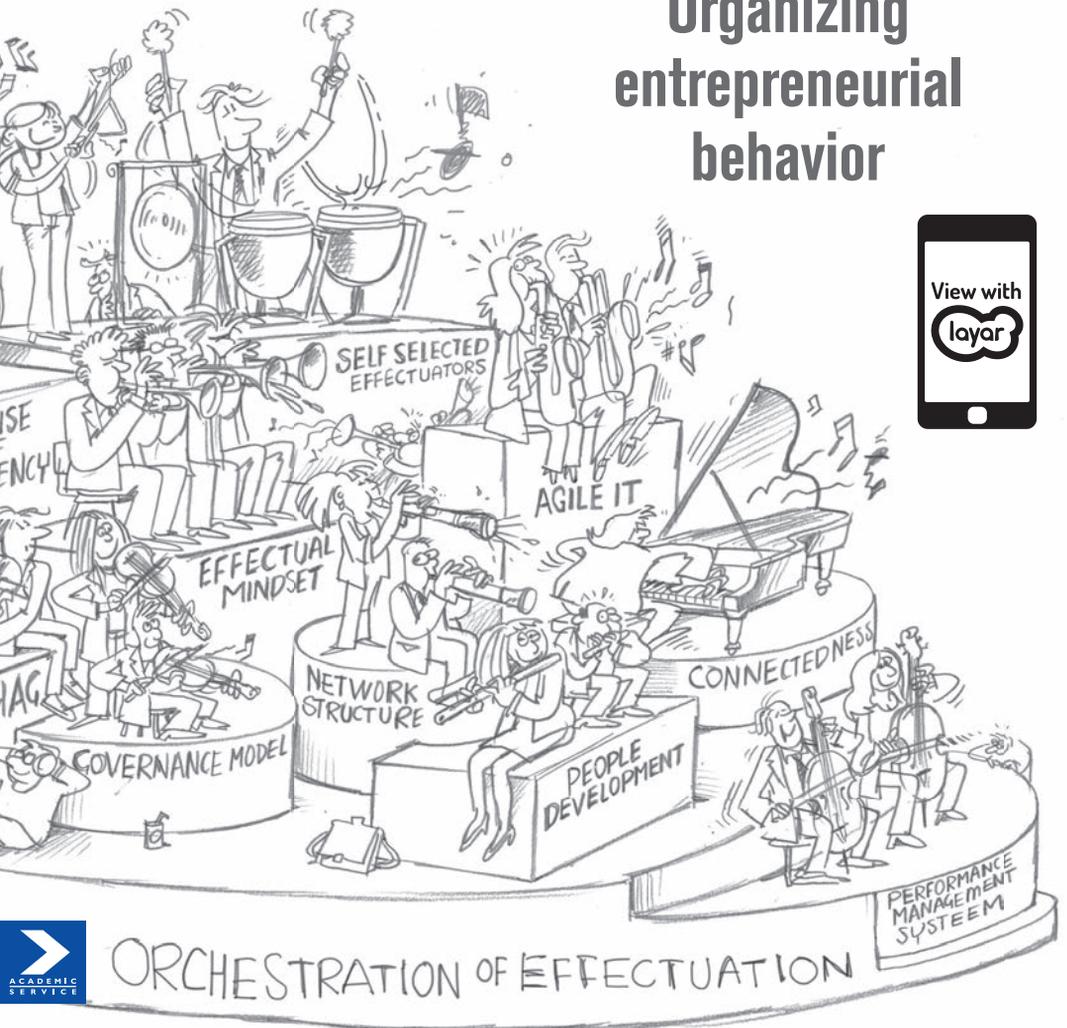


THOMAS BLEKMAN &
ROSEMARIE KONIJNENBURG

ORCHESTRATION OF Effectuation

Organizing
entrepreneurial
behavior



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PREFACE

**‘Stay confused but at a much higher level,
and about more important things’**

BERNT ØKSENDAL

The book that you just bought is far too bulky. This book should never have grown this thick, but here it is nonetheless. Its girth is due to all the knowledge it embodies, in a quantitative sense as well as (or perhaps even more so) in a qualitative one. Thirty experts have their say throughout this book. Boxes came to serve as chapters while chapters ended up as boxes. In the crazy quilt that results, dictates come from unusual angles. In this book, reality is the guiding principle – and the dictates of reality change everything.

This book is about realizing progress through new combinations, and that is exactly what it does. It is about acting from Being. Not value-driven, but driven by values. Much of what we have learned will have to be unlearned, and much of what we know will have to make a full U-turn. Instead of complicating matters, we should aim for simplification. The market is complex, and the simple truth is that it changes too rapidly for our rational thinking to keep up with. Irrational decision-making is faster, and it will make you feel better as well. In other words: The pace of change in the world has sped up beyond the pace at which organizations are able to learn. We need a new approach and a different mindset, and apply hands-on tools effectually to increase the pace of organizational learning. Only then will we have an actual shot at keeping up, and preferably be able to start defining the change.

Linear processes constitute an oversimplification of reality. Reality is always more complex than that, thus calling for small and simple steps to take you where you want to go and to speed up the process as well. Creating these changes in real life requires us to

think and act in an organic fashion. Taking small steps will keep us ahead of surprises as we go. Effectuation describes how entrepreneurs deal with a changing world. They think, decide, and act organically. Taking small steps, they achieve goals we would never imagine possible.

Everything is diametrically opposed to the usual state of affairs. Just have an honest look in the mirror. What does the world ask of you? Do you have the courage to reinvent everything from scratch? Are you taking small steps as entrepreneurs do? Are you more like an entrepreneur than you would have imagined? Do you prefer small steps too?

Reading this book is one of these small steps – one that may well take you to your intended goals fast.

We combine entrepreneurship with making a difference, as well as with values. Although this may seem like a complex blend, it is in fact very simple. We all want to make a difference, and values direct our irrational decisions, allowing us to move ahead at greater speed and act in entrepreneurial ways.

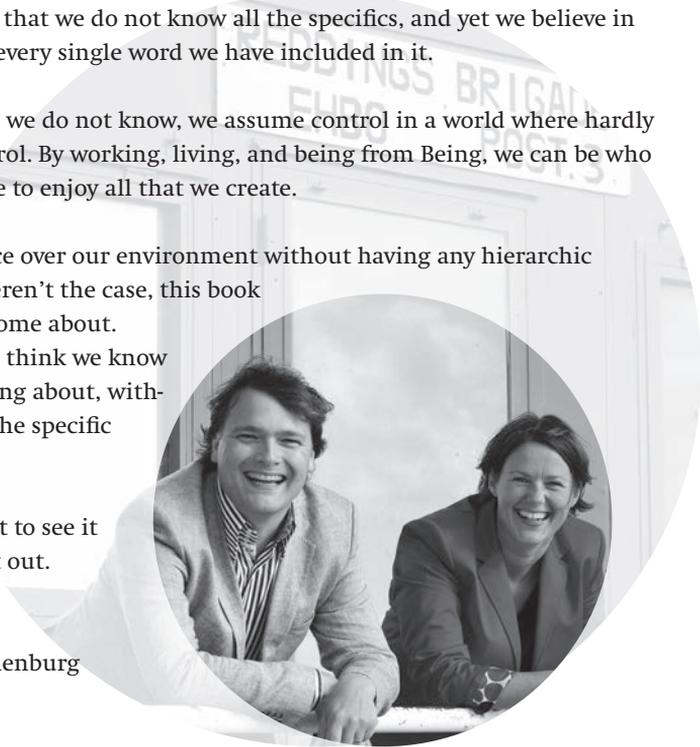
We are going to show working material that may strike some readers as overly commercial, even though we share them openly and without holding back. We readily admit that we do not know all the specifics, and yet we believe in this book and in every single word we have included in it.

