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Towards causation

- A case study about the dynamics behind the change of the effectual logic in companies

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Abstract

Effectuation can be applied by entrepreneurial firms in uncertain environments. In contrast to the logic of causation, where the focus is on the predictable aspects of an uncertain future, the logic of effectuation focuses on the controllable aspects of an unpredictable future. In companies, effectual and causal processes are present at the same time but in different contexts. Along with the growth of the company effectuation theory predicts a change towards more causal processes. So far, research in this area has neglected how the change from the logic of effectuation towards the logic of causation occurs. The purpose of this study is therefore to investigate this change and the factors and dynamics behind it. A retrospective two-case study is conducted in two e-retail companies that have been pioneers in e-commerce. External people in the board were found to speed up the change towards causation. Further, the limited availability of resources hampered the change towards causation, however the availability of resources did not speed up the change. In addition, the findings imply that the effectual logic of the managers of a company is very influential in the logic of a company and that processes of market maturity, sales growth and increased delegation could speed up the change towards causation.

Key words: effectuation, causation, change processes, entrepreneurship

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1. Introduction

1.1 Background

There is much research, advice and strategies about how to best start up and manage a business. Among other things, start-ups are often advised to conduct market research and analyse competition. However, when companies are created, they are not always started off from a rational analysis of the present situation. It is actually rather often the case that companies are started simply because someone would like to start a company. Instead of conducting market analyses, the founders start off with creating something with the means at hand. This is how new markets can be created. Saras Sarasvathy (2001) discovered the phenomena “effectuation” as a logic that expert entrepreneurs use when new artefacts such as companies and markets are created, and contrasted this to the classical rational approach “causation” where the logic is to predict the future and explore and adapt to the needs of the market. Under the logic of effectuation, when new markets are created, market research and competitor analyses is not applicable since there is no market to investigate. Effectual entrepreneurs therefore start off by looking at means at hand, make use of contingencies and control the future by creating it instead of adapting to it. In this way, the effectual entrepreneur perceives uncertainty as an opportunity rather than a threat.

Since Sarasvathy wrote her seminal work on effectuation in 2001, a host of scholars in the management and entrepreneurship field (Sarasvathy, Dew, Wiltbank, Read, Song, Smit, Gabrielsson, Politis, Berglund, Kotha) have been delving deeper into this new way of looking at the entrepreneur and the development of new ventures. That’s not to say that Sarasvathy’s theory of effectuation is completely irrelevant for larger companies. The logic of effectuation can be applied in projects that a larger firm is undertaking (Wiltbank and Sarasvathy, 2010). However, research in this field is still very much in its infancy.

1.2 Purpose and research question

To date, most of the research in the field of effectuation focuses on the small start-up firm and the development of small entrepreneurial firms and their founders. There is very little, if any, research on how the theory of effectuation can be applied on large firms, and least of all on how it changes as firms grow and develop. The logics of causation and effectuation exists in parallel in organisations, and in some start-up firms effectuation is more dominant while others rely more on causation. Nevertheless, no matter how the firm starts up, along with the growth of it and the increasing predictability of the market, effectuation theory predicts that causation will become the dominant logic. Theory in this field lacks descriptions of which factors that speed up or hamper the change and how the change from effectuation towards causation occurs.

The purpose of this study is therefore to investigate the dynamics behind the change from effectuation towards causation. My investigation would be a first attempt to fill this theoretical gap in management and entrepreneurship theory.

The research question that will be investigated follows:

How does the change from effectuation towards causation occur in a company and what are the dynamics behind the change?

1.3 The e-retail industry and the cases

To investigate the change from the dominance of effectuation to the dominance of causation one has to look at companies that have started off with an effectual logic on an immature market. In this study, two e-retail companies who have been pioneers in the e-retail market have been investigated: Adlibris, a large e-retailer of books and Addnature, one of the leading e-retailers within the sports- and outdoor business. The e-retail market has come a long way since the beginning by the turn of the new millennium. After a turbulent start in the late 1990s, involving the famous dotcom bubble and one of the largest financial market crashes in recent history, there has been a healthy and steady growth. E-retail in Sweden grew with 11 % in 2013. The market is becoming mature compared with e-retail markets in other countries and had its growth rate peak in 2011 when the growth rate was 13 %. Sports and leisure was the category that grew the fastest, while books and media had the slowest growth rate, but books and media and clothing are today the largest categories. (Euromonitor Passport, Internet Retailing in Sweden)

The two case companies in this study, Adlibris and Addnature, have both contributed to these growth figures and have in their own way driven much of the market forward, showing impressive growth figures of their own.

1.4 Method

The change from effectuation towards causation is to be investigated by means of a retrospect case study where the changing dynamics of two Swedish online retailers, Adlibris and Addnature will be looked into. The study has been limited to the years from the start until the point where the companies where either completely bought by or merged with another company. Adlibris was started in year 1997 and the final shares of Adlibris were bought by Bonnier in 2011, when the initiators left the company. Addnature was started in year 2000 and merged with Internetstores during spring 2013. The investigation of the cases is carried out through conduction and analysis of interviews with the founders and managers of the companies and the two employees that have been working the longest time in each case company. This explorative study is expected to contribute to the field of effectuation by proposing possible factors of change.

1.5 Definitions

Effectuation- When using the logic of effectuation, focus is on the controllable aspects of an unpredictable future. Effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means. (Sarasvathy, 2001)

Causation- When using the logic of causation, focus is on predictable aspects of an uncertain future. Causation processes take a particular effect as given and focus on selecting between means to create that effect. (Sarasvathy, 2001)

Logic- An internally consistent set of ideas that form a clear basis for action upon the world. (Sarasvathy, 2008)

1.6 Outline

The outline of this thesis will be structured according with the following chapters.

Chapter 2. Theoretical framework

In this chapter the reader will be given a critical review of the theories that are used in this study.

Chapter 3. Method

In the method section the reader will be provided with information about how the study was conducted and analysed.

Chapter 4. Empirical findings

In the fourth chapter the findings will be presented.

Chapter 5. Analysis

In this chapter the findings that were presented in chapter 4 will be analysed by using the theories provided in chapter 2.

Chapter 6. Conclusion

In this chapter the findings will be summarised and theoretical contributions and avenues of future research in this field will be discussed.

2. Theoretical framework

2.1 Effectuation

2.1.1 Introduction

Effectuation was discovered when Sarasvathy (2008) investigated how expert entrepreneurs would solve different problems in start-ups. She describes effectuation as a logic expert entrepreneurs practice under conditions of uncertainty (Sarasvathy, 2008). The intention of the work done so far on effectuation has been to demonstrate how there is a real, workable and successful alternative to the rational, causal approach to entrepreneurship – the process of causation. Sarasvathy (2008) admits that causation is a suitable approach in many contexts, but argues that an effectual approach is more functional in settings where there is much uncertainty. Many of the models of management that students learn on business schools such as Porter's generic strategy model (Porter, 1980), assume that the market exists. However, when the market does not yet exist, the entrepreneur has to conduct a different logic to succeed. Because markets that do not yet exist hold much uncertainty, the entrepreneur is better off by not trying to predict the future but rather control it by creating it (Sarasvathy, 2001). This is the logic of effectuation and when entrepreneurs use it new markets can be created.

2.1.2 What is effectuation?

Sarasvathy (2001) introduces four core elements of effectuation theory, which will be discussed in greater detail later, and puts them at odds with the principles of rational choice – referred to as causation. First, instead of using the rational logic of prediction with the approach: "*To the extent you can predict the future, you can control it*", she shows how entrepreneurs, in effectuation, use the logic of control, which states: *"To the extent that you can control the future, you do not need to predict it"*. This frees up the entrepreneur or decision-maker from pre-determined goals and instead "wield uncertainty as a powerful tool in the creation of new ends" (Wiltbank and Sarasvathy, 2010). Second, the concept of *affordable loss* is used instead of *expected return*, which, among other things, reduces the emphasis on acquiring financial backing, as there is more focus on controlling downside scenarios. Third, *strategic alliances* are shown to be preferred over *detailed competitive analysis*, especially in the creation of new markets. When there are no other competitors to analyse, the entrepreneur is better of by creating alliances with other stakeholders to have as much control over the market that is being created as possible. And fourth, when uncertainty is high, as is the case in start-up firms, *the exploitation of contingencies*, where plans emerge incrementally, is said to be more suitable than *the exploitation of pre-existing knowledge* in the pursuit of reaching predetermined goals. This way the entrepreneur can use uncertainty as a resource rather than a disadvantageous state, and in that way keep the control in an uncertain environment. Wiltbank and Sarasvathy (2010) however explicitly state that "effectuation is not a wholesale replacement for predictive rationality, [but] exists in parallel to it". In addition, causation and effectuation occur simultaneously in different contexts and different decisions within a company (Sarasvathy, 2001). Within a company, there are many processes going on at the same time, and one might for example use the logic of causation to solve one type of problem and at the same time use the logic of effectuation to create something completely new. This will be discussed further in section 2.2.

From the research of the literature, it is hard to get to grips with the exact terminology for effectuation. Many researchers have been building on Sarasvathy's work and added their own twists to it, and there are therefore many different descriptions of effectuation. It is often described as a process (Sarasvathy, 2001) or an approach (Chandler *et al*., 2011), a mind-set, a strategy and even as a decision-making logic (Gabrielsson and Politis, 2011) and Dew *et al*. (2009) define effectuation as "a set of heuristics for making decisions under uncertainty". My definition goes in line with Sarasvathy's (2001) own words when she describes causation as a process where the logic of causation is applied and effectuation as a process where the logic of effectuation is applied. Sarasvathy does not give a precise definition of the term "process" but illustrate the processes of causation and effectuation by describing two contrasting ways of cooking a dinner. Sarasvathy describes the process of causation as picking the menu, making a list of ingredients to shop, shop and cook the meal. During the process of effectuation, the chef looks in the cupboards for possible ingredients and utensils and then images which menus are possible, select one of the ideas, and cook the meal. Following, causation and effectuation will be described in more detail.

2.1.3 Causation vs. effectuation

Sarasvathy (2008) uses quite a fun metaphor of a jigsaw puzzle versus a patchwork quilt to contrast the two processes of causation and effectuation. She defines causation and effectuation as opposites:

Causation processes take a particular effect as given and focus on selecting between means to create that effect – the logic of prediction.

Effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means – the logic of control.

Causators therefore follow a rational step-by-step process to reach premeditated and predetermined goals in a future and market that already exist, using objectivity and rational thought (the jigsaw puzzle), whereas effectuators work innovatively with what they've got, make the best of it and build and adapt as they go (the patchwork quilt) and are creating the future and the market at the same time. An underlying component of effectuation theory is that the market is not assumed to exist from the start. This makes a big difference in how the entrepreneur control the situation as the effectual entrepreneur is creating the market along with the development of the company, whereas the causal actor is analysing the market and are trying to adapt to it as much as possible.

