

Causation and effectuation
How dynamic can organizational capabilities be?
Toward a theory of paradox



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Causation and effectuation:
Toward a theoretical shift from
economic inevitability to
entrepreneurial contingency

S.D. Sarasvathy (2001)



Logic for business development (project-oriented)

- Causation  Effectuation
 - Two opposing logics for business development and growth
 - "Causation" focuses on predictions (forecasts and estimates)
 - "Effectuation" focuses on controllable aspects in an unpredictable future



Causation

- Dominant logic
 - Characterized by:
 - given results
 - environment - static & linear
 - forecasts
 - existing market



Causation

- Causal logic
 - for example McKinsey's business plan
 - Defined business concept
 - Customer definition
 - Marketing plan
 - Competitive analysis
 - Implementation plan
 - Budgeted Income statement, Balance sheet, Cash flow analysis



Effectuation

- Characterized by:
 - given means
 - environment - dynamic, non-linear
 - focuses on controllable aspects
 - create new market

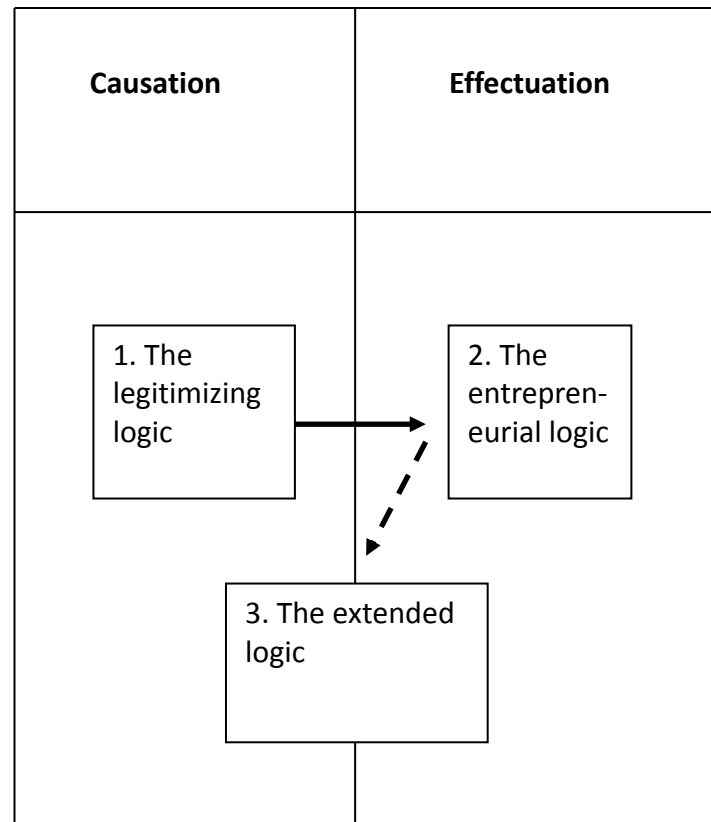


Effectuation as a business process

- 4 principles of effectuation
 - Acceptable losses rather than estimated returns
 - Strategic alliances rather than competitor analyzes
 - Better to take advantage of contingencies than utilize already used knowledge
 - Rather control over an unpredictable future than trying to predict it



Enriching solution?



HOW DYNAMIC CAN
ORGANIZATIONAL CAPABILITIES BE? TOWARDS
A DUAL-PROCESS MODEL OF CAPABILITY
DYNAMIZATION

GEORG SCHREYÖGG and MARTINA KLIESCH-
EBERL (2007)



The paradox of organizational capabilities

- Organizational paradox - contradictory elements that are in relation to each other
 - For example, the more you delegate, the more need for control
- The shadow side of the successful capability, i.e. the success paradox (the trap of success)
 - From strategic access to strategic burden
 - Past success often leads to an inability to handle new challenges
 - An inherent tendency that hinders dynamic adaptation



The paradox of organizational capabilities

- Three driving forces for the capability paradox (the trap of success) that counteracts flexibility and renewal
 - Path-dependency and lock-in
 - The company's decisions are based on historical decisions
 - Past success - self-reinforcing process
 - Core competencies fix on previous success
 - Structural inertia
 - Survival requires repetition of quality-driven output
 - Needed for reliability and recognition
 - Commitment
 - The desire to protect the group against disturbances (groupthink)
 - "Escalating commitment" - unwillingness to acknowledge failed investments, instead more of the same



The paradox of organizational capabilities

- The capability paradox can not be solved but counteracted:
 - Awareness of the paradox - confront it
 - Start from the present - ignore old decisions; use "ad hoc problem-solving" (adhocracy)
 - Integrate static and dynamic components - incorporate outsiders with critical thinking into workgroups
 - Install separate innovation-based routines for change, e.g. proposal boxes and meetings with change theme



TOWARD A THEORY OF PARADOX:
A DYNAMIC EQUILIBRIUM MODEL
OF ORGANIZING

Smith & Lewis (2011)



