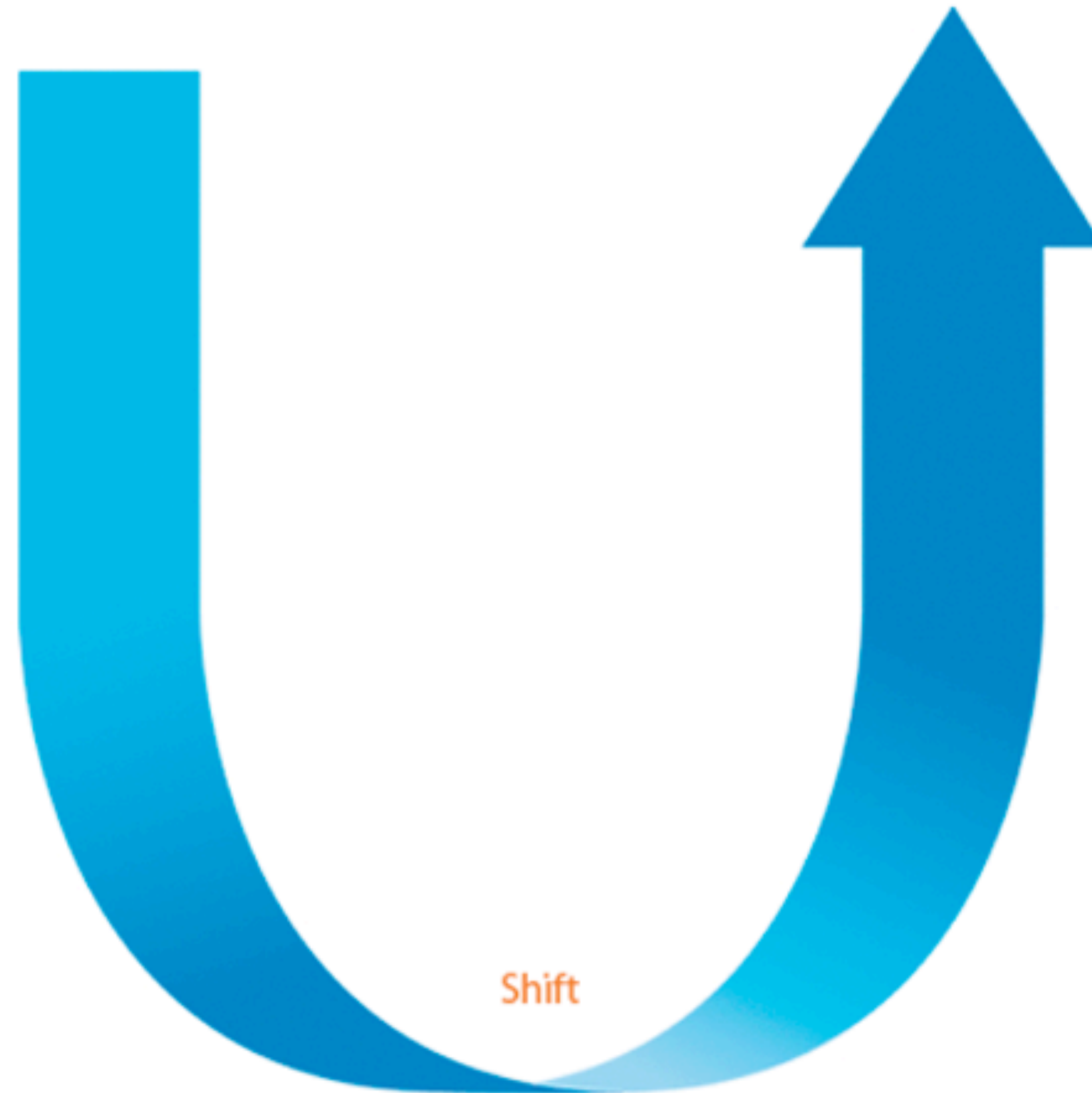
Let Come

Crystallizing
Commit to making
something happen

Shift

Presencing

Create a quiet space.
Connect to what is emerging from within.



Levels of and Responses to Change	Micro: ATTENDING (individual)	Meso: CONVERSING (group)	Macro: STRUCTURING (institutions)	Mundo: COORDINATING (global systems)
1. Reacting → Habits → Rule-enacting	Listening 1: Downloading habits of thought	Downloading: Talking nice, politeness	Centralized: Machine bureaucracy	Hierarchy: Central plan, regulation
2. Redesigning → process → rule-revealing	Listening 2: Factual, object-focused	Debate: Talking tough	Decentralized: Divisionalized	Market: Competition
3. Reframing → mental models → rule-reflecting	Listening 3: Empathic listening	Dialogue: Inquiry	Networked: Relational	Negotiation and Dialogue: (Mutual adjustment)
4. Regenerating → Sources → rule-generating	Listening 4: Generative listening	Collective Creativity: Presencing, flow	Ecosystem: Co-sensing and co-creating	Collective Action Arising from Shared Seeing + Common Will