By accepting that we do not know, we assume control in a world where hardly anyone is in control. By working, living, and being from Being, we can be who we really are, able to enjoy all that we create.

We exert influence over our environment without having any hierarchic power – if this weren't the case, this book would not have come about. Consequently, we think we know what we are talking about, without knowing all the specific details.

You will only start to see it once you figure it out.

Thomas Blekman
Rosemarie Konijnenburg
April 2012



CHAPTER 8

Effectual business innovation equals building mountains



*‘One who can move
mountains starts
with the little stones.’*

CONFUCIUS

By Fred van Ommen and Corina Kuiper

Dutch children are taught in school that the highest point of the Netherlands is Mount Vaals (Vaalserberg) (322.7 meters above sea-level). Textbooks are quick to add that it is in fact a hill, and not a mountain, as its name would suggest. All of this is about to change. The idea of building a mountain in the Netherlands was launched at the end of June 2011 by cycling reporter Thijs Zonneveld in *De Pers* daily newspaper. Although it started out as a joke, it soon turned more serious. His readers as well as the world of engineers, designers, and constructors reacted so positively that a group of eighty professionals took up the idea and started working on it, naming the project 'We will build that mountain!' ('Die berg komt er!' in Dutch).'

The idea is not new as such. In 2004, *FEM* reporter Peter Hendriks received the *NRC* award for best Dutch idea for his plan of building a mountain range in the Flevoland province. Although the idea is not new, the approach is: Zonneveld is using all the elements of Effectuation. Thijs started out with who he is, what he is capable of, and whom he knows: sports and journalism (bird-in-hand principle). He was astonished by the number of replies he received. His personal network expanded at an exponential rate and new partners joined, each with their own way of working, thereby a colourful patchwork was created (crazy quilt principle). By March of 2012, nearly one hundred companies, banks, universities, architects, logistics experts, engineers, and geologists had joined. It soon became apparent that although a



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mountain serving sports purposes alone would not be economically viable, it would be if sustainability and innovation were added to the mix.



Actually, the initiative was more about building a structure than a genuine mountain. Rather than a pile of sand and rocks, the object will be a largely hollow structure. These cavities could be used for production of water, food, and energy, and possibly for CO₂ storage. The mountain will be built in phases of 300 meters each; time will tell how high the mountain will become eventually, although it is unlikely to reach the altitude of two kilometers originally

suggested in his publication. These are all examples of the lemonade principle. The affordable loss principle can be linked to the way they decided to raise money. They set up a foundation called Feasibility Study ‘Die Berg Komt Er!’. An approximate amount of 1.5 million euros is required to develop a detailed concept in late 2012. To this end, the foundation has started selling certificates at fifty euros each. The Dutch mountain will also be auctioned, enabling people to bid for the first bicycle ascent or a seat in the brainstorm sessions. USG Innotiv is the mountain’s main sponsor, providing a full-time project manager throughout 2012. The project’s top priority is to demonstrate its own feasibility, and to create as large a base of support as possible. Evidently, they focus on what they can manage by themselves (pilot in the plane principle), thus turning the mountain into one of the largest Dutch innovation platforms.

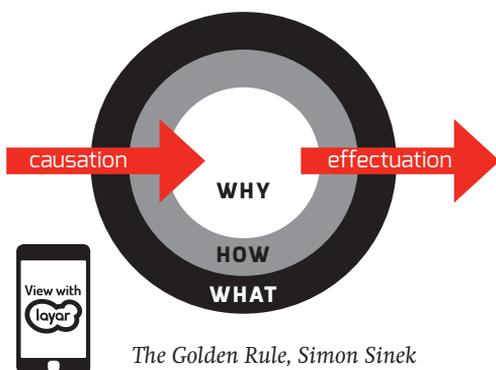
The trick here is managing to let ‘We will build that mountain!’ develop into a platform for sustainability innovation with a lasting impact on the Dutch economy. How does one raise a robust and sturdy mountain that wasn’t built on quicksand?

‘We will build that mountain!’ is no exception in facing this question. In an increasingly complex and unpredictable world where change comes at ever greater speed, many companies are looking for new areas of growth, or in other words: looking for new mountains. The central question in this chapter is therefore: how do effectuators create new business as a solid foundation for the company’s future? How does one prevent innovation from devolving into a temporary hype that lacks long-term impact? How does one secure a place among tomorrow’s winners?

To answer these questions, it is important to first understand what drives your company, and what drives you as a person. Building mountains starts with ‘why’. Moreover, several forms of innovation exist (granularity of innovation), each with its own approach. Some forms of innovation are about finding new routes to the top of an existing mountains, whereas in other cases, building the mountain itself is the first step. The following sections cover the ‘why’, and determine whether we deal with an existing mountain or one that is yet to be built. In the process, we will look into Geoffrey A. Moore’s chasm theory. We will proceed by casting an effectual gaze on mountain building, using the story of Apple as an illustration. We will conclude by reflecting on what these matters signify for the effectuator as a person.

The heart of the mountain: ‘why’

On March 8, 2012, Thijs Zonneveld was interviewed by former Dutch politician Paul Rosenmöller in the OBA Live radio show (IKON).²⁸ It was striking to notice how Rosenmöller wanted to know every last detail about the mountain itself, while Thijs was mainly trying to explain why he believes that the intia-



tive has a chance of succeeding, as well as explaining the goal he envisioned: natural and sustainable production of energy, water, and food. Thijs admitted his shock on reading the October 2011 issue of *Natuur & Milieu* magazine, which stated that the Netherlands compared to other European countries performed outright poorly with respect to all main indicators for climate, wildlife, and

environmental standards.²⁹ Thijs did not intend to build a mountain to go skiing down its slopes, but to solve fundamental problems. He emphasizes ‘why’ instead of ‘what’, which is in line with Simon Sinek’s golden circle theory³⁰ described in Chapter 3. Especially when your ideas are radical and new and you still need to create support, appealing to people’s emotions and trust is essential. Starting with ‘what’ (describing the mountain itself) represents the causal approach, which is an ineffective way to gain broad support from a large audience. In fact, radically new ideas make it virtually impossible to start with ‘what’, for the simple reason that the ‘mountain’ does not yet exist. People have trouble conceiving what you offer them; only by letting your passion affect them, you will be able to start building the mountain.

Working outward from within, starting out with ‘why’, represents an effectual approach. The point of departure is the passion that translates into a number of beliefs, which in turn lead to various potential final scenarios. This is exactly what Thijs Zonneveld did in the interview. He refused to be tempted into statements on the eventual height of the mountain, but pointed out instead that his first priority was to create the broadest possible public support: the Netherlands must become more sustainable, and he intends to realize it by means of large-scale and fully sustainable production of energy, water, and food.

