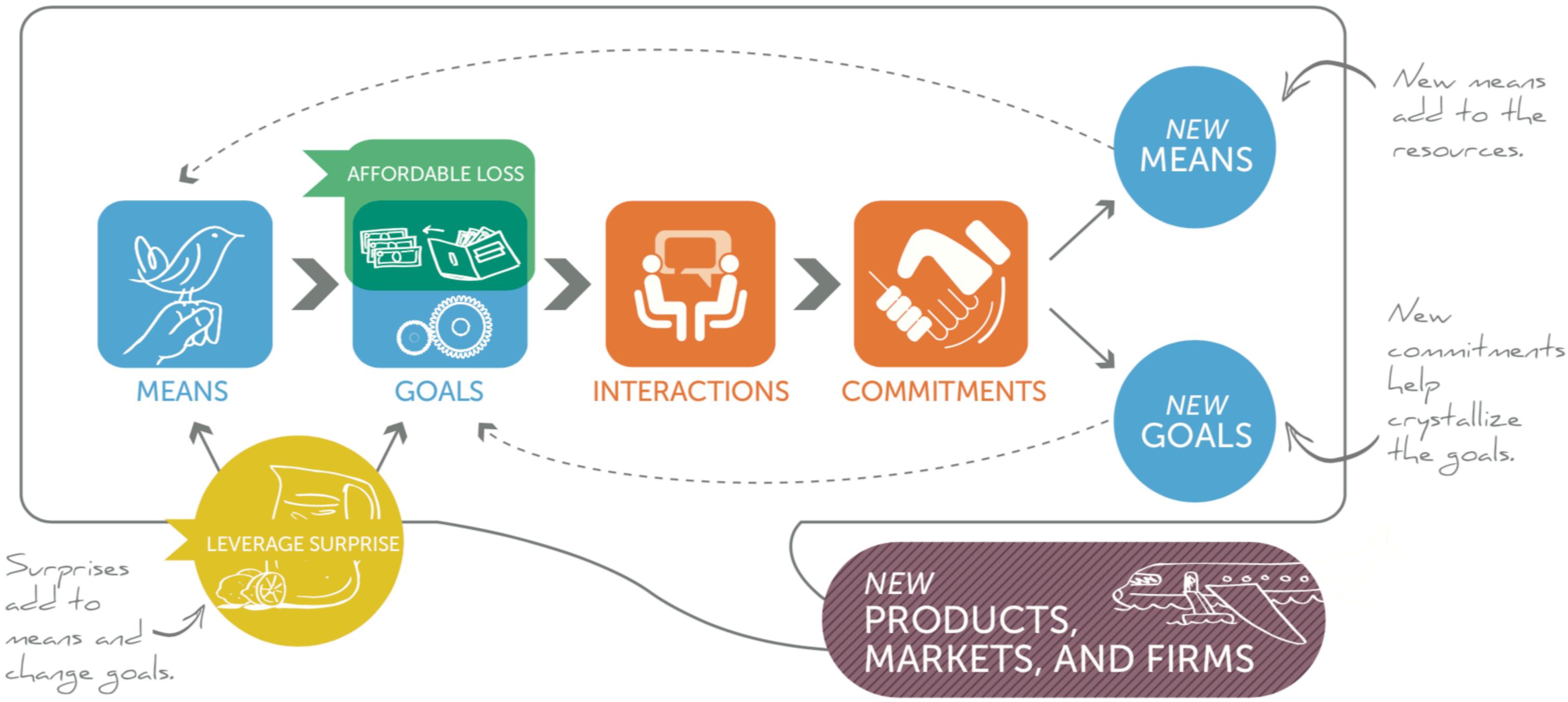


DESIGN  
DOING

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

Issue	Effectual reasoning	Causal reasoning
View of the future	<b>Creative:</b> 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.	<b>Predictive:</b> Causal reasoning casts the future as a continuation of the past. Accurate prediction is both necessary and useful.
Givens	<b>Means:</b> Goals emerge by imagining courses of action which start from available means.	<b>Goals:</b> Goals, even when constrained by limited means, determine sub-goals and actions.
Attitude toward others	<b>Partnerships:</b> Build your market together with customers, suppliers, and even prospective competitors, by sharing what you have.	<b>Competitive analysis:</b> Protect what you have and maximize your share of the opportunity.
Predisposition toward risk	<b>Affordable loss:</b> Limit downside potential and risk no more than you and your stakeholders can afford to lose.	<b>Expected return:</b> Pursue new opportunities based on the (risk adjusted) expected value. The focus is on the upside potential.
Predisposition toward contingencies	<b>Leverage contingency:</b> Surprises can be positive. Leverage unexpected events into new opportunities.	<b>Avoid:</b> 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.

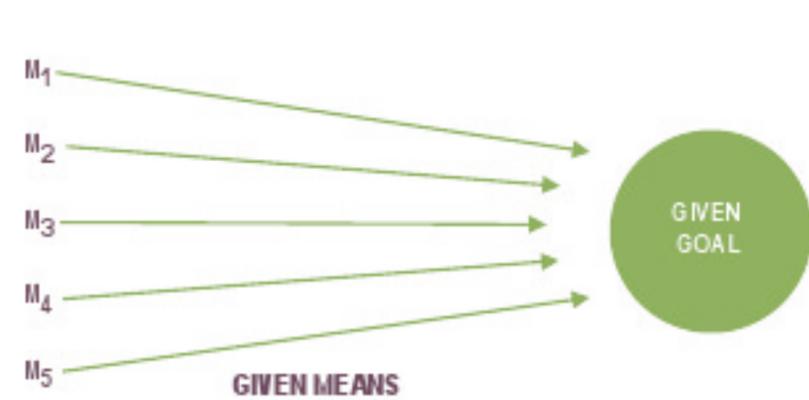
A **HEURISTIC** is a problem-solving technique that involves creating a speculative formulation and self-led investigation to reach some desired outcome. The most quintessential heuristic is "trial and error."

