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Cognitive Biases in Business Negotiations for Entrepreneurs

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Thesis Description

The purpose of this thesis is to investigate the role of cognitive biases in business negotiations for entrepreneurs, particularly within the tech-industry. This purpose will be achieved through performing a qualitative study of negotiating entrepreneurs, and synthesizing a theoretical empirical conceptual framework from the relevant research findings analyzed in the thesis.

Moreover, the study expands on and extends theory related to negotiation, cognitive biases and entrepreneurial cognition. The importance of the study is also highlighted in the potential for the research focus to contribute to improved negotiation effectiveness for entrepreneurs.

Preface

This master thesis is written by a student at the NTNU School of Entrepreneurship, at the Norwegian University of Science and Technology. It constitutes the final work in the author's Master of Entrepreneurship degree, in the subject TIØ4945- Innovation and Entrepreneurship.

The author would like to thank supervisor Roger Sørheim for his comments, support and adaptability throughout the writing process. It is greatly appreciated.

Additionally, the author would like to thank all the entrepreneurs who took time out of their busy schedules to share their interesting stories and experiences from negotiations. The thesis has benefited considerably from their enthusiastic participation.

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Abstract

The purpose of this master thesis is to investigate what role cognitive biases play in business negotiations for entrepreneurs, through conducting a theory building empirical study in an exploratory manner. The purpose is achieved through performing a qualitative empirical study of entrepreneurs, before creating a synthesized conceptual framework which incorporates the most relevant theoretical and empirical findings from the study conducted in this thesis.

A qualitative case study research method is chosen for the thesis, with a data collection approach through semi-structured interviews of 8 individual entrepreneurs, selected through defined criteria relating to entrepreneurial experience. The study employs an abductive approach, where the preliminary theoretical framework guides interpretation of the empirical data collected, while also enabling a revision of assumptions underlying the framework, or exploration of other literature which might illuminate uncategorized findings. The finalized conceptual framework is utilized to answer the research questions and purpose of the thesis.

The study has shown that cognitive biases in business negotiations are quite prevalent, with a *duality of usefulness* in how they can affect the negotiating actors. Certain biases like the *framing*, *overconfidence* and *anchoring* bias, appear as essential tools to the negotiating entrepreneur, while the study also has found a general *lack of awareness regarding these and other cognitive biases*. As both theoretical and empirical findings indicate that entrepreneurs have a *high susceptibility* to cognitive biases, it is further implied that they are significantly affected by such biases throughout all stages of the negotiation process. In conclusion, the entrepreneurs have also been found to exhibit a long-term strategic perspective extending beyond single negotiations, implying that cognitive biases *affect negotiations over time*.

The thesis is thought to have developed, extended and created new knowledge across the topics of negotiation, cognitive biases and entrepreneurial cognition, while also accentuating recommendations for future areas of research. In this regard, the combined body of research in this thesis has arguably given rise to a wider understanding of cognitive biases in relation to both the negotiation context in general, as well as for negotiating entrepreneurs specifically.

Sammendrag

Formålet med denne masteroppgaven er å undersøke hvilken rolle kognitive bias spiller i forretningsforhandlinger for gründere, gjennom å utføre en teoribyggende empirisk studie på en utforskende/eksplorativ måte. Formålet oppnås gjennom å utføre en kvalitativ empirisk studie av gründere, før det skapes et syntetisert konseptuelt rammeverk som inkorporerer de mest relevante teoretiske og empiriske funnene fra studiene gjennomført i denne oppgaven.

En kvalitativ case-studie forskningsmetode er valgt for denne oppgaven, med en datainnsamlingstilnærming gjennom semistrukturerte intervjuer av 8 individuelle gründere, valgt gjennom definerte kriterier som relaterer til gründererfaring. Studiet benytter en abduktiv tilnærming, hvor det innledende teoretiske rammeverket guider tolkning av den empiriske dataen som samles inn, samtidig som den muliggjør en revidering av antagelser som ligger til grunn for rammeverket, eller utforsking av annen litteratur som kan bringe lys over ukategoriserte funn. Det ferdigstilte konseptuelle rammeverket blir så brukt til å svare på forskningsspørsmålene og formålet med oppgaven.