When Sarasvathy (2008, p. 38) discovered effectuation she realised that the classical model "Segmentation, targeting and positioning" (STP) from marketing textbooks is an inversion of the process expert entrepreneurs use. While the STP model's recommendation is to start with a predefined market, continue with targeting a specific segment and subsequently position oneself in the most strategic way, the effectuator starts with identifying means at hand and asks herself three questions: *"Who am I?"*, *"What do I know?"* and *"Whom do I know?"* The effectuator then starts to search for and make use of contingencies in the creation of the company to finally define one of several possible markets. Hence the effectual process is more driven by opportunities rather than being goal-driven. Examples of this could be that the entrepreneur might along with the development of the company find new customers or strategic partners to cooperate with.

2.1.4 The four main elements of effectuation

The focus will now be on the four main elements that make up Sarasvathy's (2001) theory of effectuation – control, affordable loss, strategic alliances and exploitation of contingencies, as well as the role of the entrepreneur or manager.

Control

Effectuation: "To the extent that you can control the future, you do not need to predict it" versus causation: "To the extent you can predict the future, you can control it"

As briefly mentioned earlier, Sarasvathy (2001) introduces us to the idea that entrepreneurs use a logic of control for neutralising the inherent uncertainties of the future. They use uncertainty as a resource and build opportunities out of whatever resources they have at hand. This is particularly relevant when creating new markets where there are no measurable, predictable and tangible elements available for future predictions of markets and market dynamics. Under causation and in established markets, one would do market research and other analyses in an attempt to predict the future. When building new markets though, one takes control of the future, creating one's own opportunities, removing the need to predict the future. To describe this process, Sarasvathy (2001) mention the examples of how entrepreneurs such as Edison and the founders of Amazon and Netscape have not been able to use the logic of causation, but have used an effectual logic as they have developed new industries along with the creation of their products. First, they exploited social and technological contingencies that could not have been planned, and second, they did not intend to fulfil a need but rather to introduce a new. This dimension is the very heart of effectuation. Sarasvathy describe the underlying logic of effectuation as "To the extent we can control the future, we do not need to predict it" versus the logic of causation "To the extent we can predict the future, we can control it".

Affordable loss

Effectuation: "affordable loss" versus causation: "expected return".

The second central element of effectuation is that of affordable loss. Affordable loss deals with the financial dimension of effectuation. The effectual logic in this dimension consists of creating more options in the future rather than maximising returns in the present. Therefore the effectual entrepreneur is careful with the resources, to be able to continue in the future if the expected return does not occur. By pursuing a strategy with small steps at a time and through experimenting with different alternatives, the effectual entrepreneur is able to handle the uncertainty without risking too much. The effectual strategy in this dimension also makes it possible to leverage on contingencies that show up (Sarasvathy, 2001). The effectual dimension of affordable loss also implicate that the entrepreneur is likely to be more creative because she has to find new ways to use the limited resources at hand (Sarasvathy, 2008).

Strategic alliances

Effectuation:" strategic alliances" versus causation: "detailed competitive analysis".

Sarasvathy (2001) explains how building an intricate network of strategic alliances and pre-commitments from stakeholders is a way of reducing and/or eliminating uncertainty and erecting entry barriers for competitors wanting to get in on the same market. At the contrary, the logic of causation is to try to take control by conducting strategic analyses and act accordingly. In order to demonstrate the differences between causation and effectuation, the following sums it up quite nicely: "The effectuator uses pre-commitments to reduce uncertainty, minimise cost of experimentation, and maintain flexibility. The causation approach uses pre-commitments and alliances as a way to acquire essential resources and implement plans." (Chandler *et al*. 2011) When new markets are created the risk of joining a partnership is lower, because there is no opportunity for others to behave opportunistically on a market that does not exist. This lowers the level of trust required for various parties to commit to a partnership in the first place. In true effectual style, whomever choses to come on board – and it's a case of who "can" come on board and not who "should" – shapes the partnership and therefore the market that is created thereafter (Dew and Sarasvathy, 2003).

Leveraging contingencies

Effectuation: "exploitation of contingencies" versus causation: "the exploitation of pre-existing knowledge".

The fourth and final element of effectuation is that of leveraging contingencies. Under causation, decision makers make decisions on pre-existing knowledge, such as expertise in a particular technology, particularly when this forms the source of competitive advantage. Under effectuation, one exploits contingencies that arise unexpectedly over time from one's environment (Sarasvathy, 2001). One therefore takes advantage of the unplanned surprises; one applies new uses to the unexpected side effects; one thinks, "What can I do now that I couldn't do before?" Ultimately, under effectuation, what's no longer surprising is surprise itself. This is why one can use uncertainty as a resource; one can leverage this to build something totally new and turn something that some would consider terrible into something terrific. It hardly comes as a surprise, therefore, that in order to take advantage of these environmental contingencies, entrepreneurs must remain flexible and experiment with alternatives (Chandler *et al*., 2011).

The role of the entrepreneur or manager

The entrepreneur plays an important role in effectuation theory. The effectual logic focuses on the controllable aspects of an unpredictable future and it is often the entrepreneur that makes the decisions about the future. Hence, the entrepreneur's potential to influence the company and its future by creating is at the heart of the logic of effectuation. As briefly mentioned above, the logic of effectuation is a logic of entrepreneurial expertise (Sarasvathy, 2008). However, Sarasvathy also admits that effectuation could be a trait, meaning that some entrepreneurs have a higher preference for effectuation than others. Novice entrepreneurs could therefore be either more causal or effectual. Still, as entrepreneurs develop more and more experience, they will sooner or later become entrepreneurial experts with a preference for effectuation. The importance of the entrepreneur in effectuation theory implies that the logic of the entrepreneur has a large influence over the logic of the company. Leader's strong influence over an organisation and its outcomes are also recognised by many other scholars (Burton, 2001; Canella, Finkelstein and Hambrick, 2009; Levie and Lichtenstein, 2010; Hambrick and Mason, 1984).

2.2 How do changes occur in organisations?

Processes can be described as a sequence of events that describes how things change over time (Van de Ven, 1992). Hence, process theory is relevant for this study as how the effectual logic of an organisation changes over time is investigated.

Process theory describes processes as something complex in context and time and/or tempo. First of all, processes are affected by many other events and processes present in the outer and inner context. The complexity is increased by the fact that many things are going on at the same time and also at different levels. A competitive environment or the political processes going on inside the company are examples of things that can affect a process (Pettigrew 1997). The complexity increases even more when one take into consideration that the things and processes in the environment also are affected by each other (Langely, 1999).

When it comes to time, process theory recognises the past as an important variable that can influence the present and also the future (Pettigrew, 1997). Hence, the influence from processes and events in the past can explain future processes and events. There could also be temporary connections among events and processes as well as more long-term connections (Van de Ven, 1992). Just as the time can vary widely, so can the tempo of different processes going on in an organisation vary remarkably (Langley, 1999).

In addition, actions make the predictability of the process more uncertain as it can not only be explained by context and time –actions are initiated by human beings in relation with its context, and processes are therefore described as a combination of context and action. The context can constrain some actions, but are also involved in the production of the actions as they offer the human agent more or less beneficial alternatives. In this way, new contexts can be created (Pettigrew, 1997).

Process theory explains how effectuation and causation can exist in parallel in organisations (Wiltbank and Sarasvathy, 2010) and how the change from effectuation to causation will occur. According to process theory many different kinds of processes are going on in an organisation at the same time. Sarasvathy (2001) describes effectuation as a process where the logic of effectuation is used and causation as a process where the logic of causation is used. Hence, both effectuation and causation can occur at the same time because they are parts of different processes going at the same time. According to process theory, events, processes and actions influence the process of change. Action is an interplay between the context (events and processes) and human agents. Hence, a process where the logic of effectuation is applied can become a process where the logic of causation is applied because human agents initiate an action to better adapt to other events and processes. In the same way, a process where the logic of causation is applied can change into a process where the logic of effectuation is applied. Also new processes can emerge and will become either effectual or causal depending on context and action. Events, processes and human agents can therefore be expected to either speed up or hamper the change towards a more causal logic.

2.3 The change from effectuation towards causation

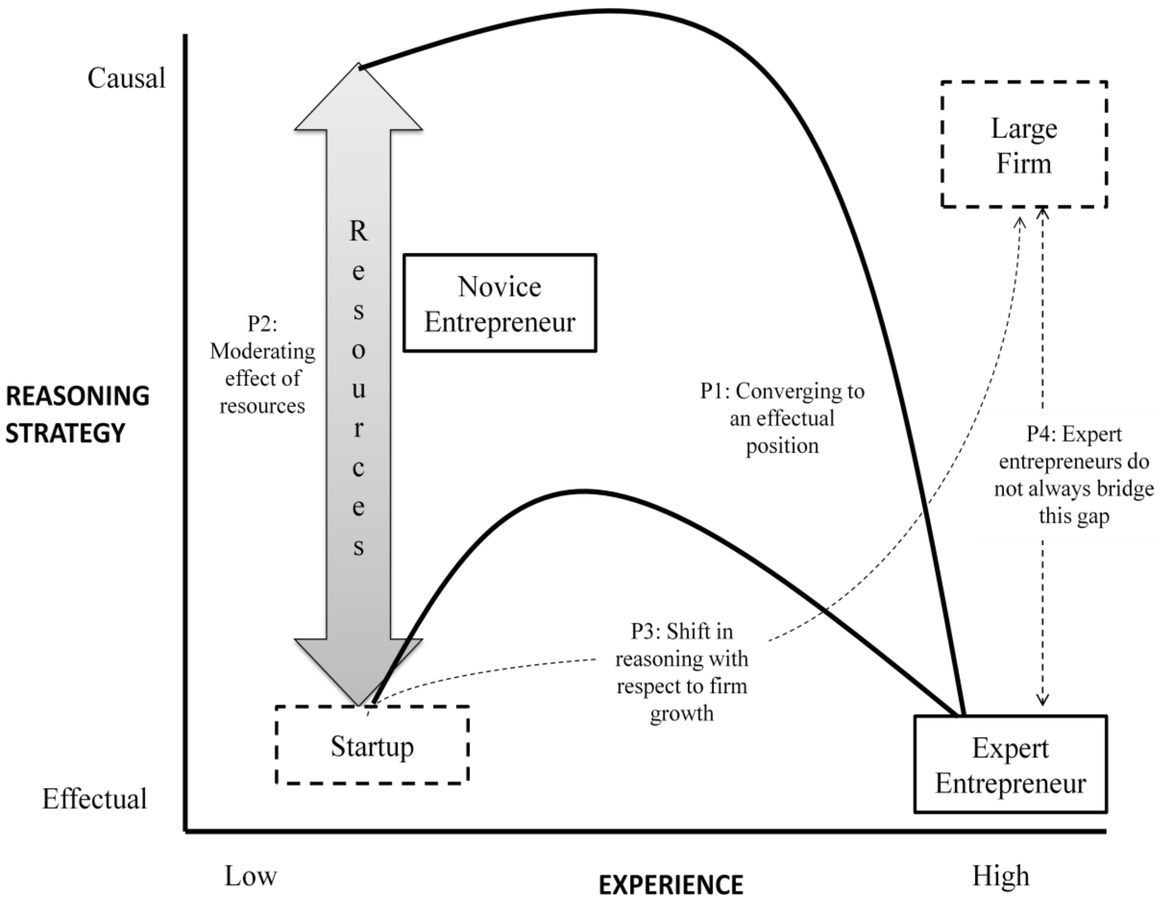
2.3.1 Background

As mentioned before, effectuation and causation occur at the same time in organisations, and process theory has explained how they can do this, as they are parts of different processes going on at the same time. Hereafter, when the change from the logic of effectuation towards the logic of causation or the change from effectuation towards causation is mentioned, it refers to the process of causal processes becoming more common and effectual processes becoming less common.