## CAUSAL vs. EFFECTUAL REASONING

### Managerial Thinking (Causal)

#### Distinguishing Characteristic

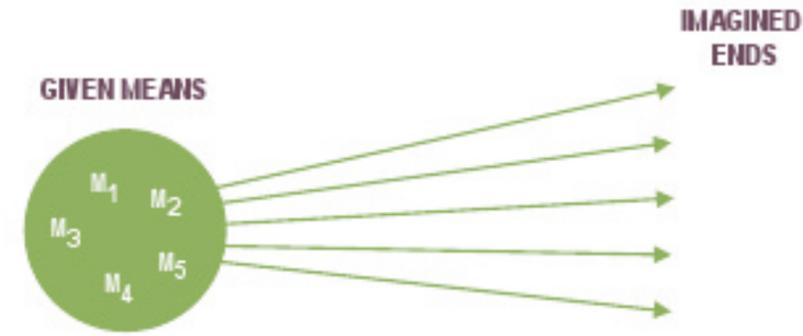
Selecting between given means to achieve a pre-determined goal



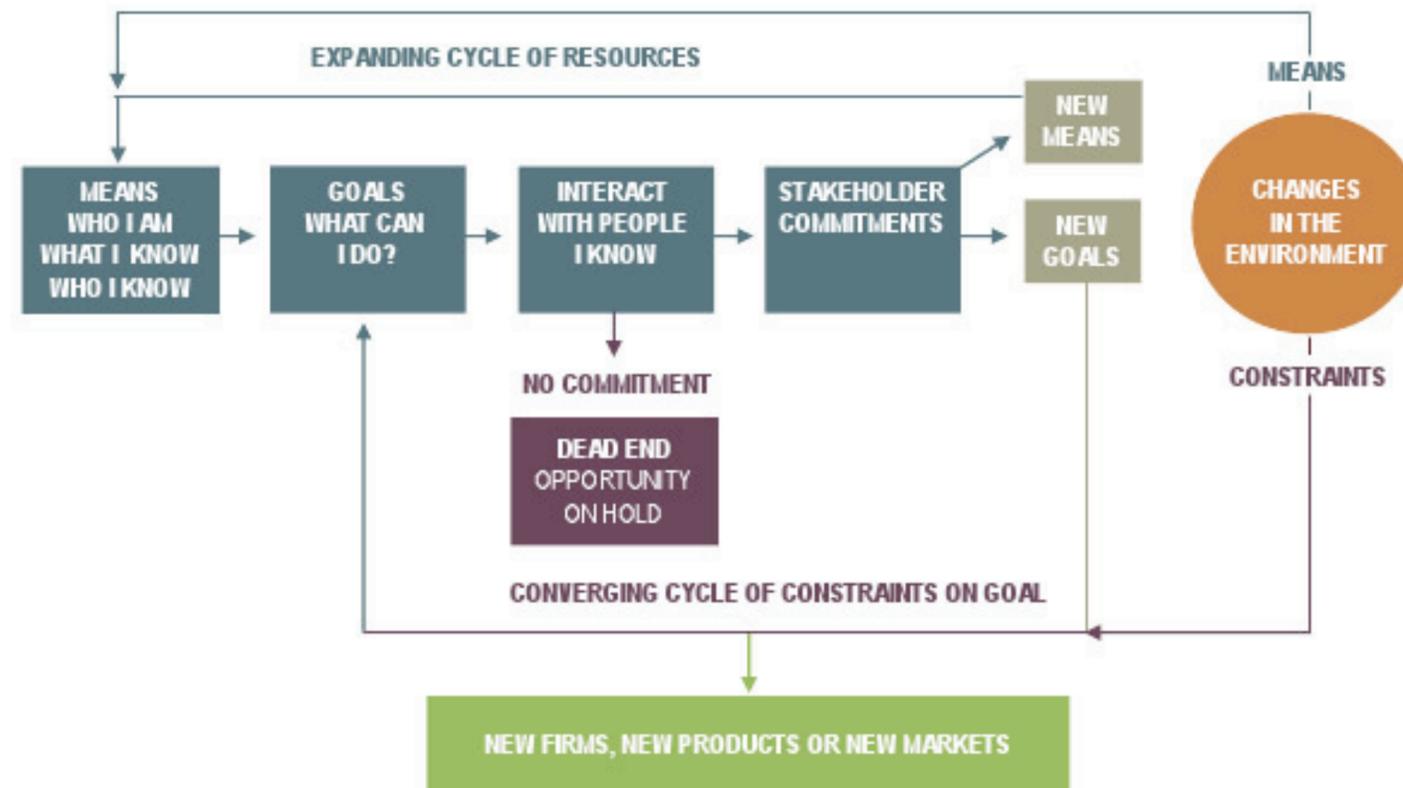
### Entrepreneurial Thinking (Effectual)

