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# **Balancing the Tradeoff between Personal Fulfillment and Competitiveness in Venture Creation**

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## **Abstract**

The fascination of venture creation is associated with an entrepreneur's opportunity of achieving personal fulfillment. In reality, however, many nascent entrepreneurs discover that much of their original vision is sacrificed in the process of creating a startup. In this paper we address the conflict between the entrepreneur's fulfillment and the startup's competitiveness from a negotiation-analytic perspective. We show how the nature of this conflict is transformed in the process of business planning, and we demonstrate how a purely market-oriented focus on expansion serves to enhance personal fulfillment. Our analytical approach has practical implications for business development and entrepreneurial education.

**Keywords:** Venture Creation, Business Development, Negotiation Analysis

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## 1. Introduction

The fascination of new venture creation is often associated with an entrepreneur's opportunity of realizing a vision and thereby achieving personal fulfillment. Starting a new venture is typically more than merely starting a new job.<sup>1</sup> In reality, however, many nascent entrepreneurs – especially those without a business education – discover that much of their original vision is sacrificed in the process of creating their startup. In the course of business development, these entrepreneurs experience a conflict between their own personal fulfillment and the competitiveness of their business venture. Moreover, they may foresee in the evolution of their young businesses what Greiner (1998) refers to as the inevitable end of the creativity phase, where disdained management activities are required. As a consequence, technical more than non-technical startups lose their disillusioned initial founders, or nascent entrepreneurs without a background in business may even terminate their plans of founding a startup, finding it more fulfilling to pursue a career as an employee.<sup>2</sup>

In this paper we address the conflict between the entrepreneur's personal fulfillment and the startup's competitiveness within a negotiation-analytic framework. The personal and the competitive perspectives are explicitly acknowledged by modeling the conflict as a negotiation between two parties – the entrepreneur, with his own personal vision of the venture, and a business developer, who pursues only market objectives. The business developer is, thus, seen as an outside party assisting the entrepreneur. We show how the nature of the conflict is transformed in, as well as by, the process of business planning. Rather than persuading the entrepreneur to abandon his<sup>3</sup> personal objectives, we propose to integrate them with the market objectives of the new venture. Indeed, we show how business development can be designed to account for both personal fulfillment as well as competitiveness, thus reducing the entrepreneur's incentive to disband the startup project.<sup>4</sup>

In order to formally characterize the conflict between personal fulfillment and competitiveness, we introduce valuation functions for the entrepreneur and the business developer that enable individual quantitative assessments of multi-attribute venture alternatives. By contrast-

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<sup>1</sup> According to Kawasaki (2004), p. xii, “[e]ntrepreneur is not a job title. It is the state of mind of people who want to alter the future.”

<sup>2</sup> Rubenson and Gupta (1992) find that founders with a scientific background have a shorter tenure in their firms than founders with a business background. It is disputed, though, that this is related to poor performance (cf. Willard et al. (1996)). Instead, the empirical results obtained by Chan (1996) with entry-level engineers confirm that turnover is predominantly voluntary, influenced more by the cognitive misfit of problem-solving style.

<sup>3</sup> For simplicity and clarity only, we assume in the following the entrepreneur to be male, while the business developer is female.

<sup>4</sup> In their study of new ventures Delmar and Shane (2003) also find empirical evidence that business planning improves the prospects of the new venture, thus reducing the hazard of new venture disbanding.

ing the two valuations we then obtain a negotiation problem, which can be conveniently visualized for a bilateral setting. The formal framework ensures the generality of our approach, and it allows us to employ tools of negotiation analysis to handle the conflict. However, to also demonstrate the practicability of our approach, we consider a specific case of venture creation between an entrepreneur and a business developer, which we keep track of throughout the paper as we increase the level of complexity. Moreover, the tangible case enables us to illustrate how the nature of the conflict changes in the course of business development.

We show explicitly how the conflict between personal fulfillment and competitiveness is affected by the differentiated view from both sides. As business planning typically involves several issues to be considered, each with alternative options for implementation, it comes quite naturally, as the number of issues increases in the course of planning, that the relative importance of the individual issues is seen differently from the personal and the competitive point of view. This is the source of value creation in the process of business planning.<sup>5</sup> With our analytical approach we can illustrate graphically how the “pie” is expanded in the development of the business venture, thereby creating room for higher competitiveness as well as greater fulfillment.

Our analytical view of the interaction between the entrepreneur and the business developer is that of a venture facilitator, i.e. a third party, interested in an efficient implementation of the venture that ensures the entrepreneur the highest possible fulfillment while being sufficiently competitive for sustainable success in the market. Indeed, we believe that the role of the facilitator, as opposed to the business developer, has not been sufficiently acknowledged in the entrepreneurship literature. The important task of the facilitator is to manage the generation of alternatives and identify efficient ventures for personal fulfillment and competitiveness. Moreover, the facilitator plays a crucial role in balancing the tradeoff between the entrepreneur’s personal fulfillment and the venture’s competitiveness. We show how the use of procedural tools of fair division and negotiation analysis allow parties to concentrate on the relatively few efficient outcomes. As an innovative feature for business development, we also present a practical method for quickly identifying and ranking efficient alternatives according to personal fulfillment and competitiveness as the number of potential ventures increases in the process of business planning. Hence, the facilitator can effectively assist the entrepreneur in assessing how much personal fulfillment is sacrificed for competitiveness and vice versa when comparing alternative implementations of the venture.

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<sup>5</sup> Indeed, if one adopts Kirzner’s (1997) notion of opportunities originating from differing beliefs about the relative values of resources, then one can view joint business development itself as an entrepreneurial opportunity.

Our analysis highlights how alternatives for the new venture are created in the entrepreneurial process and how creativity can be effectively focused on relevant issues.<sup>6</sup> We regard this aspect as characterizing the essence of business planning. As more relevant issues of venture creation are identified, and further options are created as means of realization, the number of endogenously generated alternatives for the venture increases multiplicatively, thus expanding the pie further for both the entrepreneur and the business developer. In our specific example, the number of discrete venture alternatives quickly rises from 16 to 45,000. As business planning proceeds, each alternative provides a more detailed description of the planned venture.

It is important to acknowledge, though, that business development is oriented mainly towards the enhancement of market performance, competitiveness, or growth potential. This is because nascent entrepreneurs, who, despite having a sound business idea, frequently plan their startup on a sub-optimally small scale and seek assistance in the enhancement of economic performance rather than the expansion of their vision. As a consequence, business development typically expands the “pie” asymmetrically in favor of competitiveness. Despite the relatively strong potential for increasing competitiveness, our analysis reveals that there, nevertheless, remains room for greater personal fulfillment – an aspect which is often overlooked in the process of business development. In this situation, the role of the facilitator becomes of crucial importance, in order to ensure that the personal fulfillment of the entrepreneur is not neglected but efficiently traded for competitiveness.

In the following sections we conduct our analysis in several steps that also mimic the multi-stage process of business development. In section 2, we first characterize the conflict between the entrepreneur and the business developer. We set the stage for our specific case of a vintner planning a wine business, which we use to motivate and develop the formal framework for a multiple-issue, multiple-option negotiation. We assume that the venture initially imposes a maximal conflict between personal fulfillment and competitiveness. Section 3 illustrates how value is created and the pie is expanded through parties’ differentiated views of the issues – this is the main lesson of negotiation analysis. Within this setting, we then show in section 4 how the pie automatically grows in the process of business planning. In order to deal with the overwhelming number of venture alternatives, we introduce a practical procedure for identifying efficient alternatives. In section 5 we discuss the effect of an asymmetric expansion of the pie in favor of competitiveness through advanced business development. Section 6 concludes with the implications of our analysis and possible extensions for future research.

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<sup>6</sup> In their agenda for entrepreneurship research Eckhardt and Shane (2003) point out the importance of acknowledging this creative process behind entrepreneurial decisions.

## 2. The conflict between personal fulfillment and competitiveness

In order to demonstrate the applicability of our formal analysis, we consider the specific case of Vincent Rothenbach, a professional wine maker currently working as cellar master of a major vineyard in France. As descendant of an old German vintner family from the Ahrtal region, Vincent values the traditional vintner trade close to nature. He is, therefore, quite disappointed to learn that his French boss views wine merely as a commercial product and a means for earning a lot of money. For Vincent the quality of wine and his affiliation with the wine region of the Ahrtal in Germany become of increasingly high importance. Vincent's vision is to start a family business in his home town in Germany producing his own premium wine of the Ahrtal region.<sup>7</sup>

As a nascent entrepreneur guided by his vision, Vincent begins to think about personally relevant issues of the planned venture and how he wishes to deal with them.<sup>8</sup> Most important for him is the method of production, where, in contrast to his current employer, Vincent wishes to reestablish traditional wine growing. Moreover, as a producer of premium wines, he aims at positioning himself through a differentiation strategy. Of lesser importance for Vincent is the ownership structure of, as well as his own role in, the new business. If possible, Vincent would prefer to be the single owner, but, in any case, he envisions himself as having complete responsibility for running the business.

As Vincent becomes interested in business planning, he is forced to consider the competitiveness of his planned venture, which requires looking at his business from a different angle. For didactical purposes, we suppose that this competitive perspective is taken by a business developer, e.g. the instructor of a course on business planning, a coach, or a consultant, who wishes to support Vincent with his startup.<sup>9</sup>

Suppose that the business developer, in response to Vincent's personal view of his venture, is worried about the success of the project and recommends a more competitive approach, based on industrial winegrowing methods and aimed at producing large quantities, hence position-

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<sup>7</sup> The case under consideration is fictitious, although the renowned wine region of the Ahrtal in Germany is real. One may regard Vincent as a hybrid character, representing many of the nascent entrepreneurs, in particular those without an educational background in business administration, whose startup projects we have facilitated over the past years.