As companies grow, activities and actions change and the founders need to change their own way of organising and leading the company (Mueller *et al*. 2012; Hambrick and Crozier (1985). The effectual logic of an entrepreneurial firm also needs to change towards a more causal logic as the firm is growing and its conditions changes. This seems to be an underlying assumption in effectuation theory as neither Sarasvathy nor any other scholar explains this in much detail. In her book about effectuation, Sarasvathy touches upon the maturity of the market as one important factor behind the change from effectuation to causation but she does not go very much into detail (Sarasvathy, 2008, p.132). Read and Sarasvathy (2005) propose how the logic of an entrepreneur can change over time in a model with four propositions, and this model can also give us some clues of how the logic of a company changes over time. In this section, the question of why the maturity of the market could impact the company to be more causal will get a closer look and ideas about other possible arguments for the change from effectuation to causation will be discussed. The model proposed by Read and Sarasvathy, other literature and assumptions about the growth of companies will be used. We will start with a presentation of the model by Read and Sarasvathy (figure 2.1).

2.3.2 Read and Sarasvathy, 2005

Read and Sarasvathy (2005) explain how the change from effectuation to causation occurs in the logic of the entrepreneurs and the companies they lead by four propositions. They describe effectual entrepreneurs as “experts entrepreneurs” and in the first proposition they differ between expert and novice entrepreneurs. Even if novices may vary in their use of effectuation and causation, the novice entrepreneurs are likely to use causation more than the experts in the beginning. As the novices get more experience they will increase their preference for effectuation. The second proposition deals with the availability of resources; expert entrepreneurs will not be affected by the availability of resources because they will still have a high preference for effectuation. When novice entrepreneurs find themselves in situations with poor resources, effectuation will be applied because causation is not possible without the resources, but the more resources they have the more likely it is that they will use them to be able to carry out causal actions. In proposition number three, Read and Sarasvathy suggest that successful firms are likely to have begun through effectuation and have grown through causal action. As the company has grown it has become beneficial to apply a causal approach because the environment has become more predictable and static. The forth proposition concerns what will happen with the combination of the successful firm that have grown into a causal one and the entrepreneur that have developed a preference for effectuation. Read and Sarasvathy suggest that only a small number of effectual entrepreneurs will manage to make the transition from an effectual to a causal firm.



Propositions by Read and Sarasvathy (2005)

P1: Although novices may vary in their use of causal and effectual action, their preferences for effectuation in the early stages of new ventures will increase as they become experts. Furthermore, both highly causal and highly effectual novices learn to balance causal and effectual approaches during the growth phase of new ventures, before developing a clear preference for highly effectual strategies as their expertise grows.
P2: The more resources available to novices, the more causal their actions are likely to be. In the case of expert entrepreneurs, availability of resources will not affect their use of highly effectual action.
P3: Successful firms are more likely to have begun through effectual action and grown through causal action as they expand and endure over time.
P4: Only a small subset of expert entrepreneurs will successfully make the transition from an

Figure 2.1

2.3.3. Possible explanations for the change

In the following paragraph further reasoning about the change will be presented with the help of the propositions by Read and Sarasvathy (2005), other previous literature and my own assumptions.

Market maturity

As mentioned above, Sarasvathy (2001) predicts that the maturity of the industry will cause a shift from effectuation towards causation, and this is later explained by Read and Sarasvathy (2005) who states that the shift depends on the market that has become more static and predictable. Hence, the uncertainty that is the main reason for using the logic of effectuation has decreased and the logic of causation has become more useful than effectuation. The uncertainty of the market has also been proofed to explain the outcomes of effectual and causal strategies in a study by Garonne, Davidsonne and Steffens (2010). They found that nascent firms within a context of high uncertainty drew advantages of using effectuation rather than causation, while nascent firms with lower levels of uncertainty were better off using causation.

Resources

Read and Sarasvathy (2005) propose that the more resources available to novice entrepreneurs, the more likely their actions are to be causal and when the company grows larger, it is likely that it becomes more causal. Sarasvathy (2001) describes the effectual entrepreneur as someone who is creating something out of other means at hand when monetary resources are limited, and ask herself the questions “Who am I?”, “What do I have?” and “Who do I know?” When monetary resources are limited, it is more likely that the entrepreneur will use this effectual approach and create something out of the means at hand. On the other hand, more monetary resources open up the possibility for the logic of causation. When the company grows, it gets more resources and we can therefore expect a change towards causation in the logic of the companies if they grow and are managed by novice entrepreneurs.

Experience creates expertise to leverage on

With the logic of effectuation, companies are better at and more willing to leverage on contingencies, while the causal company leverage on existing knowledge (Sarasvathy, 2001). I assume that companies are learning things along the way; through experience they will become experts in their certain field and sooner or later find their core business. It is also probable that they will invest resources to develop their core business and are less interested in leveraging contingencies. When the companies have developed expertise and found their core business, it is more likely that they start leverage on existing knowledge rather than on contingencies and therefore, the experience that comes along with the development of an organisation is another explanation for the change from effectuation to causation.

Procedures, policies and routines limit the ability to leverage on contingencies

As firms become established and grow they must also implement policies, procedures and routines (March, 1958 in Chandler *et al.* 2011, Hambrick and Crozier, 1985) and planning, formal systems and a more complex organisation increases with the growth of a company (Churchill and Lewis, 1983). I assume that this constrains the firm to act in a flexible way. Therefore, the organisation is hindered to leverage on many contingencies and is more likely to rely more on expertise than contingencies. Hence, if procedures, policies and routines create a less flexible company, this could also be an explanation of why the logic of a company changes from effectuation towards causation.

2.4 Summary of the theoretical framework

The logic of effectuation in contrast to the logic of causation has here been described. In uncertain contexts, such as new markets, the logic of effectuation is preferable as it a way for the entrepreneur to keep the control and leverage on contingencies. Effectuation and causation occur simultaneously in organisations as processes that are going on at many levels. Hence, the logic of causation is also present in companies with much effectuation as well as the logic of effectuation is present in companies with much causation. According to process theory, processes and events make up the context of an organisation and together with actions, which are initiated by human agency, they create and change new processes and events. Effectuation theory suggests that there is a change from effectuation towards causation as the company grows. This implies that the many processes that are going on in an organisation would become more and more causal. There is clear evidence that the transition from effectuation to causation occur, but what all research fails to display is how this change occur, what causes it, what speeds it up and what slows it down. The presented study is therefore going to investigate how the change from effectuation to causation occurs and what the dynamics behind the change are with the following research question:

How does the change from effectuation to causation occur in a company and what are the dynamics behind the change?

In the following chapter the method used to answer the research question will be described.

3. Method

The goal with my empirical study was to investigate the change from effectuation towards causation and the dynamics behind the change. In two case studies I conducted and analysed interviews with founders and managers to find out how the change from effectuation to causation had occurred, which factors had affected the change and the impact and strength of each factor.

3.1 Research design

3.1.1 Open approach

The explorative character of the research question directs me to take on an open approach (Jacobsen, 2002, p. 70; Fisher, 2010, p. 180). Open research questions' main purpose is to reveal new knowledge about a phenomenon (in this case the change from effectuation towards causation) by finding out what the phenomenon consists of, *i.e.* concretising the content in order to develop theory about the phenomenon (Jacobsen, 2002, p.72). A qualitative study suits the purpose of gathering rich in-depth empirical data about the dynamics behind the change from effectuation towards causation.

3.1.2 Deductive approach

In an inductive approach, the researcher starts open-ended in the empiric setting and creates new theories from the findings. In the deductive approach the researcher starts the research and analysis process with pre-existing theories and tests the expectations found in the theory in an empiric setting. In reality, inductive studies are difficult to label as wholly inductive as the researcher is a person with her own frame of reference which she can not remove when she interprets the data (Strauss and Corbin, 1998, p.136; Pettigrew, 1997). This study has a mainly deductive approach as it starts off in the theory of effectuation and the change towards causation. However, the research area about the change from effectuation towards causation is not very much explored and the study therefore has an inductive touch in exploring the change.

3.1.3 Process research

When studying change in an organisation Van de Ven and Poole (2005) differ between the variance method and the process method. In variance studies, change is often treated as a dependent variable, which is explained by a function of independent variables, such as when the researcher wants to identify the mechanisms that drive a change. Variance research is hence suitable when the researcher wants to find uncomplicated relationships between variables and focus on describing necessary conditions for changes. What variance research fails to display is that the phenomenon of change can be more complicated than that, and it lacks in describing how the changes occur. Process methods are therefore more useful when one wants to investigate how changes unfold in organisations. Process methods take into account the complex nature of change processes as they consist of different events and processes that are going on at the same time at different levels and in relation with other processes and events in and outside the organisation. In addition, the process approach also recognises that there could be temporary connections among processes and events in organisations. Hence, this approach makes it more difficult for the researcher to map out the data, as it can be difficult to explain a change when there is a low level of homogeneity among the variables. It does, however, give explanation to the phenomenon in a much richer way than the variance approach, where the change is described as a more uncomplicated causal relationship between one variable and the others. The process approach will instead allow me to explore the dynamics behind the change and understand the change in relation to aspects of time and context.

3.2 Case study

Case studies are very suitable for process research (Van de Ven, 2005) as they focus on understanding the dynamics of single settings (Eisenhardt, 1998) and is useful when one wants to describe and understand a real life phenomenon in depth and in relation to the context of the unit of analysis (Yin, 2009, p. 9, 18).

3.2.1 Two-case study

In this study two cases are investigated. Case studies with more than one case are recommended by Yin (2003, p. 53) if the possibility exists. Besides the fact that this method will give me more data to work with, the two cases will give me the opportunity of direct replication and in this way find stronger support for my conclusions. Hence, the approach with two cases gives me the possibility to draw stronger analytical conclusions and creates a more robust theory than a single case approach (Yin, 2009, p. 61; Eisenhardt and Graebner, 2007, p. 27).

3.2.2 Case selection

Case selection can emerge from opportunities and evidence (Symon and Cassell, 2012 p. 361). When choosing case companies, the most important thing to bear in mind is the representativeness of the phenomenon and access to information (Symon and Cassell, 2012 p. 49 and 361, Yin, 2009, p. 91). Since I was going to investigate the change from effectuation towards causation when a company grows, it was necessary that the companies 1) had been using the logic of effectuation from the start and 2) had been growing significantly from the start. Through personal contacts, I was given the opportunity to study Adlibris and Addnature, two online retailers who were identified to have been using the logic of effectuation to a large extent from the start, had been growing significantly, and where I had good access to empirical data.

