Bringing People to the Table in New Ventures: An Effectual Approach

Saras Sarasvathy and Helet Botha*

When building new ventures, entrepreneurs confront the three problems of Knightian uncertainty, goal ambiguity, and isotropy. The literature on effectuation offers a framework for action, interaction, and reaction within the prediction control space that can help entrepreneurs tackle the above three problems. In this article, we offer a framework consisting of four approaches to negotiation that populate the prediction-control space, namely, Pitch, Help, Deal, and (Effectual) Ask. While we emphasize the effectual quadrant, we examine all four from a practical perspective informed by theory, while forging important connections with established works in negotiation research. Along the way, we offer illustrative examples as well as ideas for future research at the nexus of entrepreneurship and negotiation.

Keywords: entrepreneurial negotiation, effectuation, uncertainty, umbrella agreements, stakeholder self-selection, new market creation, cofounders, lay theories

*Corresponding author: Saras Sarasvathy, Business Administration, Darden School of Business, University of Virginia, Charlottesville, VA, USA.

Saras Sarasvathy is the Paul M. Hammaker Professor in Business Administration at Darden School of Business, University of Virginia, and the Jamuna Raghavan Chair Professor in Entrepreneurship at the Indian Institute of Management, Bangalore. Her email address is sarasvathys@darden.virginia.edu. ORCID https://orcid.org/0000-0001-9135-0150

Helet Botha is an Assistant Professor of Management Studies at the College of Business, University of Michigan-Dearborn. Her email address is heletb@gwu.edu.

10.1111/nejo.12385

Introduction: Early-Stage Entrepreneurial Negotiations

Negotiations in early-stage ventures can entail multiple uncertainties and complex interdependencies. More importantly, in most of these cases, simply bringing people to the table in the first place can be the primary challenge. That is, an entrepreneur first needs various others with whom to engage, talk, and interact as potential stakeholders in the new business. For the past two decades, a rising stream in research related to the development of entrepreneurial expertise, widely known and accepted under the rubric of effectuation, has examined this issue in depth (Sarasvathy 2001, 2009; Alsos et al. 2020). In this article, we summarize that research and explore its links to several concepts and frameworks in negotiation research. We then outline possibilities for future work at the intersection of effectual entrepreneurship and negotiation.

The nature and extent of unpredictability that pervades early-stage ventures create particular challenges for entrepreneurial negotiations. Let us begin by considering examples. Take the case of cofounders of a new venture. One of the earliest decisions they need to make is how to divide equity. According to conventional wisdom, as well as research on venture capital-backed entities, cofounders typically assign a premium for the idea, a premium for entrepreneurial experience, and a premium for money invested in the venture (Hellmann and Wasserman 2017). Since most new ventures fail due to cofounder disagreements that have little or nothing to do with inputs such as ideas, experience, and money (Klotz et al. 2014), it is not clear why such criteria would be relevant—or which criteria *should* be relevant—in such early-stage negotiations.

Similar difficulties arise with regard to other early stakeholders such as friends and family who invest in the new venture, or even suppliers and vendors with whom contract terms are set. Early customer engagements, pricing, and distributor relationships can all contribute to the mix of interactions within which entrepreneurs find themselves negotiating. Not only do several of these matters occur concurrently or within accelerated timelines; sometimes they impinge on each other, creating "Catch 22" situations and "chicken and egg" problems. For example, winning a bid with a corporate customer may depend on obtaining flexible terms from suppliers, yet suppliers may be less likely to provide such terms to industry newcomers. Similarly, bringing on board valuable talent on the technical front may be contingent on winning corporate customers of public tenders, while winning these purchase contracts might, in turn, depend on the talent already on board.

The examples above bring to light two issues of interest to negotiation researchers. First, entrepreneurial situations offer a unique opportunity to study negotiations under conditions of uncertainty. Second, who joins the venture early on can profoundly influence how the venture develops and whether or not it thrives. In fact, as we elaborate below, the very task of bringing people to the table may set the table in ways that allow for or preclude possibilities for future negotiations.

The Entrepreneurial Problem Space and the Five Principles of Effectuation

Research into the development of entrepreneurial expertise has identified three characteristics of the entrepreneurial problem space:

1. **Knightian uncertainty:** Knight (1921) argued that the future cannot only be unknown; it may be unknowable. According to Knight, while it is customary to define uncertainties in terms of probabilities, we can still distinguish three kinds of distributions. Risky spaces, such as tossing an unbiased coin, involve known distributions and unknown draws. The problem here is that of calculating the odds, 50–50 in the case of an unbiased coin. Uncertain spaces, such as the demand for a new product, may involve unknown distributions as well as unknown draws. This might require a lot of testing and experimentation before a model of the possible distribution can be formed and then odds calculated. Entrepreneurship, however, often entails unknowable distributions where no amount of testing or experimentation can make the distribution orderly enough to enable predictive calculation.
2. **Goal ambiguity:** Entrepreneurs—like all human beings—sometimes must deal with a lack of clarity in goals, whether their own or those of others they need to bring on board. Even when they might want to make money or save children or achieve any other seemingly clear aspiration, translating these objectives into actionable goals may involve ambiguities of various kinds. "Goals" are to entrepreneurs what "interests" are to negotiators. Ambiguity can plague both the goals of entrepreneurs and the interests of negotiators, who may or may not be entrepreneurs.
3. **Isotropy:** Given Knightian uncertainty and goal ambiguity, it is often difficult to determine which pieces of information may be relevant or irrelevant to particular courses of action. For example, when entrepreneurs talk to potential customers, they often encounter contradictory feedback. Even worse, they may end up talking to the wrong customers, missing out on possible markets they did not imagine or fabricate.

The five principles of effectuation, described in more detail in Table One, use a logic of non-predictive control to tackle these three dimensions of the entrepreneurial problem space. In other words, effectuation is about relinquishing predictive control over outcomes and instead, making control itself into a tool for achieving outcomes that cannot be predicted in advance but turn out to be valuable nonetheless. Effectuation minimizes reliance on predictive information and instead emphasizes possibilities for shaping and cocreating both goals and aspects of the external environment over time. Goal ambiguity, therefore, becomes an important resource rather than a problem to be overcome and isotropy is resolved through commitments from self-selected stakeholders. Table One lists and describes the five principles of effectuation and shows how each individually, and in conjunction, helps tackle the three dimensions of the problem space.