Studien har vist at kognitive bias i forretningsforhandlinger er svært utbredt, med en *dualitet av nytthet* i hvordan de kan påvirke forhandlingsaktørene. Enkelte biaser som *framing*, *overconfidence* og *ankring*, fremstår som essensielle verktøy for den forhandlende gründer, mens studien også har funnet en generell *mangel på bevissthet vedrørende disse og andre kognitive bias*. Etersom både teoretiske og empiriske funn indikerer at gründere har en *høy mottagelighet for kognitive bias*, er det videre antydning at de er betydelig påvirket av slike bias gjennom alle stadier i forhandlingsprosessen. Til slutt har gründere også blitt funnet til å utvise et langsiktig strategisk perspektiv som forlenges forbi enkeltforhandlinger, som antyder at kognitive bias *påvirker forhandlinger over tid*.

Oppgaven er tenkt å ha utviklet, utvidet og skapt ny kunnskap på tvers av temaene forhandlinger, kognitive bias, og entreprenøriell kognisjon, samtidig med å fremheve forslag til fremtidige forskningsområder. I lys av dette, har den kombinerte forskningen i denne oppgaven sannsynligvis ført til en større forståelse for kognitive bias i forhold til både forhandlingskonteksten generelt, samt for forhandlende gründere spesielt.

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1. Introduction

“Negotiation is essential for anyone who must interact with other people to accomplish their objectives” - (Thompson, 1990)

Over the last three decades, negotiation has become widely recognized both as a topic of serious research and as an essential, frequently used set of skills (Movius, 2008). In an increasingly complex, diverse and dynamic world, Malhotra & Bazerman (2007) argue that negotiations are increasingly being seen as the most practical and effective mechanism for allocating resources, balancing competing interests and resolving conflicts of all kinds. Negotiation, they continue, is perhaps now more than ever an essential skill for success in all areas of life (ibid). In the world of business, executives are increasingly faced with the task of negotiating in the realm of technology, where dealing with complexity and uncertainty are likely problems to occur in current managerial life (Susskind, 2006). The most important job of any executive, then, is arguably to make decisions (Hammond et al, 2003).

Yet, research has found that most people are largely unaware of how their minds work when making such judgments (Bazerman & Moore, 2009). The tendency for the brain to make “mental shortcuts”, or heuristics, is usually a cost-effective strategy to process the excess of information in our daily lives; but in competitive encounters such as negotiation, however, the unconscious heuristic-based judgments are often systematically wrong. These systematic errors and patterned fallacies are known as cognitive biases (Thompson & Lucas, 2014).

Unfortunately, most negotiators are not aware of the existence of these cognitive biases (ibid). Neale and Northcraft (1990), argue that cognitive biases *can* be overcome, although not through the development of traditional experience, but by *expertise*. Contrary to experience that is simply built up over time, they argue that people develop an expertise when they attain a “strategic conceptualization” of what constitutes effective negotiation (Caputo, 2013). To overcome such biases and negotiate effectively then, one needs a framework for thinking about, preparing for, and executing negotiations systematically and strategically (ibid).

One group of people that have been found to be particularly prone to cognitive biases, are entrepreneurs, who have exhibited a greater reliance on cognitive biases in their decision-making (Forbes, 2004). Considering that entrepreneurs usually have few resources, which

they also need to manage in an efficient way, cognitive biases in a negotiation setting would seemingly be an obstacle to bargaining success. In a study on improving negotiation effectiveness, Bazerman & Neale (1982) found that even rudimentary training on biases is an effective means of improving the decision-making process in negotiations. Despite these and other findings, the research on cognitive biases in negotiations involving entrepreneurs is noticeably scarce, with seemingly no announced research that will attempt to bridge this gap.

This master thesis is intended to be a theory building empirical study with a focus on cognitive biases in business negotiations for entrepreneurs. As there seems to be a pronounced research gap between literature detailing the negotiation context on a general level, and literature detailing entrepreneurs as distinctive actors in a business context, this thesis combines the two domains through a shared perspective on cognitive biases. This research focus aids in expanding the literature in all topics individually, as well as in the intersection of all three combined. The importance of the subject matter is also highlighted in the potential for the research focus to contribute to improved negotiation effectiveness for entrepreneurs.