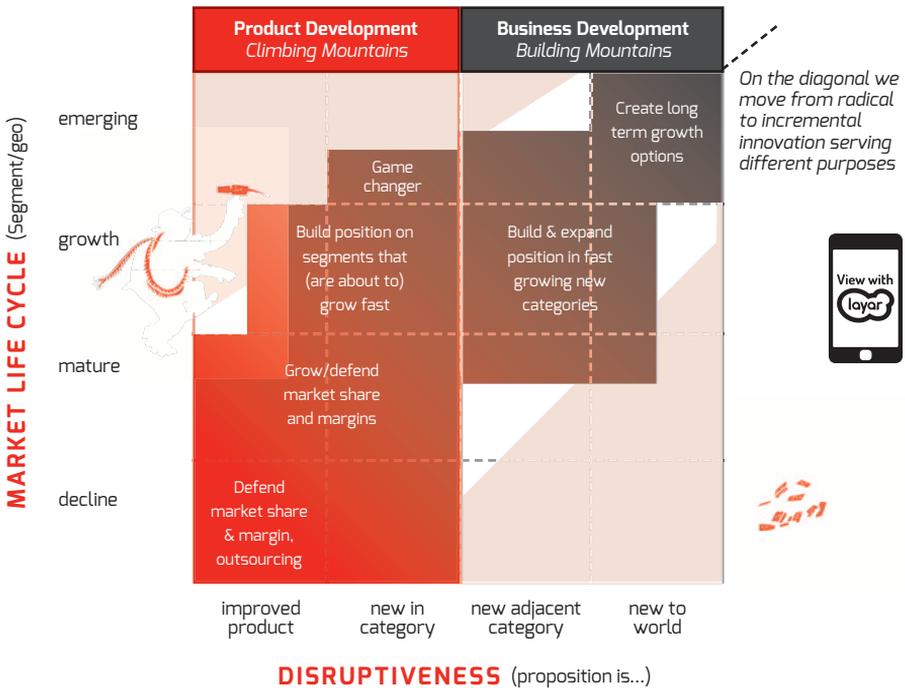
Climbing mountains versus building mountains

Many companies are looking for new growth areas, and innovation is often the key word in finding such areas. They can do so within their existing business by improving existing products and services, and/ or by adding new products to existing categories. These incremental innovations target existing markets. Customer needs are known, as are expectations regarding price and performance of products/ services, and no changes in customer behavior are necessary. Existing channels, competences, and business models can be used. If the company does not have access to these elements, open innovation is there to offer a helping hand. In these cases, the mountain already exists, and

all companies attempt to be the best mountaineer in order to beat the others to the summit (large market share).

In established markets one needs to find the shortest climbing route to the top, but new markets are created by building mountains.

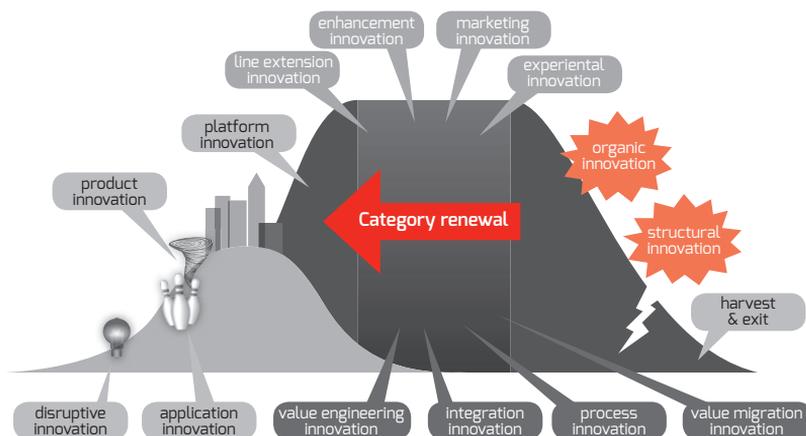
In our contribution to the publication of *Corporate Effectuation*,³¹ we have introduced the 4x4 innovation matrix we developed to illustrate that innovation comes in different forms. The most significant characteristic of this matrix is its external focus; what matters is not whether something is new to your company, but rather whether the market (i.e. the customer) perceives it as new. Stated differently: is change of customer behavior required? The vertical axis indicates the life stages of the market, divided into emerging, growing, mature, and declining markets. The horizontal axis indicates the extent to which the product (service) is disruptive to the customer, in which we distinguish between the following four categories:



- 1 Improvement of a product/service in an existing category;
- 2 Addition of a new product/service to an existing category;
- 3 Introduction of a new emerging category, where the category itself is new but the end-user can still link it to other existing categories of products/services;
- 4 Introduction of an entirely new category of products/services.

The left-hand side of the 4x4 matrix denotes those types of innovation in which supply is directed at an existing market; situations in which the mountain has already been built. A company may also create new solutions that are wholly unfamiliar to the customer. This calls for changes in behavior of end users, but often also in the behavior of other players in the value chain. The right-hand side of the 4x4 matrix indicates types of innovation pertaining to markets that still need to be developed: here, the mountain has yet to be built.

Broad universe of innovation types



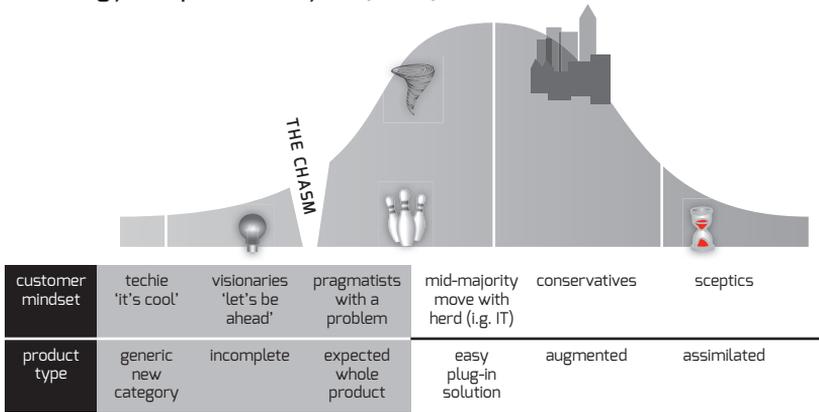
This type of innovation is perceived by many companies to be difficult, as it comprises not only product/service development, but creation of new markets as well. This type of innovation is an important element for shareholders when determining the value of a company. The value of existing business is easy to assess by looking at cash flow. Companies capable of innovating their business in a process of ongoing renewal will be awarded a premium (greater multiplier); companies that are unable to innovate their business are being punished at stock markets with increasing severity.

In 2011, Nokia, RIM (Blackberry), Netflix, HP, and Sony share prices have dropped by 40% to 80%, whereas Apple share price has gone up by 50%, and those of Samsung by 30%. Companies often consider only the value of projects

as such, without calculating the impact of (absence of) a healthy innovation pipeline on the company’s multiplier.

This raises the important question of how to build mountains as a company. In his book *Crossing the Chasm*, Geoffrey A. Moore suggests that creating markets for high-tech products is no mean feat.³² He demonstrates the occurrence of *hiccup (chasm)* in the adoption curves of high tech/disruptive products. Much has changed over the past two decades, however. Market unpredictability increased enormously; the pace at which new products are being introduced is astounding even without taking into account the impact of social media on our daily lives. So what impact do these changes have on Moore’s chasm? And how does Moore’s chasm relate to the Effectuation principles?

Technology Adoption Lifecycle (TALC)



'Inside the Tornado', Geoffrey A. Moore and 'The Chasm Companion', Paul Wiefels (image used with permission of the Ottawa Centre for Research and Innovation)

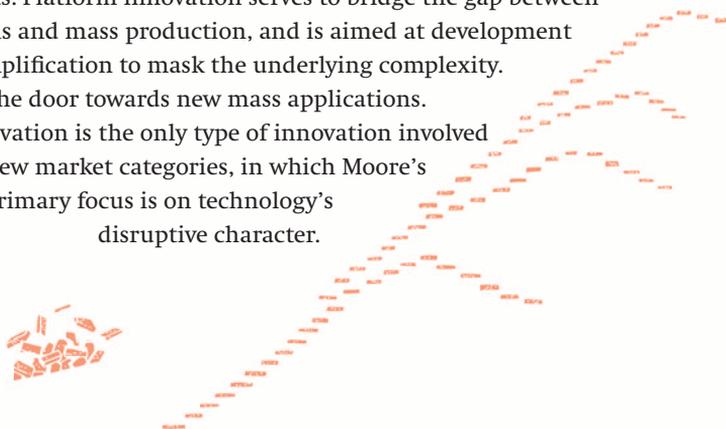
A 'causal' outlook on 'crossing the chasm'

In *Crossing the Chasm*, Geoffrey Moore discusses the act of bridging the chasm that often divides 'techies'/ visionaries (*early market*) and pragmatists, conservatives, and stay-behinds (*mainstream market*).