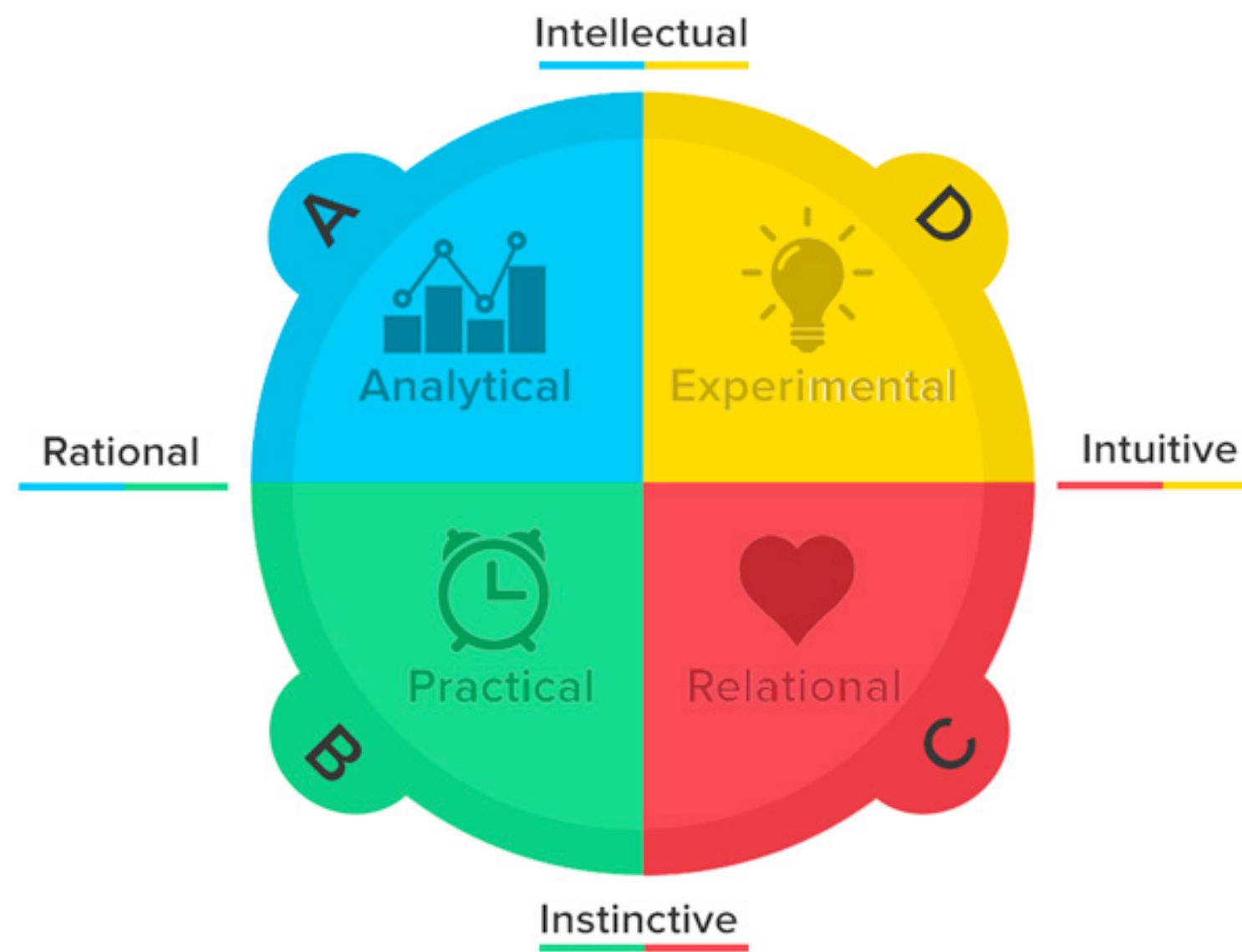


Analytical Thinking Blue (A) Quadrant

Experimental Thinking Yellow (D) Quadrant

logical
analytical
fact-based
quantitative

holistic
intuitive
integrating
synthesising

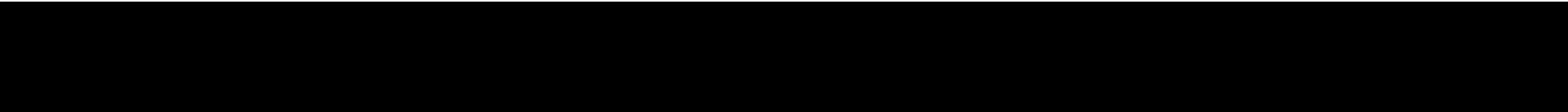


organized
sequential
planned
detailed

interpersonal
feeling-based
kinesthetic
emotional

Practical Thinking Green (B) Quadrant

Relational Thinking Red (C) Quadrant



Psychological Types ...

