DEEPENING THE DIALOGUE:
NEW DIRECTIONS FOR THE EVOLUTION OF EFFECTUATION THEORY

Forthcoming in Academy of Management Review (2016)

Rebecca A Reuber
Eileen Fischer
Nicole Coviello

Arend, Sarooghi and Burkemper (2015) (hereafter ASB) evaluate effectuation theory by applying a “3E” framework that they position as comprehensive and broadly applicable to business theory (2015: 11). In their Dialogue response to ASB, Read, Sarasvathy, Dew and Wiltbank (2016) argue that the 3E framework is, in fact, inapplicable to effectuation theory because it embodies positivist criteria inappropriate to effectuation’s pragmatist stance. We start from the premise that theory development is an evolutionary process, an observation that fuels our approach to assessing how effectuation theory might be advanced. Highlighting the pragmatist roots of effectuation theory, we suggest that effectuation research has thus far emphasized one aspect of pragmatism – creativity – while a second aspect of pragmatism – habit – has been under-explored. We also highlight the limited attention directed to date beyond the level of the individual. Based on these observations, we outline possibilities for new directions for developing effectuation theory.

Evaluating a Theory’s Evolution

The academic enterprise is one in which theories are constantly co-constructed and re-constructed by a collegium. That is, theories evolve through a process of selection and retention whereby revisions and modifications occur as theory is articulated, disseminated, applied, refined, and repurposed (Weick, 1989). Moreover, the processes of theory construction and reconstruction in the social sciences can affect the phenomena about
which theory is being created; this occurs as people learn from theories and from practice about their world, and act upon it. This type of dynamic, collaborative perspective on theory is inconsistent with the view that theories should be evaluated as though they were settled sets of assumptions, concepts, propositions, and boundary conditions proposed by an exclusive group of authors whose aim is to “capture” a focal phenomenon. Instead, it highlights that the evaluation of a theory needs to consider its evolutionary path and, potentially, the paths not yet taken. We argue that those seeking to advance a field (such as entrepreneurship) by taking stock of a pragmatist theory (such as effectuation) might better serve their scholarly peers by recognizing its dynamic nature and considering how it might fruitfully further evolve.

If scholars adopt this evolutionary view of theory, they will not ask whether or not theories are “ineffectual” (ASB, paper title). Instead, they will assess (for example) whether constructs have become stabilized such that they are consistently defined, with clear and agreed upon scope conditions and semantic relationships to other constructs (Suddaby, 2010) or whether they are unstable and require further clarification or possibly elimination. Scholars will also examine related theories for concepts that could usefully be integrated to augment the focal theory. An approach to theory assessment that recognizes its evolutionary nature would not lead scholars to make judgments about whether a theory is “true,” the apparent goal of ASB’s 3E framework. Rather, it would stimulate reflection by highlighting how (un)settled elements of the theory have been over time, and by outlining productive paths for the next generation of researchers.

To a considerable extent, the approach we suggest is consistent with Read et al.’s (2016) response to ASB’s critique in that they focus on identifying aspects of effectuation
theory that have not yet stabilized (e.g. the concepts of effectual control and of means and resources; the unit of deliberate practice) and suggest constructs from other theories that could usefully be incorporated into effectuation theory (e.g. goals and co-created equity). However, a close examination of effectuation theory’s roots in pragmatism reveals that the theory’s evolutionary trajectory to date has focused on one aspect of pragmatism – creativity – to the exclusion of another aspect – habit. Moreover, effectuation research has been conducted primarily at the individual level of analysis. And since entrepreneurial behavior has the potential to shape, and be shaped by, organizational actions and institutional norms, there are opportunities for effectuation research at other levels of analysis. In the sections that follow, we first highlight how habit has been conceptualized within pragmatist perspectives. We then suggest new directions for research that would integrate pragmatist principles more fully into effectuation theory at the individual, organizational and institutional levels of analysis.

Situating Effectuation as a Pragmatist Theory

Sarasvathy (2001: 254) explicitly notes that the intellectual lineage of effectuation theory includes pragmatist philosophers such as Pierce (1878), as well as scholars of management and economics who have been influenced by them (e.g. Simon 1959; Weick, 1979). Pragmatism is characterized by the view that human actors experience “situated freedom” (Joas, 1993: 4) and pragmatist theories eschew determinism in favor of understanding human action as creative action. Thus, actors’ agency is oriented toward the future because actors can creatively understand the situations they face and act on those understandings. At the same time, pragmatists also view human agency as having a habitual or habituated aspect. That is, actors’ agency is informed by the past, i.e. taken-for-
granted understandings and habits. As argued by Gross (2009: 369): “alternation between habit and creativity is at the heart of pragmatism.”