#### Distinguishing Characteristic

Imagining a possible new end using a given set of means

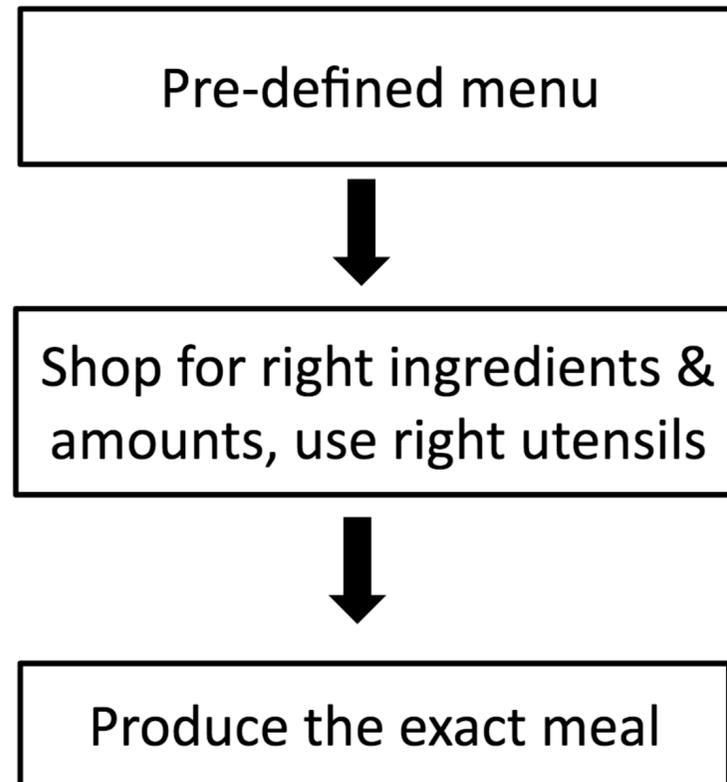


## EFFECTUATION IN ACTION





## 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.*

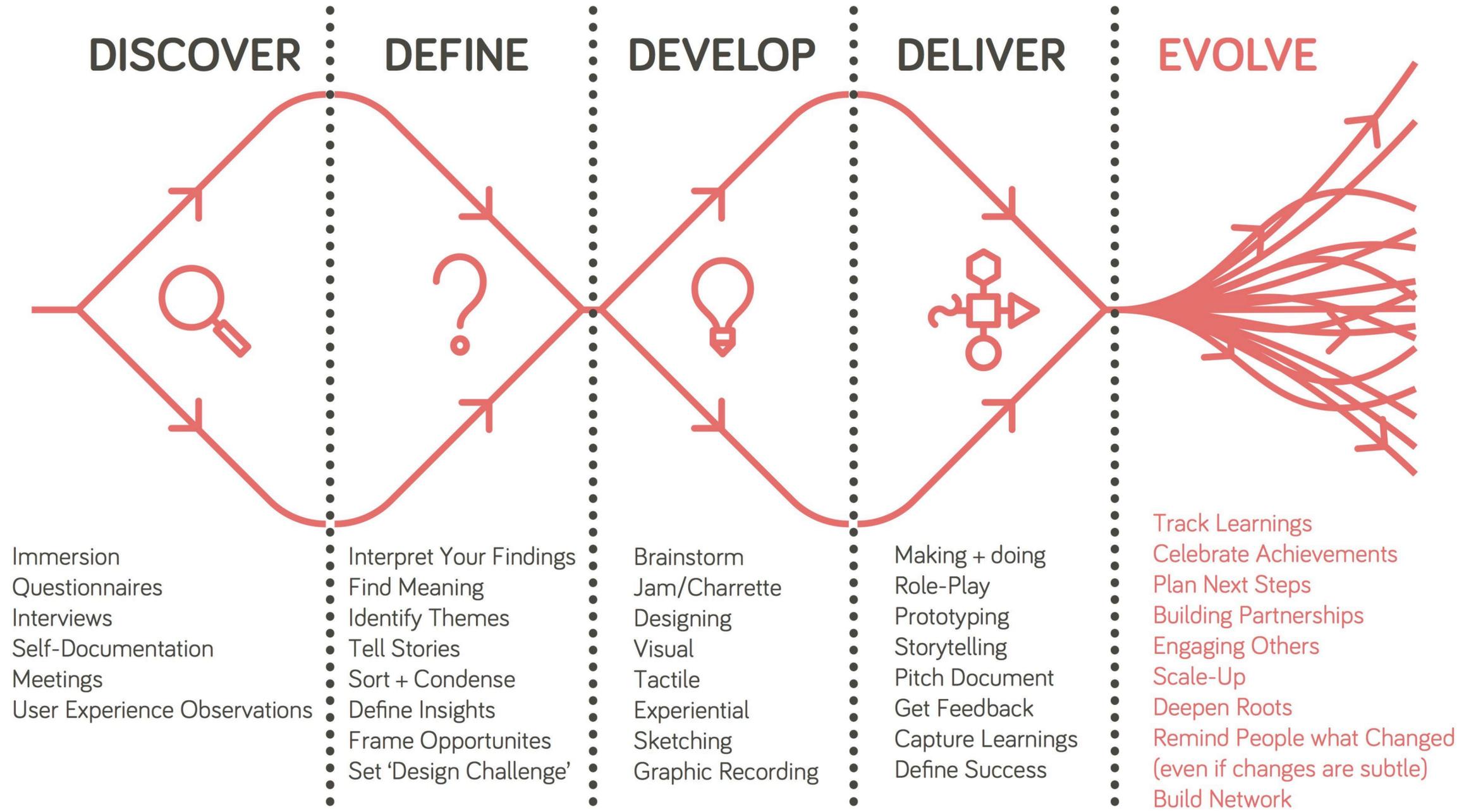
## **Effectuation and causation thinking**

