

CHAIN REACTIONS

INNOVATION BRIEF

The logic of Effectuation in the innovation process





ABOUT INNOVATION BRIEFS

CHAIN REACTIONS addresses the challenge for industrial regions to increase regional capacity to absorb new knowledge and turn it into competitiveness edge and business value. There is a strong need to help SMEs to overcome capacity shortages for innovation and integration into transnational value chains.

The project aims at empowering regional ecosystems with the knowledge and tools to help businesses overcome those barriers and generate sustained growth through value chain innovation.

CHAIN REACTIONS focuses thereby on modern approaches considering value chains and their complex developments rather than linear technology transfer approaches. The framework of value chain innovation builds on Porter's 5 forces framework (new entrants, substitutes, customers, suppliers and rivalry) and transversal innovation drivers: key enabling technologies, resource efficiency, digital transformation and service innovation.

During the project lifetime CHAIN REACTIONS will publish about every third month an INNOVATION BRIEF presenting the rationale behind specific innovation drivers and illustrate them with practical examples.

This INNOVATION BRIEF is about the logic of Effectuation in the innovation process. Within CHAIN REACTIONS, methodologies and tools for supporting the development of PSS will be integrated in the VALUE CHAIN INNOVATION TOOLBOX to be delivered by the beginning of 2020. Stay tuned!

The logic of Effectuation in the innovation process

Definition and scientific background

The Effectuation logic is the result of research from Prof. Saras Sarasvathy of University of Virginia. She defines Effectuation as "a logic of entrepreneurial expertise that both novice and experienced entrepreneurs can use in the highly unpredictable start-up phase of a venture to reduce failure costs for the entrepreneur." She is convinced that what makes great entrepreneurs isn't genetic or personality traits, risk-seeking behavior, money, or unique vision but that there is a science to entrepreneurship and that great entrepreneurs across industries, geographies, and time use a common logic, or thinking process, to solve entrepreneurial problems. The Effectuation logic consists of 4 principles which can be found on Prof. Saras Sarasvathy's website www.effectuation.org.

Introduction

Does this sound familiar to you? „Ideas are not our problem, but we fail in implementing them." Being myself an external innovation facilitator¹, I often get confronted with this statement and I have experienced it in various companies varying in size and sector.

¹ About the author: <https://www.linkedin.com/in/arudl/>



Hereinafter, I will introduce the Effectuation logic that has its origins in entrepreneurship research and that can help in bringing new ideas into implementation.

Effectuation and Design Thinking

If you have already dealt with different agile approaches such as design thinking, lean startup or agile leadership, you will probably confirm that the most important asset for the future of an organization are employees who work with passion and motivation in their field of expertise and who are open for new impetus. Looking further at creativity research, it is said that creativity requires both expertise as well as recreation allowing the human brain to build new neuronal connections. Giving a concrete example: I still remember an ideation workshop where only very few new ideas evolved during the workshop itself. Once the workshop was over and participants relaxed during dinner, out of a sudden they became very creative and exchanged a lot of new ideas. In my view, this confirms that there is some truth in the assumption that ideas arise during sports, in nature or under the shower. Consequently, we can ask the question whether investments in expensive innovation labs with sofa, post-its, idea walls for developing new ideas and business models are worthwhile. This would further imply that the development of new business models builds mainly on people having a field of work corresponding to their „purpose“ or intrinsic motivation and to whom their superiors give enough freedom to experiment with new ideas.

In return, I would like to bring forward the hypothesis that a moderated innovation process needs only to be initiated in the phase where ideas that do unconsciously already exist shall be brought into implementation. This is the crucial moment that needs to be moderated when we want to bring forward new (business) ideas.

This is exactly where the Effectuation logic comes into play which will be subsequently explained by comparing it to Design Thinking. It is worthwhile noting that in current literature Effectuation is mostly explained by opposing it to management principles following the logic “analyze, goal setting, planning, acting” and where the focus is on achieving a desired goal through a specific set of given means. Here another approach is chosen, particularly because since the Covid-19 outbreak there is broad consensus that in times of high uncertainty the sole management approach based on goal setting and planning reaches its limits.