In its original and most current incarnations, effectuation theory embraces the principles of action-orientation, problem-solving and situated freedom from the pragmatist tradition. For example, it challenges the notion that only certain people with special abilities or traits can successfully engage in entrepreneurship. It also promotes the view that people acting effectually can shape the world they co-create (for example, Read et al., 2016; Sarasvathy, 2001). However, less evident in effectuation theory research is explicit consideration of how, and under what conditions, habituated aspects of human agency factor into effectual thought processes and behavior. We make this observation because it appears the emphasis in research based on effectuation theory is on the mindful and creative actions of entrepreneurs with regard to available means, possible effects, and stakeholder commitments. The role of habituated responses is, to the best of our knowledge, as yet unclear.

We considered the possibility that the alternation between effectual and causal approaches (as discussed by Sarasvathy 1998) might be relevant to the alternation between creativity and habit associated with pragmatist theory. However, most characterizations of predictive causal approaches do not reconcile with the notions of habituated agency that are part of the pragmatist perspective. Thus, it appears that the dominant strand in the evolution of effectuation theory stems in a path dependent fashion from the emphasis on creative action in Sarasvathy’s early discussion of the effectual logic of entrepreneurs (2001). This observation raises the questions: What useful new insights might be gained by incorporating into effectuation theory the notion of habituated
response? How does habit interact with creativity in entrepreneurial action at the individual, organizational and institutional levels?

Opening New Directions for Developing Effectuation Theory

In suggesting new possibilities for future research on effectuation that integrates pragmatism’s emphasis on creativity and habit, we begin by recognizing that they are a duality rather than a dichotomy. Pragmatists do not regard creativity and habit as opposites, one mindful and the other mechanical; rather, they see them as potentially complementary and intertwined (Glăveanu, 2012). For example, Dewey argued that “Habit means special sensitiveness or accessibility to certain classes of stimuli, standing predilections and aversions, rather than bare recurrence of specific acts. It means will.” (1922: 42). As stressed by Dewey, and pragmatists who have followed on from his work, creativity stems from the intelligent adaptation of customs to conditions.

In spite of pragmatism’s creativity-habit duality, research on effectual thought and action by individuals has emphasized creativity and even imagination, with little attention to habit. From a pragmatist perspective, incorporating notions of habitual response into effectuation theory would involve examining the interplay between creativity and habit, rather than viewing them as substitutes. Because there is no assumption about trade-offs, this is a fundamentally different perspective than those underlying theories of experientially-acquired expertise; where experience is associated with skillful, consistent problem-solving, but also with a loss of flexibility with respect to adaptability and creativity (Dane, 2010). We expect experienced effectual entrepreneurs to follow certain habitual patterns, and research in a pragmatist tradition would examine how these patterns are adapted and under what conditions. An example of such a pattern is that effectual
entrepreneurs pay more attention to affordable loss than to expected return (Read, Dew, Sarasvathy, Song & Wiltbank, 2009), and yet we have little understanding of the variability of this behavior and how entrepreneurs resolve the hybridity of these two objectives.

Interesting new directions for developing effectuation theory are also revealed by considering how, and to what extent, the core constructs, relationships and processes of effectuation theory can be extended to collectivities such as founding teams and organizations. This would go beyond the insights gained by assessing effectuation vs. causation at the firm level (e.g. Chandler, De Tienne, McKelvie & Mumford, 2011) to consider how habit and creativity are intertwined in collective effectual processes. Furthermore, the duality of creative and habituated responses in pragmatist theory is consistent with organizations’ need to be innovative and flexible while also being reliable and consistent (Farjoun, 2010). These observations suggest new possibilities for extending effectuation theory by considering how creative and habituated responses are intertwined in collective effectual processes, and that these might vary across different contexts. As one example, effectuation theory is based explicitly on a logic of control – “to the extent we can control [the] future, we do not need to predict it” (Sarasvathy, 2001: 251) – and we expect that controlling the future will be more complex when multiple people are enacting it. This is because there are likely to be differing levels of creativity and habit within effectual responses, as well as differing degrees of comfort with effectual vs. predictive processes. Moreover, different people will engage in different internal and external interactions. As a result of this diversity, interactions are likely to stabilize and destabilize – in varying ways – the shared understandings associated with the key criteria by which entrepreneurs take stock of the means they believe are available to them: “who I am, what I know and who I
know” (Read et al, 2009: 4). We expect this variation among relevant decision-makers within a single firm to be particularly true for rapid growth firms that quickly transition from a small, tight-knit founding team to a much broader set of decision-makers facing the pressures of a constant influx of newcomers, many decisions to be made, and friction over turf battles (see Hambrick & Crozier, 1985).