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	<b>4.04</b>	<b>3.77</b>	<b>Yes</b>
Alliances/ pre commitments	<b>3.72</b>	<b>3.41</b>	<b>Yes</b>	competitive market analysis	3.90	3.70	No
Non-predictive control	4.14	4.11	No	Predictive control	<b>3.91</b>	<b>3.45</b>	<b>Yes</b>
* 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

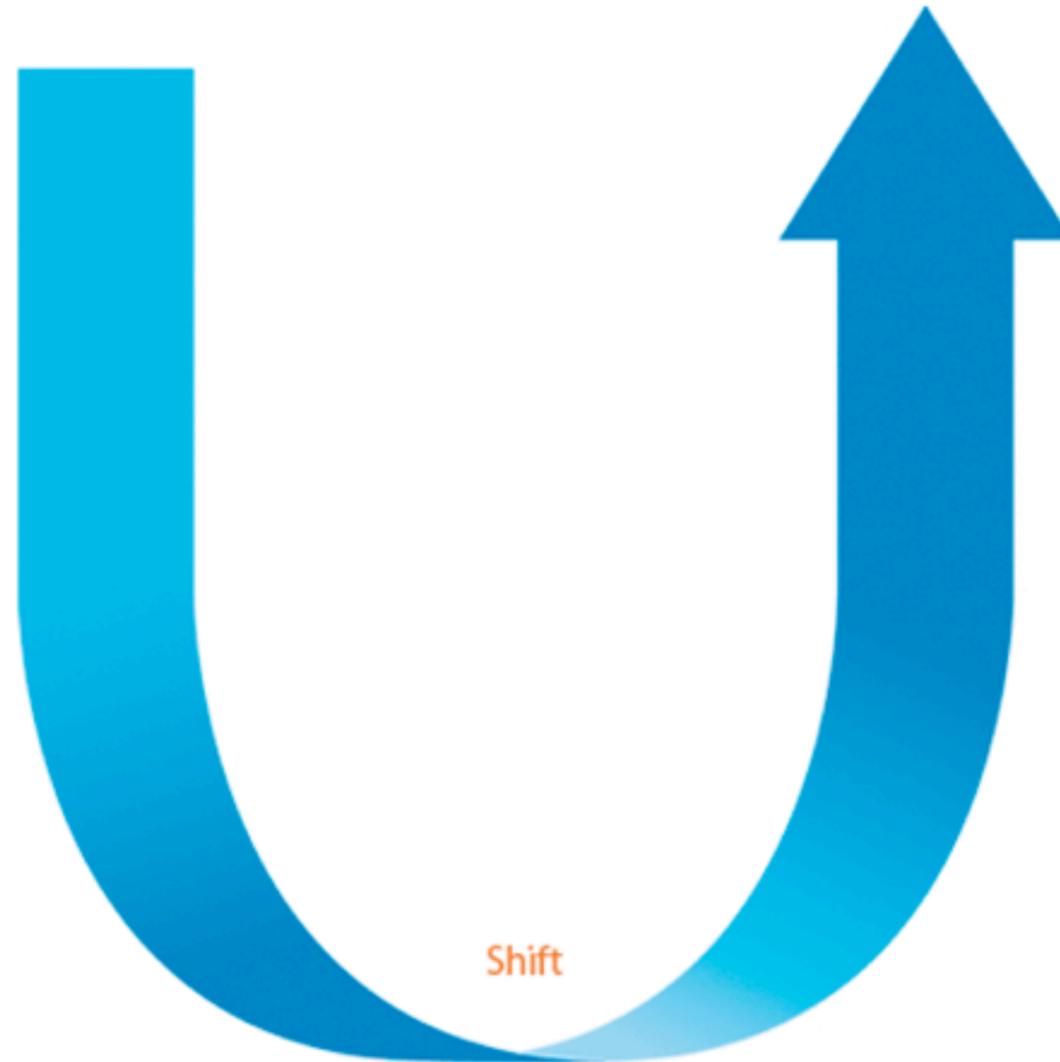
**Let Come**

**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)
<b>1. Reacting</b> → Habits → Rule-enacting	<b>Listening 1:</b> Downloading habits of thought	<b>Downloading:</b> Talking nice, politeness	<b>Centralized:</b> Machine bureaucracy	<b>Hierarchy:</b> Central plan, regulation
<b>2. Redesigning</b> → process → rule-revealing	<b>Listening 2:</b> Factual, object-focused	<b>Debate:</b> Talking tough	<b>Decentralized:</b> Divisionalized	<b>Market:</b> Competition
<b>3. Reframing</b> → mental models → rule-reflecting	<b>Listening 3:</b> Empathic listening	<b>Dialogue:</b> Inquiry	<b>Networked:</b> Relational	<b>Negotiation and Dialogue:</b> (Mutual adjustment)
<b>4. Regenerating</b> → Sources → rule-generating	<b>Listening 4:</b> Generative listening	<b>Collective Creativity:</b> Presencing, flow	<b>Ecosystem:</b> Co-sensing and co-creating	<b>Collective Action Arising from Shared Seeing + Common Will</b>