ISTJ	ISFJ	INFJ	INTJ
ISTP	ISFP	INFP	INTP
ESTP	ESFP	ENFP	ENTP
ESTJ	ESFJ	ENFJ	ENTJ

Left Brain Hemisphere

Right Brain Hemisphere

ISTJ

Quiet, serious, earn success by thoroughness and dependability. Practical, matter-of-fact, realistic, and responsible. Decide logically what should be done and work toward it steadily, regardless of distractions. Take pleasure in making everything orderly and organized – their work, their home, their life. Value traditions and loyalty.

INFP

Idealistic, loyal to their values and to people who are important to them. Want an external life that is congruent with their values. Curious, quick to see possibilities, can be catalysts for implementing ideas. Seek to understand people and to help them fulfill their potential. Adaptable, flexible, and accepting unless a value is threatened.

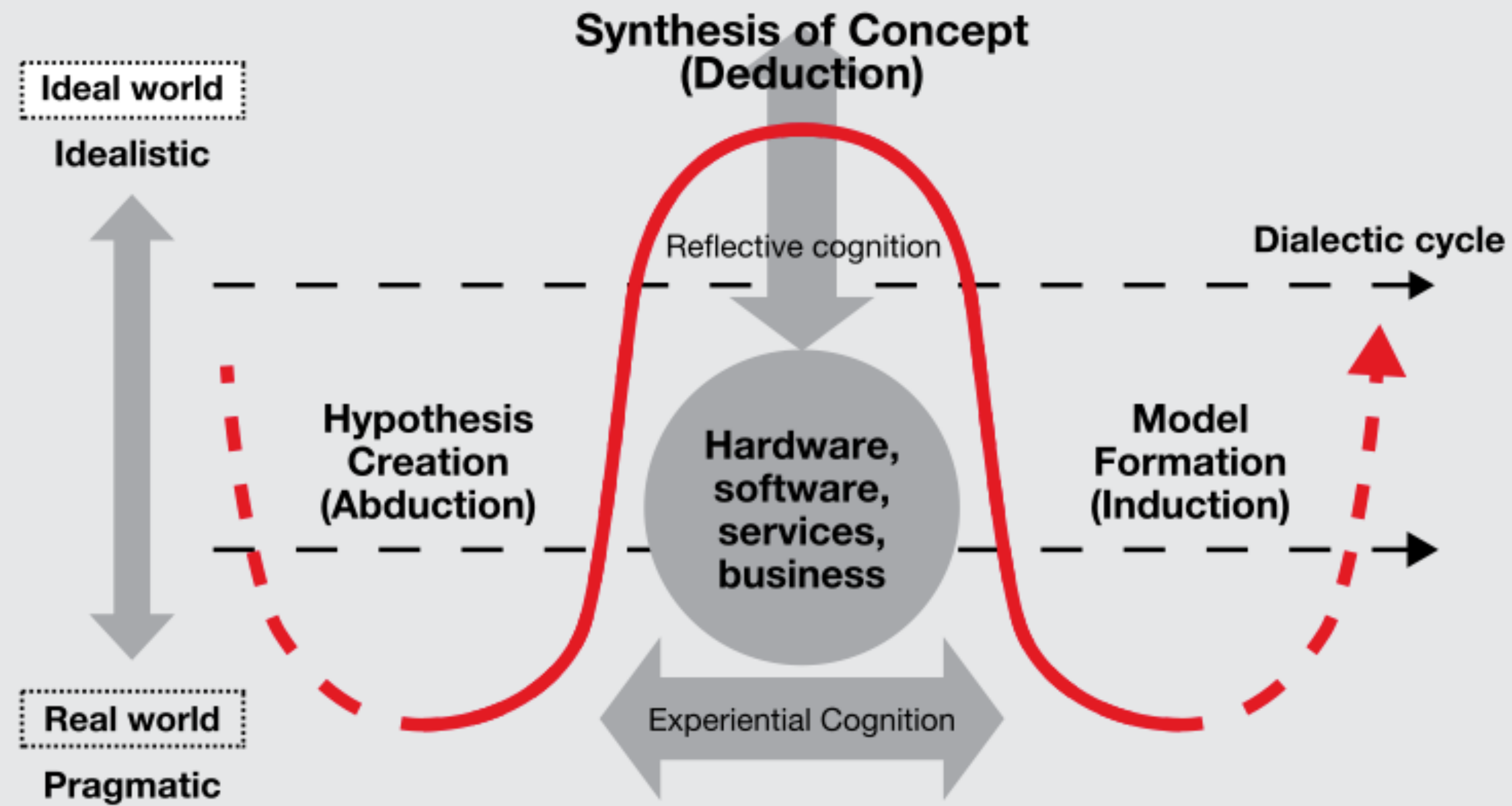
ESTJ

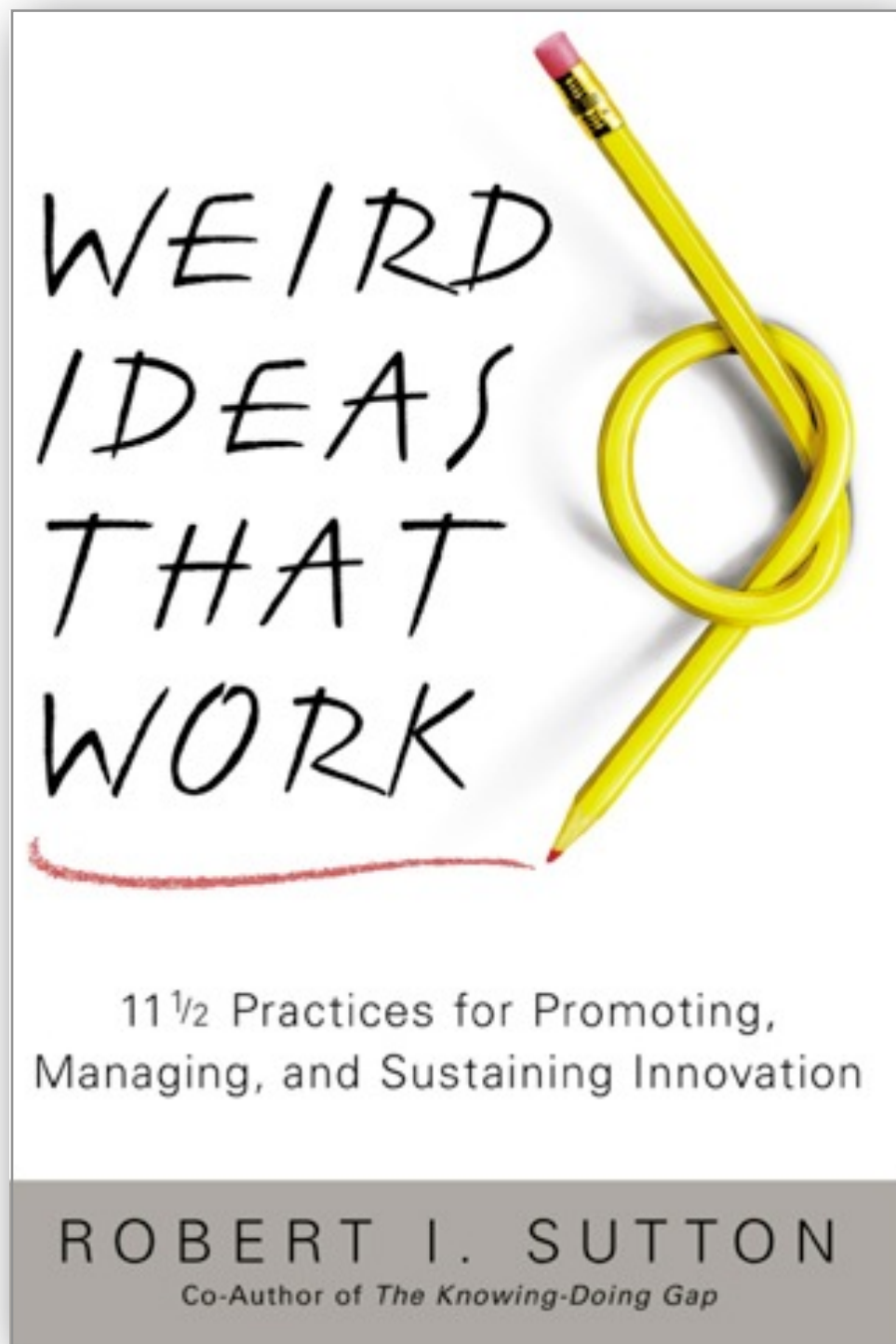
Practical, realistic, matter-of-fact. Decisive, quickly move to implement decisions. Organize projects and people to get things done, focus on getting results in the most efficient way possible. Take care of routine details. Have a clear set of logical standards, systematically follow them and want others to also. Forceful in implementing their plans.

ENFP

Warmly enthusiastic and imaginative. See life as full of possibilities. Make connections between events and information very quickly, and confidently proceed based on the patterns they see. Want a lot of affirmation from others, and readily give appreciation and support. Spontaneous and flexible, often rely on their ability to improvise and their verbal fluency.

The Cycle of Knowledge Design: Abduction, Deduction and Induction





Exploiting Old Ways:

Conventional Ideas that Work ...

1. Hire "fast learners" of the organizational code.
1. 1/2. Hire people who make you feel comfortable, who you like.
2. Hire people you probably do need.
3. Use job interviews to screen, and especially to recruit new employees.
4. Encourage people to pay attention to and obey their bosses and peers.
5. Find some happy people, and make sure they don't fight.