Dynamic organizational capabilities

- Organizational capability:
 - Does not represent individual resource (eg technology or personnel) but instead abilities, e.g. product development, customer relations, supply chain management
 - Are collective and socially embedded
 - Linked to performance, incrementally developed routines and success
- Dynamic organizational capability:
 - Ability to quickly change and renew distinctive behavior patterns (configurations)



TOWARD A THEORY OF PARADOX: A DYNAMIC EQUILIBRIUM MODEL OF ORGANIZING

- A DYNAMIC EQUILIBRIUM MODEL OF ORGANIZING
 - Describes both the inherent and socially constructed features of organizational tensions
 - Integrates management strategies of acceptance and resolution
- Paradoxes
 - Two central components: 1) underlying tensions – elements that seem logical individually but inconsistent (absurd) when juxtaposed, 2) responses that embrace tensions simultaneously
- In a dynamic organizational system **the role of leadership** is to support opposing forces and harness the constant tension between them, enabling the system to not only survive but continuously improve (p. 386)



A common organizational paradox

- The tension between "exploration" and "exploitation"
 - The more the company invests in innovation and research, the less focus on refining and streamlining existing solutions, and vice versa
 - Risk-taking ↔ efficiency
 - The elements of the paradox are connected: without "exploration" there is no organizational knowledge to exploit, likewise, without "exploitation" there is a lack of fundamental knowledge that enables absorptive ability to experiment (exploration)
 - The more focus and energy that is put on one element, the greater the need to invest in the opposite?
 - Consciously ↔ unconscious?



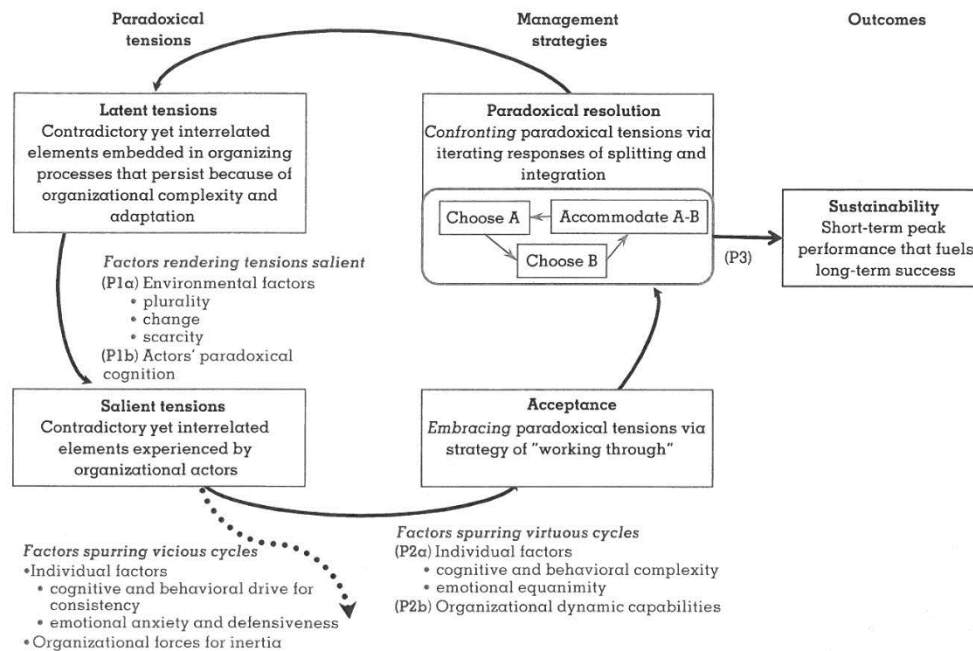
Management of organizational locks based on paradoxical tensions

2011

Smith and Lewis

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FIGURE 3
A Dynamic Equilibrium Model of Organizing



Latent tensions / contradictions become apparent

- Proposition 1a: Latent paradoxical tensions become salient to organizational actors under environmental conditions of plurality, change, and scarcity.
- Proposition 1b: Latent paradoxical tensions become salient as actors apply paradoxical cognition.



Acceptance of paradoxical tensions / contradictions - cognitive complexity and organizational dynamic capability

- Vicious cycles
- Virtuous cycles
- Proposition 2a: Actors with cognitive and behavioral complexity and emotional equanimity are more likely to accept paradoxical tensions rather than respond defensively.
- Proposition 2b: Organizations with dynamic capabilities will foster greater acceptance of paradoxical tensions rather than encourage defensiveness.



Highlight and compare the paradoxical tensions - sustainable development and learning

- Proposition 3: Managing paradoxical tension via dynamic, purposeful, and ongoing strategies of acceptance and resolution (iterating between splitting and integration) fosters sustainability.
- Dynamic equilibrium enables sustainability through three mechanisms:
 - Enabling learning and creativity
 - Fostering flexibility and resilience
 - Unleashing human potential