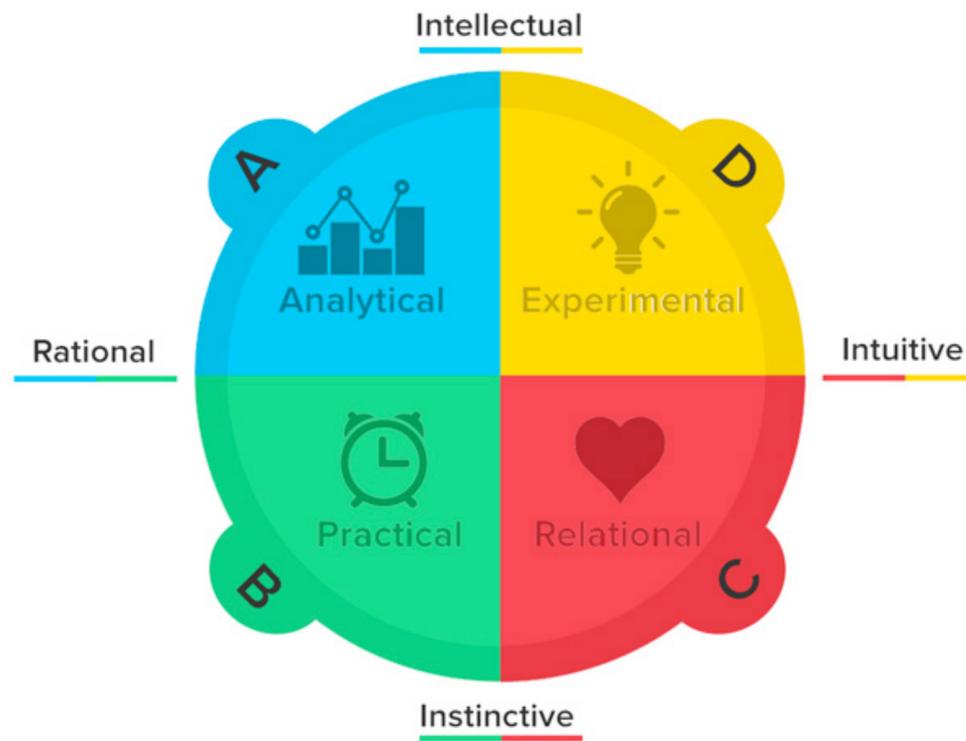


Analytical Thinking Blue (A) Quadrant

Experimental Thinking Yellow (D) Quadrant

logical  
analytical  
fact-based  
quantitative

holistic  
intuitive  
integrating  
synthesising

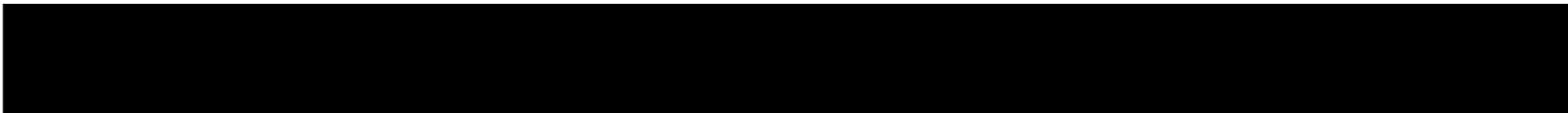


organized  
sequential  
planned  
detailed

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.