<sup>8</sup> According to Delmar and Shane (2003), the important aspects of business planning concern, in particular, product development and venture organization.

<sup>9</sup> Alternatively, one could assume that the business developer is the entrepreneur (i.e. Vincent) himself, after becoming acquainted with the business perspective of his venture in the process of planning. The setting would then characterize the intrapersonal conflict between what is desired and what is required for the venture, which the founder has to manage, either by himself or with the help of a facilitator. In order to keep roles distinguishable, we prefer to treat the business developer as a separate party in the subsequent analysis.

ing the firm as a cost leader. For the larger company Vincent could find equity partners, and in the business he could specialize on what he does best, viz. the production of wine, leaving the management to business experts.

The conflict of interests between Vincent’s personal fulfillment and the competitive view of the business developer, with respect to the issues under consideration, can be quantified with the help of the scoring procedure shown in Table 1, where column P characterizes the personal fulfillment of the entrepreneur and column C the competitive view of the business developer, as it is perceived by the entrepreneur.<sup>10</sup>

| <b>Issues</b>               | <b>P</b>   | <b>C</b>   |
|-----------------------------|------------|------------|
| <b>Method of Production</b> | <b>38%</b> | <b>38%</b> |
| a) Traditional wine growing | 100        | 0          |
| b) Industrial wine growing  | 0          | 100        |
| <b>Positioning</b>          | <b>24%</b> | <b>24%</b> |
| a) Differentiation          | 100        | 0          |
| b) Cost leadership          | 0          | 100        |
| <b>Ownership Structure</b>  | <b>22%</b> | <b>22%</b> |
| a) Single owner             | 100        | 0          |
| b) Equity partners          | 0          | 100        |
| <b>Founder’s Role</b>       | <b>16%</b> | <b>16%</b> |
| a) Complete responsibility  | 100        | 0          |
| b) Specialization           | 0          | 100        |

**Table 1:** The entrepreneur’s view of conflicting aspirations

Table 1 shows the four sub-problems or issues that Vincent sees as relevant for his venture. For each issue there are two alternative options for implementation – the best option is given a score of 100 and the worst option a score of 0. The completely opposed valuations of the personal and the competitive view reveal conflicting aspirations of the entrepreneur and the business developer. The percentage rates, which add up to 100%, characterize the relative importance that the entrepreneur (Vincent) attaches to the individual issues, where the *Method of Production* is the most and the *Founder’s Role* is the least important issue. The relative weights indicate that a switch from traditional to industrial wine growing affects Vincent more (38%) than giving up complete responsibility for specialization (16%). Note that Vincent initially perceives the relative importance of the issues to be the same from both the personal as well as the competitive perspective.<sup>11</sup>

The implementation of a venture acknowledging all four issues is characterized by a quadruple (4-tuple) of options, as it requires selecting one option for each issue. Thus, for the exam-

<sup>10</sup> According to Raiffa (1982) this scoring procedure was developed for actual use in negotiations. Its formal structure is well documented in decision and negotiation analysis (cf. Raiffa (2002) or Keeney and Raiffa (1976)).

<sup>11</sup> Although this assumption may appear naïve, we take it as a plausible starting point, given that Vincent and the business developer, at this point, have only communicated conflicting positions.

ple shown in Table 1, there are  $2^4 = 16$  alternatives for implementation. In order to obtain a quantitative assessment of the 16 distinct ventures, we need to introduce a formal characterization of the scoring procedure. This will allow us to extend and generalize the example above.

More generally, we characterize venture planning as a decision context consisting of a set  $I$  of issues. For each issue  $i \in I$  we specify a set of distinct options  $O^i$ . For the case shown in Table 1 there are four sets of options, where each set contains two options. However, our generalized characterization does not limit the number of options for each issue. We denote by  $o \in O^i$  a specific option of an issue  $i \in I$ .

The set of distinct alternatives for venture creation is given by  $\mathcal{A} = \otimes_{i \in I} O^i$ , where each alternative  $a \in \mathcal{A}$  consists of a tuple of chosen options, one for each issue. We assume that the preferences of the entrepreneur (P) and the business developer (C) over alternatives can be characterized by normalized value functions  $v_x : \mathcal{A} \rightarrow [0,100]$ ,  $x = P, C$ . Moreover, we postulate that the issues under consideration are selected in such a way that both parties' preferences over issues are additively separable.<sup>12</sup> This allows us to write the valuation of an alternative as the weighted sum of valuations of the options characterizing the alternative:

$$(1) v_x(a) = \sum_{i \in I} \omega_x^i v_x^i(o^i), \text{ where } o^i \in O^i, v_x^i : O^i \rightarrow [0,100], \omega_x^i \geq 0, \text{ and } \sum_{i \in I} \omega_x^i = 1 \text{ for } x = P, C.$$

The underlying assumption in equation (1) is that parties' preferences over the options of an issue are characterized by preference relations  $\succsim_P^i, \succsim_C^i$ , which are complete, transitive, and continuous. In our example, in Table 1, the relative importance of the issues (quantified in %) corresponds to the weights  $\omega_x^i$  in equation (1).

The options of each issue are valued by each party according to a scoring system, where the best options of an issue  $i \in I$ , belonging to the subset

$$\bar{O}_x^i = \{o \in O^i \mid o \succsim_x^i o', \forall o' \in O^i\}, x = P, C,$$

are each assigned 100 points, i.e.  $v_x^i(o) := 100, \forall o \in \bar{O}_x^i$ , and the worst options, belonging to the subset

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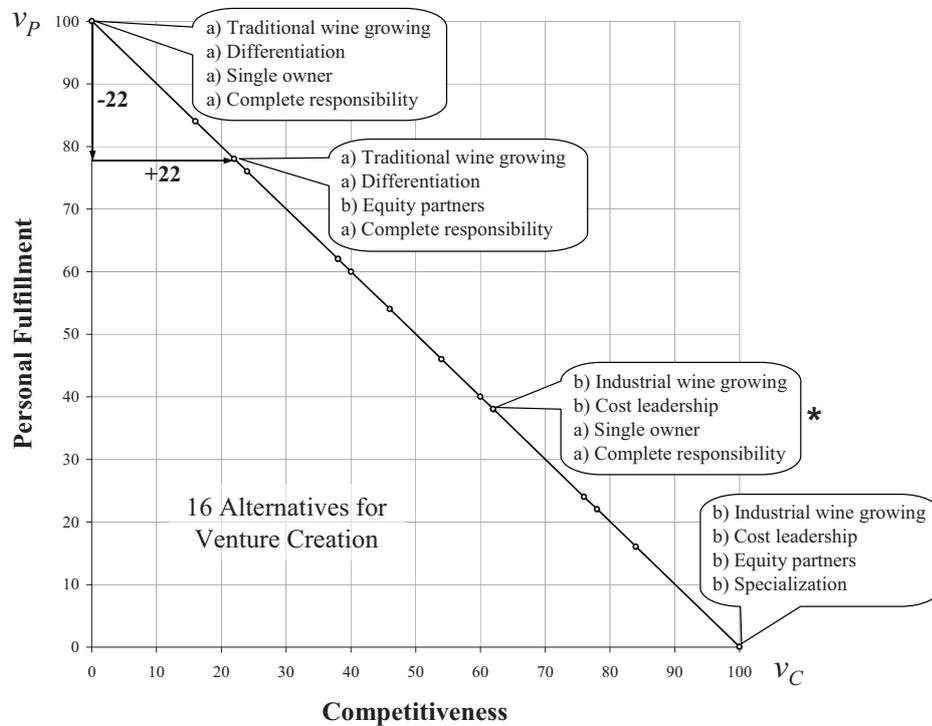
<sup>12</sup> According to Keeney and Raiffa (1991), the appropriate selection of issues to ensure additive separability is not always a simple task, as it may require some effort in regrouping and decomposing issues in different ways. Nevertheless, the assumption of additive separability is widely applied in decision and negotiation analysis, mainly due to analytical convenience.

$$\underline{O}_x^i = \{o \in O^i \mid o \succeq_x^i o', \forall o' \in O^i\}, x = P, C,$$

receive the value 0, i.e.  $v_x^i(o) := 0, \forall o \in \underline{O}_x^i$ .<sup>13</sup> All other options of an issue  $i \in I$  are given values between 0 and 100, such that

$$v_x^i(o) \geq v_x^i(o') \Leftrightarrow o \succeq_x^i o', o, o' \in O^i, x = P, C.$$

We now apply the additive valuation function to our example in Table 1, in order to calculate the values of each alternative for each of the two parties involved.<sup>14</sup> The joint valuations for the 16 alternative implementations are shown graphically in Figure 1, where each implementation is characterized by a quadruple of options.<sup>15</sup>



**Figure 1:** Personal fulfillment vs. competitiveness as a “tug-of-war”

The option packages of four implementations, two of which characterize maximum personal fulfillment and maximum competitiveness, are illustrated in Figure 1. For example, if Vincent is willing to pursue an industrial wine-growing business with a focus on cost leadership, where he remains the single owner with complete responsibility (the alternative denoted by \*)

<sup>13</sup> Since we allow arbitrarily many options to each issue, there may be two or more options for an issue that are valued the same. Accordingly, the sets  $\overline{O}_x^i$  and  $\underline{O}_x^i$  may contain more than one best or worst option, respectively.