Effectual entrepreneurs begin with their means, rather than goals. Based on who they are, what they know, and who they know (bird-in-hand principle), they imagine courses of action that require them to invest no more than they can afford to lose (affordable loss principle). Instead of targeting particular stakeholders based on a predicted product market, they work with whoever wants to work with them. In other words, they allow people to self-select into the process by making commitments to the new venture (crazy quilt principle). They also learn to transform both positive and negative surprises into valuable new opportunities (lemonade principle). Finally, they seek to *make* new markets through cocreative strategies, rather than *find* them through predictive ones (pilot-in-the-plane principle).

Figure One illustrates the five principles within an iterative process discovered and fleshed out through studies of hundreds of new venture histories (Alsos et al. 2020). We will return to a deeper dive into Figure One a little later.

Relevant Negotiation Literature: At, Away From, and Behind "The Table"

Negotiation scholars are familiar with multiple uncertainties as well as the dynamics of iterative interactions between known and unknown stakeholders. Several works in negotiation have sought explicitly to address such circumstances and issues. As early as 1960, Thomas Schelling, in his classic *The Strategy of Conflict*, pointed to the distinction between risk and uncertainty, as well as to multiple sources of uncertainty about negotiators' value systems. While early studies of negotiation tended to focus on dyadic interactions, significant exceptions such as Walton and McKersie (1991) addressed intra-organizational negotiations and consensus-building processes. As the field of negotiation research emerged, dyadic approaches gave way to multiparty decision making, such as the coalitional approaches offered by Lax and Sebenius (1992). Additionally, as Neale and Bazerman (1992) showed, cracks in the edifice of rationality assumptions began to appear and grow (Sebenius 1992; Putnam 1994). Since then, the embrace

Table One
The Five Principles of Effectuation and How They Address the Problem Space

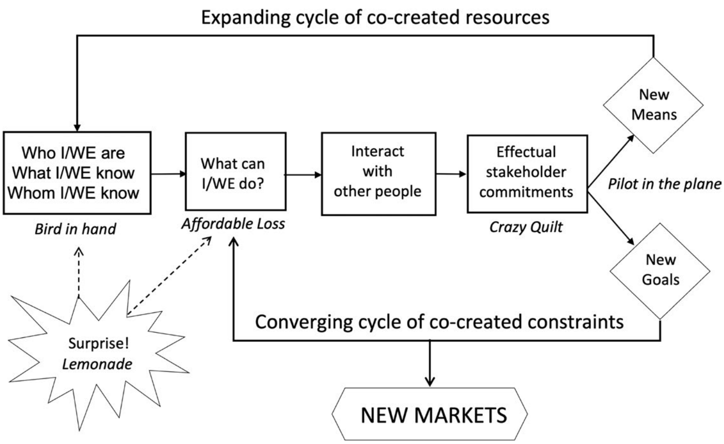
Effectuation Principle	Brief Description	How it Addresses the Problem Space
Bird-in-hand	Means-driven action. Act based on what is within your control. For example, consider who you are, what you know, and who you know as the basis for what you do.	Goal ambiguity is not a problem to be overcome. And prediction, whether of required resources or probability of achieving predetermined outcomes, is no longer an issue. Every action is already doable. Choosing between these doable actions might still be an isotropic issue.
Affordable loss	Focus on keeping the downside within one's control rather than pitching predicted upsides.	Serves as a way to choose between doable actions. The criterion for choice is whether any doable action is worth doing even if it entails a loss of resources invested. And only resources under consideration are those already within one's control. Bird-in-hand and affordable loss together avoid prediction and resolve isotropy, while still allowing for a lack of goal clarity beyond immediate actions.
Crazy quilt	Stakeholders self-select into the process. Price of admission consists of actual commitments to the next steps, without guarantees of predicted or promised upsides.	Allows entrepreneurs to expand their bird-in-hand while continuing to act without prediction and goal clarity. This principle turns goal ambiguity into a resource that enables stakeholders to self-select.

(Continues)

Table One (Continued)

Effectuation Principle	Brief Description	How it Addresses the Problem Space
Lemonade	Failures are seen as part of the process and as subject to transformation into positive possibilities. Surprises are embraced and contingencies leveraged.	Contingencies are a problem only if one is tied to specific goals and chasing particular resources from targeted stakeholders. Here, both unpredictability and goal ambiguity facilitate creative and cocreative responses.
Pilot-in-the-plane	Seeing the future as cocreated rather than as something exogenous to human action.	This is the most powerful tool in tackling isotropy. No external cues are needed or useful in deciding the relevance of decision/action criteria. The emphasis is on what can be done given a multiplicity of aspirations and abilities rather than what should be done given predicted and extrinsic information.

Figure One
The Effectual Process (Sarasvathy and Dew 2005). Note that when success occurs, it is more likely to lead to innovative outcomes. And when a failure occurs, no one loses more than they can afford to lose.



of social psychological approaches to the study and practice of negotiation has led to an awareness of the fact that negotiators most often do not have stable well-ordered preferences (Neale and Fragale 2006).

The literature on negotiation offers at least one important tool to tackle problems of goal/preference ambiguity within domains of Knightian uncertainty—namely, umbrella agreements. As Mouzas (2006) explains, the term "umbrella agreement" refers to an agreement made today about a framework of rules, principles, and processes for arriving at agreements in the future. In the case of the cofounder equity split problem outlined at the beginning of this article, an umbrella agreement could specify how each cofounder could earn equity in the future—for example, based on achieved milestones that a trusted third party could evaluate to determine each cofounder's contribution. Mouzas (2006) considers three problems for which umbrella agreements can serve as a useful negotiation framework: multilateral exchanges, manifold rationality, and recursive time, all of which are part of the effectual process, as illustrated in Figure One.

Multilateral exchanges refer to multiple and iterative give-and-take processes at play in the negotiation. Manifold rationality concerns both differences in what may or may not be important to the negotiating parties as well as different types of rationality that might come to the fore at various points in the negotiation, such as Weber's instrumental versus value rationality, where instrumental refers to means that are effective in achieving ends and value refers to ends worth achieving (Mueller 1979; Varshney 2003). Recursive time refers to repeated practices such as periodic reviews, quarterly reports, and annual evaluations. All of these can become part of umbrella agreements that allow committed stakeholders to renegotiate terms or determine specific values such as equity split percentages for terms already negotiated at the original table.