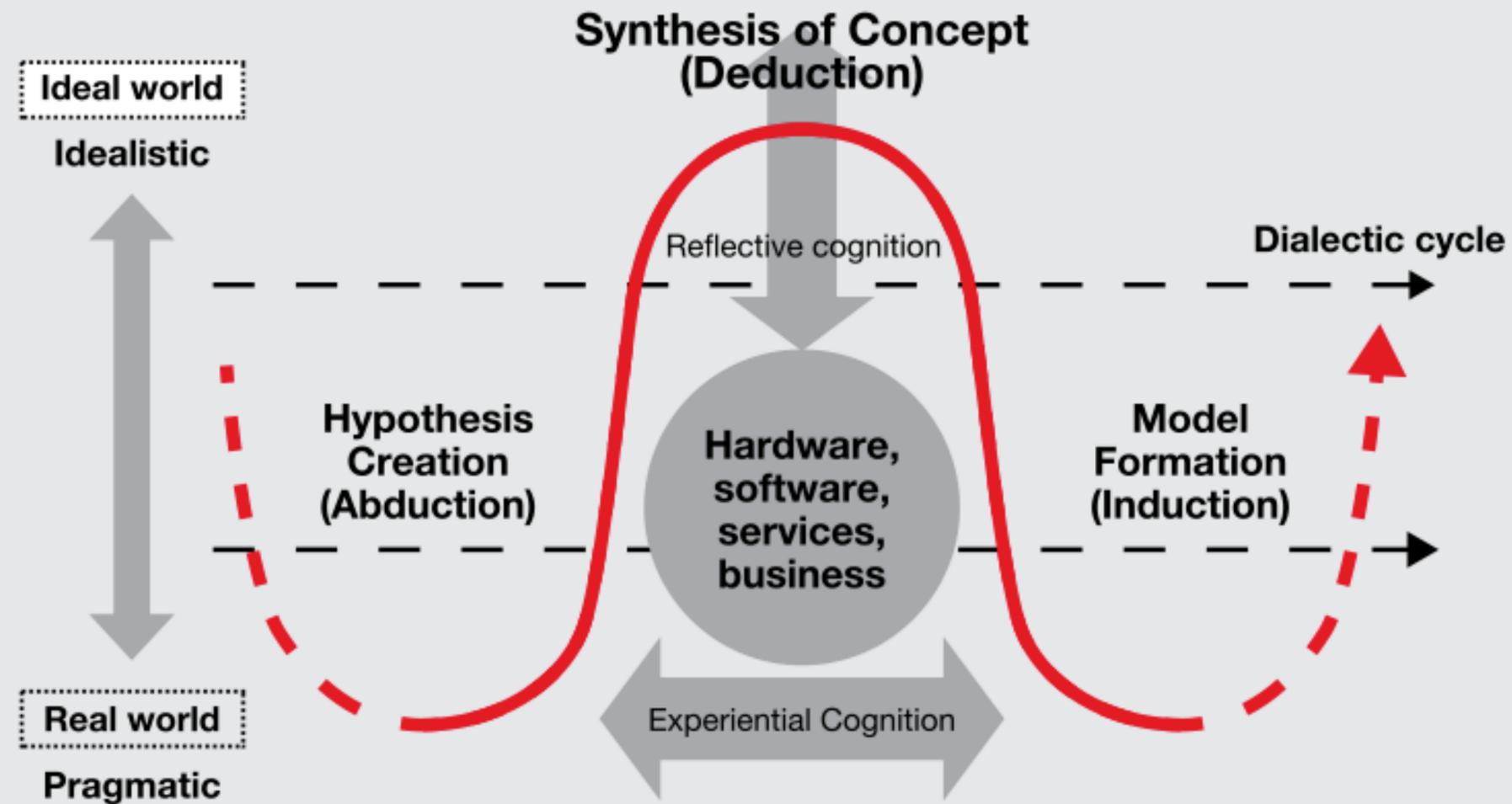
**ESTJ**

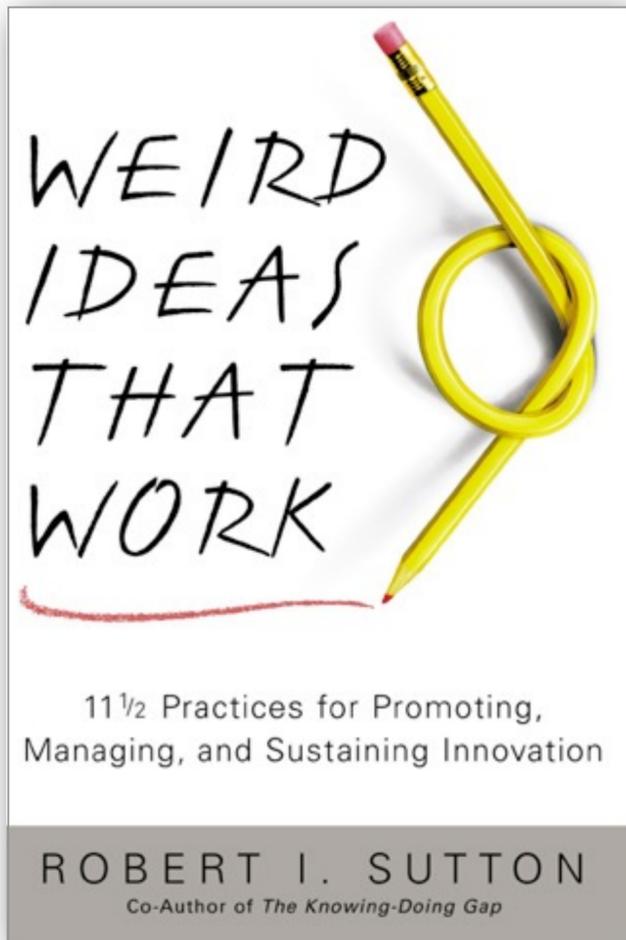
Practical, realistic, matter-of-fact. Decisive, quickly move to implement decisions. Organize projects and people to get things done, focus on getting results in the most efficient way possible. Take care of routine details. Have a clear set of logical standards, systematically follow them and want others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