<sup>14</sup> To be precise, at this point of their interaction, we are actually considering the entrepreneur’s assessment of the business developer’s value function  $v_C$ .

<sup>15</sup> Notice that Figure 1 contains only 14, rather than 16 points. As one can quickly check with the help of Table 1, this is because two pairs of alternatives have the same total valuations.

in Figure 1), this venture would receive 62 points in terms of competitiveness, but only 38 points in terms of personal fulfillment.

As one can see in Figure 1, the joint valuations of the 16 alternatives are all aligned along the diagonal from maximum personal fulfillment to maximum competitiveness, thus illustrating the (perceived) “tug-of-war” between the entrepreneur and the business developer. The entrepreneur’s (i.e. Vincent’s) only incentive to engage in a more competitive venture is the higher probability of market success attested by the business developer. However, any gain in competitiveness is offset by an equally large loss of personal fulfillment. For example, as one can verify in Figure 1, the willingness to allow equity partners rather than to insist on remaining the single owner increases competitiveness by 22 points, but it also reduces personal fulfillment by the same amount. How much personal fulfillment the entrepreneur is willing to sacrifice with the venture depends on the fulfillment provided by the next best alternative to founding the business.

### 3. The value of differing views

In the example of Table 1, the perceived conflict of interests between the entrepreneur and the business developer was characterized by their differing valuations of the alternative options of each issue, while the weights of the individual issues, quantifying their relative importance, had the same values for the personal and the competitive perspective. Intuitively, Vincent was able to perceive the opposed position of the business developer by her favored choice of options (bbbb), but, without further communication, he was not able to infer differences in the weights that she attached to the issues.

However, according to our specification of parties’ valuation functions in equation (1), differences in parties’ assessments of alternatives,  $v_x, x = P, C$ , generally result not only from differences in their valuations of options, i.e.  $v_p^i \neq v_c^i, i \in I$ , but also from differences in their weighting of the individual issues, i.e.  $\omega_p^i \neq \omega_c^i, i \in I$ . Indeed, the importance of an issue is determined by the degree to which the chosen option for this issue can contribute to or prevent the realization of a party’s underlying interests. As parties’ individual objectives are generally not identical, the weights that they allot to the issues will typically differ as well.

In our example of the previous section suppose, therefore, that further communication between the entrepreneur and the business developer reveals a differentiated view of the issues’ importance. Indeed, an analytical facilitator would (or should) insist on understanding the

business developer’s individual assessment of the issues’ relative importance, and he would convey this perspective to the entrepreneur. For simplicity, we therefore assume in the following that the entrepreneur’s perception of the competitive perspective corresponds to the business developer’s true interests, so that both parties’ view of the conflict is the same. In Table 2 the business developer’s revealed competitive assessment is shown in column C, while the personal assessment of Vincent (the entrepreneur), in column P, is the same as in Table 1.

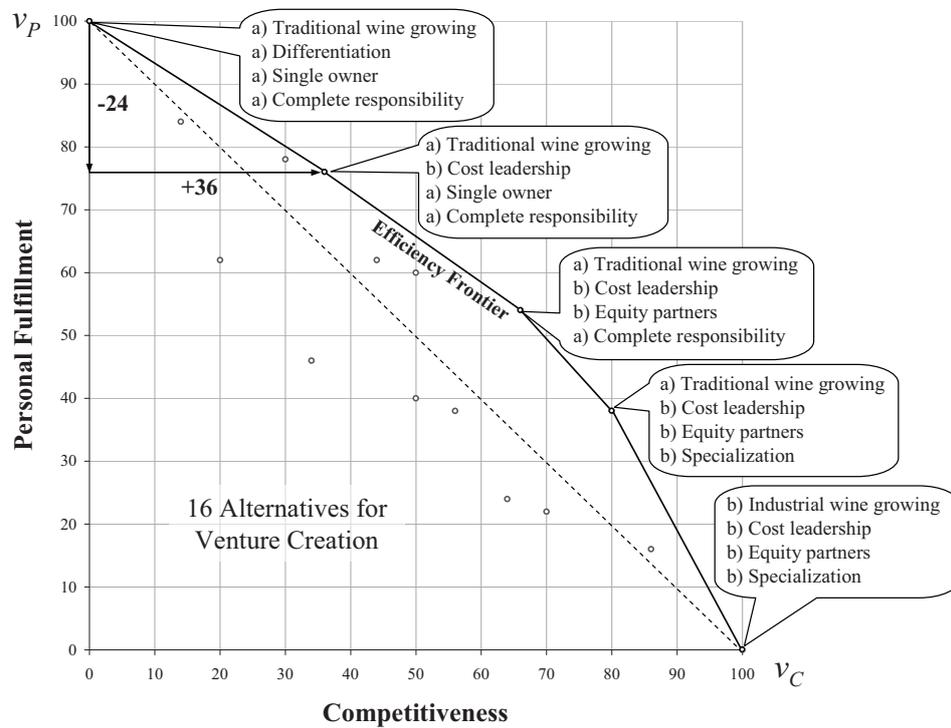
| Issues                      | P          | C          |
|-----------------------------|------------|------------|
| <b>Method of Production</b> | <b>38%</b> | <b>20%</b> |
| a) Traditional wine growing | 100        | 0          |
| b) Industrial wine growing  | 0          | 100        |
| <b>Positioning</b>          | <b>24%</b> | <b>36%</b> |
| a) Differentiation          | 100        | 0          |
| b) Cost leadership          | 0          | 100        |
| <b>Ownership Structure</b>  | <b>22%</b> | <b>30%</b> |
| a) Single owner             | 100        | 0          |
| b) Equity partners          | 0          | 100        |
| <b>Founder’s Role</b>       | <b>16%</b> | <b>14%</b> |
| a) Complete responsibility  | 100        | 0          |
| b) Specialization           | 0          | 100        |

**Table 2:** A differentiated view of the issues

With the modification of issue weights, the parties’ valuations of the 16 alternatives reveal a different picture of the conflict between personal fulfillment and competitiveness, which is shown in Figure 2. For comparison, the diagonal, visualizing the tug-of-war in Figure 1, is included as a dashed line. The two alternatives characterizing 100% personal fulfillment and 100% competitiveness are unaffected by the differentiated view, but the other 14 alternatives are now scattered around the diagonal. As one can see, in particular some of the alternatives below the diagonal are inefficient, in the sense that there are better alternatives from both perspectives. For example the alternative (baaa) yielding the valuations  $v_C = 20$  and  $v_P = 62$  is clearly dominated by the alternative (aaba) with  $v_C = 30$  and  $v_P = 78$ . Hence, with differentiated perspectives, it becomes possible to distinguish between efficient and inefficient alternatives for the venture, where the latter can rationally be neglected as candidates for implementation.

Of particular interest are those alternatives, which Raiffa (1996) refers to as “extremely efficient.” These are efficient alternatives that are not dominated by convex combinations of other alternatives. For example, in Figure 2 one can see that alternative (aaba) with  $v_C = 30$  and  $v_P = 78$  is dominated by the convex combination of alternatives (aaaa) and (abaa). Ex-

tremely efficient alternatives are illustrated in Figure 2 by the allocations along the efficiency frontier.<sup>16</sup>



**Figure 2:** Expanding the pie with a differentiated view

An important feature of the extremely efficient allocations is that a movement along the efficiency frontier, from one allocation to the next, requires the change of only one option of a single issue.<sup>17</sup> This is illustrated in Figure 2, where the alternatives along the efficiency frontier are labeled by their option-tuples. The issue to focus on for a change of allocations is the one offering the highest gain/loss ratio between parties. Thus, the movement from maximum personal fulfillment to the next point on the efficiency frontier would require a switch only in *Positioning* from differentiation to cost leadership, since this issue offers parties a maximum gain/loss ratio of  $36/24 = 1.5$ . The movement one point further on the efficiency frontier requires a change in the *Ownership Structure*, because the next highest gain/loss ratio is  $30/22 = 1.36$ . As the planned venture involves four issues altogether, it, therefore, takes four steps to move from maximum personal fulfillment to maximum competitiveness along the efficiency frontier. The last issue to change in order to enhance competitiveness is the *Method of Production*, where the gain/loss ratio of  $20/38 = 0.53$  is the lowest. The movement along the effi-

<sup>16</sup> Graphically the efficiency frontier is obtained by letting a ruler “roll around the plotted points,” thus connecting the points representing extremely efficient allocations (cf. Raiffa (1996)).

<sup>17</sup> Brams and Taylor (1996) point out this feature for bilateral fair-division problems. For our analysis it is important to note that, technically, the structure of the conflict in Table 2 is equivalent to a fair-division problem, where the issues under consideration are items that must be allocated between two parties.

ciency frontier also highlights an important aspect for dealing with the conflict: If we would allow for convex combinations of alternatives, each characterized by an n-tuple of options, then the implementation of any efficient venture between personal fulfillment and competitiveness would require the convex combination of two options of at most one issue – for all the other issues a combination of options is not required. The relevant question that remains is: which efficient alternative or combination of alternatives should be chosen for the venture?

Technically, the structure of the conflict formalized above can be characterized as a bargaining problem between the entrepreneur and the business developer, thus enabling us to consider different non-cooperative or cooperative solution concepts to determine the alternative for implementation. However, a negotiation only seems reasonable, if the business developer has stakes in the venture, e.g. when she is a member of the entrepreneurial team.

If the business developer is an external advisor, e.g. being paid for offering a competitive perspective of the venture, then the implementation of the venture remains the decision of the entrepreneur alone. In this case it is the job of a facilitator, i.e. a third party, to guide the entrepreneur along the efficiency frontier, which offers efficient means for trading personal fulfillment for competitiveness. For the business developer it is difficult to also take the role of the facilitator, due to her own objectives.