"The table" is an interesting metaphor permeating the literature on negotiation. As Lax and Sebenius (2002: 5) have noted, "Much of our understanding of negotiation focuses on the process at the table involving a complicated set of interpersonal dynamics and strategies…" They dub this process-focus a "one-dimensional" approach to negotiation. They then go on to introduce "dealcrafting" as the second dimension, and entrepreneurial moves "away from the table" as the third. Dealcrafting, as its name suggests, focuses on the substance of the deals negotiated "at the table." This second dimension, like the first dimension, takes place at the table. The third dimension, moving away from the table, offers an intriguing possibility for changing the negotiation game itself, rather than simply playing it better. For example, once engaged in a negotiation with one other party, entrepreneurs might pause to look carefully for potential resources at the table in which neither party is directly interested. They could then ask, who might we invite to join the table that would be directly interested in the unspoken-for resources? Such a move enhances the potential for the overall value created through the deal. Three-dimensional negotiators thus create joint gains through leveraging differences, rather than commonalities, between players.

This possibility for joint gains from differences can be found in the use of the affordable loss principle by effectual entrepreneurs. Consider Richard Branson's negotiation with Boeing when starting Virgin Atlantic. Branson asked Boeing to let him lease planes, thinking that if the new venture did not succeed, he could return the planes. This enabled him to keep his downside within his affordable loss levels. Interestingly, letting Branson lease the planes also created an affordable loss investment for Boeing. While they could have sold the planes for full price to other airlines, by leasing them to Branson they were buying an option to supply Virgin Atlantic should it prove successful. For Branson, controlling the downside was important. For Boeing, the possibility of the upside made the risk worthwhile.

Another evocative reference to "the table" comes from work on level-two negotiations that seek to reduce barriers "behind the table" (Sebenius 2013). Barriers to negotiated deals can come not only from the negotiators at the table, but also from internal stakeholders on each side who are not directly engaged in the negotiation but could object to the deal or even prevent it from happening. In international agreements, for example, after a deal is negotiated, it may have to be ratified by legislative or other bodies in each country (Putnam 1988). Level-two negotiations also have been examined in terms of gender in labor participation, where women not only have to negotiate with employers but also with members of their families "behind the table" (Bowles and McGinn 2008). By paying attention to the other side's potential level-two problems and proactively working behind the table to resolve them, negotiators can come to viable and valuable deals that might not otherwise happen.

An example of this in entrepreneurship can be found in the early history of Grameen Bank. When Muhammad Yunus came to understand that poverty could be tackled by providing microloans to women in Bangladesh, he had to contend with the fact that their husbands would not allow them to become members of Grameen. Instead of approaching this as an insurmountable cultural issue, Yunus simply sat down with the men and asked them what it would take to get them to relent (Yunus 1998). These negotiations behind the table led to the deal structure that inverted mainstream lending practices—for example, banks started going to people's houses rather than requiring people to go to banks.

Unlike the entrepreneurship examples above, most negotiation research and practice focuses on negotiators who are already at the table in one way or another. However, the overarching issue for most entrepreneurs is how to get people to the table in the first place. Moreover, how entrepreneurs get people to the table can have important and lingering impacts on negotiations and deal possibilities down the road. That is where the principles of effectuation are particularly useful, allowing current deals to happen under uncertainty, ambiguity, and isotropy while keeping structures open for future stakeholders to come on board. Table Two offers implications for negotiation research from the five principles of effectuation.

Bringing People to the Table

Both conventional wisdom and rational approaches used by investors and others prioritize prediction because better prediction allows more control over desired outcomes. Expert entrepreneurs, however, learn to disconnect prediction from control, thereby obtaining access to four toolboxes of strategies as laid out in Figure Two, which is derived from a combination of theoretical and empirical work in the effectuation literature (Wiltbank, Dew, and Read 2006; Read, Song, and Smit 2009; Dew, Read, and Sarasvathy 2011; Galkina and Atkova 2020; Shirokova, Osiyevskyy, and Laskovaia 2020; Sarasvathy 2021).

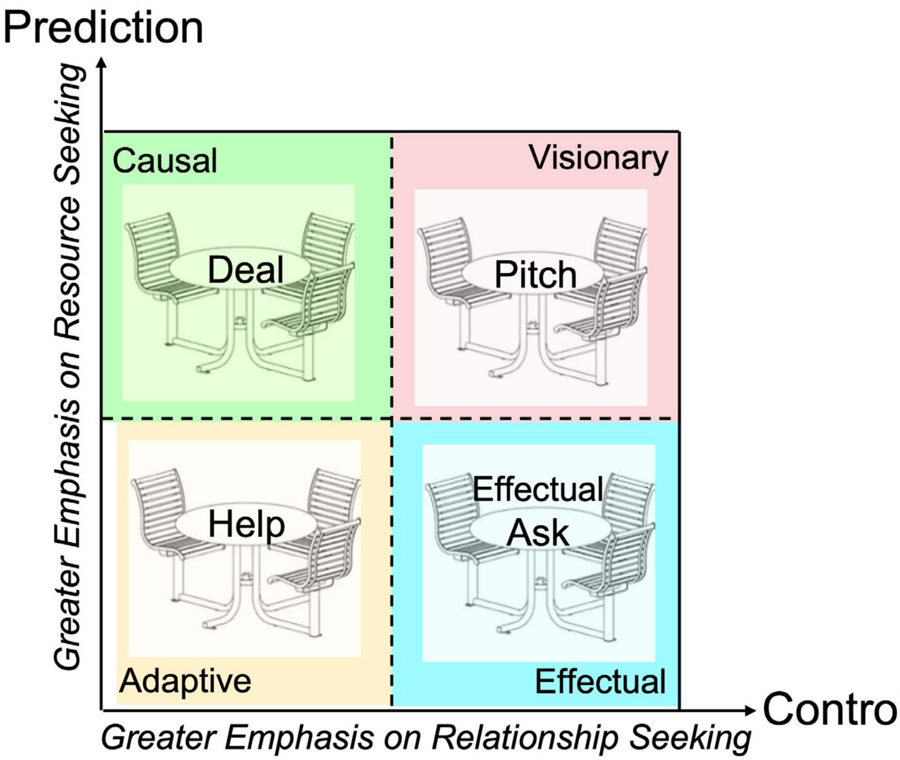
The vertical axis in Figure Two is *prediction* and the horizontal axis is *control*. The use of predictive strategies is correlated with

Table Two
Implications for Negotiation Research from the Five Principles of Effectuation