Techies and visionaries (*early market*) are generally easy to enthuse, as (disruptive) high-tech products help them distinguish themselves from others. Pragmatists need much more time before they feel comfortable enough to purchase such high-tech products. Meanwhile, both techies and visionaries will continue searching for disruptive products elsewhere, before they have produced sufficient evidence to convince pragmatists to go ahead and cross the threshold. According to Moore, the only reliable way to cross the chasm is finding a niche market on the other side of the divide, consisting of pragmatists facing a common problem for which no solution has yet been provided.

Only in dire need and in the absence of any other available solution than buying the high-tech product will pragmatists ever be willing to abandon the herd and be the first sheep to leap across the ditch. The rest will follow after. In Moore's opinion, then, visionaries do not convince pragmatists; *pragmatists in pain* are the ones who convince other pragmatists to take the leap of faith. Once the product has been adopted by an application, it will serve as a springboard for other applications (*bowling alley*), up to the point at which the product has become the standard that everybody wants to use (*tornado*).

The turning point made by Moore at the beginning of the Nineties is his observation that markets do not create themselves; he demonstrated that each phase in the adoption curve involves a distinct type of customers, with their own distinct needs regarding the product. This is why each phase calls for its own innovation approach. In his book *Dealing with Darwin*,³³ Moore subsequently described the second adoption curve, the Category Maturity Life Cycle, which is to provide eventual volume. The Technology Adoption Life Cycle deals with managing complex systems. Moore claims that managing complexity and volume are difficult to perform simultaneously, and so they should be addressed in sequence. If we look at his definitions of the various types of innovation, we see how thirteen out of fourteen innovation types concern existing products. Application innovation is development of new markets for existing products. Product innovation directs its efforts at adding new features and functions to existing products for differentiation within existing markets. Platform innovation serves to bridge the gap between complex systems and mass production, and is aimed at development of a layer of simplification to mask the underlying complexity. This opens up the door towards new mass applications. Disruptive innovation is the only type of innovation involved in developing new market categories, in which Moore's primary focus is on technology's disruptive character.



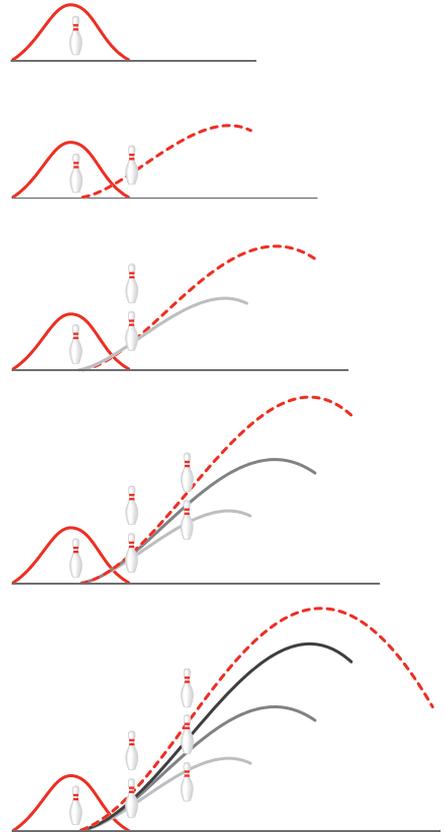
All in all, Moore appears to start out from the assumption that the mountain already exists!

It is a simple matter of finding the right climbing route and, depending on one's position on the mountain, the use of different climbing techniques. This corresponds with the causal world-view, which presumes that people search for opportunities. The company to find the first *white spot* in the market is the winner. Evidently, Moore's Chasm is well-suited for use on the left-hand side of the 4x4 innovation matrix.

An 'effectual' perspective on building mountains

On the right-hand side of the 4x4 innovation matrix, building the mountain is a stone by stone, layer by layer approach. Here, the business team is not occupied with 'crossing the chasm', as they have to spend their energy on actual mountain-building. Looking at business creation from an Effectuation point of view results in a different approach.

First of all, you start out with who you are, what you are capable of, and whom you know. Together with the people they know and their own respective networks, effectuators set out to find the first customers willing to change their behavior. An entrepreneur is looking for specific customers and partners who are prepared to co-create with him or her. These are the 'early-yes's' as described by Robert Wiltbank.³⁴ He advises caution with regard to potential customers who will still opt out at a later stage. Those who will actually help build that first hill will be the people prepared to pledge their word in concrete commitment in advance. Whereas Moore does not emphasize the role played by visionaries in crossing the chasm (although they facilitate acceptance of new technology, they have only a limited part to play in convincing the pragmatists), such visionaries are crucial in building that first hill – the first pin to go down in terms of bowling – from our point of view. Moore, by contrast, reserves this role for the pragmatists. Choosing the first pin is decisive for the success of the company, as it provides the ticket to subsequent markets. There is a constant need to keep an eye on how one market may lead to the next. If a connection to another market segment cannot be made, the hill you have built will never become a mountain.



Another critical factor in building mountains is the platform. In Moore's outlook, platform innovation follows product innovation; he is right to point out that a platform cannot be justified before it has been used to launch a product in the market. The reverse is true as well: if subsequent propositions are not based on an underlying platform, the effort will lack the leverage required to build a mountain. The platform constitutes the aforementioned 'why'; the products constitute the 'what'. Hence, the starting point is the platform, rather than the product.

Complexity has become a part of our lives to the point where it can no longer be ignored. Platforms often provide the uniqueness any new business needs for long-term survival. Regardless of how revolutionary your idea may be, it is important to keep distinguishing yourself from competing propositions in the market (*right to win*). The platform offers the opportunity of remaining in charge, without devolving into a temporary hype or a *me too* product. An excellent example of a mountain-building company is provided by Apple.

Apple's effectual mountain

In his TEDx talk, Simon Sinek uses the example of Apple to explain his golden circle model.³⁵ If Apple would be just like others, he suggests that their marketing message would be as follows: 'We produce great computers. They are beautifully designed, easy to operate, and user-friendly. Would you like to buy one?' This is how most companies communicate. They state what they do and what makes them different or better. In reality, Apple communicates as follows: 'We believe in challenging the status quo in all that we do.'

APPLE CONTINUOUSLY RENEWS ITSELF

Computers

Focus on user interface (UI) 'original windows', mouse
(design at a later stage)

Audio

Focus on design, UI, music service and web store (iTunes), Apple stores

Mobile/ smart phones

Focus on design, UI, iOS (platform for developers), music,
and software applications (App Store)

Gaming and e-reading

Focus on design, UI, iOS (platform for developers), music, software/apps,
iBooks, connectivity, iCloud (iPad3: resolution, voice control)

Video/TV?

Steve Jobs in 2010: 'a hobby' (TV market too complex)

We believe in thinking differently. We challenge the status quo by designing our products to high standards of beauty, making them easy to operate and user-friendly. Incidentally, we build great computers. Would you like to buy one?' According to Sinek, this demonstrates how people decide to buy, not because of what you do, but because of why you do it.

Apple is a company capable of constantly renewing itself from the 'why': 'Think Different.' Here, we see all the Effectuation principles in action. They started out from what they were – and still are – good at: their iOS operating system (bird in hand principle). Combined with an intuitive user interface, design, and quality, this resulted in a strong platform providing a basis for all Apple propositions. Apple designed the original 'Windows' as well as the mouse, and is still at the forefront when it comes to intuitive user interfaces. YouTube features a wide range of videos in which babies try to apply *swiping* to TV screens in an attempt to switch channels, or to enlarge pictures in magazines.