The entrepreneur's own motivation for increasing competitiveness is that it increases the probability of the venture's success, and only a successful venture allows the entrepreneur to realize his vision. Hence, the entrepreneur wishes to increase competitiveness with a minimal loss of fulfillment. As Figure 2 reveals, the differentiated view between the entrepreneur and the business developer "expands the pie" by pushing the efficiency frontier outward, thus increasing the entrepreneur's incentive to trade personal fulfillment for competitiveness. For example in Figure 2, the reduction of maximum fulfillment by 24 points due to the switch from differentiation to cost leadership is more than offset by the rise in competitiveness by 36 points.

However, the differentiated view is only possible, because the venture is comprised of multiple issues. Indeed, with only one single issue, i.e. the complete venture, weighted by both parties as 100% of the pie, opposed valuations of the options would result in a conflict structure equivalent to the setting illustrated in Figure 1. Only the expansion of the set of issues provides the opportunity for a differentiated view. Always when multiple issues are weighted differently by the parties involved in the conflict, the efficiency frontier will have the qualitative form shown in Figure 2. At this point it is important to stress the generality of the figure

shown, independent of the specific venture or the issues considered. The more parties differ in their assessments of the weights, the stronger the efficiency frontier will “bend” outward. In the line of Kirzner (1997), the more parties differ in their perceptions, the more opportunities they will find for value-creating interaction. Moreover, from a practical, business-planning point of view, as the number of issues is increased, it becomes more likely that distinct parties will differ in their assessments of the individual weights. Hence, an increase in the number of issues typically leads to an expansion of the pie. With this picture in mind, we now study the impact of detailed business planning.

#### **4. Business planning: creating multiple options for multiple issues**

The characterization of the venture in Table 2 reflects the entrepreneur’s (i.e. Vincent’s) early, perhaps naïve, understanding of the issues that are relevant for venture creation. However, as the entrepreneur delves into the process of business planning, either alone or in interaction with the business developer, further relevant issues for the venture are identified. Typically, these would be issues related to the crucial components of a business plan. Moreover, by reflecting on the issues, discussing alternatives, or analyzing aspects of the business plan, new options for implementation are discovered or created. The result of these planning activities is not necessarily a new venture, but rather a clearer, more detailed picture of the original venture. The issue-option structure that we introduced above provides a neat template to guide further business development.<sup>18</sup>

An example of a possible outcome of this evaluation process for Vincent’s venture is shown in Table 3a, where now eight issues are taken into account. Moreover, some of the issues are characterized by more than just the two winner-takes-all options as in Table 2, thus including compromise options and offering a greater variety of possibilities for implementation. Indeed, as the issue concerning the *Ownership Structure* in Table 3a illustrates, the creation of new options may even provide a better understanding of an issue under consideration and, thereby, possibly soften the conflict potential of the issue.

With eight issues altogether, each alternative for implementation is now characterized by an 8-tuple of options, thus providing a more detailed description of the venture. Since the set of alternatives is given by the Cartesian product of the eight option sets, one can infer from Ta-

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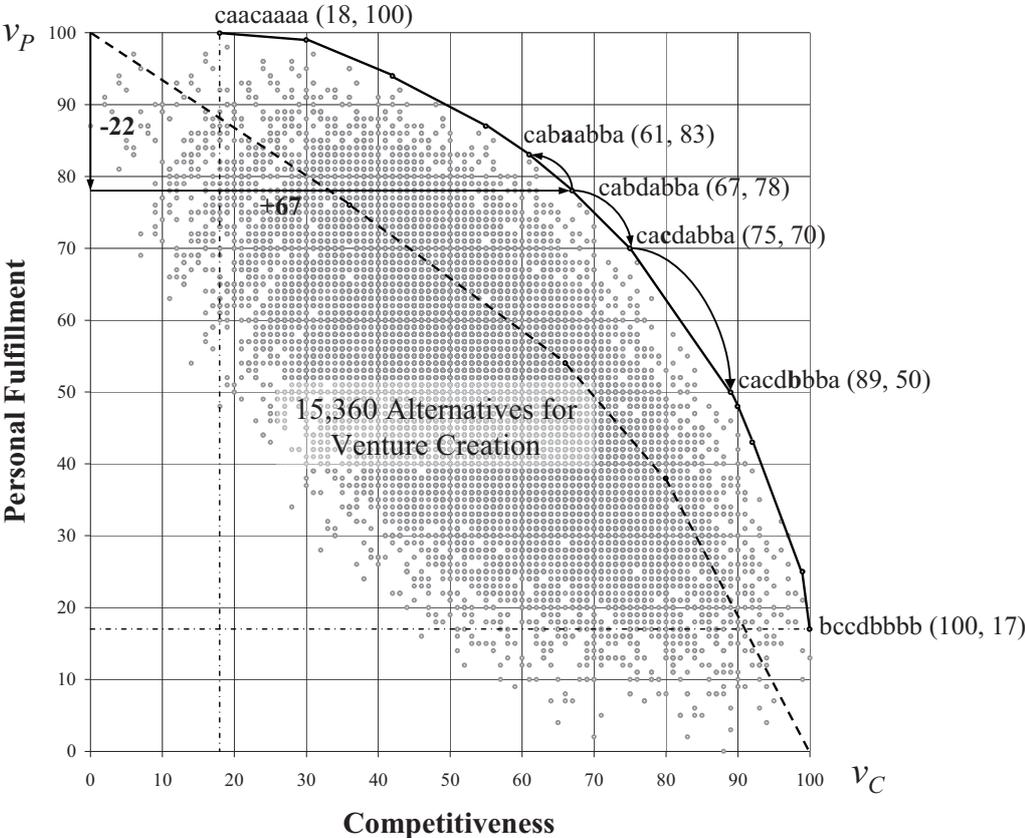
<sup>18</sup> This is the structure that Raiffa (2002) suggests for integrative (win-win) negotiations. And, in line with Gruber (2007), the issue-option structure is a planning tool that “helps entrepreneurs to stretch cognitive limitations and manage greater amounts of information.”

ble 3a that there are now  $4 \times 5 \times 3 \times 4 \times 2 \times 4 \times 4 \times 2 = 15,360$  alternative ventures to consider for implementation. Note that these alternatives are not exogenously given. On the contrary, they are endogenously generated *in* or, more precisely, *by* the process of business planning and development, where each new option multiplicatively increases the number of alternatives for venture creation. Our negotiation-analytic framework thus provides a comprehensible description of the creative processes that Eckhardt and Shane (2003) see as characteristic for entrepreneurial decisions in an interactive environment. Moreover, as the newly generated options reflect the underlying interests of the parties, the creation of new alternatives is driven by what Keeney (1992) refers to as value-focused thinking.

| Issues  | P           | C           |
|---|-------------|-------------|
| <b>Organization</b>                                 | <b>8%</b>   | <b>5%</b>   |
| a) Experienced seasonal workers in individual jobs  | 63          | 40          |
| b) Cheap seasonal workers in individual jobs        | 0           | 100         |
| c) Experienced seasonal workers in teams            | 100         | 80          |
| d) Cheap seasonal workers in teams                  | 25          | 0           |
| <b>Style of Personnel Management</b>                | <b>10%</b>  | <b>5%</b>   |
| a) Patriarchic                                      | 100         | 40          |
| b) Charismatic                                      | 80          | 60          |
| c) Autocratic                                       | 30          | 100         |
| d) Administrative                                   | 0           | 80          |
| e) Democratic                                       | 60          | 0           |
| <b>Method of Production</b>                         | <b>12%</b>  | <b>14%</b>  |
| a) Complete internal production                     | 100         | 0           |
| b) Int. prod., external distribution and marketing  | 67          | 45          |
| c) Commissioned production for bulk buyers          | 0           | 100         |
| <b>Market Segmentation</b>                          | <b>12%</b>  | <b>19%</b>  |
| a) German red wines in various qualities            | 42          | 68          |
| b) German premium red and white wines               | 67          | 32          |
| c) German premium red wines                         | 100         | 0           |
| d) German red and white wines in varying quality    | 0           | 100         |
| <b>Positioning</b>                                  | <b>20%</b>  | <b>14%</b>  |
| a) Quality production and product (differentiation) | 100         | 0           |
| b) Low in cost and price                            | 0           | 100         |
| <b>Growth</b>                                       | <b>5%</b>   | <b>24%</b>  |
| a) Increase in quality and price                    | 100         | 50          |
| b) Additional wines                                 | 80          | 100         |
| c) Expansion of distribution                        | 0           | 75          |
| d) Additional offerings of organic products         | 40          | 0           |
| <b>Ownership Structure</b>                          | <b>15%</b>  | <b>12%</b>  |
| a) Single owner with financial support by family    | 100         | 0           |
| b) Joint venture with wine-grower friend            | 67          | 100         |
| c) Participation of business angel                  | 40          | 100         |
| d) Single owner with bank loan and public support   | 0           | 58          |
| <b>Role of Founder</b>                              | <b>18%</b>  | <b>7%</b>   |
| a) Complete responsibility                          | 100         | 0           |
| b) Resp. for wine prod., new management team        | 0           | 100         |
| <b>Total</b>  | <b>100%</b> | <b>100%</b> |

**Table 3a:** All relevant issues with multiple options

For each alternative we can calculate the valuations  $v_P$  and  $v_C$  for the personal and the competitive perspective, respectively. The joint valuations of the 15,360 alternatives are shown in Figure 3.