Effectuation Principle	Implications for Negotiation Research
Bird-in-hand: Action is means-driven rather than goal-driven.	The flexibility of changing goals and subgoals. This dampens a "take it or leave it" stance in the negotiation discourse and creates more room for integrative and cocreative conversations to occur.
Affordable loss: Invest what you can afford to lose rather than what you expect to gain.	Risks are discussed transparently. Subjective aspects of downside risk are explicitly taken into account in dealcrafting. Upside potential is acknowledged as unknown.
Crazy quilt: Allow stakeholders to self-select rather than target them based on predetermined goals and predicted returns and resource requirements.	While the price of admission is commitment without guarantees of upside, an immediate return on commitment is the ability to shape the next steps and goals of the venture. This helps inspire integrative and cocreative behavior.
Lemonade: Leverage rather than avoid contingencies (including failures).	Contingencies are front and center in all aspects of negotiations. Hence, a major focus is on umbrella agreements, namely, frameworks for arriving at future agreements. Emotional acceptance of failures along the way.
Pilot-in-the-plane: Shape and cocreate new futures rather than predict and follow trends.	Effectual entrepreneurs and their stakeholders have to believe in and rely on each other in an intelligently altruistic way, namely, knowing when to be altruistic and when to be self-interested. Neither unbridled selfishness nor idealistic altruism can facilitate cocreation.

resource seeking since targeted investors and others ask for predictions of market size and growth as well as estimations of expected return. Without such predictions, entrepreneurs have to turn to

Figure Two
Negotiation Tables in the Prediction-Control Space



resources from existing relationships. However, through their efforts to cultivate new relationships, entrepreneurs learn effectual strategies such as allowing stakeholders to self-select into the process by enabling them to jointly shape environments and futures. In the absence of reliance on predictive information, relationships become even more important.

In fact, relationships, embodied in contingent commitments, become useful substitutes for resources, even if those commitments are relatively small in the short term. Data from expert entrepreneurs show this substitutability in terms of faces and wallets (Sarasvathy 2009). When people chase wallets, they have to contend with the fact that wallets come with faces, namely, relationships and the quirks and conflicts of personalities that these entail. Expert entrepreneurs choose to chase faces instead and realize that faces come with wallets, even if these may be smaller than the wallets they might otherwise have pursued. Resources and relationships as orthogonal dimensions have been studied in sociology (Podolny and Baron 1997) as well as in entrepreneurship research (Huang and Knight 2017). The orthogonality of prediction and control has been discovered in entrepreneurship and now is a focus of research in other disciplines (Nelson and Lima 2020).

Applying what we have learned from effectuation research to the area of negotiations, we get the four tables in Figure Two. In the visionary quadrant at the top right of Figure Two, we find the pitch table. To the left of that is the more traditional deal table, often examined in negotiation research. Below that is the help table, where most novice entrepreneurs begin their journey. The bottom right is where the effectual ask happens, allowing people to self-select as stakeholders.

At the pitch table, negotiations are often about ways to achieve the entrepreneurs' vision. Goals are clearer and specific stakeholders are targeted to provide specific resources to achieve the envisioned goals. Communication flows from entrepreneur to potential stakeholder. The entrepreneur's rhetoric is one of passionate persuasion imbued with charisma couched in compelling arguments as to why the targeted stakeholder should invest. This suggests that people who disagree or do not buy into the vision might not have a place at the table, although entrepreneurs might persist with naysayers to get them to the table. People who eventually do invest tend to be followers placing bets on a future they believe will and should happen. Chances are that negotiators at this table overlook how likely, or how big, possible failures could be. The most common response to downside contingencies at this table would likely consist of perseverance rather than pivots. Most deal terms will be concerned with means to achieve the vision, rather than new objectives or drastic changes to them.

Novice entrepreneurs, unless they are strong visionaries, tend to begin their journey at the help table seeking advice, feedback, information, and other kinds of help from potential stakeholders. Here, communication largely flows from stakeholder to entrepreneur. Entrepreneurs are in learning mode, mainly making requests of stakeholders. The help table is also where entrepreneurs encounter the isotropy problem at its worst. Help-seeking is extremely important for all entrepreneurs, but novices tend to expect information from others to guide them every step of the way, including formulating a clear vision and crafting pitches for targeted stakeholders. Negotiations at this table are not so much about resources as they are about clarity of information and guidance. Often, however, the information coming from multiple potential stakeholders tends to be muddled and contradictory. This requires entrepreneurs to navigate the churn rather than negotiate for a path forward. The more open and welcoming entrepreneurs are to stakeholders, the more exacerbated the isotropy problem.

Depending on how good they do at this table, entrepreneurs can move toward a pitch by committing to a vision based on cohesive information. Or they can move to formal market research to clear the path toward a plan leading to actual negotiations with potential stakeholders. In other words, they could move to the pitch table or the deal table. Most business school curricula and popular toolkits such as lean start-up methodology seek to help entrepreneurs to move toward the upper two quadrants in Figure Two. Sometimes potential stakeholders will negotiate the move. For example, when an entrepreneur approaches a potential angel investor, seeking advice and information, the investor could in turn ask the entrepreneur to conduct a more formal survey on their behalf, thereby moving them to the deal table in the top left-hand quadrant. It could also be that entrepreneurs at the help table continue to persevere for a long time with one stakeholder after another until they end up quitting the endeavor altogether. Interestingly, some novices at the help table will learn to move sideways toward the effectual quadrant as well.

Since most formal education programs in entrepreneurship teach predictive techniques such as surveys, focus groups, ethnography, and financial projections and offer courses in bargaining and negotiation, sooner or later, most entrepreneurs find themselves at the deal table in the top left quadrant of Figure Two. Or at least they approach potential stakeholders with their dealmaking hat on, so to speak. Communication at this table flows in both directions and the rhetoric involves quid pro quo claims. This table engages in a larger variety of give-and-take than at the pitch table or the help table. However, what entrepreneurs bring to the table here tends to take the form of a pitch deck rather than any active deal crafting preparation in the Lax and Sebenius (Lax and Sebenius 2002) sense of the term.

Negotiations at this table often involve renegotiation of predictions and proformas since differences of opinion tend to arise between stakeholders coming from different industry and investment backgrounds. Entrepreneurs often have to rethink their assumptions and change aspects of their venture including targeted market segments, business models and processes, and risk assessments. They may even be compelled to reconsider which other stakeholders they need to pursue on the way to finalizing deals under negotiation. It is in this quadrant that extant research on negotiation is particularly helpful. While novices sometimes get caught up in a distributive stance here, entrepreneurs who learn and pay attention to techniques of integrative negotiation can make productive moves at this table.