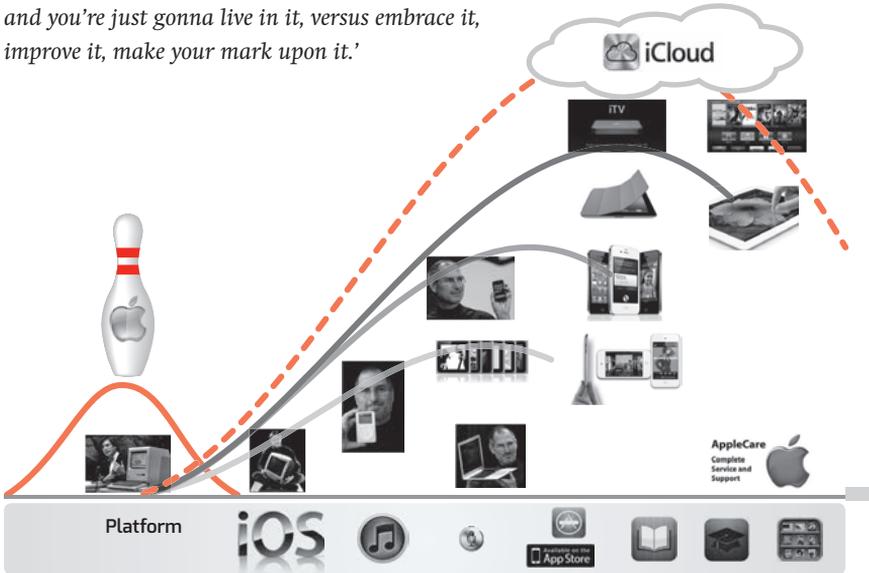
However, Apple is by no means always the first to introduce new products to the market. They did not design the first mp3 player, tablet computer, or smartphone. Steve Jobs himself has always been clear on the matter: 'We have always been shameless in stealing great ideas.' Apple has managed to become so successful precisely by not focusing on the physical product (the 'what'), but instead offering a total experience/ solution (including content, stores, and storage through iCloud). In addition, Apple is a crazy quilter: the focus is on design and integration of all components, which are purchased from companies such as Samsung, Intel, Toshiba, TPK Holdings, and Catcher Technologies, rather than having them produced by Apple itself. The crazy quilt principle is also applied to the content aspect of the company. Partnerships with the music industry, publishers (iBooks, Kiosk) and film industry have made the iTunes store a very comprehensive and up-to-date distribution channel. One of the most recent additions is the option to access training courses and lectures at Apple: iTunes U(niversity).

In addition, Apple is the most popular platform for developers.³⁶ Bloomberg stated in February 2012 that for every new Android application, three new iOS applications are made available through the AppStore. One year earlier, this ratio was 2:3. At present, Apple boasts a total of 650,000 applications in its AppStore; a 150,000-application lead that will only increase under current conditions.

The customers who stood at the foot of the mountain together with Apple weren't pragmatists; they were visionaries. They shared the belief in the need for difference, and let themselves be inspired by Apple. Until this very day, Apple users (or rather 'believers') are shouting at the top of their voice as they try to convince others to switch to Apple. Today's Apple users are simultane-

ously the first users of new and mutually reinforcing propositions that Apple keeps providing.

The pilot in the plane principle is brought to life throughout the entire Think Different campaign launched by Apple in 1997. When interviewed for PBS documentary *One Last Thing* in 1994, Steve Jobs said: *'The minute that you understand that you can poke life and actually something will, you know if you push in, something will pop out the other side, that you can change it, you can mold it. That's maybe the most important thing. It's to shake off this erroneous notion that life is there and you're just gonna live in it, versus embrace it, improve it, make your mark upon it.'*

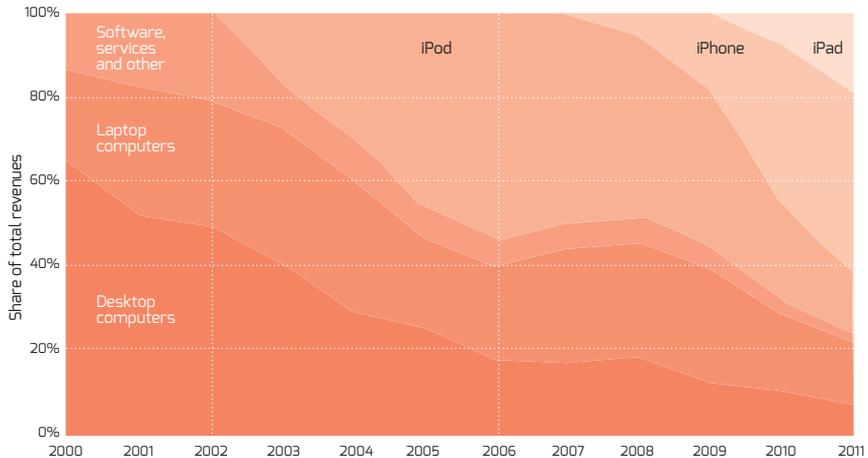


Building mountains inevitably includes setbacks. It may seem as if Apple has encountered nothing but success, but it has had its own fair number of setbacks to overcome. However, at Apple, they have clearly learned their lessons from these 'lemons', and have managed to use these to their advantage in the fashion of true effectuators (lemonade principle). This clearly illustrates the need for iteration in finding the winning formula. Still this winning formula itself is also subject to erosion. A company has to keep renewing itself in a never-ending process. If Apple had not managed to keep creating new layers, they may well have become an insignificant computer company by now. In 2012, the computer business (the only business they were into one decade ago) accounts for only a quarter of today's business.

Tomorrow's landscape is determined by effectuators building today's mountains, one layer at a time.

So what about Apple and the television market? They have experimenting in this field since 1993, when they launched in close cooperation with Sony their Mac TV, featuring a remote control the size of a credit card which was also compatible with Sony televisions. It was the first black Macintosh that came with a special black keyboard and mouse. The product flopped due to poor graphical performance. In June 2010, a TV interviewer asked Steve Jobs when Apple would be entering the market with a new television interface.³⁷ Jobs replied that Apple treated TV as a hobby, not because of any technical problems or a lack of vision, but because at that point, no viable go-to marketing strategy was available. The set-top box market was heavily subsidized by cable providers, practically giving them away for free. Steve Jobs found that this made almost every form of innovation an impossibility, since nobody was prepared to pay for a set-top box. The problem with providing an additional box was that customers had to deal with a range of different boxes, each with its own remote control and user interface. When asked if it would be possible to change the market by partnering up, as they had previously done by launching the iPhone together with AT&T, Jobs answered that there was no national cable provider, and that there were no uniform standards such as those pertaining to cell phones. In addition, all countries observe their own standards, laws, and regulations. The only option would be to start from scratch, but this was not feasible at the time. Jobs concluded as follows: ‘I am sure that people smarter than ourselves will figure this out, which is why we consider Apple TV to be a hobby.’

Creative disruption: Apple’s business model has expended over time



Source: Financial statements, Ernst & Young.

Note: data for iPod, iPhone and iPad include related products and services.

Still, hobbies and experimentation are normal activities for innovative companies. This makes it likely for Apple to enter this market – as it did with other markets – with a unique design, an intuitive user interface, content, and ser-

vices for which customers will be prepared to pay twice the price they would pay for a current TV. Apple is also expected by many to innovate the television market business model. Many speculate about Apple reducing the role played by cable providers to the act of installing cables, while Apple itself will supply content (and thereby generate revenues) from a position of virtual cable provider. In Steve Jobs' biography, Walter Isaacson³⁸ quotes Jobs as follows:

'I'd like to create an integrated television set that is completely easy to use. It would be seamlessly synced with all of your devices and with iCloud. It will have the simplest user interface you could imagine. I finally cracked it.'