**Figure 3:** Expanding the pie with further issues and new options

At each value level, both the entrepreneur and the business developer now have numerous distinct alternatives that can be compared with one another, in order to obtain a better understanding of the content behind the values  $v_C$  and  $v_P$ , e.g. what it means to achieve a total of, say, 17 points in personal fulfillment or 24 points in competitiveness. Different ventures with the same value help the entrepreneur to assess the value of his best (outside) alternative to implementing the venture, i.e. the value, below which he would prefer to disband the project. Similarly, the business developer can use the comparison of different ventures with the same overall value as a means for conveying her personal subjective view of competitiveness to the entrepreneur.

Analogous to Figure 2, the extremely efficient alternatives in Figure 3 are all located along the efficiency frontier. In order to visualize the expansion of the pie, we have also included the efficiency frontier of the previous setting as a dashed curve. The outward shift of the efficiency frontier is the result of more detailed business planning. The most notable aspect of this shift is the entrepreneur’s increased opportunities of obtaining competitiveness and, at the

same time, achieving personal fulfillment. As illustrated in Figure 3, Vincent is able to achieve 2/3 (67%) of the pie in terms of competitiveness, if he moves only 22 points away from maximum personal fulfillment, by implementing the venture characterized by the 8-tuple of options (cabdabba).

From the perspective of a facilitator, the generation of this overwhelming number of alternatives only makes sense, if there is a practicable way for the entrepreneur to identify and implement an efficient outcome. More specifically, in order to obtain an efficient outcome, there are two tasks to perform: The first is to get onto and the second is to move along the efficiency frontier. For both tasks, we can utilize the issue-option structure of our decision context, characterized by Table 3a.

In order to get onto the efficiency frontier, there are two extremely efficient alternatives, which can be quickly identified. These are the ventures characterizing maximum personal fulfillment and maximum competitiveness. In Table 3a the corresponding alternatives can be found by selecting the best options for each issue from the personal or the competitive perspective. The resulting 8-tuples of options for both maximum alternatives are shown in Figure 3.<sup>19</sup>

For the movement along the efficiency frontier we employ a modified variant of the procedure Adjusted Winner, which was introduced by Brams and Taylor (1996) for bilateral fair-division problems and generalized for multiple-issue multiple-option negotiations by Raith (2000). Our interest here, though, is not the implementation of a specific bargaining solution, but rather the identification of all extremely efficient alternatives. The generalized procedure Adjusted Winner is based on the feature that the movement from one extremely efficient alternative to the next requires the adjustment of only one option of a single issue. The option to select is the one offering the highest gain/loss ratio. For the calculation of the individual steps, a facilitator needs only the assessments given in Table 3a and, at most, a pocket calculator.

In order to compare gain/loss ratios across issues of differing importance, we need to make the issues comparable by calculating all gain/loss ratios in terms of total valuation. We, therefore, multiply the value of each option, i.e. its score between 0 and 100, by the weight of its corresponding issue to obtain its contribution to total value,  $\omega_x^i v_x^i(o)$ ,  $o \in O^i$ ,  $i \in I$ ,  $x = P, C$ . The weighted valuations of the options in Table 3a are shown in Table 3b in columns P and C. Note that each 8-tuple of options yields the same total score between 0 and 100 as before.

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<sup>19</sup> Note that the issue *Ownership Structure* has two options, which are best for the business developer. Of these we select option b), which is valued highest by the entrepreneur, since there is no reason to assume that the business developer would not grant the entrepreneur this (costless) benefit.

| Issues  | P     | P → C     | C     |
|---|-------|-----------|-------|
| <b>Organization</b>                                 |       |           |       |
| a) Experienced seasonal workers in individual jobs  | 5.04  |           | 2.0   |
| b) Cheap seasonal workers in individual jobs        | 0     | (11) 0.13 | 5.0   |
| c) Experienced seasonal workers in teams            | 8.0   | *         | 4.0   |
| d) Cheap seasonal workers in teams                  | 2.0   |           | 0     |
| <b>Style of Personnel Management</b>                |       |           |       |
| a) Patriarchic                                      | 10.0  | *         | 2.0   |
| b) Charismatic                                      | 8.0   | (8) 0.5   | 3.0   |
| c) Autocratic                                       | 3.0   | (9) 0.4   | 5.0   |
| d) Administrative                                   | 0     |           | 4.0   |
| e) Democratic                                       | 6.0   |           | 0     |
| <b>Method of Production</b>                         |       |           |       |
| a) Complete internal production                     | 12.0  | *         | 0     |
| b) Int. prod., external distribution and marketing  | 8.04  | (4) 1.59  | 6.3   |
| c) Commissioned production for bulk buyers          | 0     | (6) 0.96  | 14.0  |
| <b>Market Segmentation</b>                          |       |           |       |
| a) German red wines in various qualities            | 5.04  | (3) 1.86  | 12.92 |
| b) German premium red and white wines               | 8.04  |           | 6.08  |
| c) German premium red wines                         | 12.0  | *         | 0     |
| d) German red and white wines in varying quality    | 0     | (5) 1.2   | 19.0  |
| <b>Positioning</b>                                  |       |           |       |
| a) Quality production and product (differentiation) | 20.0  | *         | 0     |
| b) Low in cost and price                            | 0     | (7) 0.7   | 14.0  |
| <b>Growth</b>                                       |       |           |       |
| a) Increase in quality and price                    | 5.0   | *         | 12.0  |
| b) Additional wines                                 | 4.0   | (1) 12    | 24.0  |
| c) Expansion of distribution                        | 0     |           | 18.0  |
| d) Additional offerings of organic products         | 2.0   |           | 0     |
| <b>Ownership Structure</b>                          |       |           |       |
| a) Single owner with financial support by family    | 15.0  | *         | 0     |
| b) Joint venture with wine-grower friend            | 10.05 | (2) 2.42  | 12.0  |
| c) Participation of business angel                  | 6.0   |           | 12.0  |
| d) Single owner with bank loan and public support   | 0     |           | 6.96  |
| <b>Role of Founder</b>                              |       |           |       |
| a) Complete responsibility                          | 18.0  | *         | 0     |
| b) Resp. for wine prod., new management team        | 0     | (10) 0.39 | 7.0   |

**Table 3b:** Calculating moves along the efficiency frontier

Since the entrepreneur is the key player for the implementation of the venture, we take the alternative yielding maximum personal fulfillment as the starting point of facilitation. This potential venture is characterized by the entrepreneur's best option for each issue. In Table 3b, the favored options are denoted by asterisks in column P→C. The movement along the efficiency frontier now requires transferring points efficiently from personal fulfillment to competitiveness until the alternative with maximum competitiveness is reached. It is easiest to do this first for each issue separately and then to look across issues.

Consider, for example, the issue *Organization* with its four options. Option c) is favored most by the entrepreneur and option b) by the business developer. Only the direct shift from c) to

b), with a gain/loss ratio of  $1/8 = 0.13$ , transfers points from P to C, thus making the venture more competitive. Hence, only these two options need to be considered for an efficient implementation. For the issue *Style of Personnel Management* with its five options, an efficient move from the entrepreneur's most favored position a) to the business developer's favored position c) cannot be achieved in one single step, as this would imply a gain/loss ratio of only  $3/7 = 0.43$ . Instead, an efficient increase in competitiveness involves, first, the move from a) to b), with a higher gain/loss ratio of  $1/2 = 0.5 > 0.43$ , and then the move from b) to c), with a gain/loss ratio of  $2/5 = 0.4 < 0.43$ . Analytically, this implies that option b) cannot be dominated by a convex combination of options a) and c). As a consequence, there will be an extremely efficient alternative featuring a charismatic (option b) *Style of Personnel Management*, i.e., in Figure 3, option b) of this issue induces a further kink in the efficiency frontier. The situation is similar for *Market Segmentation*, where the direct switch from c) to d), with a gain/loss ratio of  $19/12 = 1.58$ , is dominated by a change of options from c) to a) and then from a) to d).<sup>20</sup>

After the efficient moves have been identified for each issue separately, we can now look across issues by ranking all efficient option switches in descending order of their gain/loss ratios. This is possible due to the additive separability of the valuation function. In column P→C the order of moves along the efficiency frontier is numbered from (1) to (11). Hence, if we start with the entrepreneur's most favored alternative yielding maximum personal fulfillment, (caacaaaa), the first move would involve *Growth*, with a switch from a) to b). The second move would focus on *Ownership Structure*, with a switch from a) to b), and so forth, up to the final shift involving *Organization*, where the switch is from c) to b), leading to the business developer's most favored alternative (bccdbbbb) featuring maximum competitiveness.

From the perspective of the facilitator, the most remarkable aspect of the preceding analysis is that only 12 of the 15,360 possible discrete alternatives lie on the efficiency frontier and are, therefore, interesting candidates for implementation. It is important to keep in mind that the first and foremost objective of business development is not to increase the number of efficient alternatives, but rather to increase efficiency by expanding both the venture's competitiveness and the entrepreneur's personal fulfillment. Hence, as the entrepreneur and the business developer creatively explore the issues of the venture, generating many new opportunities along

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<sup>20</sup> Note that the efficient switch between options of the issue *Market Segmentation* does not include option b). This is because option b) is dominated by a convex combination of options a) and c). Indeed, as one can quickly verify, the switch from option c) to b) yields a gain/loss ratio of  $6.08/3.96 = 1.54 < 1.86$ , which is inefficient compared to the direct switch from c) to a).

the way, the complexity of implementation increases only gradually and can be handled analytically, without even having to rely on computer support. For the facilitator, practicability of a procedure for comparing efficient outcomes is an important aspect, as it allows a more “natural” interaction with the entrepreneur and the business developer. The identification of alternatives on the efficiency frontier requires only the information contained in Tables 3a and 3b. The visualization of the complete set of 15,360 alternatives is not required. Nevertheless, the visualization of the efficiency frontier can be didactically very helpful for the facilitation process. For this purpose, the information contained in Tables 3a and 3b, again, proves to be quite practicable. Indeed, after having identified the efficient alternatives, it is easy to calculate their joint valuations  $v_C$  and  $v_P$  and then draw the efficiency frontier by hand – in an actual facilitation session a rather impressive presentation exercise.