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3D

Ready—Aim—Fire

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2D

Fire  
Ready—Fire—Aim—Fire  
Fire

---

1D

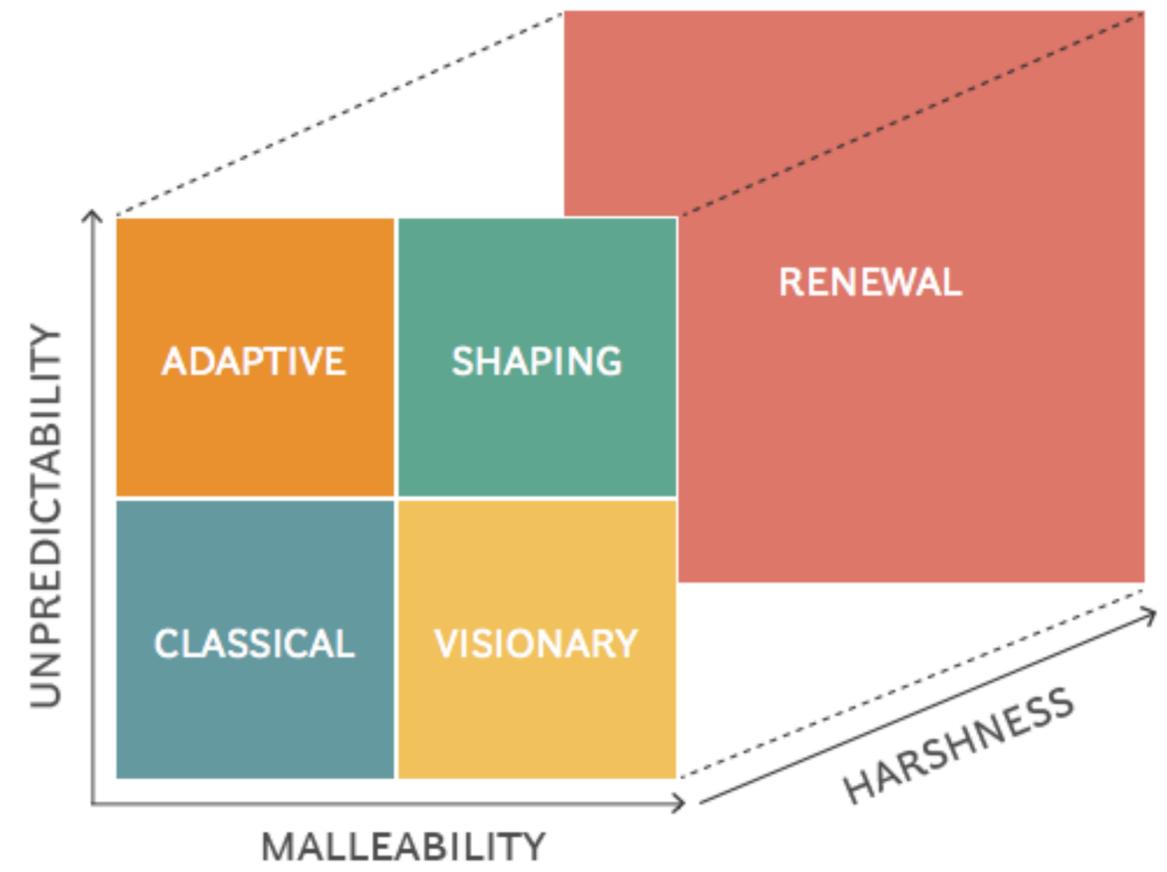
Fire  
Fire  
Fire

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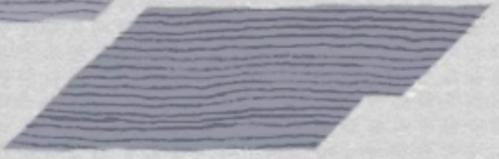
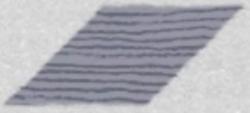
*emergent strategy ref.: Mintzberg*

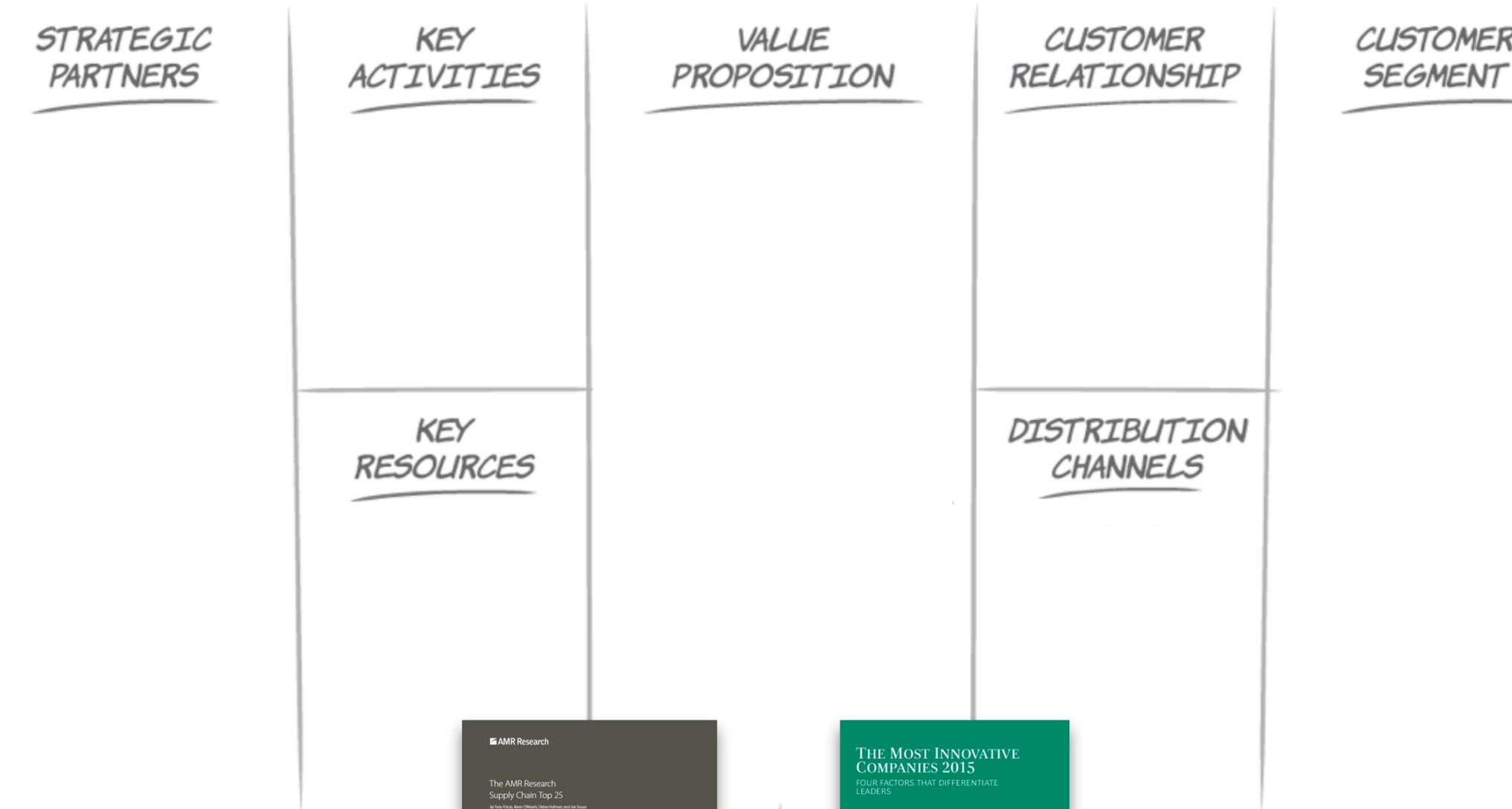
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\$