The effectuator as a mountain builder

Throughout the above, we have mainly focus on what building a mountain implies for a company. In this section, we will look into what it implies for the effectuator. What should you be prepared for? How do you make sure that instead of just managing to convert money into ideas (= invention), you also manage to eventually turn those ideas into money (= innovation). The effectuator needs to take Maier's law into account: $E = Q \times A$ (Effectiveness = Quality x Acceptance). In other words: offering a superb solution to a customer who isn't interested in it is pointless. The opposite holds true as well: providing a solution that isn't truly unique and distinguishing will not produce lasting effects, regardless of initial customer enthusiasm. Ground-breaking technology is an important element in making a difference with respect to the



LEMONS OF APPLE

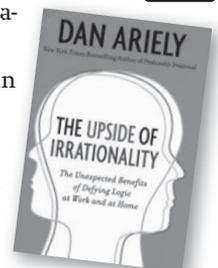
Product	Launch	
Lisa 	1983	First computer with graphical interface and mouse. Aimed at business. Today's equivalent price US\$ 20,800. Customers went for cheaper IBM. Price does matter!
Apple IIc 	1984	First portable computer. Lacked upgradability, short lived LCD display. Led to Macintosh.
Mac TV 	1993	Sony Trinitron plus Apple 520. Lived 12 months. No TV in desktop window. Precursor to Apple TV.
Newtron 	1993	PDA ahead of its time, poor handwriting recognition software.
eWorld 	1994	Partnered with AOL to develop eWorld intuitive and easy to use cartoon services like e-mail, news, and a bulletin board. High priced and not promoted, looked silly.
PIPPIN 	1996	Game machine co-marketed with toy maker Bandai. Failed because of lack of SW and strong competition.
Hockey Puck Mouse 	1998	Mouse with first Imacs, unergonomic and awkward control.
G4 Cube 	2000	Filling gap between iMac G3 and PowerMac G4. No monitor, high price, proprietary SW, tended to overheat, no audio input.

‘Q factor’. However, open innovation increases availability of third party technologies, competences, and channels, and so it is no longer crucial for your company to have private access to these. The key to success is more and more about the way in which you are capable of *realizing* behavioral change (‘A’): the emphasis has shifted from technology towards psychology and behavioral economics.

This explains the importance for effectuators of understanding how human preferences and decision-making work. How does one motivate and convince people? For many decades, people were assumed to be rational and calculating beings, but in 2002, the Nobel Prize in Economics was awarded to a psychologist: Daniel Kahneman.³⁹ As the founder of behavioral economics (see inset on page 219), he disputed the notion of man as a rationally calculating creature. Instead, he introduced the fallible human psyche, characterized by flawed powers of judgment in uncertain circumstances. Kahneman demonstrated that our decisions are not based on well-considered, linear, and controlled processes, suggesting instead that these are heavily influenced by context as well as by our emotions and habits. We collectively suffer from chronic self-overestimation, accepting only what suits us best.

The art of mountain-building lies in the ability to change the behavior of people who are predictably ‘irrational’. In the end, what matters is what people do; not what they say.

Kahneman portrays our thought process as a set of two imaginary systems. System 1 is intuitive, fast, sloppy, and dominant. It guides us through the day as well as through life. When things get tough, System 2 kicks in. This is the part that does all the hard work, but it is slow and lazy, with a tendency to let us down. Due to the dominance of System 1, we often act ‘irrationally’, and when our decisions are based on chance and probabilities, they are often illogical. We overestimate minor risks and underestimate major ones, we allow ourselves to be deceived, we rely on incomplete information, and all the while we think we know everything there is to know. We are also wholly incapable of planning. Fortunately, Dan Ariely demonstrates that our irrationality is in fact predictable in his book *Predictably Irrational*.⁴⁰ He poses that our intuition threatens us in a repetitive, predictable, and consistent manner. This implies that effectuators can take this into account and



anticipate the consequences. There is much to be learned, for instance, about how to arrive at the ideal pricing, product positioning, or adding value to a product or service. It turns out there is an upside to all this irrationality.⁴¹

These insights of Kahneman and Ariely provide a set of powerful tools for building your mountain. Below, you will find a few examples of how this works in practice.

Market research

Know that in reality, the object of your research does not yet exist. When interviewing potential customers, they will answer your questions by comparing your product or service to something they already know: after all, everything is relative to everything else. What is important is being aware of what you are being compared to, and realizing that you can effectively influence the process by asking the right questions or by describing your propositions in the right way. In addition, such interviews provide a wealth of insight into the behavior that may have to change once they do opt for your product or service. This will improve your understanding of types of resistance you will have to overcome in the future.

Market research should not limit itself to value propositions alone; instead, it should encompass all elements of the business model. The Business Model Canvas⁴² can be a very useful framework here, as it helps map the entire playing field (i.e. ecosystem). Finally, you need to realize that whatever people say is not necessarily what they will do. As humans, we mainly tend to ‘lie’ about topics related to our lifestyle, health, childrearing, the environment, and sustainability. Good as our intentions may be, they often fail to crystallize in real life. Observing behavior usually produces far greater insight than acting on what people say.

Competition analysis

Building mountains is more a part of the ‘blue ocean’ than of the ‘red ocean’, as in effect, there are no immediate competitors. When building mountains, competition may be present at two different levels: other propositions that solve the customer’s problem in different ways, and other propositions fight for the same customer budgets. The latter form of competition is frequently underestimated.

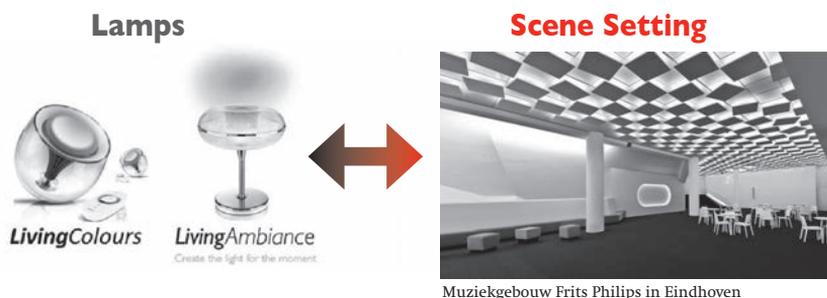
As an effectuator, you should primarily look out for substitutes and indirect competitors.

A slight repositioning of your product or service may just make you eligible for a new stack of money. If you do so, you need to realize that this will entail different decision-making processes, which will include different business models in turn.

Positioning and segmenting

One of the toughest decisions a mountain-building effectuator has to make is how to position the company/proposition, and who will be the customers. This nonetheless constitutes one of the most important elements in the foundations of your mountain. As stated before, positioning must occur from the ‘why’ rather than from the ‘what’. At first, it is vital to refrain from pitching your proposition right away, taking your time to find out which problems people actually face in today’s world. As an effectuator, you need to investigate whether the ‘why’ of your proposition/company resonates in the market. If you start talking about the ‘what’ too soon, it will take root in the minds of your future customers, fixing their perceptions. This will leave you with very little room for experimentation. We tend to underestimate the extent of our influence on the way we position our company/proposition. You are the most important source of information for customers and partners in their attempts at conceiving your idea. Is your lighting solution a lamp, or an initial *scene setting* impetus?