3.3 Data collection and analysis

Data was collected through interviews with managers and by taking part of annual reports and other company information. The data collection and the coding procedure were conducted in collaboration with another master student.

3.3.1 Interviews

Interviews with employees, managers and founders from the two case companies were conducted in two rounds. In the first round we interviewed four founders, one CEO that has been involved almost from the beginning, and the employee from each company that had worked the longest time in the organisation. In the second round, three of the founders and the CEO from the first round of interviews, and additionally two other founders were interviewed. Totally, 7 interviews were conducted with one of the case companies, and 6 interviews with the other. The intention with the first round of interviews was to get an overview of how the companies had grown and identify critical events in each company to create an understanding of their respective developments and contexts. The interviews in the first round were semi structured. During the second round of interviews we wanted to explore the change from effectuation to causation in more detail. Inspired by Fischer (2010, p. 189) we used a timeline to facilitate the exploration of the change when we were interviewing the managers. We explained the concept of effectuation and causation for the managers and then let them draw timelines of the company’s change from effectuation towards causation in the different dimensions. We then used the timelines as a starting point to talk about the change from effectuation to causation. We also used the information about critical events gathered in the first round of interviews and asked specific questions about some of the events that we found most interesting and how these events could have affected the change. By doing this, we were able to talk about critical moments in the company’s development and it was also an easy way for us to talk about and compare different times in the history by pointing at the different time periods in the diagram before and after a critical events. Hence, the questions during the second round of interviews had an open character and sometimes we also found it more important to use the time to let the manager talk about his own perceptions about the change than strictly continue with the drawing of the time lines.

All interviews were recorded, most interviews were conducted together with the other master student and we divided the tasks between us during the interview session as one of us was taking notes and paying attention to what was going on during the interview while the other one was leading the interview by asking questions and follow-up questions. After the interviews, all material was transcribed.

3.3.2 Analysis of the empirical material

The complex nature of process data makes it difficult to sort it out in a structured way because the heterogeneity of the events and other variables that can explain the change does not immediately offer a simple answer to the question of how changes occur. I have used four tools to facilitate the analysis of the data. The first tool has been field-notes (Eisenhardt, 1989) where I have reflected about insights that have emerged during the interviews and the transcription, labelling and coding process. The second tool has been through making write-ups about each case (Eisenhardt, 1989). It was a useful way for me to organise the data and to get a better understanding of the development of the cases through creating a chronology (Langley, 1999). The third tool was to go through the timelines that the managers drew in the second round of the interviews. The analysis of the timelines also gave me a better overview of the process and helped me to identify how the change from effectuation to causation has occurred. However, the most useful tool to get an understanding of the factors and dynamics behind the change has been the spreadsheet which I created together with the other master student.

We used the transcribed material to highlight and make comments in the text where we found information that was relevant to our research question. Then my fellow student and I worked individually coding each of the highlighted comments according to pre-designed codes; such as change factors, events and clues to how a change occurred (see appendix) (Fischer, 2010). Hence, every highlighted and commented part of the transcribed material received a string with codes. The majority of the codes got the same codes from both of us, but some codes differed, which illustrate that it was beneficial to be two people creating the codes as it generated complementary insights (Eisenhardt, 1989). Instead of choosing between one of the codes we used both codes in the string. The strings with the codes were then transposed into an Excel spreadsheet together with the highlighted text and the comment.

With the help of the codes in the spreadsheet I got a structured overview of the changes in each dimension and also a list of possible explanations for how the change occurred and factors behind the change in each dimension. The next step was to make sense of the codes. I sorted the codes according to different dimensions and change factors and reworked the name of some change factors to be able to analyse them better. I then started to look into detail on groups with similar codes to identify change factors that could be relevant for the change. I started to look at the most common codes and their respective text in the transcribed material to decide whether they made sense or not, and continued with codes that were not that common but could bring important insights anyway.

I found six change factors. Most of the change factors existed in both cases, but not all of them were affecting the change in both case companies. The change factors are presented in chapter 4, empirical findings.

3.4 Critical review

Yin (2003, p. 33) verifies the quality of a case study in four ways, construct validity, internal validity, external validity and reliability. In this section I will discuss the quality of the study according with these aspects.

3.4.1 Construct validity

Construct validity refers to the extent a study uses the correct operational set of measures to collect the data without subjective judgements (Yin, 2003, p. 35). The objectivity of this study was increased by the cooperation with another master student when collecting and coding the empirical data. Most interviews were conducted together and at several occasions we discussed our impressions and interpretations from the interviews. We also coded all the interviews separately before we compared our codes. This way, two researchers comprehension of the theoretical background decreased the risk of asking the wrong questions during the interviews and of bias when the data was interpreted.

3.4.2 Internal validity

Internal validity refers to whether the results presented accurately represent reality (Jacobsen, 2002). Yin (2003) states that internal validity is mainly a concern for explanatory case studies. However, one limitation with this study was that the concept of effectuation was new for the interviewees. To increase internal validity, I explained the concept of effectuation carefully in Swedish and then let the interviewees ask questions about the concept. I did not start asking questions about the case before I perceived that the interviewees had a correct comprehension of the concept. In addition, the findings of this study do not rely on the comprehension of the interviewees, but my own interpretations of their answers.

3.4.3 External validity

External validity refers to the generalisable aspects of a study (Yin, 2003). In this study I have conducted the research in two cases which gives me the possibility to replicate the findings and increase the generalisability of the study. Case studies are often criticised for a low level of external validity. And one critique towards my study could be that the cases are very similar to each other, which could decrease the statistical generalisation. However, Yin (2003, p. 37) argues that the reliability of case studies does not rely on statistical generalisation but on the analytical generalisation, which is to what extent the results of a study can be generalised to a broader theory.

3.4.4 Reliability

The goal of reliability is to minimise the errors and biases in a study (Yin, 2003, p. 37). The reliability could be decreased by the retrospective nature of this study. According to Van de Ven (1992) a longitudinal real time study would be the best approach to study change processes, this is however time consuming and not within the scope of a master thesis. One problem with a retrospective study is that the interviewees do not remember plausibly. The logic of effectuation is difficult to investigate retrospectively with another method than asking the people that was involved, however, to increase reliability I conducted interviews with both managers and employees to collect information from two different views. Along with interviews I have also used company reports to increase reliability of the information about the growth of the companies. To increase reliability of a study, it is important to document the process and material collected during the research process (Yin, 2003, p. 38). I have a database with all the material I have used in the phases of collecting and analysing the material. Moreover, I have described the processes of collecting and analysing the data in detail.

4. Empirical findings

In this section the empirical data for one case at a time is presented. Each case presentation starts with a background to place the cases in its context. I then describe how the change from effectuation to causation has occurred in each organisation. The next step is to describe each factor of change and how they have impacted the change towards causation.

4.1 Addnature

4.1.1 Background

Table 4.1 gives an overview of the history of Addnature.

Table 4.1 The history of Addnature	
Year	***Event***
2000	- Started, cooperated with Barrabes
2001	- Barrabes quitted cooperation, switched to Swedish suppliers
2003	- Moved to own warehouse and office - Hired their first employee
2004	- Opened up the first physical store - Issued new shares - Appointed external people to the board
2008	- Opened their second physical store and moved the warehouse there
2010	- Moved warehouse and office to Frihamnen
2012	- Approached by Internetstores
2013	- Merged with Internetstores

The beginning

The story of Addnature starts with a ski trip seven friends made to Zermatt in year 2000 where they got the idea and decided to start Addnature. Some of them were colleagues from Anderson Consulting and others were childhood friends. Pär Svärdsson and Magnus Dimert from Adlibris were among them, they have never been involved in daily operations at Addnature, but their roles have been as members of the board.

It was the time of the “new economy”, just before the bubble burst. The founders were inspired by everything that was going on and wanted to do something as well. They started to write a business plan in the spring of year 2000 and then started to contact venture capitalists. But at that moment the internet bubble burst and in a couple of months e-commerce went from being very hyped to being ice cold and it was quite impossible to get funding to start such a company. Anyhow, they still wanted to try, they knew that Adlibris had made it without external funding and therefore they thought that they should try anyway and putted in their own savings instead. In retrospect, the founders say that one success factor, if not the most important, was that they didn’t get any external funding and had to think lean and make money from day one. Yet, they couldn’t take out any salary the first two years.

Because of the bad timing with e-commerce and the bubble that had burst, no suppliers wanted to sell things to e-retailers. Fortunately, they got contact with the Spanish retailer Barrabes and could start import goods from them. After one year the cooperation with Barrabes got an abrupt ending as Barrabes got problems with their suppliers and had to quit the cooperation with Addnature. However, the suppliers in Sweden were now more willing to cooperate with Addnature as they saw that they were a serious actor. Thus step by step Addnature was building up their assortment again.

After the first year many of the original founders left because they thought it was too though since they couldn't take out any salaries. Mathias Hedström, Klas Berggren and Martin Larsson were left to take care of the business. They were not all by themselves though; some people were still on the board. Mathias was the general manager and responsible for purchasing from the start, and is still the general manager and a part of the purchasing team. Klas is the marketing manager, something that he has been from the beginning. Martin has always been responsible for the IT. Table 4.2 shows the revenues, results and number of employees during the period under investigation, and figure 4.1 shows the growth of Addnature in revenues and employees.

Table 4.2 The growth of Addnature

Year	Revenues	Results	Employees
2001	864 513	- 805 105	2
2002	2 981 081	- 328 111	4
2003	4 418 957	- 249 162	6
2004	6 868 863	596 906	5
2005	9 890 110	- 3 439	5,25
2006	16 338 860	475 476	7,5
2007	22 652 527	687 746	10
2008	31 823 497	- 230 925	16
2009	46 038 188	1 782 334	17
2010	75 577 803	4 048 638	22
2011	101 966 805	4 547 350	50
2012	131 765 075	6 549 947	59

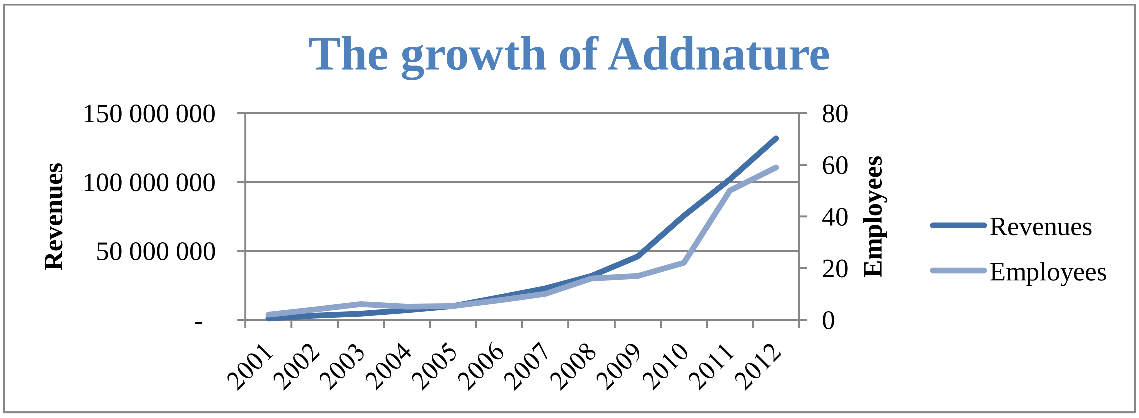


Figure 4. 1

The first facilities and the first physical store

The first three years Addnature stocked all their goods in the office they shared with Adlibris. But in 2003 the situation was unmanageable as they had grown too large and had to find a new location. In October they moved to a basement at Birger Jarlsgatan who they later opened up as their first store. They didn't have any plan of opening up a store when they first moved to Birger Jarlsgatan but they realised that there was a need of it as online customers came to the warehouse to try out the products. The business was growing quickly and Addnature hired people both for the store and other areas within the company.