Also at the organizational level, in considering how attention to habit might enhance effectuation theory, we believe research on organizational routines can provide new directions for effectuation research given that routines are habitual patterns of actions involving multiple organizational actors (Feldman & Pentland, 2003: 96). Although Coviello and Joseph (2012) illustrate the fruitful role of effectuation in innovation, we have little knowledge of how effectual processes are embedded in organizational routines so that creativity and habit can interact and provide scaffolding for each other. We also lack knowledge of the consequences of this embeddedness, in terms of stability and efficacy. Indeed, Fischer and Reuber (2011), in their study of how engagement with stakeholders via the Twitter social media platform affects entrepreneurs’ effectual thinking, identify “effectual churn” as a continuous but unproductive cycling through effectual processes, suggesting that embedded effectual processes are not always related to beneficial outcomes.

Turning to research at the institutional level, Read et al.’s (2016) Table 1 highlights the adoption of effectuation theory by educators and authors of practitioner books. We are unaware, however, of explicit study of effectuation as an institutional, or field, level phenomenon, and believe that attention here could make a valuable contribution to the construction of effectuation theory. We have little knowledge of the impact of effectuation
theory on entrepreneurial practice in differing contexts. Such an impact could be a result of explicitly exposing fledgling entrepreneurs to the ideas of effectuation through an educational intervention. It could also be a result of the ideas of effectuation being codified into start-up methodologies such as those popular in Silicon Valley. In thinking about the impact of effectuation theory on practice, it is important to remember Zbaracki’s (1998) documentation of differences between the rhetoric of total quality management and how it is practiced. Although total quality management is a more elaborate and institutionalized practice than effectuation, his study raises two important points that are consistent with an evolutionary view of theory development. First, it is likely that the meaning of important effectuation concepts could be altered through their implementation in differing contexts. Second, the ways in which effectuation is understood and enacted may deviate from the precepts emphasized in scholarly work.

Also at the institutional level, we could seek to learn how entrepreneurial practice might contribute to new ways of thinking about effectuation theory. One opportunity for theory development lies in examining conflicting institutional logics within this domain. Such conflict is likely, for example, when entrepreneurs are acting on the basis of effectual reasoning while the decision-makers from whom they are trying to acquire resources (e.g. managers in potential partner firms, investors, or bankers) are acting on the basis of institutional logics centered on prediction and expected return.

Finally, and returning to the argument that theory evolves, the possibilities for effectual action may change, as entrepreneurship as a field changes, revealing new constructs and relationships relevant to effectuation theory. It is possible, for instance, that the high net worth individuals who made their money by starting firms and are now
investing in new ventures ("super angels") will have a propensity toward new kinds of investment logics if they are habituated to effectual thinking. Additionally, crowd-funding platforms such as Kickstarter, Indiegogo and AngelList may enable effectual behavior in terms of gaining financial commitments from hordes of others, but, in doing so, they may also limit an entrepreneur's attention to acquiring more deep-rooted commitment to their new venture. Such emerging institutional phenomena are likely to impact both the development and practice of effectuation theory.

Concluding Observations

ASB have made a valuable contribution by stimulating reflection both on how theories can be assessed and on novel research directions for effectuation theory. Their contribution has inspired us to take a different direction; a direction that considers theory development as evolutionary and offers possibilities for the future development of effectuation theory given its roots in pragmatism. Thus, although we take issue with ASB’s approach and assumptions, we thank them for providing an opportunity to pause and reflect on theory evaluation in general, and on the evolution of effectuation theory in particular.
References