As a further important aspect for facilitation, note that each movement along the efficiency frontier requires a specific focus on the venture, because the switch from one efficient alternative to the next involves a switch between two options of one specific issue. This makes it easier to understand what a convex combination of adjacent alternatives requires in practice. Suppose, for example, that Vincent is specifically interested in a venture alternative that achieves the same score in terms of personal fulfillment as in competitiveness. In Figure 3 one can see that this “egalitarian” solution requires a convex combination of alternatives (cabdabba) and (cacdabba). As these two alternatives differ in only one option, viz. the option related to the *Method of Production*, the facilitator can focus the entrepreneur’s and the business developer’s attention on this issue alone and explore, preferably together with the business developer, how a convex combination of option b), internal production with external distribution and marketing, and option c), commissioned production for bulk buyers, could be realized. Thus, in the process of business planning, the facilitator could naturally lead the two parties to consider, for example, the distribution through a local wine syndicate. Just one step further down the efficiency frontier<sup>21</sup> the focus switches to *Positioning*, so the facilitator might encourage parties to concentrate on the development of a “blue-ocean strategy” along the lines of Kim and Mauborgne (2005), in order to overcome the conflict between a differentiation strategy, option a), and a cost-leadership strategy, option b), without being “stuck in the middle.”<sup>22</sup> Indeed, if the newly generated option cannot be Pareto dominated by any convex combination of the two considered options on the efficiency frontier, then it will create a new kink in the efficiency frontier, thus pushing it further outward.

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<sup>21</sup> See Step (7) in Table 3b.

<sup>22</sup> cf. Porter (1980).

In the other direction on the efficiency frontier, if Vincent prefers instead an alternative with a higher potential for personal fulfillment, the relevant issue to concentrate on would be *Market Segmentation*. As one can quickly verify in Table 3b, a focus on *Organization* or the *Role of the Founder* for this region of the efficiency frontier would be irrelevant. As Eckhardt and Shane (2003) convincingly point out, the generation of new options requires creative thinking. With a negotiation-analytic approach, the facilitator can strategically focus creativity on specific relevant issues.

## **5. The personal fulfillment behind market-oriented business development**

As the entrepreneur and the business developer identify all the relevant issues for the venture and creatively explore alternative options for implementation, the venture's potential grows, both in terms of competitiveness as well as personal fulfillment. However, since the entrepreneur often has a limited background in business planning, far-reaching new options will typically be introduced by the business developer (e.g. a trained coach or a business angel) rather than the entrepreneur as the venture project matures. If the business developer is only interested in the competitiveness of the venture, one would then expect an asymmetric expansion of the pie. In this section we, therefore, investigate how an asymmetric focus on competitiveness affects the entrepreneur's chances of achieving personal fulfillment.

Our analysis of this aspect is motivated by our own experience in facilitating the business development of startups by first-time entrepreneurs and assisting them with specially trained business-development teams. Even with a mature business plan, many of these venture projects initially fail to exploit their full potential. It, therefore, seems promising to support young entrepreneurs with business developers, e.g. specialized on high-expectation entrepreneurship, in order to turn the startups into fast-growing enterprises. However, the nascent entrepreneurs, aware of their limited capabilities in business development, may, nevertheless, be reluctant to hand over the scepter to the business developers, for fear of losing control of the venture and eventually having to abandon their vision. Here the facilitator's role becomes increasingly important. On the one hand, there is the clear economic incentive to encourage further business development. On the other hand, the venture should remain a means for the entrepreneur to realize his personal vision.

Any further development of issues or options can be analyzed conceptually within the general framework of the preceding section. The point we wish to make in this section, though, is more of didactical nature, as we want to illustrate how a competitive expansion of the venture

affects the entrepreneur's fulfillment. We assume in the following that the set of issues characterizing the venture remains unchanged. Intuitively, business planning has matured to the point where all relevant issues have been acknowledged. However, within individual issues we now allow additional options to be introduced by the business developer, which are aimed at enhancing primarily the competitiveness of the original venture.

For the general characterization, suppose that new, additional options are created for an existing issue  $i \in I$ , and denote this expanded set of options by  $\hat{O}^i$ , with  $O^i \subseteq \hat{O}^i$ , implying that all previous options of this issue are also available for selection after the expansion. For the valuation of the expanded set of options we impose a new, auxiliary valuation function  $u_x^i: \hat{O}^i \rightarrow [0,100]$ ,  $x = P, C$ . Analogous to the formal characterization in section 2, the best options of issue  $i \in I$ , belonging to the subset

$$\bar{O}_x^i = \left\{ o \in \hat{O}^i \mid o \succ_x^i o', \forall o' \in \hat{O}^i \right\}, x = P, C,$$

are each assigned a value of 100. It is important to note, though, that the best options of issue  $i \in I$  before the introduction of new options are not necessarily the best options after the expansion of the option set, i.e.  $\bar{O}_x^i \neq \bar{\bar{O}}_x^i$ . As a consequence, the new value,  $u_x^i$ , of a previously existing best option can never be higher than under its old valuation,  $v_x^i$ , i.e.  $u_x^i(o) \leq 100 = v_x^i(o)$ ,  $\forall o \in \bar{O}_x^i$ ,  $x = P, C$ , and it will be lower if new options are introduced that are better.

Unfortunately, our modified scenario with value functions  $u_p$  and  $u_c$  would look qualitatively similar to the one shown in Figure 3, because the venture alternatives all receive scores between 0 and 100 points, due to the normalization. Since we wish to illustrate how the new, market-oriented options transcend the valuation boundaries of the current options, we need to highlight that they, indeed, induce new ventures with a higher market potential than any potential venture before. Therefore, we allow the quantitative valuations of the new and improved options to exceed 100 points. Formally, this requires a rescaling of valuations that is consistent with our previous analysis.

We assume that the auxiliary valuation function  $u_x^i$  is consistent with the old valuation  $v_x^i$ , in the sense that the relative values of options that were available before the expansion remain the same under the new valuation after the expansion, i.e.

$$\frac{v_x^i(o)}{v_x^i(o')} = \frac{u_x^i(o)}{u_x^i(o')}, \quad \forall o, o' \in O^i, x = P, C. \text{ }^{23}$$

With this in mind, we assign to each option of the expanded set  $\hat{O}^i$  the rescaled value

$$(2) \quad \hat{v}_x^i(o) := \frac{u_x^i(o)}{u_x^i(\bar{o})|_{\bar{o} \in \bar{O}_x^i}} \cdot 100, \quad o \in \hat{O}^i, i \in I, x = P, C,$$

thus replacing the original valuation function  $v_x^i$  by the new function

$$\hat{v}_x^i : \hat{O}^i \rightarrow \left[ 0, \frac{100}{u_x^i(\bar{o})|_{\bar{o} \in \bar{O}_x^i}} \cdot 100 \right].$$

The crucial feature of the new valuation function  $\hat{v}_x^i$  is that all previously available options have the same values as before, i.e.  $\hat{v}_x^i(o) = v_x^i(o)$ ,  $\forall o \in O^i$ , while new options that are better than the previously best ones now have a value that exceeds 100.

We illustrate the expansion of the pie with our case of the wine-growing venture. In the preceding section business development had matured to the point where a venture could be described by an 8-tuple of options. Suppose now that the business developer proposes four additional options, aimed at turning Vincent's venture into a highly competitive business. The new options for only the four issues *Market Segmentation*, *Positioning*, *Growth*, and *Ownership Structure* are highlighted in Table 4a.

For both the entrepreneur and the business developer the task is now to value the four new options relative to parties' given valuations of the previous options and their weightings of the issues. Consider, for example, the issue *Market Segmentation (MS)*. The set of previously assessed options is expanded by the additional option e), which from the perspective of the business developer significantly enhances the competitiveness of the venture. We assume that she values this option at 153 points (according to  $\hat{v}_C^{MS}$ ), when compared with the previously best option d), valued at 100 points. In contrast, the entrepreneur values this option with 67 points (according to  $\hat{v}_P^{MS}$ ), in comparison with the still favored option c) valued at 100 points.