iPhone  
eco-system

COST

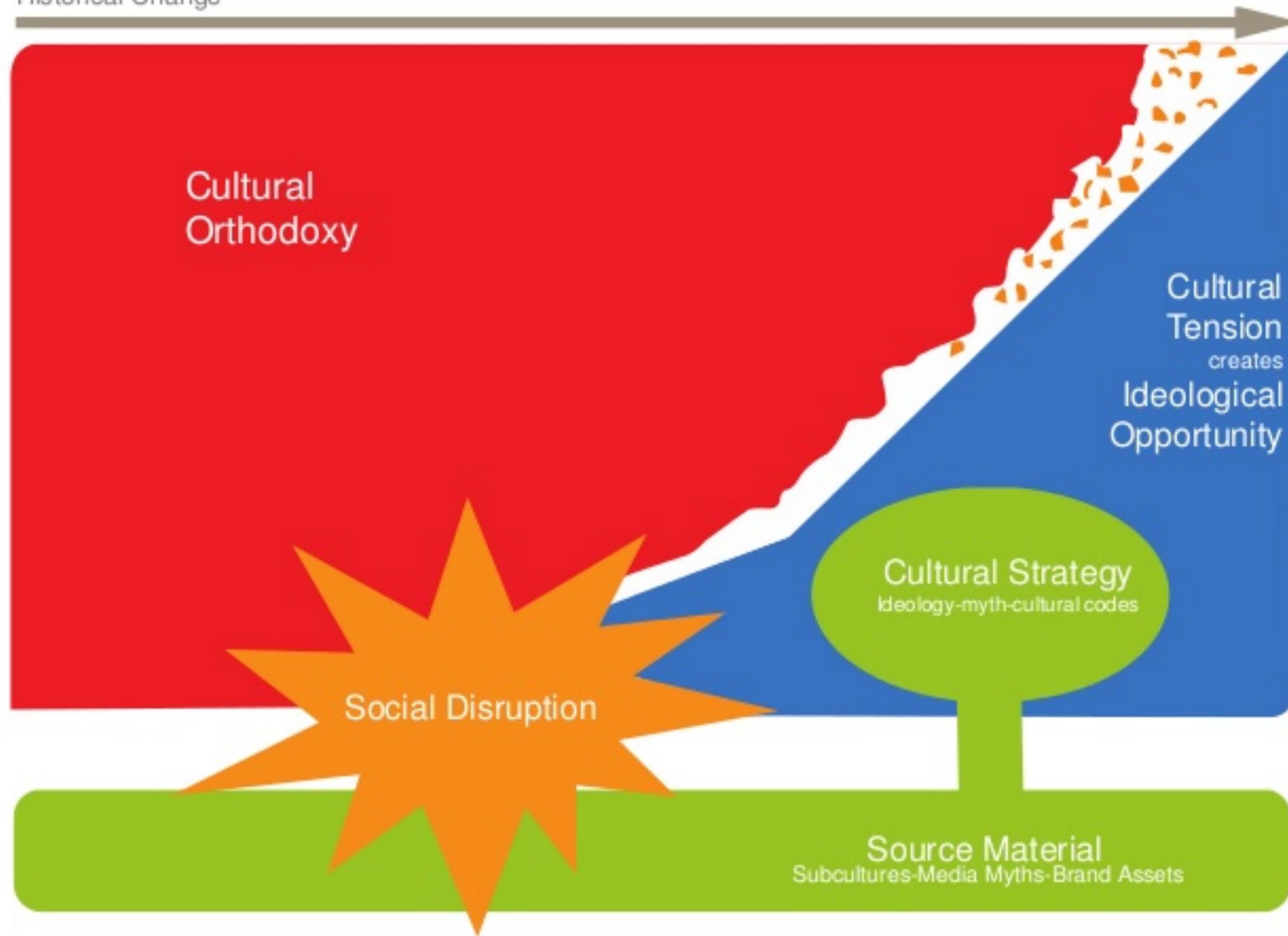
REVENUES

innovation efficiencies

innovation effectiveness



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