Two decades of effectuation research have shown that it is possible to build enduring ventures without investing much in prediction. The table in the bottom right quadrant of Figure Two consists of the effectual ask. The focus of effectual negotiation is to move beyond advice and information to get to a commitment as quickly as possible. It is interesting to note that this is in direct contrast to the prescriptions in popular negotiation books such as *Getting to Yes* (Fisher, Ury, and Patton 2011) to postpone commitment as far as possible while sharing interests, generating options, and so forth. Instead, communication in effectuation is focused on the doable next steps and how to get stuff done quickly using what the stakeholders currently at the table can realistically commit, even if these are only "micro" commitments. The conversation is action-oriented with an eye to cocreating something new that each stakeholder finds valuable for their own particular reasons. The aim is to get to courses of action everyone can agree on irrespective of the promise of, and disagreement about, predicted outcomes.

At this table in the bottom right quadrant of Figure Two, information that comes with real skin in the game is accorded much value and feedback unaccompanied by real investment is, for the most part, ignored. Actual commitments quickly move entrepreneurs toward execution rather than planning and pitching. This is just as well since effectual entrepreneurs do not "target" stakeholders. Instead, they talk to anyone and everyone they can, including people they know, people they think might be able to help, and even strangers they happen to meet during the course of their day. The effectual ask table invites people to sit down and discuss what they care about and what they would be willing to risk for, or invest into, these priorities. The rhetoric is open-ended and cocreative. Reasons for committing to the new venture could be the stakeholder's own affordable loss and/or the desire to impact the future through participating in the venture, which impact may or may not result directly from their current commitment, but without such commitment would not come to pass.

It should now be apparent that flexibility in goals, even the lack of a clear vision, may be an asset in negotiations. Stakeholders at the effectual table are engaged in making something new, rather than finding ways to improve and enhance predictions of futures outside their control. An iconic example of how a novice entrepreneur might learn to move to the effectual ask can be found in the story of Steve Jobs trying to raise money for Apple in the early days of the company. After several failed attempts at persuasion through visionary pitches based on predictive information, Jobs accosted Mike Markkula in the hallway at a conference and asked in exhaustion, "What do I need to do to get you guys to invest?" (This story is narrated by Markkula in the documentary *Something Ventured*.) Note that the framing of this question seeks neither information nor particular resources. It turns the table by asking for the terms of self-selection, thereby inviting the stakeholder to craft the pitch for their own commitment.

Before we consider the advantages of an effectual approach, it is important to note that the four quadrants in Figure Two are separated by lines that are dashed rather than solid. That is because the four tables need not be walled off from each other. In real life, entrepreneurs and their stakeholders (potential and actual) are free to move from table to table depending on where they find themselves in the prediction-control space.

How the Principles of Effectuation Help Avoid Negotiation Mistakes

Dinnar and Susskind (2018) identified eight mistakes that entrepreneurs are prone to make at the negotiation table. It is interesting to examine how effectuation principles derived from studies of expert entrepreneurs could help avoid or overcome these mistakes. Table Three lists the eight mistakes and offers possible remedies from effectuation.

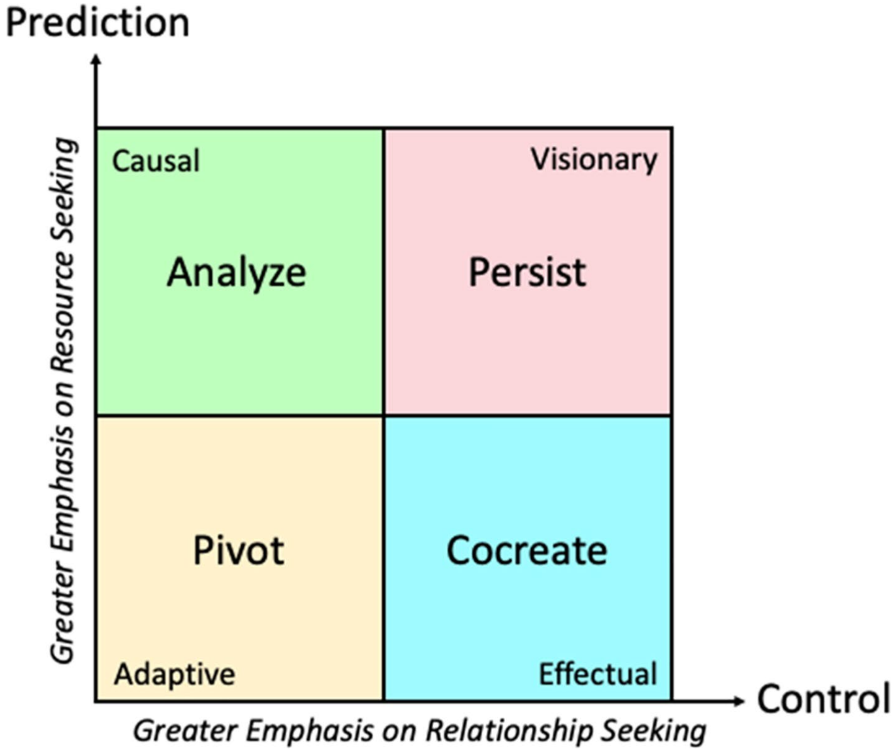
In assessing these negotiation mistakes, it is useful to turn back to Table One in conjunction with Table Two. In this connection, the following two clarifications are important.

First, effectuation is a theory of entrepreneurial expertise and is not expected to be evidenced in the behavior of all entrepreneurs. While novices may quickly learn some of the principles such as bird-in-hand and lemonade, or even have innate traits that allow them to apply these principles with ease, other principles such as crazy quilt usually take considerable practice and entrepreneurial experience to master. All the same, it is possible to teach novices to avoid negotiation mistakes by teaching them the principles of effectuation and how these apply within the process model shown in Figure One. In fact, the framework of the prediction-control space in Figures Two and Three offers a powerful guide to educating novice entrepreneurs. One of the benefits of identifying the principles and frameworks constituting entrepreneurial expertise is that such concepts can be taught to novices, who do not need to learn everything the hard way through experience alone (Ericsson and Pool 2016). Experience is still important but learned principles and frameworks can help reduce both the occurrence and the magnitude of mistakes such as those identified by Dinnar and Susskind (2018).