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<sup>23</sup> We are, thus, assuming that parties' preferences over the options are independent of irrelevant alternatives.

| Issues   | P           | P → C     | C           |
|--|-------------|-----------|-------------|
| <b>Organization</b>                                  | <b>8%</b>   |           | <b>5%</b>   |
| a) Experienced seasonal workers in individual jobs   | 63          |           | 40          |
| b) Cheap seasonal workers in individual jobs         | 0           | (11) 0.13 | 100         |
| c) Experienced seasonal workers in teams             | 100         | *         | 80          |
| d) Cheap seasonal workers in teams                   | 25          |           | 0           |
| <b>Style of Personnel Management</b>                 | <b>10%</b>  |           | <b>5%</b>   |
| a) Patriarchic                                       | 100         | *         | 40          |
| b) Charismatic                                       | 80          | (8) 0.5   | 60          |
| c) Autocratic  | 30          | (9) 0.4   | 100         |
| d) Administrative                                    | 0           |           | 80          |
| e) Democratic  | 60          |           | 0           |
| <b>Method of Production</b>                          | <b>12%</b>  |           | <b>14%</b>  |
| a) Complete internal production                      | 100         | *         | 0           |
| b) Int. prod., external distribution and marketing   | 67          | (6) 1.59  | 45          |
| c) Commissioned production for bulk buyers           | 0           | (7) 0.96  | 100         |
| <b>Market Segmentation</b>                           | <b>12%</b>  |           | <b>19%</b>  |
| a) German red wines in various qualities             | 42          |           | 68          |
| b) German premium red and white wines                | 67          |           | 32          |
| c) German premium red wines                          | 100         | *         | 0           |
| d) German red and white wines in varying quality     | 0           |           | 100         |
| e) Premium wines, champagne, and prosecco            | 67          | (2) 7.34  | 153         |
| <b>Positioning</b>                                   | <b>20%</b>  |           | <b>14%</b>  |
| a) Quality production and product (differentiation)  | 100         | *         | 0           |
| b) Low in cost and price                             | 0           |           | 100         |
| c) Quality production/product, low-cost distribution | 50          | (5) 2.0   | 143         |
| <b>Growth</b>  | <b>5%</b>   |           | <b>24%</b>  |
| a) Increase in quality and price                     | 100         | *         | 50          |
| b) Additional wines                                  | 80          | (1) 12.0  | 100         |
| c) Expansion of distribution                         | 0           |           | 75          |
| d) Additional offerings of organic products          | 40          |           | 0           |
| e) Takeover of further vineyards                     | 60          | (3) 6.0   | 125         |
| <b>Ownership Structure</b>                           | <b>15%</b>  |           | <b>12%</b>  |
| a) Single owner with financial support by family     | 100         | *         | 0           |
| b) Joint venture with wine-grower friend             | 67          |           | 100         |
| c) Participation of business angel                   | 40          |           | 100         |
| d) Single owner with bank loan and public support    | 0           |           | 58          |
| e) IPO   | 47          | (4) 2.52  | 167         |
| <b>Role of Founder</b>                               | <b>18%</b>  |           | <b>7%</b>   |
| a) Complete responsibility                           | 100         | *         | 0           |
| b) Resp. for wine prod., new management team         | 0           | (10) 0.39 | 100         |
| <b>Total</b>   | <b>100%</b> |           | <b>100%</b> |

**Table 4a:** The introduction of new options for competitiveness

The formal consistency with the analysis of the preceding sections can be seen, if we introduce for the expanded option set  $\hat{O}^{MS}$  the auxiliary valuation  $u_C^{MS}$ , where the now best option e) automatically receives the highest value 100, and the worst option c) receives the lowest value 0. Option d) – formerly the best option for the business developer – now ranges in between and would (consistently) be valued by the business developer at  $u_C^{MS} = 65$  (because  $100/65 = 153/100$ ). Given this new value of (the previously favored) option d), we can rescale

the valuations of all options of this issue according to equation (2) by multiplying their auxiliary values  $u_C^{MS}$  by the factor  $100/65$  to obtain their new valuations  $\hat{v}_C^{MS}$ . As one can easily verify, the previously favored option d) as well as all less favored options a) – c) have the same valuations as before the expansion (cf. Table 3a), while the new option e) receives the value of  $(100/65) \cdot 100 = 153$ , shown in Table 4a.

For the entrepreneur, the auxiliary valuation,  $u_P^{MS}$ , is the same as the original valuation,  $v_P^{MS}$ , since the new option e), by assumption, is not valued higher than the favored option c). Consequently, the rescaled values are also the same, i.e.  $\hat{v}_P^{MS} = v_P^{MS}$ . The valuation of options for the other issues proceeds accordingly, yielding the values shown in Table 4a.

With the rescaled valuation of options given by equation (2), we also rescale the value of each alternative  $a \in \mathcal{A}$  by

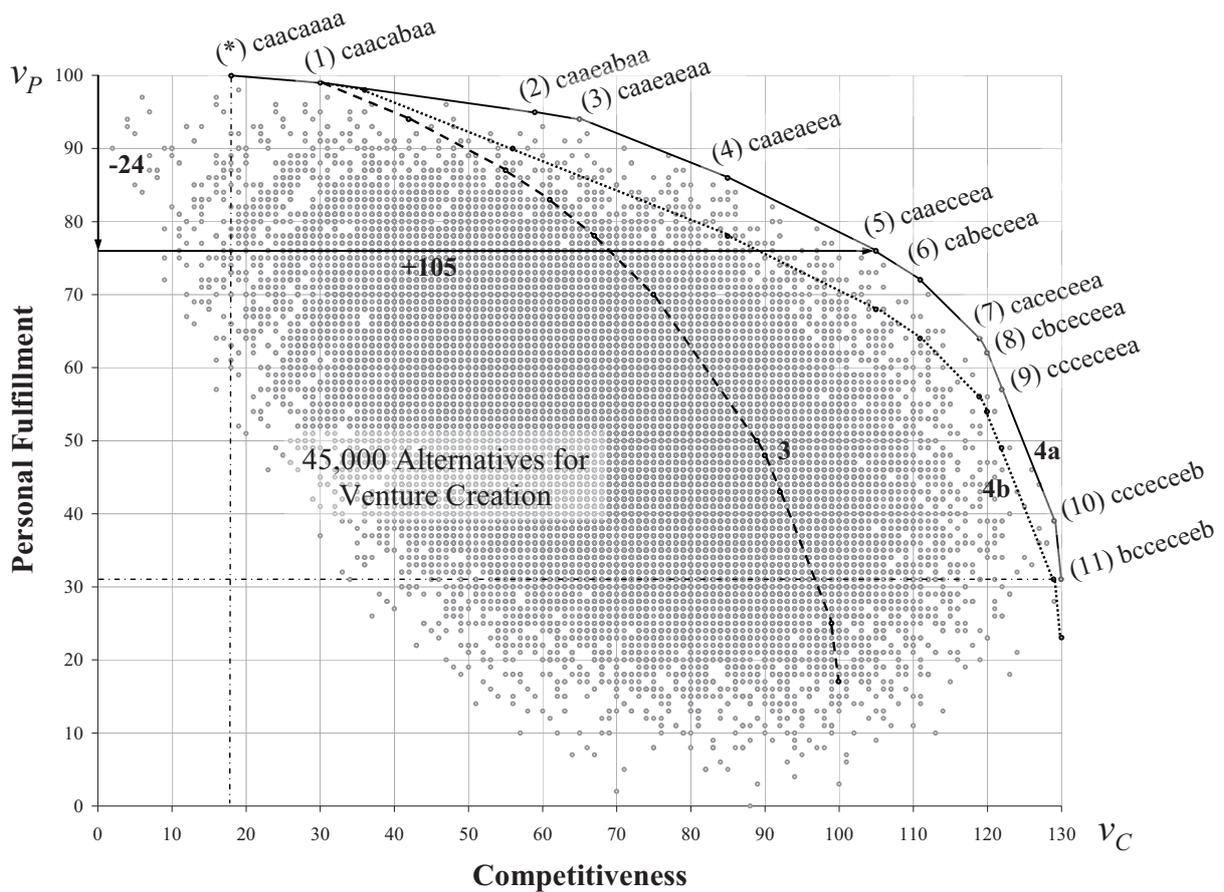
$$(3) \quad \hat{v}_x(a) := \sum_{i \in I} \omega_x^i \hat{v}_x^i(o^i), \text{ where } o^i \in \hat{O}^i, x = P, C,$$

thus allowing the total valuation of alternatives to exceed 100 points as well.<sup>24</sup> Graphically, the efficiency frontier of the negotiation problem shifts outward, as is illustrated in Figure 4 by the curve denoted by 4a. For comparison we have also included the efficiency frontier of Figure 3 (denoted by 3), characterizing the decision context before the expansion.

With just the four new options introduced in Table 4a, the total number of alternatives increases almost threefold to  $4 \times 5 \times 3 \times 5 \times 3 \times 5 \times 5 \times 2 = 45,000$  alternative ventures. Due to our construction of the valuation function, the joint valuations of the 15,360 alternatives before the expansion, illustrated in Figure 3, remain unchanged and are also visible in Figure 4, since the decision makers are free to ignore the newly created options in implementing the new venture. Hence, all alternatives beyond the previous efficiency frontier (i.e., in Figure 4, all allocations located between the curves marked 3 and 4a) must contain at least one of the new options. Thus, Figure 4 clearly illustrates the asymmetric expansion in favor of competitiveness.

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<sup>24</sup> In equation (3) we assume that the weights of the issues remain constant as new and better options are introduced. Proponents of “swing” weighting would view this assumption as critical, since the market potential of these issues increases. Indeed, due to the asymmetric expansion that we study here, the introduction of an option valued higher than 100 points by the business developer, should, plausibly, increase the weight that the business developer attaches to this issue. As a consequence, the qualitative effects that we discuss shortly would be even reinforced. Hence, in order to avoid confusion between valuing the options and weighting the importance of issues and to highlight the expansionary effect of the newly created options, we keep the weights of the issues constant in the following.



**Figure 4:** Expanding the pie with new options

As before, our interest is focused on the alternatives along the efficiency frontier. We can apply the same procedure as in the previous section and calculate the individual shifts along the efficiency frontier by ranking the gain/loss ratios in descending order. In Table 4a, column P→C shows the individual steps starting from the entrepreneur’s most favored alternative. Due to the additive separability of the valuation functions, only the four issues with expanded option sets need to be recalculated and the new gain/loss ratios then included in the ordering across all issues. It is interesting to observe that the number of alternatives on the efficiency frontier is the same as before the expansion, despite the strong increase in the total number of alternatives.<sup>25</sup> This suggests that the complexity of facilitation will increase only slowly as the option sets are expanded through business development.