In large enterprises, effectuators with ideas on new categories are often forced to use existing sales channels (left-hand side of the 4x4 matrix). This will easily reduce the new category to a new product in an existing category, using existing customers within the boundaries of the existing business model. When you start building your mountain, it is vitally important to have the freedom of personally making direct sales to those visionary customers who are willing to join you in creating the market based on your platform. Choosing that first bowling pin is a determinant of the future: without this initial hill, there will never be a mountain, as this initial market segment provides the ticket to subsequent market segments. Another serious advantage of going to market in person is the opportunity of receiving direct feedback from the market, instead of a distorted picture caused by existing perceptions in the sales organization. As posited by Ariely, the effect of expectations is significant: our brains often get what they expect to get because our existing perceptions tend to blur new perceptions. We are willing to pay more for coffee served in expensive and trendy cups than for the very same coffee served in a plastic cup. If your communications towards the market are based on existing perceptions, then the market will view you accordingly.



Building partner relationships

You will never build your mountain without partners. Unfortunately though, it is impossible to specify what your partner relationships will be like in the future. It is not uncommon for partners to become competitors eventually, and vice versa. The fact that you set out together to explore the unknown, there is no way of documenting the final situation in detailed contracts at this stage.

It is better to build a phased relationship. Agree concretely on everyone's contributions for the near future, as well as on what is not to be decided on until the next phase, and how to divide assets if it turns out that you are better off without each other at the end of this stage. This is not about good intentions, but about concrete actions to be taken before reaching the next milestone, which often involves agreeing to share the risks as well as the benefits. Exclusivity for a limited period is quite normal, but long-term exclusivity is strongly inadvisable. Creating the right expectations is often an issue, as both parties will have biased notions due to individual perceptions based on prior experience. It is important to keep verifying whether you still share the same perception, and whether you are still open to new insights (lemonade principle). Prevent your partner from curbing your flexibility and adaptability.

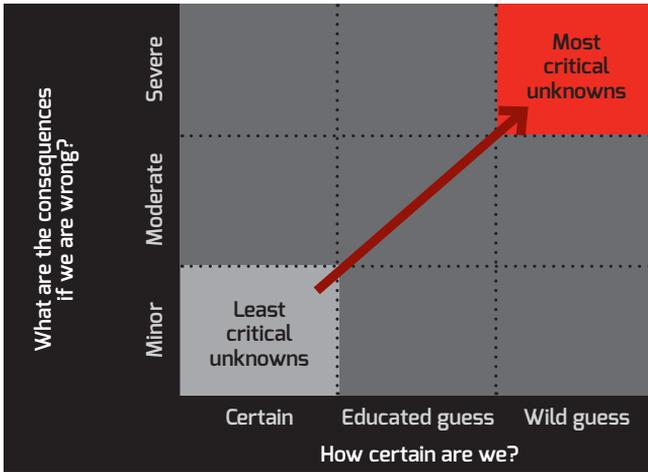
Focus

When building mountains, it is important to remain open to lemons and take advantage of the ones you encounter. Keeping your options open is good advice indeed. This does not mean, however, that you have to work out all of your options simultaneously. According to Ariely, one of our pitfalls is the tendency of feeling obliged to keep all options open; even at great cost, and even when it makes no sense at all. We are insufficiently aware of the fact that all the time we spend acting on all sorts of parallel options automatically means we have less time to spend on other matters that are more worthwhile. Being an effectuator means running additional risks, since exploring new terrain exposes you to countless new opportunities. There is a real danger of getting stuck in a maze of details, and so it is crucial to stay focused. Effectuators iteratively act on the motto 'fail fast and fail cheap'. In all that you do, make sure to keep track of the leverage resulting from your actions: actions never occur

in a vacuum, and so they should contribute to the realization of other matters. During the initial stages in particular, many people will approach you based on the attraction of novelty, eager to give it a try. These are moments when it is especially important to have a clear picture of the type of customer you need for validation of your mountain’s platform. An effectuator has to be able to say ‘no’ as well. *‘Think big, act small and accelerate fast.’*

Business Plans

Your business plan should chiefly cover what you don’t know yet, and what you will do about that, rather than an enumeration of what you do know already. This is why Vijay Govindarajan and Chris Trimble⁴³ state that the success of innovation is determined by selecting the right team for the job, and by running disciplined experiments.



It follows that a business plan is the result of a meticulous learning process based not only on intuition, but also on results of sound hypothesis verification. This requires you to start out by verifying the greatest unknowns, which John Mullins and Randy Komisar⁴⁴ call *leaps of faith*. They suggest that many questions can be answered by looking at elements from business models used by other enterprises that are useful for your own case (*analogs*), or conversely, by looking at specific elements you wish to change (*antilogos*). Any questions that cannot be resolved by these analogs and antilogos constitute the basis for your leaps of faith. One of the leaps of faith involved in the introduction of iTunes was the question of whether the music industry would be prepared to make content available on the internet. Steve Jobs approached Eagles singer and drummer Don Henley, and convinced him to make his music available. After that, a group of two hundred lawyers set to work in an attempt to sign up other record labels. Even today, this leap of faith still bears relevance: the

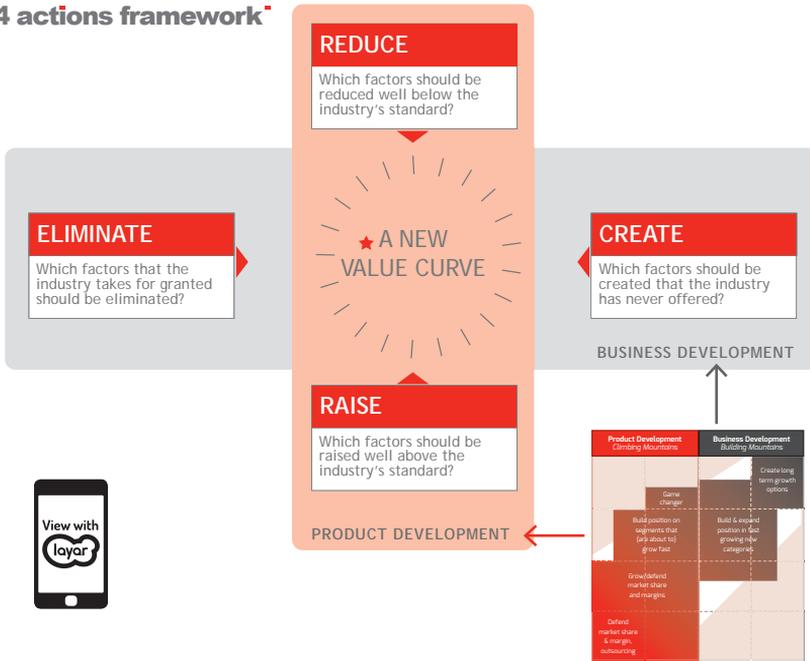
Swedish Spotify enterprise originally started out with ABBA. They ran into similar problems: artists such as Adele, Paul McCartney, and Coldplay were hesitant to make their music available.

‘Running disciplined experiments is one of the effectuator’s basic skills. The motto is ‘Fail fast and fail cheap’.’

To evaluate the results of your experiments, you will need performance indicators. Yet as it turns out, the performance indicators currently used by customers to establish the value of existing products and services fail to provide accurate means of evaluating disruptive innovations. Clayton Christensen and Michael Overdorf⁴⁵ claim that in fact, disruptive innovations display *poorer initial performance* if evaluated using the performance indicators used by today’s customers. This supports the proposition advanced by Ariely regarding our overestimation of what we already have. It is therefore highly likely that as an effectuator, you will have to develop new performance indicators for the results of your experiment, since current indicators do not suffice. The ‘Four Actions Framework’ derived from Blue Ocean Strategy⁴⁶ provides some useful tools for you to indicate how your mountain allows you to create new value.