New board, move of the warehouse and merger

In 2004 Addnature appointed a more senior board with members who were much more into finance than the founders.

By the end of year 2007 the founders started to look for another place for their warehouse as they were desperately in need of more space. The founders used their experience from the first store and knew that they did not only need a cheap facility, but a facility that would work well with the logistics and also as a second Addnature store. They found the right place at Södermalm and opened the store in 2008.

In 2010 Addnature moved the warehouse and the office to Frihamnen. This move was not as urgent as much as the two first moves even though they realised that they were beginning to need more space. Addnature also wanted to put more focus on increase in web sales and knew that they were about to grow in the coming years. They therefore planned for the future and made sure they found a facility big enough to grow in the three coming years. The facility in Frihamnen was beneficial as there were opportunities to expand the warehouse by tearing down some walls and open up on additional floors.

In 2012 Addnature was approached by Internetstores, a German online retailer selling bicycles in many European countries. After much analysing and communication with Internetstores a detailed business plan for the coming years was created and the founders of Addnature accepted the offer from Internetstores and the two companies merged in the spring of 2013.

4.1.2 The change from effectuation towards causation

I will now give an overview of the change by illustrating the change from effectuation towards causation. I illustrate this with a timeline (Figure 4.2) were I have merged the interviewed managers impressions of the change together with my own conclusions drawn from the interviews.

Some events related to larger investments have been more causal, such as starting up the physical stores and the move to the facilities in Frihamnen, but most events and on a general level at Addnature has remained effectual even if they have become more and more causal with time. Addnature was aiming at getting external capital and was therefore quite causal just in the beginning because focus would then have been to maximise profits rather than experimenting and taking small steps at a time. However, when they realised that they wouldn’t be able to get any funding the logic quickly turned into a very effectual mode. Since then Addnature have maintained on a very effectual level even though there has continually been a slow change towards causation. The last two or three years, they have however experienced a more rapid change towards causation.

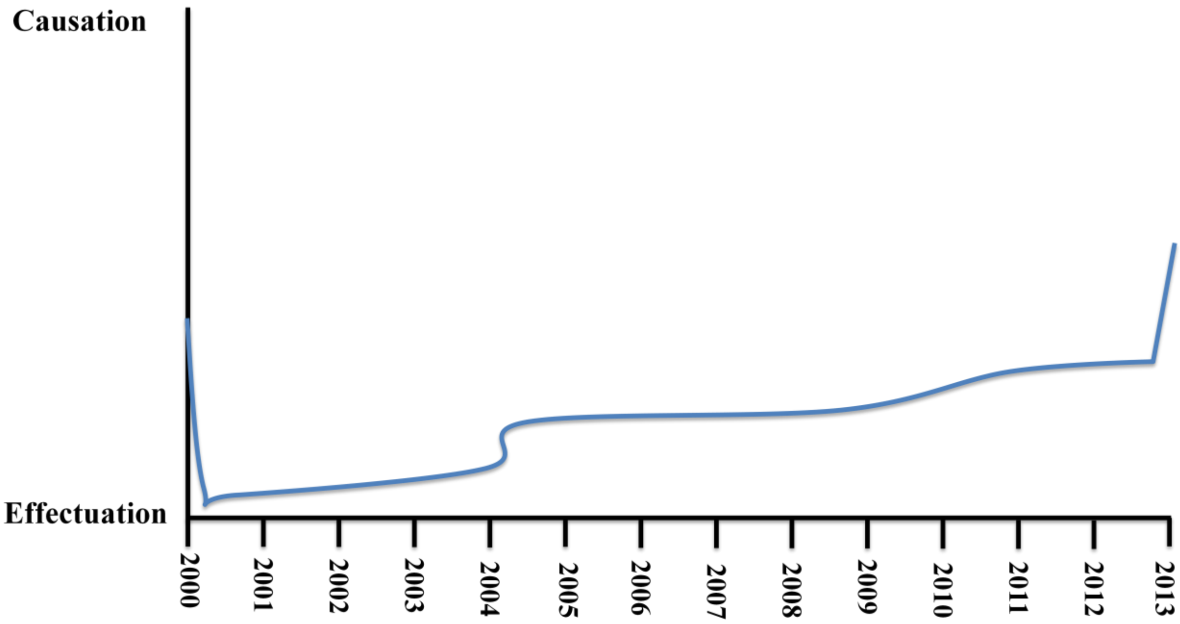


Figure 4. 2 The change from effectuation towards causation

4.1.3 Identified factors of change

To describe the dynamics in the change from effectuation towards causation I have structured this section according to the factors of change that I have identified that have either speeded up or hampered the change. I have also included the logic of the managers. Table 4.3 gives an overview. The same change factors are described for Adlibris.

The logic of the managers

The core founders of Addnature, Martin, Klas and Mathias, proves to be very effectual in their logic. This is visible when they talk about the start of the company. First of all they started it because they thought it was fun. Secondly, they have not taken any risks that could jeopardise the future of the company. Instead they have taken small steps at a time and have liked to experiment with different alternatives to have some flexibility and be able to shift their strategy in the future accordingly with effectuation theory.

Table 4.3 Factors of change overview		
Change factor	**Addnature**	**Nature**
The logic of the managers	No effect proofed, but management are effectual	Character of the managers
Appointing external people to the board	Speeded up	Event
Sales growth	Speeded up	Process
Market maturity	Speeded up	Process
Resources	Limitation of resources hampered in the beginning, then management preference for effectuation was stronger than availability of resources and therefore no effect, even if resources increased.	Event and Process
Delegation	Speeded up	Process

"...but I think we have always been low risk with small steps all the time. No big investments, no risky steps that could damage the whole business." Klas

"We would experiment with a few different strategies, not to many, but we'd try a couple before moving on with one chosen one. So we had that flexibility of experimentation." Mathias

In the case of Adlibris, the logic of the managers' impact on the change from effectuation towards causation was easy to determine, because when they joined and left, other people observed the difference in the organisation. In Addnature, the founders carry a logic of effectuation, but it is more difficult to determine how much they have hampered the change, since none of the founders have left or joined.

Appointing external people to the board

When external people were appointed to the board, Addnature became more focused on setting up and reaching targets and create more detailed budgets. Klas, Martin and Mathias also started to create documents where they explained their way forward and evaluated the plans together with the board. To manage this they had to look into the future and try to control the future by predicting and adapting to it. Therefore the appointing of external people to the board speeded up the change towards causation.

Sales growth

The growth in sales has forced the company to base their goals on more facts and thorough analyses to be able to reach targets. The control dimension was therefore affected because the companies were becoming more focused on trying to control the future by predicting it.

"Since the beginning where we had growth of 60-70 % per year, if we had set a goal of growing only 20 % per year we would have achieved that and not so much more and we would have been really happy with that, because 20 % growth is good in most companies. An organisation adapts to the goals you set. But now, as we are becoming a big player on the market, we have to base the goals much more on hard facts and really analyse if it's possible to reach those goals, so that they are not unrealistic – of course, if you have a turnover of SEK 5 million, it's easier to go to SEK 7,5 million than if you have a turnover of SEK 250 million and should grow to SEK 350 million." Mathias

Market maturity

The maturity of the market has made it possible and more beneficial for Addnature to get more information about the market and customer needs. This made it possible for them to control the future a little bit more by predicting it and the market maturity therefore speeded up the change towards causation in the control dimension. In the same way the maturity of the market made it possible for Addnature to track competition, which is the most important character of the causal end of the network dimension, hence the maturity of the market also speeded up the change towards causation in the network dimension.

"I don't know if I would say if it was reactive, because we were making a lot of stuff up and we had no one else to look at (benchmark), we were one of the first who started to send newsletters, that were really efficient and we soon got a big customer base who received our newsletters. We were one of the first, we didn't copy anyone or react to anything, but I would say that we had a strategy on sales, but we didn't have a detailed strategy on how to do it – only a very broad outline. In some cases we reacted to the environment or to customers, and sometimes we made things up along the way." Mathias

"When we started and we wrote our first business plan in 2000, no one could have described a plausible scenario. Every scenario I would have imagined back then would have been

totally wrong, so that's why I think it would have been pretty impossible. The market was too young and you knew too little about the future." Mathias

It's definitely becoming more and more calculated and based on more facts. Now we actually have facts about the market and how the market is developing and what we think our market share could be. Mathias

Resources

As mentioned above, Addnature wanted to gain as much funds as possible, but when they realised they wouldn't get any funding they still wanted to pursue with their idea. The focus shifted to continue without losing more money and to survive, the idea of maximising profits was left behind and the founders became very careful with the few resources they had and to take small steps at a time. The limited availability of resources was therefore a factor that forced the company into the logic of effectuation. However, as the company grew and got more resources, they continued to act according with the logic of effectuation, which implies that the availability of resources didn't speed up the change towards causation very much. Larger investments, such as starting the physical shops has been more causal decisions because much money have been at stake, but the general logic of the Addnature has not been effected. The only hint about this is that Klas expressed that the more resources they had, the easier it was to be able to conduct fact-based analyses.

"We could have made decisions very early on that had they worked our success would have been much quicker, but if they hadn't we would have gone bankrupt – But we never took such a decision. Our decisions were always based on that even if they were a failure, we should be able to afford to continue and to try other alternative strategies instead." Mathias

Delegation

When the business at Addnature grew to the extent that the managers didn't have time to make all decisions by themselves they had to start trust that the decisions made by their subordinates were the best. To be able to trust this they started to demand more facts about the situation and that is why delegation has caused a change towards causation in the dimension of control, since fact based decisions are to a large extent a way of trying to control the future.