As Figure 4 shows, the introduction of the four market-oriented options by the business developer increases maximum competitiveness by 30%, as compared to the previous venture alternatives. The relevant question for the business developer, though, is how much of this potential competitiveness can be realized through venture creation? This in turn depends on

<sup>25</sup> The unchanged number of steps along the efficiency frontier is a didactically motivated “coincidence” in our example. As the reader can easily check, the specific gain/loss ratios of the new options determine whether the number of alternatives on the efficiency frontier rises, falls, or remains the same as new options are introduced.

how far the entrepreneur is willing to let the facilitator take him along the efficiency frontier. Starting from the alternative for maximum personal fulfillment, it takes five option changes, according to Table 4a, to have all of the new options included in an efficient venture. In Figure 4 one can see that, with alternative (5), the entrepreneur achieves 105 points in competitiveness, i.e. 5% more than with maximum competitiveness in the previous setting, while moving only 24 points away from maximum personal fulfillment. For the entrepreneur, this is a strong incentive to agree to these options.

If we assume that facilitation always begins at the point of maximum personal fulfillment, because the entrepreneur is the person responsible for the actual implementation, then the likelihood of a competitive option being implemented is higher the earlier it is considered by the entrepreneur. In the preceding section we showed that moves along the efficiency frontier, from one alternative to the next, are ranked in descending order according to their gain/loss ratios. Starting from maximum personal fulfillment, the gain is always the increase in value for the business developer, while the loss measures the decrease in value for the entrepreneur. The higher the value an entrepreneur assigns to an option, the less he has to lose from its implementation. This is an important aspect to consider in designing new options for the venture.

In our example, consider again the four new options designed to enhance competitiveness. As one can see in column P→C of Table 4a, the new option e) of *Market Segmentation* is second on the list of option switches between extremely efficient alternatives, due to its high gain/loss ratio of 7.25. However, the high ratio is not only the result of its high potential in terms of competitiveness, but also its high value in terms of personal fulfillment, thus requiring the entrepreneur to give up only four points ( $0.12 \cdot (100 - 67)$ ) when switching from c) to e). Therefore, the new option e) is one of the first to be accepted by the entrepreneur.

Suppose, instead, that the business developer, in designing the new options, thinks only of promoting the competitiveness of the venture, regardless of their impact on the entrepreneur's fulfillment. In Table 4b we have reformulated option e) for the issue *Market Segmentation*, so that its value in terms of competitiveness is the same as in Table 4a, but its value for personal fulfillment is now 0, because the entrepreneur thinks that the new option is just as bad as the previously worst option d).<sup>26</sup>

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<sup>26</sup> Note that the entrepreneur could find the new option e) even worse than the previously worst option d). In this case we would also have to allow negative valuations, which, conceptually, can be handled in the same way as valuations that exceed 100 points. For clarity, we avoid this additional complexity in the example.

|  |            |          |            |
|--|------------|----------|------------|
| <b>Market Segmentation</b>                       | <b>12%</b> |          | <b>19%</b> |
| a) German red wines in various qualities         | 42         |          | 68         |
| b) German premium red and white wines            | 67         |          | 32         |
| c) German premium red wines                      | 100        | *        | 0          |
| d) German red and white wines in varying quality | 0          |          | 100        |
| e) Wine, prosecco, and mixed drinks              | 0          | (4) 2.42 | 153        |

**Table 4b:** Introducing a competitive option that the entrepreneur dislikes

By recalculating the gain/loss ratio for this issue and then ranking it together with the ratios of the other seven issues in Table 4a, one can see that the option switch in *Market Segmentation* moves further down the efficiency frontier to fourth place. The effect of this drop in the gain/loss ratio on the whole efficiency frontier is illustrated in Figure 4 by the dotted curve labeled 4b. As one can see, the implementation of the competitive option for *Market Segmentation* now brings the entrepreneur down to almost 80 points. Moreover, the next step (5), i.e. the new option c) for *Positioning* now becomes more difficult to accept for the entrepreneur.

Hence, if the business developer has an incentive to design new options for competitiveness and would like to see them implemented, she also has a strong incentive to acknowledge the entrepreneur's personal fulfillment – not because of altruism, but simply to give the option a high priority in the process of facilitation. While the business developer may be inclined to simply persuade the entrepreneur into seeing a high value in a suggested option, it is the job of the facilitator to assist the entrepreneur in understanding and assessing the new options.

## 6. Conclusions and implications

Within the formal negotiation-analytic framework of the previous sections, we investigated how the conflict between the entrepreneur's personal fulfillment and the venture's competitiveness evolves in the course of business development. In particular, we showed how differentiated perspectives of the venture expand the pie, thus increasing the value of the venture and reducing the conflict potential. We demonstrated how a differentiated view becomes possible, when the venture is characterized by multiple issues with multiple options.

An important implication for business development is that the expansion of the pie comes quite naturally in the course of planning, as more relevant issues concerning the venture are identified and options for realizing the venture are explored. With our issue-option characterization of ventures we demonstrated how the number of endogenously generated alternatives increases multiplicatively as further issues are addressed and new options are created. However, business planning not only raises the venture's competitiveness and market potential.

With the expansion of the pie, the entrepreneur's possibilities of achieving personal fulfillment increase as well. In particular, we showed that fulfillment can be enhanced, even when the expansion is asymmetrically oriented towards competitiveness.

Our analysis of the conflict and our procedural approach in dealing with it was based on the distinction of three separate parties: the entrepreneur, the business developer, and the facilitator. We characterized the entrepreneur as the key decision maker, who, motivated by his personal, not necessarily only market-oriented objectives, is responsible for implementing the planned venture. However, as the success of the venture depends on its competitiveness, we explicitly introduced the business developer as an outside party representing this perspective. In the course of business planning the business developer is important for expanding the decision context by pointing out the relevant issues for the venture and introducing new options for its realization, thus creating more potential for value creation. While the business developer focuses on the expansion of the pie, the facilitator, as a third party, is responsible for ensuring that the entrepreneur obtains a share of the pie granting him sufficient personal fulfillment to implement the venture.

Since only few nascent entrepreneurs enjoy the benefit of an own business developer, in practice, the entrepreneur himself is usually responsible for the development of the venture, also balancing alone the tradeoff between fulfillment and competitiveness. In the process of business planning, as more issues emerge, it inevitably becomes increasingly difficult to distinguish between personal and professional preferences. As a consequence, the outcome of business development may well be a competitive project, but with an unfulfilled entrepreneur, or a disbanded project of a potential entrepreneur seeking fulfillment elsewhere. The increasing popularity of outside (i.e. educational, governmental or privately sponsored) support in business development by "coaches" or "business angels" may be seen as an indicator for the importance of separating the entrepreneur and the business developer. This is also an essential aspect to consider in entrepreneurial education. Indeed, it seems crucial to highlight the importance of preserving the entrepreneur's vision, not only in the obligatory mission statement, but in the whole process of business planning, making it an integrative aspect of the new venture's corporate identity. The negotiation-analytic framework that we introduced is a well-established practicable tool, which can be easily incorporated in business planning.

The importance of the facilitator has as of yet not been sufficiently acknowledged in practice, mainly because the business developer has little incentive to employ this third party, whose main task it is to assist the entrepreneur. Clearly, the business developer with a bias towards

competitiveness is not well suited to take over this role herself. However, without a facilitator, the interaction between the entrepreneur and the business developer turns into a negotiation, with the inexperienced entrepreneur typically in the weaker position. This may explain why entrepreneurs in practice are often reluctant to engage with business coaches or angels. As we put across in the preceding sections, the facilitator is a key player in establishing a successful venture planned through interactive business development.

The comparison of efficient alternatives requires an understanding of the trade-offs involved. Although the entrepreneur will have little trouble seeing the personal fulfillment that he is sacrificing, he also needs to understand the meaning of changes in competitiveness in order to acknowledge the trade-offs pointed out by the facilitator. Thus, it is important for the facilitator to be able to translate the business developer's measure of competitiveness into a comprehensible notion of performance, e.g. a rating scheme. For example, the comparison of different ventures with an overall competitiveness of, say, 70 points may correspond to a CC rating, and an increase of competitiveness by 15 points may result in a venture with a B rating. A more precise definition of competitiveness remains an important aspect for further research.

With three distinct parties – the entrepreneur, the business developer, and the facilitator – involved in the process of venture creation, our formal analytical framework is flexible enough to consider alternative planning scenarios. For example, if the business developer is an actual stakeholder in the venture, e.g. a business-oriented member of the entrepreneurial team, then the objective of the facilitator will be to mediate the negotiation between team members. In this context, our negotiation-analytic approach allows us to consider alternative formal bargaining solutions, and the procedure Adjusted Winner, which we employed to move along the efficiency frontier, provides an elegant and practical method for characterizing the associated venture.

A further aspect to be investigated in future research is business development with multiple stakeholders. The issue-option structure that we used to characterize the venture is easily extended to more than two parties with varying objectives, e.g. the multiple stakeholders of a social venture. As the number of parties rises, the main task of facilitation is to find a mutual agreement, where the integration of new issues serves to create additional value that can be distributed. The negotiation-analytic approach provides a useful framework for highlighting both the synergies and the conflicts between the parties involved as well as a method for facilitation in practice.

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