Further, it is important to note that comparing Effectuation and Design Thinking does not imply that one of the two approaches would be better than the other, but it is rather a plea for combining the two approaches in the innovation process:

Everything starts with you

The important difference between Effectuation and Design Thinking lies in the role of the idea giver: whereas in Design Thinking we permanently look at users or potential customers and their needs, Effectuation has at first a focus on „yourself “. This is not a team, it is not a user segment, it is your person.

Following the effectuation logic, ideas emerge already once you ask yourself the questions „What is my personal driver?“, „Where do I want to bring something new into this world?“, „What is my purpose for change?“. This could potentially be in your professional or private environment – as mentioned above, wherever you are involved with passion and intrinsic motivation. You will realize that by asking yourself these questions and by building on your expertise in these fields, you will automatically generate new ideas.



Expressing ideas

The next step is to articulate these ideas. Whereas in Design Thinking we are guided? during the brainstorming phase by principles such as “be wild”, “quantity before quality”, “think big”, expert entrepreneurs follow the so-called Bird in Hand Principle which says “Start with your means” implying that you should start taking action based on what you have readily available - who you are, what you know, and who you know.²

There is even a specific Effectuation format for articulating new ventures following the bird in hand principle. It is a marketplace for new ventures and teambuilding based on effectuation principles. The so called “Makers’ Marketplace” brings together a group of people around a joint cause (examples for such a joint cause could be “How can we develop a sustainable city?”, “How to leverage the opportunities of digitalization for our organization?). The participants of the marketplace first have some minutes to think of solutions they want to bring forward, then they immediately go into dialogues with their fellow participants. These dialogues are short, maximum 5 minutes, during which each dialogue partner can introduce his/her idea to their dialogue partner. Each idea presentation follows the bird in hand principle meaning that it is based on the means that are at hand to take immediate action.

Developing a venture

This initial mean-oriented idea presentation is followed by an invitation to contribute to this venture. A typical question of such a dialogue would be „How would I have to formulate the idea in a way that you contribute with your means?”. This can immediately lead to further developing the idea, getting commitments from a potential partner to contribute with his/her means and thus making the initial idea potentially better and even more realistic in its implementation potential as more means are available now. After several dialogues, all participants come together again around a whiteboard where all ideas are made visible. Participants who would like to contribute to the idea sign in and form a so-called speedboat. This implies that the venture has a team which will take action. Here another Effectuation principle comes into play, the so called Crazy-Quilt Principle saying “Form partnerships with people and organizations willing to make a real commitment to jointly creating the future—product, firm, market—with you. Don’t worry so much about competitive analyses and strategic planning.”³ The terminology of the “speedboat” is chosen opposed to a big cargo ship which, once put to sea, can only hardly come back to the harbor. The speedboat is agile and if the team decides that it would not follow up on the idea, it can bring its speedboat back to the harbor following the agile principle of “fail early”. What is different between ventures coming out of such an Effectuation format compared to Design thinking ideation sessions is that the initial ventures are in most cases not very wild, completely new or visionary at first sight as they build on the means the team has already available as of today. Still, the ventures arising from such an Effectuation Process will become bigger step by step throughout the implementation whereas in Design thinking we often start with wild big ideas and once we investigate feasibility, we have to bring them down to earth.

² https://www.effectuation.org/?page_id=207

³ https://www.effectuation.org/?page_id=207



Figure 1: Impressions of the Makers'

Marketplace Source: bwcon

Reality check: what to invest in the next implementation step

Whereas in Design Thinking processes the implementation of an idea can potentially fail because no one calls him or herself responsible for the uptake of the idea, an Effectuation guided innovation process allows for a reflection about what everyone in the newly born team is ready to invest for taking the next step. The **Affordable Loss Principle** implies evaluating opportunities based on whether the downside is acceptable, rather than on the attractiveness of the predicted upside. This reflection about the affordable loss triggers an open discussion in the team about how much time or how much money each team member will invest for the next implementation step. Making this transparent at a very early stage will avoid later conflicts where one team member feels that he/she has invested more than the others. After each implementation step, this question can be asked again and – coming back to the terminology of the speedboat – once no one of the team is willing to further contribute to the venture, it is still possible to transfer it back to the harbor. Thanks to the affordable loss principle, no one will have invested in an early stage so much of his/her time/money that giving up on the venture would cause considerable damage to any of the team members.