"But before we were quite extreme in keeping the decision-making just between the three of us." Klas

"I think we require a little bit more analysis from our mid management. /.../I think it is quite natural that you trust your own gut feeling more than someone else's. If they just say 'I feel that we should do this, I just, it is my gut feeling' I feel you want some more arguments. But if the three of us makes the decisions just by ourselves I think we can base it more on just gut feeling." Klas

"And they make, I think, more structured analysis and they present maybe a couple of different alternatives to us and then we make a decision together with them based on the facts that they have." Klas

4.1.4 The dynamics behind the change from effectuation towards causation

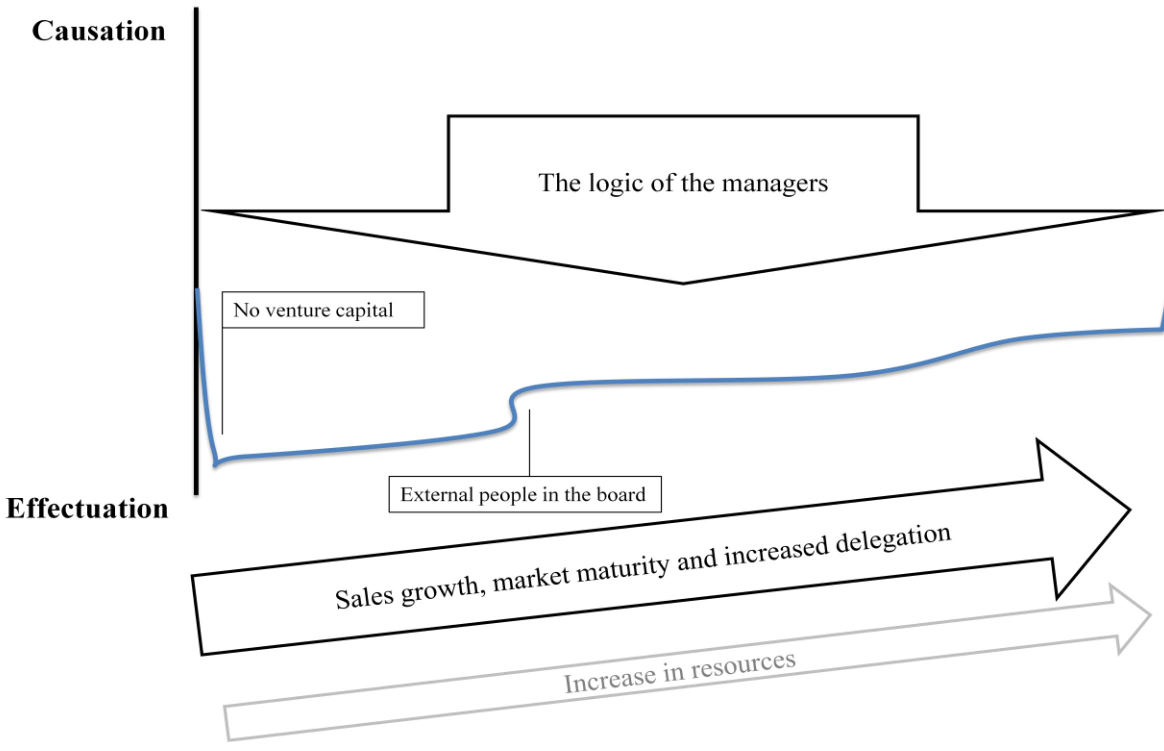


Figure 4. 3 The dynamics behind the change from effectuation towards causation

I have now described how the effectual logic of Addnature has changed and also identified a number of change factors that either hampered or speeded up the change towards causation. I will describe the dynamics behind the change, *i.e.* the different change factor's impact on each other. Figure 4.3 illustrates how the different forces have affected the change towards causation. Two events are identified, that is when the company did not get any venture capital and the appointing of external people to the board. The logic of the managers is illustrated as a continual force pushing the logic of the organisation towards a more effectual level. Sales growth, market maturity and increased delegation are processes identified as factors that speeded up the change towards causation. Increase of resources is also a process that could have speeded up the change towards causation. However, this process is not identified to have had a significant effect on the change towards causation and is therefore grey.

4.2 Adlibris

4.2.1 Background

Table 4.4 shows the critical events in the history of Adlibris.

Table 4.4 The history of Adlibris

Year	***Event***
1997	- Start
1998	- Pär started working full time
1999	- The first two employees were hired
2000	- Their first own office - Johan, Fabian and Magnus started to work full time - Appointed external people to the board - Distribution together with Förlagssystem from Falun
2001	- Opened up own distribution from Seeligs facilities in Morgongåva
2002	- Magnus appointed as CEO - Johan left
2003	- Approached by Bonnier
2004	- Agreement with Bonnier
2005	- Majority of shares sold to Bonnier - Moved into Finland
2006-2007	- Moved into Norway and Denmark
2008	- Pär appointed as CEO, Magnus still in the board but leave daily operations
2011	- Office moved to facilities of Bonnier - Founders sold their final shares - Pär and Fabian left - Magnus came back as CEO

The beginning

It was in 1997, just before the dotcom boom started, that the founding team sat down in Pär Svärdsson's kitchen to brainstorm over possible business ideas involving the Internet. Eventually, their 101st idea to sell books online stuck and they immediately started transforming the idea into action. The idea from the beginning was to sell cheap student literature, but the business grew rapidly and evolved into an online bookstore with a broad assortment. Pär had brought together the best programmers he knew from Andersen Consulting (today Accenture), where they all worked at the time: Fabian Fischer, Johan Arvidsson and Christian Lauritzen, and started the whole operation as hobby project. Christian never got really involved and left the project after some time. Six month after the start, Magnus Dimert, also from Andersen Consulting, joined. From the start, Adlibris did not have their own homepage, but used an online market service provided by the company Posten called "Torget". Within Torget, they designed their own website and also wrote the software to process incoming orders.

The founders of Adlibris were not interested in being responsible in a high-risk project, make up a detailed strategy for the future nor doing big marketing campaigns. They only took in some external finances from "family, friends and fools" at a later stage in the history of the company. They took it as a challenge to see what they could do with few resources and they knew they were good at the technology side and wanted to see how far they could get with that. The small amount of money forced them to grow everything organically, working hard on keeping a very lean operation, not wasting money needlessly, particularly when saddled with ambition of selling books at the cheapest possible prices. In retrospect, this lead to a sustainable long-term business model, unlike much of the competition that boomed and busted a few years later when the venture capital-fuelled dotcom bubble burst. Table 4.5

Table 4.5 The growth of Adlibris

Year	Revenues	Results	Employees
1997	825 353	35 061	2
1998	4 670 354	62 087	2,7
1999	11 164 736	- 250 005	4
2000	22 047 465	- 3 498 425	6,8
2001	36 225 070	514 804	8,2
2002	78 704 658	4 973 318	10
2003	128 746 144	8 567 988	14
2004	190 944 669	12 073 054	24
2005	302 317 823	16 075 360	33
2006	477 324 920	19 965 381	46
2007	651 831 039	30 832 276	62
2008	836 422 739	49 823 132	78
2009	977 173 775	61 156 582	105
2010	1 095 706 747	118 757 366	107
2011	1 162 236 167	77 197 746	131

shows the revenues, results and number of employees during the period under investigation, and figure 4.4 shows the growth in revenues and employees of Adlibris.

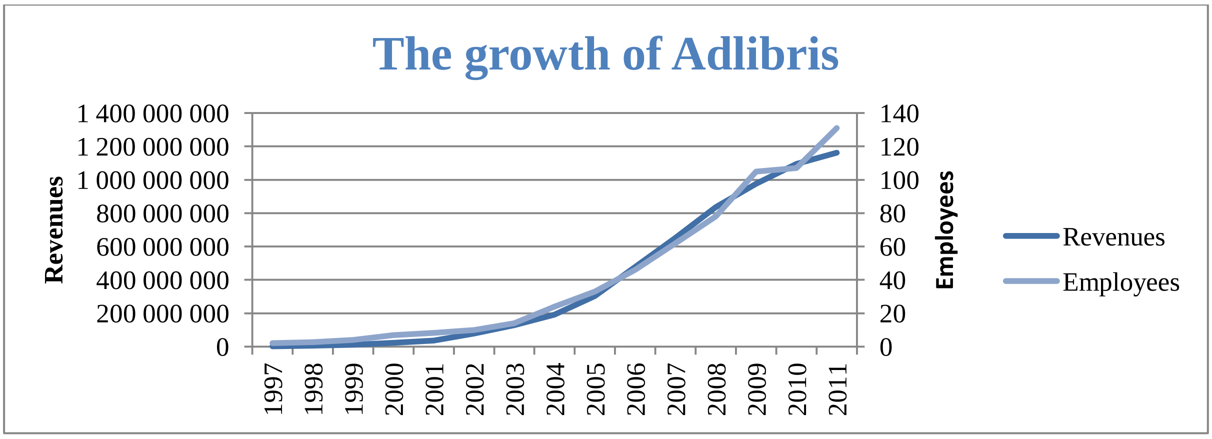


Figure 4.4

The business is growing larger than a hobby project

"From the middle of '99 until the end of 2000 we quite much transformed from this part time to a real company." Pär

In summer 1998, about one year after the start, Pär quit his job at Accenture and started to work full time with Adlibris. The other founders were still working with Accenture, but Pär got some help from his girlfriend, his sister and Fabian's mother. The business started to grow quickly and it was also at this point that they raised some external capital from "family, friends and fools" and added about SEK 1 million. The business was expanding quickly and during fall 1999 the two first employees were hired. Then came the next big shift in the organisation by the turn of the millennium when they got their first office, build their own website and Magnus, Fabian and Johan quitted their jobs at Accenture to start work full time along with Pär. In the middle of year 2000, the founders used their network to find more senior people for the board and these people also invested a small amount of money in the company.

New logistics system and the approach by Bonnier

During year 2000 Adlibris also changed their logistics. From the start they had been cooperating with Seelig, the largest book distributor at that time. However, they wanted to be able to include more titles in their assortment and this was not possible through the cooperation with Seelig. They therefore turned to Förlagssystem and began cross docking from Falun. This was a mistake as Förlagssystem couldn't handle the large amount of books and Adlibris got severe problems with the logistics. They therefore started their own logistics out from Seelig's facilities in Morgongåva. They couldn't find any provider of logistic services at the price and service that Adlibris wanted so they decided to build their own system. The company had grown rapidly from the start in 1997 and along with the growth the owners could also look a bit further and plan for the future:

"Obviously, as we grew, we could look a bit further. The Morgongåva project wouldn't have been possible in '97." Johan

Even if Adlibris was growing, the company was small and had many strong wills. In order to create a better teamwork, Magnus was appointed CEO, but eventually Johan left. Johan had worked with the finances and IT and from this point the company had to start hire people to work within these areas. In 2003 the company had grown to about 20 employees and this year they were also approached by Bonnier who wanted to buy the company. In 2004, they had agreed about the buy out process. In 2005, Bonnier bought the majority of the shares, but the founders continued to work with Adlibris and kept on with business as usual until they sold their final shares in 2011, when Pär and Fabian abruptly left the company.

4.2.2 The change from effectuation towards causation

I will now give an overview of the change by illustrating the change from effectuation to causation. I illustrate this with a timeline (Figure 4.5) where I have merged the interviewed managers' impressions of the change together with my own conclusions drawn from the interviews. During the interviews it has been quite clear that Adlibris has remained quite effectual even if they have become more and more causal. In some cases, as when the managers had to make decisions about large investments such as a new conveyer belt in the warehouse, were causal but most events and the general level of the logic has been very effectual. Some specific events has caused more dramatic shifts towards causation, they are either related to the board or the managers: I have observed that the appointing of external people to the board and Magnus, Johan and Fabian joining in 2000 made the logic of Adlibris more causal. It was also very clear that there was Pär's presence and influence that kept the company on a very effectual level up until the day when Bonnier bought the remaining shares and Pär and Fabian left.