Table Three
Negotiation Mistakes of Entrepreneurs and Connections to Effectuation Principles

1. Entrepreneurs are Self-Centered	Effectual cocreation cues in intelligent altruism, namely, when to be self-centered and when to be altruistic. In other words, overly self-centered actors are less likely to come to the effectual table in the first place.
2. Entrepreneurs are Overly Optimistic and Overconfident	Both these mistakes relate to prediction and are mitigated by rejecting predictive strategies.
3. Entrepreneurs Need to Win—Now	On the one hand, effectuation allows small wins to happen quickly (bird-in-hand) and on the other hand, it digests small losses along the way (affordable loss). Hence, delays in getting to a slower, bigger win are easier to bear.
4. Entrepreneurs are Too Quick to Compromise	Pilot-in-the-plane principle reframes negotiation in terms of cocreation rather than compromise.
5. Entrepreneurs Work Alone	Both crazy quilt and pilot-in-the-plane make working with others indispensable. Put simply, one cannot effectuate alone.
6. Entrepreneurs Haggle	In effectuation, there is no pie to haggle over. Pies are cocreated iteratively and so are slices over time, through umbrella agreements.
7. Entrepreneurs Rely Too Heavily on Their Intuition	As the literature on expertise shows, experience and practice recalibrate novice intuitions into expert intuitions that incorporate key learnings. Teaching effectuation principles to novices could help modify their intuition or at least sensitize them to alternate ways of thinking.
8. Entrepreneurs Deny Their Emotions	Both the need to work with self-selected stakeholders and to grapple with failures compel effectual entrepreneurs to pay attention to their own as well as others' emotions.

Figure Three
Responses to Stakeholders in the Prediction-Control Space



Second, we should resist the temptation to see entrepreneurs as different from human beings who are not entrepreneurs. That means it is not only entrepreneurs who are prone to negotiation mistakes. It is highly likely that all novices are prone to negotiation and other mistakes. The vast literature on traits in entrepreneurship research has found few differences between entrepreneurs and non-entrepreneurs. Some studies have found differences in self-efficacy between entrepreneurs and managers (Chen, Greene, and Crick 1998). In a meta-analysis of the Big 5 personality traits, Zhao and Seibert (2006) found that entrepreneurs scored higher on Conscientiousness and Openness to Experience and lower on Neuroticism and Agreeableness. No difference was found for Extraversion. However, all four effect sizes were small and no mechanisms were spelled out in terms of the possible effects of training and experience (Leutner, Ahmetoglu, and Akhtar 2014). There exists at least one study that shows that training actually changes these traits in positive directions for venturing (Haynie, Shepherd, and Mosakowski 2010).

Another reason for not positing entrepreneurs as somehow inherently different from non-entrepreneurs rests on the fact that entrepreneurship is the back-up option for everyone. The fact that someone is not yet an entrepreneur does not mean they will not be tomorrow (Sarasvathy, Ramesh, and Forster 2014). There are as many kinds of ventures as there are entrepreneurs. Hence, good venturing is more about the match between the type of entrepreneur and type of venture than any unique set of personality characteristics of founders. In sum, it is not only entrepreneurs who are entrepreneurial. All human beings can learn to be entrepreneurial just as all human beings can learn to be scientific even if they choose not to become scientists. They can apply scientific reasoning to a variety of things in their lives. So too they can be entrepreneurial in life. Hence, both entrepreneurs and their stakeholders, even those who have never started a venture nor ever will, can learn to negotiate effectually.

Taking the above two insights together, it is easy to see that (a) most of the eight mistakes are probably applicable to all novice negotiators, not only to entrepreneurs and (b) even if they are applicable to entrepreneurs, effectual entrepreneurship, whether learned inside the classroom or in the school of hard knocks, helps overcome them.

To develop a deeper understanding of these insights and the analysis of effectuation principles and their behavioral effects on cocreators, let us begin with a typical interaction between entrepreneurs and stakeholders in new ventures, as analyzed in great detail in Sarasvathy and Dew (2005). Using the hypothetical example from that study, let us say an entrepreneur comes up with an idea for a green-colored widget. When they start talking to potential stakeholders, the typical case does not consist of a straight rejection or enthusiastic acceptance. Usually, stakeholders ask questions, raise objections, and offer alternatives. Let us say a stakeholder advises the entrepreneur to make a blue widget instead of the green one. How can and should the entrepreneur react to that suggestion?

Again, the prediction-control framework we developed in Figure Two can be repurposed to analyze possible responses as depicted in Figure Three.

Entrepreneurs can continue to persist in their vision of a green widget (visionary response in the top right quadrant) or adapt to the stakeholder's suggestion and pivot to a blue widget (adaptive response in the bottom left quadrant). They can also gather data from a large number of stakeholders and map out other possibilities, such as red, yellow, and purple widgets. This enlarges their set of possibilities but unleashes the isotropy problem. In an effort to narrow down the set of possibilities, entrepreneurs can undertake formal analyses of the set and try to effect the best possible choice (causal response in the top left quadrant).

In the effectual case in the bottom right quadrant, entrepreneurs simply respond by asking the stakeholder who wants the blue widget to commit to something in order to "make" the widget blue. In other words, they will pivot to the extent that the stakeholder invests real skin in the game. Such commitment could manifest through introductions to a supplier who can provide favorable terms for the production of blue widgets, an advance purchase order for blue widgets, an investment in the building of a blue prototype, and so on. Notice that this allows the stakeholder to self-select not only in terms of their resource commitments but also as to their role in the new venture.

Whether or not the effectual entrepreneur approached an individual as a potential customer, supplier, or investor, or as possibly filling any other role, the stakeholder self-selection process in Figure One allows roles, resources, and relationships to be shaped, negotiated, and cocreated. Furthermore, every time an initiative or act is agreed upon and committed to, both the means available to the venture as well as the venture's goals change, one setting in motion an expanding cycle of resources and the other a converging one of constraints on courses of action. Together the process itself leads to a variety of new artifacts including new products, new ventures, new opportunities, and even new markets.

In other words, unless the process aborts or the entrepreneur quits, success in the process increases the likelihood of innovation, even if no one in the process had the vision to imagine such innovation at the beginning of the process. And if a failure occurs, no one loses more than they can afford to lose, thus reducing the costs of failure, without regard to the probability of failure.

Future Research

We have identified three potential avenues for future research into effectual entrepreneurship and negotiation.

1. How Does Effectuation Help to Transform Conflicts in Negotiations?

One stream of negotiation research concerns the transformation of conflicts into consensual situations (Putnam 2004). This stream has considerable overlap with the transformation of extant markets into new cocreated marketspaces in effectuation and is worth pursuing in more depth. Putnam's description of transformation is useful when contemplating such research:

> Transformation refers to moments in the conflict process in which parties reach new understandings of their situation, ones that redefine the nature of the conflict, the relationship among the parties, or the problems they face. New understandings are marked by different meanings or interpretations of events. The parties involved have a fundamentally different view of what is happening than they did when they entered the negotiation. Some folks describe these new understandings as the "ah-ha moments" or the points when a light bulb goes on and illuminates a situation in an entirely different way (Galtung 1996). Transformation involves alterations in "the rules of the game [and] the patterns that define internal relations of the various pieces to each other," according to Wilber (1983).
>
> New understandings of a situation can occur on multiple levels, including the substance of negotiation, the affiliation among the parties, or the ways that the parties view their identities. (Putnam 2004: 276)

It would be interesting to examine empirically whether the particular shifts in levels described by Putnam occur in cocreational interactions at the effectual table. If so, what are the differences and similarities between conflict and cocreation, such as occurs in new ventures? The role of discourse in conflict resolution (see Putnam 2010) links methodologically with the open conversation that results from the effectual ask. Putnam's (2010) analysis of the framing of risk and uncertainty in negotiation offers a way forward in examining discourses between entrepreneurs and their stakeholders.