The innovation of value you intend to create through your new product or service can be divided into two components corresponding to the left- and right-hand sides of the 4x4 innovation matrix. On the one hand, intensified or diminished variants of specific characteristics of existing products or services can be integrated into your new product or service (left-hand side of the 4x4 innovation matrix). On the other hand, brand new characteristics can be added to your product or service, or existing ones can be left out altogether (right-hand side of the 4x4 innovation matrix). This perspective contributes to a clear description of changes or leaps of faith, thus improving your controlled experiment’s hypotheses. The characteristics of your product or service are never static, and the outcomes of your experience will frequently cause you to redefine or adjust your proposition’s specifications. The essential trick is and remains spending minimum resources while maximizing your learning results. Arie de Geus sums it up as follows: ‘The ability to learn faster than the competition may well prove to be the sole form of sustainable advantage.’⁴⁷

4 actions framework



In closing

As we have seen, the central question throughout this chapter revolves around ways in which effectuators create new business that provides a solid foundation for the future of a company. How do you rank yourself among tomorrow’s winners? First of all, it is important to determine your position in the 4x4 innovation matrix: are you a mountaineer (left-hand side) or do you still need to build the mountain (right-hand side)? Building mountains starts by building a solid foundation: the platform supported by the ‘why’ of your business. This passion can be used to win over the first visionary customers/ partners (early yes’s) to help you build your mountain, stone by stone, layer by layer. The key to success is in emotion rather than in reason. You will not be successful unless you are able to change the behavior of predictably irrational people. Finding out whether you can change behavior, will take disciplined experimentation. It takes a highly iterative type of learning (‘fail fast and fail cheap’). Change is what drives innovation. The mountains that effectuators build will determine the face of tomorrow’s world.

As we were approaching our deadline, we both thought, 'We will never finish this.' Then, before you know it, the book is finished, and your insight changes into, 'It's never really finished.' No matter how proud we are of this book, we are well aware that we didn't ask all the questions yet, let alone providing all the right answers. History demonstrates that nobody ever has all the answers. Comforting as this notion should be, it fails to ease our minds. We are too obsessed with our work for that – too serious, too inquisitive, and too flabbergasted.

Such a wonderful search it has been, with so much to learn for the both of us. We have been astonished by all the wonderful insights, and we can only hope that we have managed to find the right words to voice them. We hope that this book will bring across what it means to us. That, however, seems all but impossible. This book means so much to us because everything we have com-



**'Business
is a lot like
jazz; it's best
when you
improvise.'**

FREELY QUOTED AFTER
GEORGE GERSHWIN



piled into this volume strikes right at the heart of our passion and matches our beliefs.

We are in fact so content with it that we are probably overlooking something. We cannot know what that is simply because we are unable to see it. To us, this work represents what we currently feel, find, think, see, and taste. This book reflects our Being. We feel spiritually connected to the people who worked on it with us. All we did is put words to what we have brought together and created together. This book itself has come about through the Effectuation principles. It is one big crazy quilt consisting of the four dozen people who have joined in the effort. But in spite of all this, the result will still be something we look down upon in the future, similar to the way we now treat the works of Collins and the models we adjust because we think we know better.

Works of community art, such as this book, serve as sources of inspiration and satisfaction, and keep us involved. They demonstrate our ability to combine multiple roles. They show how we can fulfill different roles. A main role as a parent, and several formative roles that... Who actually gets to determine what your main role and formative roles are? This may pose an interesting question, because when we confuse these roles because of our passion and personal beliefs, what does that amount to? If you want to be a parent as well as make businesses more entrepreneurial, plus intending to give something back to society and enjoy the company of your partner, then how do you go about fulfilling all of these roles effectively? Arko van Brakel assures us that he has never suffered from burnout symptoms ever since he started committing himself one hundred percent to everything he does. But how can you live life at four hundred percent? Viewed this way, I know people who live at eight hundred percent and laugh as they do so. Multi-lining as an effectuator – is it even possible?

We want to keep on learning. Maybe you can help us at it. If you have examples of situations in which our tools and insights don't seem to work, then please let us know. We haven't managed to find them yet, and we know they have to be there. Reality is far too complex for it to be otherwise. A few years from now, we will probably cast another glance at this book with a sense of pride and mild embarrassment. By then, it will have turned out to be overly simplistic. I mean it can't be this simple, can it? If it really were that simple, then wouldn't we all be doing it already? If it were that simple, then why wouldn't you try it?

The things we have experienced, seen, and lived through have led us to believe that this really could work. Our work experience, our intellect, our gut feel-

ings; every single thing has culminated in our firm belief. The projects we have run, results we have achieved with customers – all the facts suggest that what we say in this book actually works. We have all the means we need, we have the energy, the sense of humor, the contacts, the locations, the drive, the working methods: every last single ingredient is right here before us. And still, it can't possibly be this easy, because if it is... then we have been sleeping all this time.

So has the time for reinventing ourselves really come, as Raimo and Peter describe? Is courage really all it takes? Does it all really come down to being brave enough to make a choice? Choosing to go for it all the way? Being really sincere when we say that from now on, we will dedicate ourselves to value-rich entrepreneurship? Is it really that simple? All that we have been told by the forty specialists in their respective trades makes us believe it is. Boosting businesses upwards along a two-dimensional ladder, convinced that there is more to life than cost cutting and balance sheets – why should we not want this? So what's keeping us back? What we have described works; nothing that we can think of bears evidence to the contrary. So here is what we think. Until someone proves us wrong, this is who we are. Just two characters connected to a whole bunch of other characters, thinking we're able to help companies Play around with Profoundness and make a Penny while they're at it.

And we are not about to stop searching yet. After all, searching leads to growth, and we want to realize by sharing our knowledge, our energy, and our passion, because it gives rise to great works of community art. Or at least, that's what we think right now.



We dedicate this book to everyone who shares our passion!

...It is our passion and ambition to make large organizations as entrepreneurial as serial entrepreneurs by building the bridge between the entrepreneurial mindset and the available unused potential of your company.

This drives us because we believe:

- “Successful entrepreneurs are experts in dealing with unpredictability of markets.”
- “The markets in which large organizations operate are increasingly unpredictable.”
- “Corporate Effectuation offers the necessary mindset to cope with unpredictability.”
- “If we orchestrate Effectuation into the DNA of an organization it will attract the best talents, the right customers and partners and it will enable the co-creation of a sustainable future.”



Orchestration of Effectuation is the sequel to Blekman's bestseller *Corporate Effectuation*, which has been nominated for Business Book of the Year 2012 in The Netherlands. Effectuation is widely acclaimed as a rigorous framework for understanding the creation and growth of new organizations and markets.

For several years now, Thomas has been working to bring effectual entrepreneurship to the corporate world. In the process, he has built his own toolbox on the topic. I commend his efforts and am happy to learn from him.

– Prof. dr. Saras Sarasvathy, Isadore Horween Research Associate Professor and founder of the Effectuation theory, University of Virginia

In this book you will find thought provoking ideas for corporate enterprises to capture the maximum value of innovation in growth, jobs and shareholder value.

– Doug Berger, Managing Director, INNOVATE, publisher *The Innovators ezine*

This is a must-read for unleashing the unused entrepreneurial potential within Multinationals!

– Gerard van der Krogt, Managing Director at Unilever Food Solutions

Among the many merits of this book is an unparalleled wealth of tools and insights for continued development of enterprising behavior within 3M.

– Rob Schokker, HR Director at 3M BeNeLux

The principles of Corporate Effectuation constitute an excellent contribution to entrepreneurial behavior and innovation in established organizations.

– Wout Dekker, Nutreco CEO



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