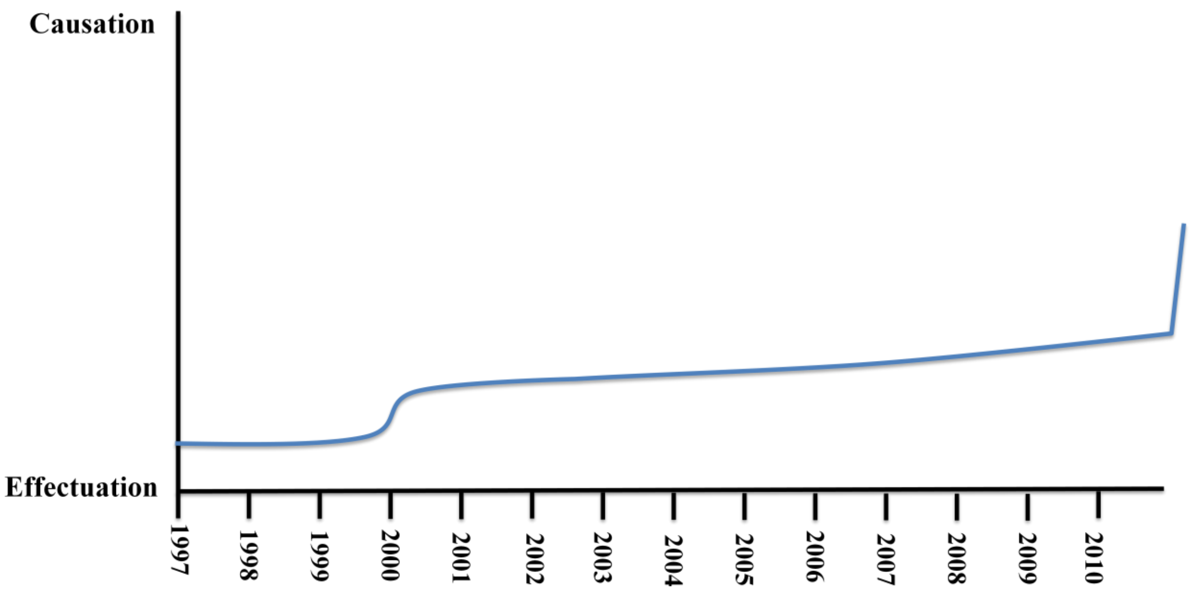


Figure 4. 5 The change from effectuation towards causation

4.2.3 Identified factors of change

To describe the dynamics in the change from effectuation towards causation I have structured this section according to the change factors that I have identified in both companies that have either speeded up or hampered the change. Table 4.6 gives an overview. During the analysing

Table 4.6 Factors of change overview

Change factor	Affect	Nature
The logic of the managers	Speeded up or hampered	Character of the managers
Appointing external people to the board	Speeded up	Event
Sales growth	Speeded up	Process
Market maturity	Speeded up after Pär and Fabian left	Process
Resources	No effect (management preference for effectuation stronger)	Process
Delegation	Management kept decisions among themselves	Process

phase when I have compared the cases, and in the case of Adlibris, also with the period after the period of investigation, I have realised that there have been change factors present that has not affected the change because other change factors in the opposite direction have been much stronger. Anyhow, they are change factors even if they did not make an impact in this case and I will therefore include them here. Those are resources, the maturity of the market and delegation.

The logic of the managers

The effectual logic of the managers has proven to affect the logic of the company. Pär, with much influence and a very much effectual logic, could be identified as a factor that hampered the change towards causation, while Magnus and Johan can be identified as forces that speeded up the change towards causation as their logics are more causal. It is more difficult to tell the logic of Fabian; on the other hand he seems to not have had that much influence.

When different managers have started to work at or left Adlibris, it has had an effect of the company. Johan and Fabian brought more structure to the company when they started to work full time along with Pär. When Magnus came in he created a strategy document and he took the initiative to appoint external people to the board. While Magnus was away between 2008 and 2011, Pär and Fabian continued to develop and run the company as they always had. This meant that the logic of the company was very much affected of the logic of the present effectual managers. There was a huge shift in the logic of the company when Fabian and Pär left.

"Now, strategic discussions are much more planned, the management group, you know go away for a day and just go through these strategic questions based on some models…[it] is getting more and more planned. But at the time where all the founders were still involved it was much different" Magnus

"And I think as long as I was working with Adlibris, I was against that process, so every step made to change this time to integrate, I didn't want to do that. When I left it was just a flood of introduction to these Bonnier publishing house specific things" Pär

Appointing external people to the board

Together with the new board the managers reached the conclusion that price was most important and high quality of the customer service was the second most important thing. They then kept to this strategy for at least 10 years. When they did this, they had to analyse the market and predict the future and then start adapting to it. The appointing of external people to the board therefore speeded up the change towards causation in the control dimension of effectuation.

"Another thing is the power-shift from management to board. You get more and more board power as businesses grow – maybe – and as the board gets more power, you will have a much more causal process, because that's the way boards work. They want to see plans and milestones and moves in a specific direction." Magnus

Sales growth

The sales growth of Adlibris is a change factor because more money were at stake when the company grew and it was becoming more important to protect the business that Adlibris already had instead of trying to find new ways of making money. The control dimension was therefore affected because the company was becoming more focused on trying to control the future by predicting it and adapt to it instead of exploring new ways of making business. The affordable loss dimension was also affected since experimentation of strategies declined and more focus was on how to maximise profits.

"We are a billion SEK business, so in one way that's a driver that has always been there. As the company grows you will get more of that [causation] I think. You think of what the next year or the next 2 years will be like, how much profit you're going to make, what's the cash flow, etc. Just because they're bigger numbers, there's much more money at stake. So that's one driver." Magnus

"It is a process – we shouldn't blame it on Bonnier only, because there have always been these rumors over the years that Amazon was going to enter the market, so in a way we had this "protect your profits" idea. So one driver is absolutely the fight of the business and the fight of the process that tends to drive it in the direction of causation." Magnus

Market maturity

Adlibris was one of the first pioneers in the e-retail business and has also seen their market becoming more and more mature. Anna, one of the employees who have been working the longest time in Adlibris, and also have been a part of the management group, noticed an increase in competition and she means that this forced Adlibris to become more strategic in their decisions.

"The strategic parts are really coming now, where we have really, really hard competition on the outside." Anna, employee

During one of the interviews with Magnus he showed proofs of that Adlibris have investigated the market they have created and also adapted to the needs of the market.

"The battle has been around price, delivery time and the next battle is about being relevant to the customer, being inspirational I think and recommending the customer and having a very good dialogue and we are adapting our services to that now and are getting a better search engine and a much more recommendation engine et cetera." Magnus

However, even though I have found evidence for the market maturity as a change factor in Adlibris, I have only found it during the period after the buy out of Bonnier. Still, the maturity of the market has been going on for a while and the reason that I haven't found any evidence for the market maturity as a factor that speeded up the change towards causation during the period before the buy out could be that the managers (especially Pär) before the merger wasn't interested in exploring the market to be able to adapt to it. During the interviews Pär expressed several times that he disliked structured analyses of the present situation.

"I mean if you make a business plan, 40 pages of business plan, you want money from someone else. You don't do it for yourself because if you want for yourself you can make 1 or 2 pages, 40 pages is for someone else. Because it takes several weeks to write, and after several weeks the world has probably changed." Pär

Resources
With the logic of causation the managers try to maximise profits while effectuation focus on experimenting with the resources at hand by experimenting and taking small steps at a time. Adlibris started as an experiment and the founders were not interested in external capital because they wanted to see if they could grow the company without external resources.

"It started as an experiment, "can we do this?" And if you get a lot of money it is not that complicated to do it and it was against the idea from the start. We wanted to try and see if we could do it. We didn't want to see if we could try and build something with other people's money, that was not the project." Pär

"You always try to keep it with as few employees as possible, as long as it works, that is how it works when you are a small company and are growing, then you have to keep to a small budget" Fabian

The limited availability of resources was not a factor that kept Adlibris with an effectual logic. The managers chose to be effectual and they wanted to create a company in an effectual way. This is proofed by the fact that as the company grew, they continued to act as entrepreneurial experts by taking small steps at a time. They have been able to be profitable in the short run by not investing too much money at the same time and it has always been important for the founders that the company is continuously profitable with short payback times. One example is how Adlibris expanded their warehouse in Morgongåva. This facility provided them with opportunities to invest a smaller amount of money at a time by gradually expanding the warehouse by tearing down walls bit by bit and using more and more of the facility.

"We just went through a wall of one and a half metres and we did so, and put a conveyer belt through the hall so we could continue to expand, and, so we grew really by taking very, many small steps." Magnus

This implies that the availability of resources didn't speed up the change towards causation very much. Thus, the logic of the managers, who continued to act as expert entrepreneurs, using the logic of effectuation, seems to be a stronger force than the availability of resources.

Delegation

Delegation has not been spelled out as a change factor during the interviews with Adlibris. But the same kind of decision-making process, where the owners in the beginning talked together on a daily basis and then acted immediately, was something that came up. Magnus, Fabian, Pär and Johan could directly implement their new ideas and in that way experiment with different alternatives without having to wait for the board to point out the direction.

"Every meeting we had was a management meeting but it was also a board meeting, and an annual general meeting, so we had this all mixed because 99 % of the shares were represented in the same room and took operational decisions as well as others // it gave us such a kick, that was fantastic, we could talk about some new functionality that would differentiate us from the competition and build it directly, and that gave us a lot of energy." Magnus