2. Lay Theories about the Motivations of Others

Broad-ranging research in a variety of academic disciplines has converged on findings of how lay theories determine behavior in a variety of settings, including negotiation (Kray and Haselhuhn 2007). The term "lay theories" refers to unstated beliefs about our "self" and the social world (Molden and Dweck 2006). For example, a growth mindset is a belief that intelligence is malleable, whereas a fixed mindset is a belief that intelligence is immutable. These mindsets act as frames through which people interpret the meaning of failure, both in the domain of performance (Dweck and Leggett 1988; Heyman and Dweck 1998) and in interpersonal relationships (Schumann and Dweck 2014). Consider, for example, that managers with a growth mindset are more likely to put effort into coaching struggling employees than managers with a fixed mindset (Heslin, Vandewalle, and Latham 2006).

At least one study has found evidence of growth-minded negotiators outperforming fixed-minded negotiators (Kray and Haselhuhn 2007).

This opens up several related lines of inquiry: When does a growth mindset regarding negotiation ability set itself apart? Does it happen primarily at the table, by affecting the negotiation process through reducing egotistical concerns? Or could it also be that growth-minded negotiators are more likely to take a pause away from the table to reevaluate the terms of the game? How might a person pick up on a counterparty's lay theories about negotiation, and how might this affect the value that they are able to create jointly?

While all four tables of the prediction-control space in entrepreneurial settings are fertile ground for future research, it may be particularly exciting to examine lay theories that focus on negotiators' behavior at and around the effectual table. How do negotiators' beliefs about "self" and the social world influence whether they *choose* to be at the effectual table, or simply *find themselves* there? What kinds of lay theories may facilitate or hinder stakeholder self-selection or even the simpler acts of asking for advice or seeking umbrella agreements? Cynical lay theory—the belief that others are primarily motivated by self-gain (Stavrova and Ehlebracht 2016)—could limit the information sharing that is necessary for negotiation to be integrative rather than distributive in not only the effectual table, but the other tables as well. It may be the case that a cynical lay theory is particularly caustic in entrepreneurial settings, where relationships are novel and forged under uncertainty. The impact of cynical lay theory on entrepreneurial moves away from the table offers yet another avenue for future research.

3. The Venture Itself as a Party at the Table

Refer back to the cofounder negotiation with which we began this article. It is easy to view such negotiation as consisting only of the interests of the cofounders without explicit attention to the well-being of the venture. But experienced entrepreneurs would emphasize the "parental" aspect of that negotiation, understanding that they are responsible for taking care of what they have created. In other words, cofounder equity negotiations should ultimately be driven by what best promotes the health and longevity of the venture rather than the cofounders' ambitions and expectations. The venture itself should be given a seat at the table.

Framing the discourse in terms of risks and rewards for cofounders and other stakeholders is only a small part of equity negotiations. Careful consideration of decision rights that can transform today's inputs/risks into tomorrow's outputs/rewards is critical to whether or not the venture is actualized, grows, and thrives. The person who brings in the most resources may not be the best person to make day-to-day decisions affecting the venture. Chances are, the person with fewer resources is likely to care more about the venture's health and longevity.

Most importantly, all these aspects—such as resources, roles, risks, and rewards as well as implicit and explicit decision rights—will probably change over time as new stakeholders come on board and the market becomes more predictable. Hence, umbrella agreements too need to be drafted with a view to the venture itself being a party to the deal. Because in the end, the venture should not only survive and thrive, it should be able to do so on its own, without direct dependence on any particular stakeholder at the early-stage equity negotiation.

Conclusion

Negotiations in new ventures entail multiple uncertainties and complex interdependencies. In addition to problems identified in the literature dealing with negotiations under uncertainty, entrepreneurs have the problem of bringing people to the table in the first place. Based on the rising stream of work on effectuation, we offered a framework to overcome that problem, consisting of four approaches to negotiation that populate the prediction-control space: Pitch, Help, Deal, and (Effectual) Ask. This framework also works well with proven and useful techniques explored in the negotiation literature, such as umbrella agreements, dealcrafting, and the engendering and leveraging of critical moments. Given the practical relevance of effectuation and its potential as a teaching tool in the development of entrepreneurial expertise, it stands to reason that a deeper dive into effectual negotiation might be fruitful for those studying and teaching negotiation as well as entrepreneurship.

REFERENCES

Alsos, G. A., T. H. Clausen, R. Mauer, S. Read, and S. D. Sarasvathy. 2020. Effectual exchange: From entrepreneurship to the disciplines and beyond. *Small Business Economics* 54(3): 605–619.

Bowles, H. R., and K. L. McGinn. 2008. Gender in job negotiations: A two-level game. *Negotiation Journal* 24(4): 393–410.

Chen, C. C., P. G. Greene, and A. Crick. 1998. Does entrepreneurial self-efficacy distinguish entrepreneurs from managers? *Journal of Business Venturing* 13(4): 295–316.

Dew, N., S. Read, S. D. Sarasvathy, and R. Wiltbank. 2011. On the entrepreneurial genesis of new markets: Effectual transformations versus causal search and selection. *Journal of Evolutionary Economics* 21: 231–253.

Dinnar, S., and L. Susskind. 2018. The eight big negotiation mistakes that entrepreneurs make. *Negotiation Journal* 34(4): 401–413.

Dweck, C. S., and E. L. Leggett. 1988. A social-cognitive approach to motivation and personality. *Psychological Review* 95(2): 256–273.

Ericsson, A., and R. Pool. 2016. *Peak: Secrets from the new science of expertise*. Boston: Houghton Mifflin Harcourt.

Fisher, R., W. L. Ury, and B. Patton. 2011. *Getting to yes: Negotiating agreement without giving in*. New York: Penguin Books.

Galkina, T., and I. Atkova. 2020. Effectual networks as complex adaptive systems: Exploring dynamic and structural factors of emergence. *Entrepreneurship Theory and Practice* 44(5): 964–995.