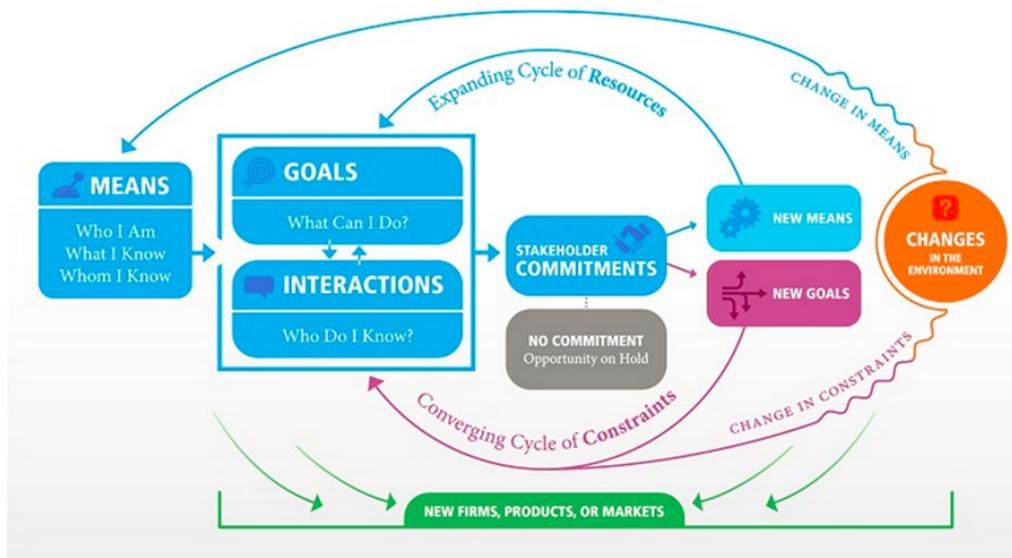


Figure 2: The Effectuation Process

Source: effectuation.org

Second reality check: who is our customer?

In every innovation process, we may not forget about one crucial element: the customer. This is also the case for innovation processes that are initiated through Effectuation principles. This means that once a team has taken action, it still needs to find out who would be their customer segment and what are their needs/problems/challenges. This will provide further impetus for the development of a venture that has true market potential. Looking at the graph below, it is illustrated how the different methodologies add value in the innovation process according to the degree of uncertainty of a venture as well as according to the maturity of a venture:

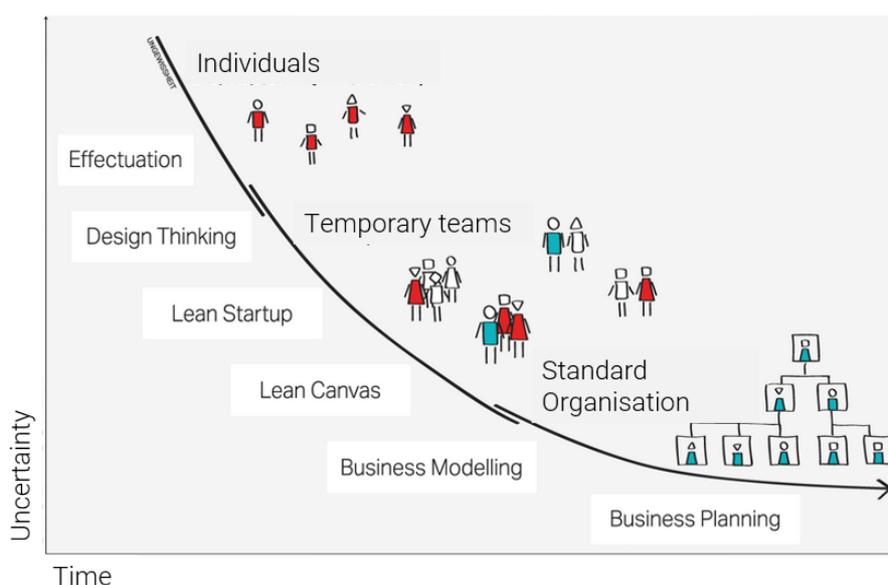


Figure 5: Effectuation in the innovation process

Source: Translated from Michael Faschingbauer, ICG Integrated Consulting Group GmbH



Conclusion

Effectuation can help getting started when we are in a context of high uncertainty. Once we have reduced a bit of uncertainty, design thinking, lean startup as well as lean canvas methodologies can help to further develop a market-oriented solution. Once we have reduced further uncertainty, methodologies from management theory such as business planning become relevant.

Having compared effectuation with five entrepreneurial methods, Yashar Mansoori and Martin Lackeus conclude that “Entrepreneurs should reflect critically on advice given to them to decide if and when an entrepreneurial method is suitable for their purposes, taking into consideration development stage and context”.⁴ They further advice that effectuation should not be seen as dominant entrepreneurial method. Instead, both scholars and practitioners could rather use the plural term “entrepreneurial methods” as a vehicle for coming together in co-creation efforts, with each of the methods emphasizing different aspects of the challenges entrepreneurs are facing:

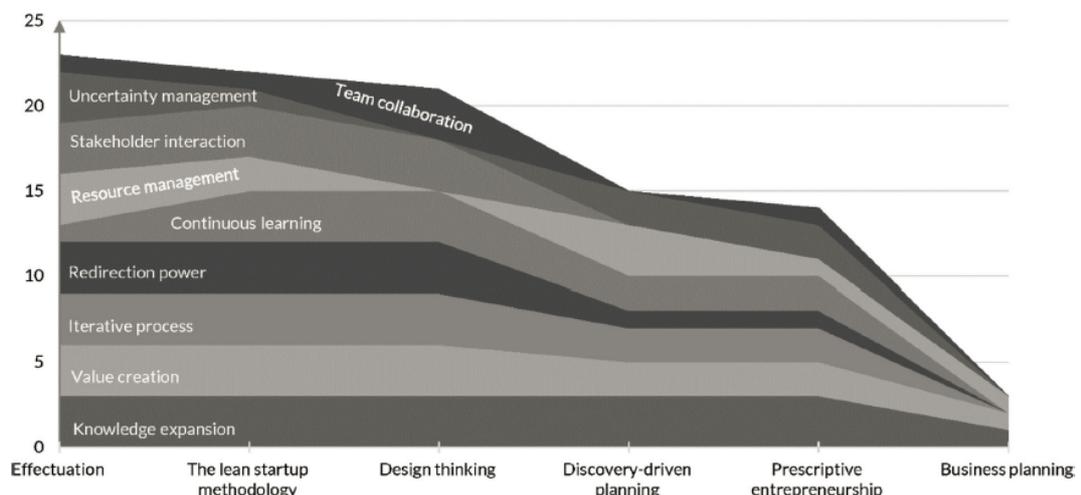


Figure 6 Analytical comparison of six entrepreneurial methods across nine conceptual dimensions

Source: Yashar Mansoori & Martin Lackeus

Finally, it is important to note that simply applying these methods is no guarantee for success. The impact of applying these methods will always depend on the organizational culture in which these new ideas arise. Aspects such as time for experiments, acceptance of new ideas that do not immediately pay off, as well as employees with different profiles etc. need to be considered when innovation processes are started. This means that working with innovation approaches such as Design Thinking and Effectuation always implies also working on your innovation culture. Only then, innovation processes have the potential to bring new business models to the market

⁴ Yashar Mansoori & Martin Lackeus: “Comparing effectuation to discovery-driven planning, prescriptive entrepreneurship, business planning, lean startup, and design thinking”, 2019 in Small Bus Econ (2020)