4.2.4 The dynamics behind the change from effectuation towards causation

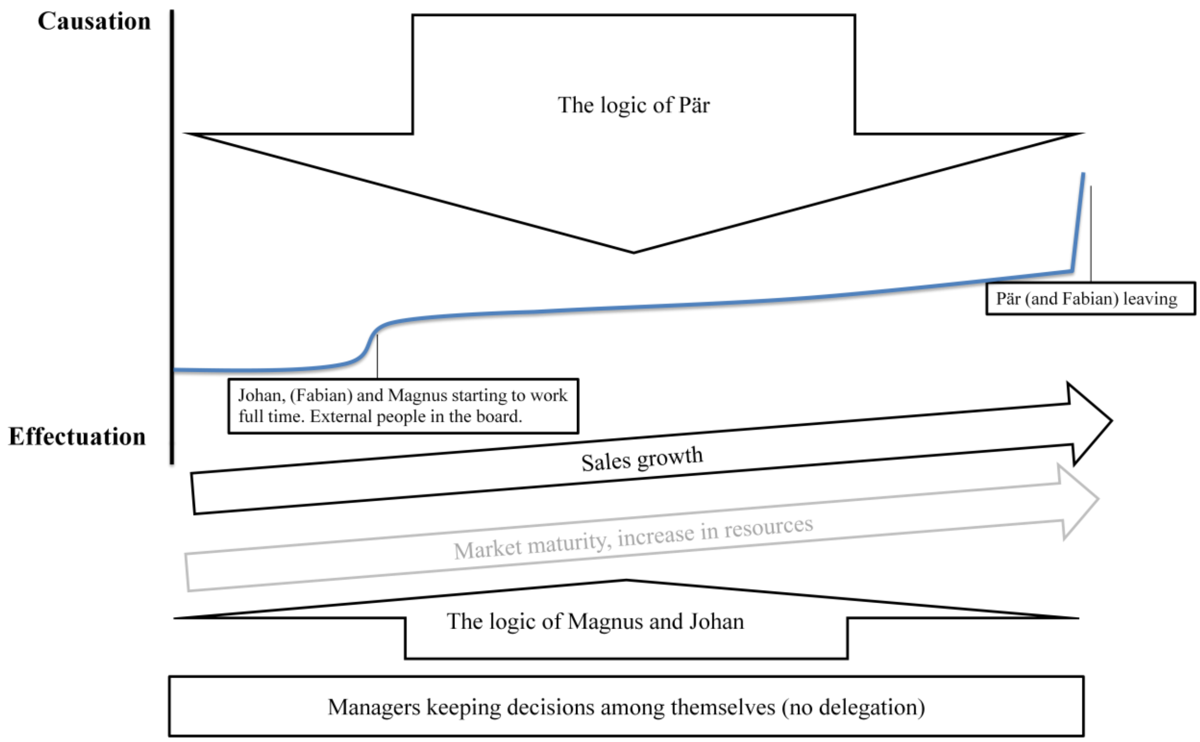


Figure 4. 6 The dynamics behind the change from effectuation towards causation

I have now described how the effectual logics of the companies have changed in each dimension and also identified a number of change factors that either hampered or speeded up the change towards causation. I will now describe the dynamics behind the change, *i.e.* the different change factors impact on each other. Figure 4.6 illustrates the different factors effect on the change towards causation. Three events are identified. Two of them happened the same year and that is the appointing of external people to the board and Johan, Magnus and Fabian starting to work full time. These events all increased the speed in the change towards causation. The third event is at the very end when Pär and Fabian left. Fabian is not identified to have had as much impact on the logic of the organisation as Pär. As illustrated by the thick arrow pointing down from the top of the figure, Pär's presence kept the logic of the company effectual for a long time. When he left, there was a sudden shift towards causation. Johan and Magnus are opposite to Pär, forces that pushed the logic of the organisation towards more causation. Sales growth was a process that increased the causal logic in the organisation. The market did mature, and the company got more resources, these processes could have speeded up the change towards causation, but they did not, they are therefore illustrated with a grey arrow. Finally, compared to Addnature, delegation was not a process that could affect the logic of the organisation, instead the managers kept important decisions among themselves during the whole period. This is illustrated by a box ranging from the start until the end of the period under investigation.

5. Analysis

In line with the theory presented in the theoretical background, both case companies experienced a change towards causation as they grew. In both cases I have identified both events and processes in the context that has either worked as a force towards effectuation or causation. In line with process theory, I also recognise that the processes that I have discovered are both internal and external.

5.1 The logic of the managers

In Adlibris, fewer processes were identified to have speeded up the change towards causation, even though I recognised the processes to be present. Sales growth, market maturity and increase in resources were present processes that could have speeded up the change towards causation, but they did not. The same is true about the increase in resources in Addnature. The limited availability of resources created a change towards effectuation in the start of Addnature, however, I found no convincing evidence for that the increase in resources would have caused a change towards causation. At the same time the logics of the organisations were kept on a very effectual level for a long time. I argue that the reason for this is that the logics of the management were very effectual and this affected the logic of the organisations. This is especially evident in Adlibris, where the logic of the organisation became much more causal when Pär, who is recognised as a person with a strong preference for effectuation and much influence, had left. Even if it is not as evident in Addnature, I argue that it was the effectual managers at Addnature that kept the logic of the company at an effectual level for a long time. This is more difficult to prove because the same managers have been working with the company all the time, but they are identified as effectual.

In relation to effectuation theory, the finding of the managers' large influence over the logic of the organisation is not surprising. Effecutation was discovered by investigating the logic of expert entrepreneurs (Sarasvathy 2008, p. 21) and Sarasvathy (2008, p.134) describes the logic of the managers in parallel with the logic of the organisation. Process theory explains how the logic of the managers has had such big impact on the logic of the organisation. Processes of change are the result of context and action, and actions are initiated by humans

(Pettigrew, 1997). Hence, processes in the context such as increase in resources could have caused the case companies to become more causal, but they did not, because human agency, that is the managers, did not change the way they managed the company. The same reasoning also explains why more kinds of processes could affect the logic of Addnature compared to Adlibris. The managers of Addnature acted on the changing circumstances in the context, which is the processes, while the managers of Adlibris did not, because they had a stronger preference for effectuation. The difference between Addnature and Adlibris is not surprising as Pär is described as a very effectual personality with much influence.

5.2 The change factors in relation to unpredictability and control

As I have described how the logic of the managers could be such an influential factor in the changing dynamics of effectuation I will now focus the attention to the other factors of change that I have identified. Control is at the heart of effectuation (Sarasvathy, 2001) and I will now show how the factors of change can create a context where the manager of a firm becomes more causal in his activities because he wants to keep the control. As the factor "resources" was only identified to slow down the change towards causation, it will not be included in this analysis.

- When delegation increases, the managers feel lack of control. To keep the control, they will implement more causal activities in the organisation. The example from the cases is that the subordinates had to base their decisions on facts. The same reasoning applies for the board. The board could increase control in the organisation by setting up targets and create strategies.
- When sales increases, more is at stake, hence the willingness to take the control increases and causal processes are therefore implemented.
- When the market matures, it is easier to take control through prediction. In addition, increase in competition creates an urge for more control as it is getting more difficult to keep the control by creating entry barriers through alliances.

I will now compare my findings with Read and Sarasvathy's (2005) propositions about how the logic of an entrepreneur changes over time.

5.3 A comparison with Read and Sarasvathy (2005)

The second proposition by Read and Sarasvathy (2005) is that that the more resources available to novice entrepreneurs, the more likely they are causal. This is found to be true in the case of Addnature, as the founders were aiming for venture capital to start off with a causal approach, but they were quickly forced into effectuation when they did not get any funding. However, the increase in resources did not affect the change toward causation because the founders continued to act as entrepreneurial experts (Sarasvathy 2001), which is in line with proposition number one. In both cases, the preferences for effectuation of the management in the respective companies were either there from the start or became very effectual.

It is interesting to compare the findings with the fourth proposition by Read and Sarasvathy (2005) with Pär's and Fabian's leaving of the company the same day Bonnier took over the final shares. Read and Sarasvathy suggest that only a few entrepreneurs will be able to lead a company that has become causal, while they have themselves developed a preference for effectuation. One reason why Pär and Fabian left might be that they couldn't manage the causal organisation they perceived Adlibris would be turned into. In this sense, the proposition by Read and Sarasvathy is correct. On the other hand, before Pär and Fabian left, the gap between a causal organisation and an effectual entrepreneur didn't exist in Adlibris. This is because the managers had a stronger influence over the logic of the organisation than the other factors of change and kept the organisation at a very effectual level. Hence, there might have been a gap between the *need* of causation and effectual managers, but not between a causal organisation and effectual entrepreneurs, because the organisation was still effectual.

6. Conclusion

6.1 Findings

The logic of effectuation and the logic of causation occur simultaneously in different processes and events in organisations. In the present study most events have been effectual, but some have been identified as more causal. Processes of change are the result of other processes and events and the actions initiated by people. In this study I have identified events and processes that work as factors that either speed up or hamper the change towards casuation. Further, I have explored the changing dynamics behind the change towards causation by investigating the relations between the processes and events and the human agents. This is mainly explained by the logics of the managers that are identified to have much influence over the logics of the organisations. The influence of the logics of the managers varied according to how strong their preference for effectuation and casusation was and their influence in the company.

In line with the predictions of effectuation theory I have identified a change from effectuation towards causation even if there was a strong dominance of effectuation. Four processes that could increase the causal logic of the companies were identified: sales growth, market maturity, increase of resources and increase in delegation. The logic of the managers determined whether they would act on the process or not and subsequently change the logic of the organisations. One event was identified as a factor of change, which was the appointing of external people to the board which caused an increase in causal processes in both cases.

6.2 Theoretical contribution

First of all, there is a limited amount of literature about the change from effectuation towards causation and most literature on the subject discuss the change theoretically, this empirical study has illustrated how the change from effectuation towards causation could occur. The main contribution of this study is the influence of the effectual logic of the managers on the effectual logic of the organisation. In both cases investigated the managers had a large impact of the logic of the organisation. The manager's influence over the logic of the organisation is supported by previous theory about effectuation and process theory, which further strengthen the analytical generalisation of this finding.

6.3 What I did not find

In the theoretical background I discussed why a change from effectuation towards causation would occur and suggested that the maturity of the market, more resources, increase in experience and expertise together with the increase in procedures, policies and routines would be four arguments why a growing company would change its logic towards causation. It would be natural to expect then, that the factors of change identified would have some connection with these four arguments. However, in the empirical data I could only among these four arguments observe that the maturity of the market was a factor that could explain the change towards causation. Even if the limited availability did cause a change towards more effectuation in Addnature, the availability of resources did not cause more causation in any of the cases, at least not during the period under investigation.

My third explanation for the change towards causation was that the increase in experience would create expertise to leverage on instead of contingencies, while the forth argument was that the increase in policies, processes and routines would reduce flexibility and make it more difficult to leverage on contingencies. I did not recognise that the managers increased their expertise, they were experts in programming from the beginning and could not develop that much further. Even if the organisations were growing, I could not observe that there was a large increase in policies, procedures and routines that constrained the organisation to act in a flexible way.

6.4 Avenues for future research

The character of the industry could be a possible explanation why I did not find more explanations for the change towards causation. Experience and expertise are important factors in every industry, but perhaps it is always more important to be able to react quickly and hence, leverage on contingencies on the e-retail market. This study has been limited by the fact that only one industry has been investigated. I therefore suggest that future research should conduct similar studies but in other industries.

Effectuation theory suggests and this study has demonstrated that the logic of each manager is different from the start. I have found that the different managers act on the changing factors in the environment to different degrees. Entrepreneurs develop an increased preference for effectuation (Gabrielsson and Politis, 2011) and it would be interesting to focus on how different kinds of entrepreneurs handle the battle between their own preference for effectuation and the forces that are pushing the companies in a causal direction as well as how their own preference for effectuation changes.

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Appendix

CODES

1. General and the four elements of effectuation
    a. "G" - General
    b. "C" - Control or prediction
    c. "AF" - Affordable loss or expected gains
    d. "N" - Network/partnerships (Strategic alliances)
    e. "LC" - Leveraging on contingencies

2. Change factors "CF" – e.g. Investment, recruitment, people's characteristics, …

3. Event categories "EC"– e.g. Start-up, Morgongåva, Bonnier merger

4. Day-to-day vs. Event decisions
    a. "D2D"
    b. "ED"

5. "HOW" it changes