Exploring New Ways:

Weird Ideas that Work ...

1. Hire "slow learners" of the organizational code.
1. 1/2. Hire people who make you feel uncomfortable, even those you dislike.
2. Hire people you possibly need.
3. Use job interviews to get new ideas, not to 'screen' candidates (ref.: Nokia).
4. Encourage people to ignore and defy superiors and peers.
5. Find some happy people, and get them to fight.

Exploiting Old Ways:

Conventional Ideas that Work ...

6. Reward success, punish failure and inaction.
7. Decide on something that will probably succeed, then convince yourself and everyone else that success is certain.
8. Think of some sound or practical things to do, and plan to do them.
9. Seek out and be attentive to people who will evaluate and endorse your work.
10. Learn *everything* you can from others who seem to have solved the problem you face.
11. Remember and replicate your company's past successes.

Exploring New Ways:

Weird Ideas that Work ...

6. Reward success and failure, punish inaction.
7. Decide to do something that will probably fail, then convince yourself and everyone else that success is certain.
8. Think of some ridiculous or impractical things to do, and then plan to do them.
9. Avoid, distract, and bore customers, critics, and anyone who just wants to talk about money.
10. Don't try to learn *anything* from people who seem to have solved the problem you face.
11. Forget the past, especially your company's successes.

Exploiting Old Ways:
Conventional Ideas that Work ...

Drive out variance.

Seeing old things in old ways

Replicate the past

Goal: make money now

Summary:

*Efficiency indicates effectiveness
in the implementation and use of
proven ideas.*

Exploring New Ways:
Weird Ideas that Work ...

Enhance variance.

Seeing old things in new ways

Break from the past

Goal: make money later

Summary:

*Creative companies and teams are
inefficient (and often annoying)
places to work.*

emphasis / differences

leadership

management

appropriate climate / conditions

complexity/uncertainty
diversity/change

predictability/certainty
stability/control

strategic / operational approach

pre/pro-active
emergent
envisioning possibility

adaptive/re-active
designed (i.e pre-planned)
determining probability

knowledge creation
generative learning

knowledge implementation
adaptive learning

systemic/breakthrough/radical
innovation

incremental
innovation

emphasis / differences

leadership

is a dimension of management oriented more towards aspects of strategy creation, change, creative development and renewal ...

management

is a set of processes that keep complex systems running efficiently, the most important aspects of management include planning, controlling, monitoring, organising and evaluating resources ...

emphasis / differences

leadership

management

focus / emphasis

concepts, ideas and
intellectual resources
what if ... are/could

financial, technical
and time resources
what is ... are/should

future orientation —[compass
vision and inspiration
commitment/collaboration

present situation —[road-map
control and organisation
compliance/co-ordination

opportunity identification
and assessment —[possibility
problem-setting

opportunity exploitation
and verification —[probability
problem-solving

desired / anticipated outcome

effectiveness
innovation —[desirability
optimised risk —[validity
make **meaning**

efficiency
maximised return —[profitability
minimised risk —[reliability
make **money**



Leadership

Produces change and movement

1. Establishes direction
 - Creates a vision
 - Clarifies the big picture
 - Sets strategies
2. Aligns people
 - Communicates goals
 - Seeks commitment
 - Builds teams, coalitions and alliances
3. Motivates and inspires
 - Energizes
 - Empowers subordinates & colleagues
 - Satisfies unmet needs

Management

Produces order and consistency

1. Planning and budgeting
 - Establishes agendas
 - Sets timetable
 - Allocates resources
2. Organizing and staffing
 - Provide structure
 - Make job placements
 - Establish rules and procedures
3. Controlling and problem solving
 - Develop incentives
 - Generate creative solutions
 - Take corrective action

SYNERGY 1.0

disciplinary and intra-disciplinary perspective
dominant emphasis: co-ordination / knowledge intensification

to know

SYNERGY 2.0

multi-disciplinary perspective
dominant emphasis: co-operation / knowledge amplification

SYNERGY 3.0

inter-disciplinary perspective
dominant emphasis: collaboration / knowledge integration

to imagine

SYNERGY 4.0

trans-disciplinary perspective
dominant emphasis: deep and transformative collaboration
and systemic integration of knowledge / collective imagination

to KNOW

01. **BIASED LISTENING**

re-confirming or re-affirming old opinions, judgements, habits
i.e., reflecting from experiences of the past

02. **FACTUAL LISTENING**

acknowledging disconfirming information or data
i.e., “prove it”

03. **EMPATHETIC LISTENING**

seeing the world through the eyes and minds of others
i.e., suspending judgement and drawing an emotional connection

to IMAGINE

04. **GENERATIVE LISTENING**

seeing from emerging future possibilities
i.e., “learning from the future as it emerges in the now”
“a change of the inner ‘state’ from where we operate” vs. an ‘event’”

Three Approaches to Design & Business Planning ...