Haynie, J. M., D. Shepherd, E. Mosakowski, and P. C. Earley. 2010. A situated metacognitive model of the entrepreneurial mindset. *Journal of Business Venturing* 25(2): 217–229.

Hellmann, T., and N. Wasserman. 2017. The first deal: The division of founder equity in new ventures. *Management Science* 63(8): 2647–2666.

Heslin, P. A., D. Vandewalle, and G. P. Latham. 2006. Keen to help? Managers' implicit person theories and their subsequent employee coaching. *Personnel Psychology* 59(4): 871–902.

Heyman, G. D., and C. S. Dweck. 1998. Children's thinking about traits: Implications for judgments of the self and others. *Child Development* 69(2): 391–403.

Huang, L., and A. P. Knight. 2017. Resources and relationships in entrepreneurship: An exchange theory of the development and effects of the entrepreneur–investor relationship. *Academy of Management Review* 42(1): 80–102.

Klotz, A. C., K. M. Hmieleski, B. H. Bradley, and L. W. Busenitz. 2014. New venture teams: A review of the literature and roadmap for future research. *Journal of Management* 40(1): 226–255.

Knight, F. H. 1921. *Risk, uncertainty and profit*. New York: Houghton Mifflin.

Kray, L. J., and M. P. Haselhuhn. 2007. Implicit negotiation beliefs and performance: Experimental and longitudinal evidence. *Journal of Personality and Social Psychology* 93(1): 49–64.

Lax, D. A., and J. K. Sebenius. 1992. Thinking coalitionally: Party arithmetic, process opportunism, and strategic sequencing. *Negotiation Analysis* 153–193.

______. 2002. Dealcrafting: The substance of three-dimensional negotiations. *Negotiation Journal* 18(1): 5–28.

Leutner, F., G. Ahmetoglu, R. Akhtar, and T. Chamorro-Premuzic. 2014. The relationship between the entrepreneurial personality and the Big Five personality traits. *Personality and Individual Differences* 63: 58–63.

Molden, D. C., and C. S. Dweck. 2006. Finding "meaning" in psychology: A lay theories approach to self-regulation, social perception, and social development. *American Psychologist* 61(3): 192–203.

Mouzas, S. 2006. Negotiating umbrella agreements. *Negotiation Journal* 22(3): 279–301.

Mueller, G. H. 1979. The notion of rationality in the work of Max Weber. *European Journal of Sociology* 20(1): 149–171.

Neale, M. A., and M. H. Bazerman. 1992. Negotiator cognition and rationality: A behavioral decision theory perspective. *Organizational Behavior and Human Decision Processes* 51(2): 157–175.

Neale, M. A., and A. R. Fragale. 2006. Social cognition, attribution, and perception in negotiation: The role of uncertainty in shaping negotiation processes and outcomes. In *Negotiation theory and research*, edited by L. L. Thompson, 27–54. New York: Psychology Press.

Nelson, R., and E. Lima. 2020. Effectuations, social bricolage and causation in the response to a natural disaster. *Small Business Economics* 54(3): 721–750.

Podolny, J. M., and J. N. Baron. 1997. Resources and relationships: Social networks and mobility in the workplace. *American Sociological Review* 62(5): 673–693.

Putnam, L. L. 1994. Challenging the assumptions of traditional approaches to negotiation. *Negotiation Journal* 10(4): 337–346.

______ 2004. Transformations and critical moments in negotiations. *Negotiation Journal* 20(2): 275–295.

______ 2010. Negotiation and discourse analysis. *Negotiation Journal* 26(2): 145–154.

Putnam, R. D. 1988. Diplomacy and domestic politics: The logic of two-level games. *International Organization* 42(3): 427–460.

Read, S., M. Song, and W. Smit. 2009. A meta-analytic review of effectuation and venture performance. *Journal of Business Venturing* 24(6): 573–587.

Sarasvathy, S. D. 2001. Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency. *Academy of Management Review* 26(2): 243–263.

______ 2009. *Effectuation: Elements of entrepreneurial expertise*. Cheltenham, UK: Edward Elgar Publishing.

______ 2021. The middle class of business: Endurance as a dependent variable in entrepreneurship. *Entrepreneurship Theory and Practice* 45(5): 1054–1082.

Sarasvathy, S. D., and N. Dew. 2005. New market creation through transformation. *Journal of Evolutionary Economics* 15(5): 533–565.

Sarasvathy, S. D., A. Ramesh, and W. Forster. 2014. The ordinary entrepreneur. In *The Routledge companion to entrepreneurship*, edited by F. Welter and T. Baker, 251–268. London: Routledge.

Schumann, K., and C. S. Dweck. 2014. Who accepts responsibility for their transgressions? *Personality and Social Psychology Bulletin* 40(12): 1598–1610.

Sebenius, J. K. 1992. Negotiation analysis: A characterization and review. *Management Science* 38(1): 18–38.

______ 2013. Level two negotiations: Helping the other side meet its "behind-the-table" challenges. *Negotiation Journal* 29(1): 7–21.

Sebenius, J. K., and D. Lax. 1992. Thinking coalitionally: Party arithmetic, process opportunism, and strategic sequencing. In *Negotiation analysis*, edited by H. P. Young, 153–193. Ann Arbor: University of Michigan Press.

Shirokova, G., O. Osiyevskyy, A. Laskovaia, and H. MahdaviMazdeh. 2020. Navigating the emerging market context: Performance implications of effectuation and causation for small and medium enterprises during adverse economic conditions in Russia. *Strategic Entrepreneurship Journal* 14(3): 470–500.

Stavrova, O., and D. Ehlebracht. 2016. Cynical beliefs about human nature and income: Longitudinal and cross-cultural analyses. *Journal of Personality and Social Psychology* 110(1): 116–132.

Varshney, A. 2003. Nationalism, ethnic conflict, and rationality. *Perspectives on Politics* 1(1): 85–99.

Walton, R. E., and R. B. McKersie. 1991. *A behavioral theory of labor negotiations: An analysis of a social interaction system*. Ithaca, NY: Cornell University Press.

Wiltbank, R., N. Dew, S. Read, and S. D. Sarasvathy. 2006. What to do next? The case for non-predictive strategy. *Strategic Management Journal* 27(10): 981–998.

Yunus, M. 1998. *Banker to the poor*. New Delhi: Penguin Books India.

Zhao, H., and S. E. Seibert. 2006. The Big Five personality dimensions and entrepreneurial status: A meta-analytical review. *Journal of Applied Psychology* 91(2): 259–271.