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THE CATALYST
How YOU Can Become an Extraordinary Growth Leader

WILLAMETTE UNIVERSITY

MONTLAKE CAPITAL
The Entrepreneurial Problem

For Profit / Social / Otherwise

long time partners in crime: Nicholas Dew, Stuart Read, & Saras Sarasvathy

• Goals are rarely well known & specified

• The future is extremely unpredictable

• People don’t ‘follow instructions’
Effectual vs. Predictive Logic

Distinguishing Characteristic Of Predictive Logic:
Selecting various means to achieve pre-determined goals

Given Goals

New means may be generated over time
Effectual vs. Predictive Logic

Distinguishing Characteristic of Effectuation:
Imagining & Selecting various goals using a given set of means

What CAN we do, rather than what SHOULD we do.
• Causal reasoning takes a particular effect as given and focuses on selecting between means to create that effect.

What **should** we do?

• Effectual reasoning takes a set of means as given and focuses on selecting between possible effects that can be created with that set of means.

What **can** we do?
Effectuation

- Market Definition
  - Segmentation
    - (using relevant variables such as age, income, etc.)
  - Targeting
    - (based on evaluation criteria)
  - Positioning
    - (through mktg strategies)

- Customer Identification
  - (through Who am I? What do I know? Whom do I know?)

- Segment Definition
  - (through strategic partnerships & “selling”)

- Adding Segments/Strategic Partners

Definition of one of several possible markets

Causation Model from Expert managers

Effectuation as Used by Expert Entrepreneurs
The Principles of Effectuation

- Causal principles (red) generally taught in bschool
- Effectual principles are always in Blue
Where to Start

- **Goals.** Given (based on predictions)

- **Means.** The basis for decisions and new opportunities:
  - Who I am
  - What I know
  - Whom I know
Risk, Return and Resources

• **Expected Return.**
  Calculate upside potential and pursue the (risk adjusted) best opportunity.

• **Affordable Loss.**
  Calculate downside potential and risk no more than you can afford to lose.
Attitude Toward Others

**Competition.** Set up transactional relationships with customers and suppliers.

**Partnership.** Build your “future” together with customers, suppliers and even prospective competitors.
When things pop up

• Avoid them. Surprises are not good

• Leverage Surprises. Surprises can present new opportunities.
Underlying Logic & What to Do

To the extent we can predict the future, we can control it.

⇒ PLAN

To the extent we can control the future, we don’t need to predict it.

⇒ CO-CREATE
A Critical Difference

Prediction: efforts to position the venture for success based on forecasts of important market elements.

Control: efforts to directly construct important market elements, in order to lead the venture to success.
# Effectual Decision Making

| 1. Where to Start | **Assess Your Means.** Take action based on what you have available:  
* Who I am  
* What I know  
* Whom I know  
Example: I have person A, I can achieve X, Y, or Z | **Set a Goal.** Goals determine actions. For example, the goal of achieving X, will dictate I need person A with skills matched to X. |
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<td>2. Risk, Return and Resources</td>
<td><strong>Set Affordable Loss.</strong> Pursue interesting opportunities without investing more resources than you can afford to lose. Set a limit on downside potential.</td>
<td><strong>Calculate Expected Return.</strong> Pursue the (risk adjusted) largest opportunity and accumulate required resources. Maximize upside potential.</td>
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<td>3. Attitude Toward Outsiders</td>
<td><strong>Form Partnerships.</strong> Grow. Strategy is created jointly through partnerships to create new opportunities.</td>
<td><strong>Perform Competitive Analysis.</strong> Protect. Strategy is driven by potential competitive threats.</td>
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<td>4. Contingency</td>
<td><strong>Leverage Contingencies.</strong> Surprises are good. New developments encourage imaginative re-thinking of possibilities and continual transformations of targets.</td>
<td><strong>Avoid Contingencies.</strong> Surprises are bad. Contingencies are managed by careful planning and focus on targets.</td>
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<td>5. Approach</td>
<td><strong>Transformative.</strong> The future as shaped (at least partially) by actions of all players. Prediction is neither easy nor useful.</td>
<td><strong>Predictive.</strong> The future is a reliable continuation of the past. Accurate prediction is possible and useful.</td>
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EFFECTUATION IN ACTION

EXPANDING CYCLE OF RESOURCES

MEANS WHO I AM WHAT I KNOW
WHO I KNOW

GOALS WHAT CAN I DO?

INTERACT WITH PEOPLE I KNOW

STAKEHOLDER COMMITMENTS

NEW MEANS
NEW GOALS

NO COMMITMENT
DEAD END OPPORTUNITY ON HOLD

CONVERGING CYCLE OF CONSTRAINTS ON GOAL

NEW FIRMS, NEW PRODUCTS OR NEW MARKETS

CHANGES IN THE ENVIRONMENT

CONSTRANTS
Kevin DeWhitt, Agilyx, affordable loss and co-creation
Padmasree Harish, Easy Auto: persistence, inter subjective, commitments
Yan Cheung, ACN to Nine Dragons, transformation, $3,800, 10 years.
Yngve’s Effectual Process

Expanding cycle of resources

Means

Who I am
What I know
Whom I know

Goals

What can I do?
Call people I know
Stakeholder commitments

Converging cycle of constraints on goals

New means

New goals

Take Stock of your means: who, whom, what.

What can you do for near zero; Or where you can afford to lose?

What commitments have you attracted and followed?

What surprises are you taking advantage of so far?
Effectuation in Action

Expanding cycle of resources

Goals

Engineer Summer Travel Biz Relationship with Sakada

What can I do?

Interact with people

Stakeholder commitments

New means

New goals

Converging cycle of constraints on goals

New markets
Your Effectual Process

Take Stock of your means: *who, whom, what.*

What can you do for near zero; Or where you can afford to lose?

What commitments have you attracted and followed?

What surprises are you taking advantage of so far?
How we’ve learned

Do experts actually make decisions differently? How?

It appears so: very different from Novices and from expert managers.


Protocol Experiment

Scenario Analysis
How we’ve learned

Does the use of effectuation affect evaluation?

Matching of effectuation or causation increases ‘liking’

I Like How You Think: The Role of Cognitive Similarity as a Decision Bias


with C.Murnieks, M.Haynie, T.Harting

Conjoint Analysis
How we’ve learned

Does the use of effectuation affect outcomes?

- reduced the failure rate for angel investors
- partnerships, means focused, leverage contingency significantly related to higher performance.

Prediction and Control Under Uncertainty: Outcomes in Angel Investing  
*Journal of Business Venturing* 2009, vol 24 p 166-133

A meta-analytic review of effectuation and venture performance.  
*Journal of Business Venturing* 2009 4:6, p573-587; Read, Song, & Smit

**Scenario Analysis**

**Meta-Analysis**
How we’ve learned

Does the level of uncertainty actually matter?

Strategic actions affect market valuations differently depending upon the level of uncertainty.

Making Sense: Patterns of Competitive Actions and Valuation of New Firms
Strategic Management Journal Forthcoming, V. Rindova, W. Ferrier

Strategic action coding, time series data