3D

Ready—Aim—Fire

2D

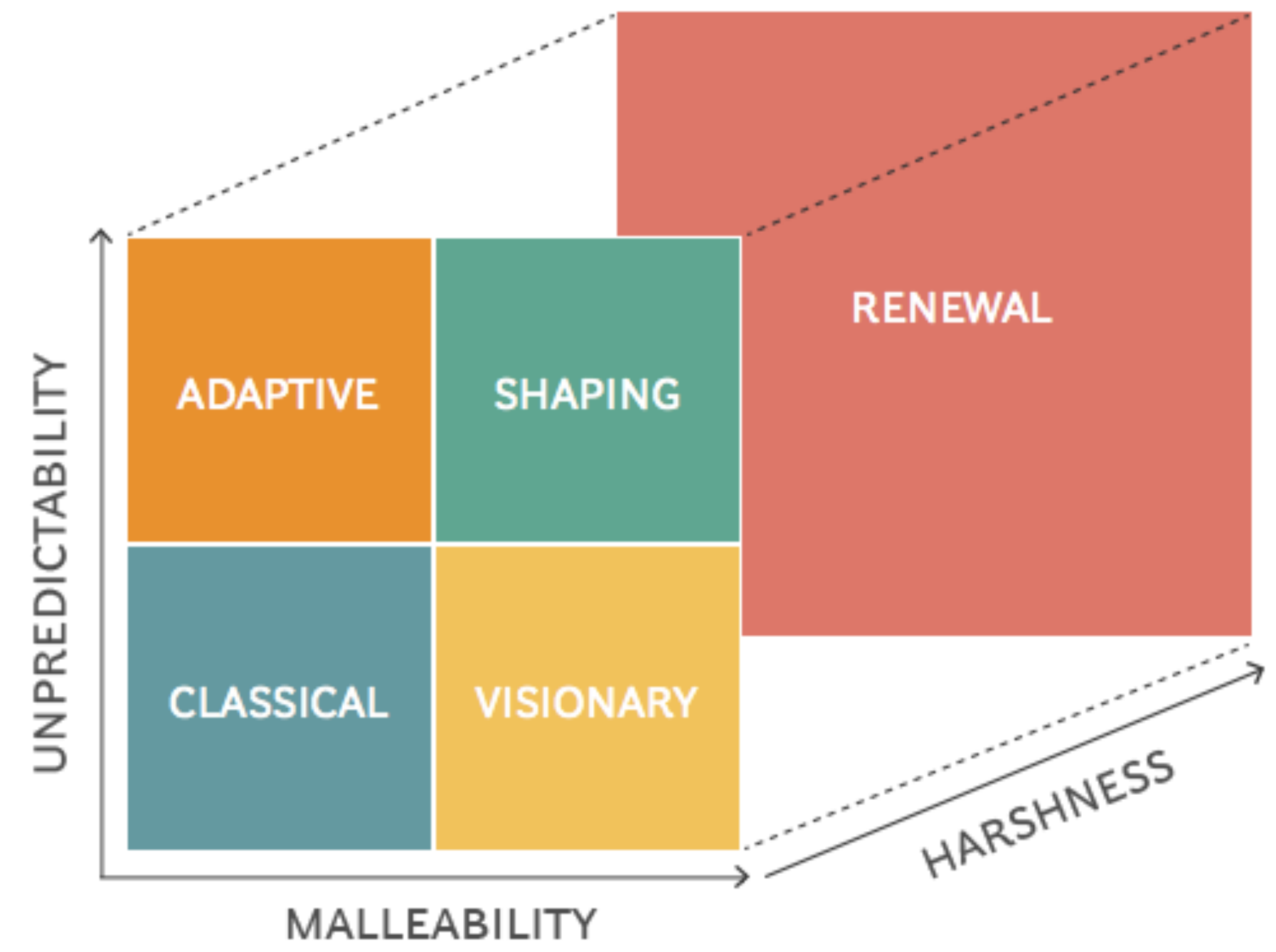
Fire
Ready—Fire—Aim—Fire
Fire

1D

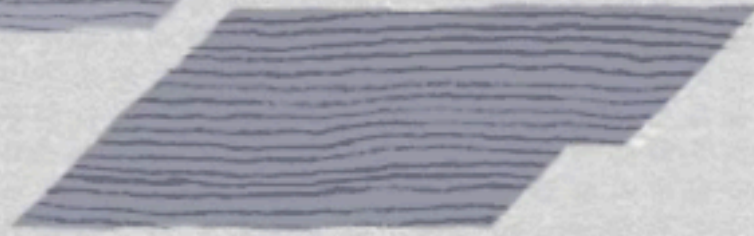
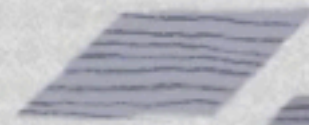
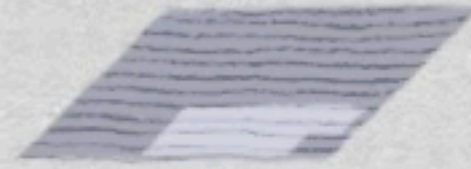
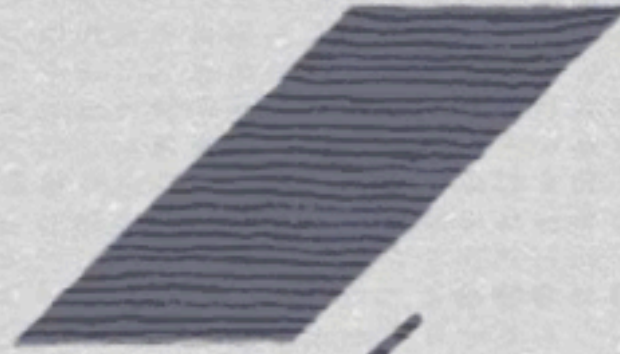
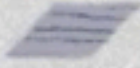
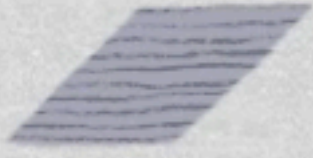
emergent strategy ref.: Mintzberg

Fire
Fire
Fire

0D



\$



STRATEGIC PARTNERS

KEY ACTIVITIES

VALUE PROPOSITION

CUSTOMER RELATIONSHIP

CUSTOMER SEGMENT

KEY RESOURCES

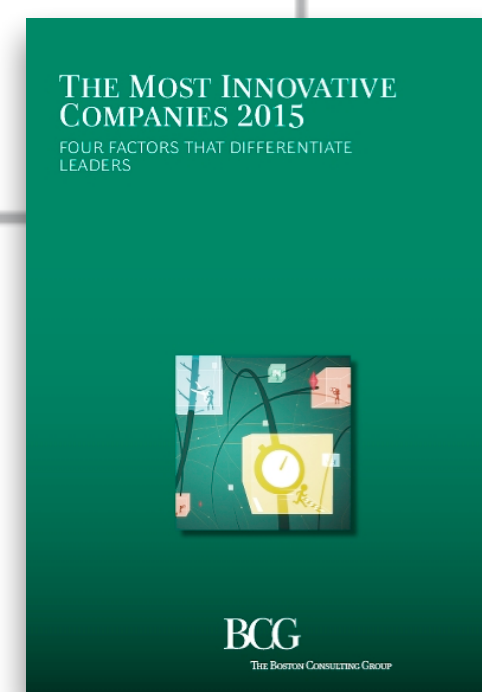
DISTRIBUTION CHANNELS

COST

REVENUES

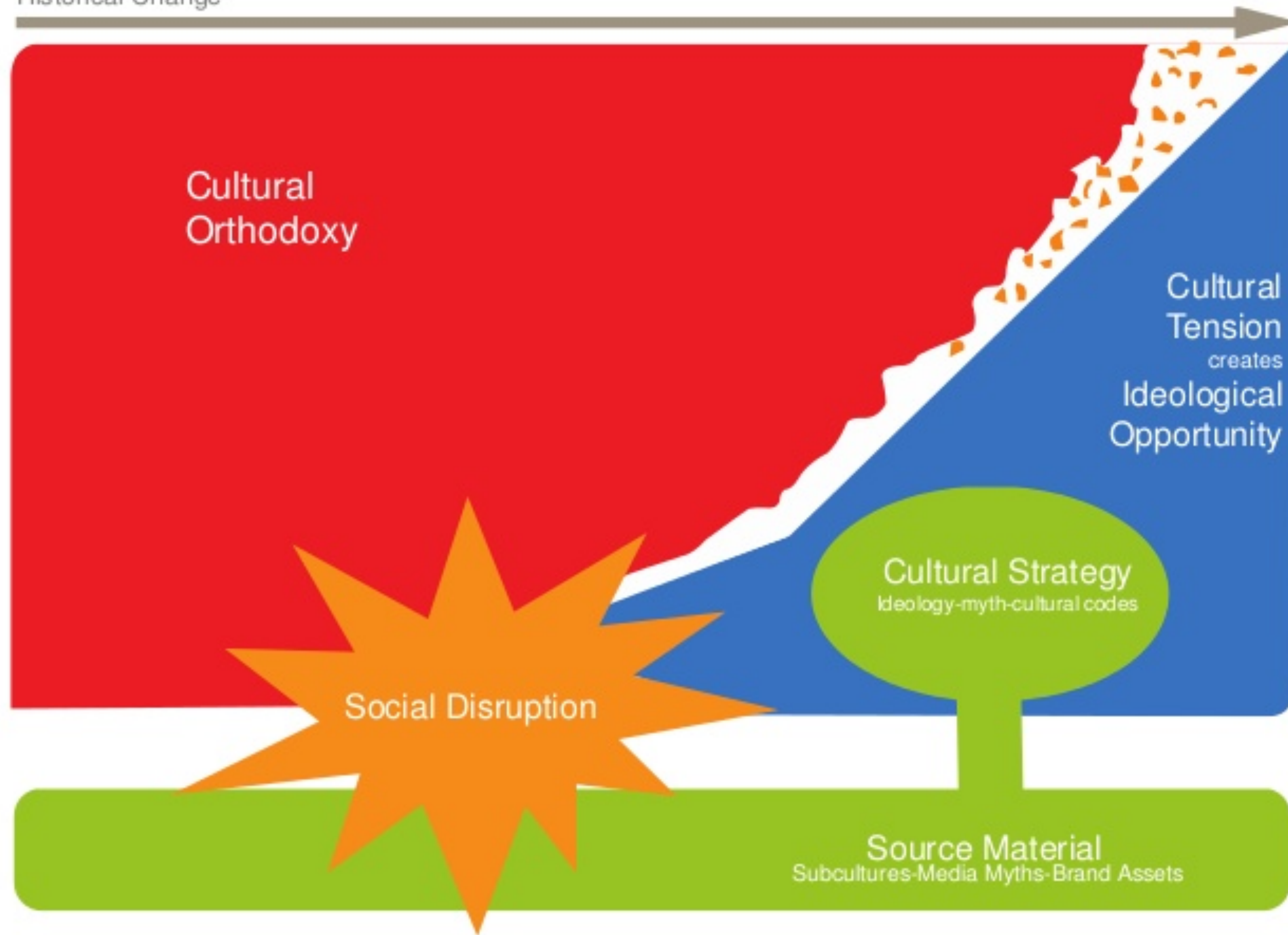
innovation efficiencies

innovation effectiveness



iPhone
eco-system

Historical Change



Red Ocean Strategy

VS

Blue Ocean Strategy

Compete in **existing** market space.

Beat the competition.

Exploit **existing** demand.

Make the value-cost trade-off.

Align the whole system of a firm's activities with its **strategic choice of differentiation or low cost.**

Create **uncontested** market space.

Make the competition **irrelevant.**

Create and capture **new** demand.

Break the value-cost trade-off.

Align the whole system of a firm's activities in **pursuit of differentiation and low cost.**

Entrepreneurial Equilibrium

Corporations can grow new businesses by performing three kinds of balancing acts:

Balance trial-and-error strategy formulation with rigor and discipline.

- > Narrow the range of choices before diving deep.
- > Closely observe small groups of consumers to identify their needs.
- > Use prototypes to test assumptions about products, services, and business models.
- > Use nonfinancial milestones to measure progress.
- > Know when—and on what basis—to pull the plug on infant businesses.

Balance operational experience with invention.

- > Appoint “mature turks” as leaders of emerging businesses.
- > Win veterans over by asking them to serve on new businesses’ oversight bodies.
- > Consider acquiring select capabilities instead of developing everything from scratch.
- > Force old and new businesses to share operational responsibilities.

Balance new businesses’ identity with integration.

- > Assign both corporate executives and managers from divisions as sponsors of new ventures.
- > Stipulate criteria for handing new businesses over to existing businesses.
- > Mix formal oversight with informal support by creatively combining dotted- and solid-line reporting relationships.

Lean

Traditional

Strategy

Business Model
Hypothesis-driven

Business Plan
Implementation-driven

New-Product Process

Customer Development
Get out of the office and test hypotheses

Product Management
Prepare offering for market following a linear, step-by-step plan

Engineering

Agile Development
Build the product iteratively and incrementally

Agile or Waterfall Development
Build the product iteratively, or fully specify the product before building it

Organization

Customer and Agile Development Teams
Hire for learning, nimbleness, and speed

Departments by Function
Hire for experience and ability to execute

Financial Reporting

Metrics That Matter
Customer acquisition cost, lifetime customer value, churn, viralness

Accounting
Income statement, balance sheet, cash flow statement

Failure

Expected
Fix by iterating on ideas and pivoting away from ones that don't work

Exception
Fix by firing executives

Speed

Rapid
Operates on good-enough data

Measured
Operates on complete data

SHIFTING FROM REACTIVE TO PROACTIVE _ FROM ADAPTIVE LEARNING TO GENERATIVE LEARNING

CPG leaders look to startups, incubator partners

Acquiring companies



Launching externally-managed VC fund



Directly investing in startups



Supporting internal innovation studios



Managing internal VC fund



Working with incubator/accelerator programs