The purpose of this study is thus to create new knowledge regarding the role of cognitive biases in a business negotiation setting, by focusing on the distinct cognitive conditions of entrepreneurs. This will be achieved through performing a qualitative empirical study of entrepreneurs, before creating a synthesized conceptual framework - which can be used to understand and categorize future empirical findings on entrepreneurs who consistently negotiate on behalf of their companies. The thesis will also aim to develop and extend current theory across the specified topics of negotiation, cognitive biases and entrepreneurial cognition. In investigating how cognitive biases are a factor for entrepreneurs in business negotiations, the purpose has been outlined as follows:

To investigate what role cognitive biases play in business negotiations for entrepreneurs

The master thesis itself will be conducted in an iterative six-step process. First, relevant theory will be compiled in order to create a preliminary framework for the empirical study. Second, empirical data from the case studies will be collected through qualitative interviews. Third, the collected data will be categorized and analyzed with regard to the preliminary

theoretical framework. Fourth, relevant findings are used to improve the assumptions underlying the framework, or to explore other relevant strings of literature that can illuminate and interpret the uncategorized findings. Fifth, creating a synthesized conceptual framework that incorporates the most relevant theoretical and empirical findings pertaining to cognitive biases in business negotiations for entrepreneurs. Lastly, writing the actual master thesis.

1.1 Research Questions

Due to the extensiveness of the purpose, the research questions that will guide the understanding and solving of the outlined purpose have been defined into the following:

RQ1: What is the nature of cognitive biases in business negotiations for entrepreneurs?

RQ2: a) How susceptible are entrepreneurs to cognitive biases in business negotiations?

b) How does this affect their planning and execution of business negotiations?

The first research question seeks to discover the nature of cognitive biases in business negotiations for entrepreneurs. The differentiation made between “nature” here in the research question, and “role” in the purpose, is that the “nature of the situation” attempts to show a condition closer to an objective occurrence of the phenomenon. This can be solved through theoretical and empirical findings simply of the occurrence, and possibly effects of, the phenomenon of cognitive bias in negotiations for entrepreneurs. The “role” communicated in the purpose is thus understood as a term that implies both an objective occurrence and a subjective experience of the significance of cognitive biases in a negotiation setting.

Thus follows the two parts of research question 2, which seek to probe the more subjective experience or awareness of cognitive biases in this context. More specifically, part a) seeks to examine the level of susceptibility to cognitive biases by entrepreneurs, in case this is related to the “objective” occurrence of biases. In other words, if there is a pattern between the conscious awareness of biases by participants, and their occurrence in the negotiation context. Part b) then advances this path by seeking to answer whether this awareness, or lack thereof, distinctively affects the planning and execution of business negotiations by entrepreneurs.

In order to understand the nature of cognitive biases in the business negotiations that are conducted by entrepreneurs, it is necessary to have an understanding of the general

negotiation context, the concept and occurrence of cognitive biases, as well as how entrepreneurial conditions might be different from non-entrepreneurs in the exhibiting of these biases. This will be solved through mapping literature within the following three sub-topics: negotiations, cognitive biases in the negotiation setting, and entrepreneurial cognition. Once the relevant literature pertaining to the purpose of the thesis has been identified, an empirical case study will be conducted through interviewing 8 negotiating entrepreneurs. After all the data has been collected and subsequently analyzed, a synthetization process towards a conceptual framework will be conducted. Through combining relevant theory and empirical findings within the three sub-topics outlined above, the resulting framework is expected to give rise to a wider understanding of cognitive biases in relation to both negotiations in general, and entrepreneurs specifically. Ultimately, the finished synthetization of a conceptual framework should fulfill the overall purpose of the thesis.

1.2 Contributions

This thesis contributes to a growing research on the psychological influence in negotiations (Malhotra & Bazerman, 2008) and negotiation research which has become more cognitively focused (Thompson et al, 2010). However, researchers imply that a framework for bridging the gap between psychological influence and negotiations is currently lacking (Malhotra & Bazerman, 2008). This thesis arguably contributes one such framework, while still accentuating the need for future research areas which can extend this knowledge further.

Although the domain of psychology in negotiations is growing, the literature arguably does not yet include entrepreneurs as a significant contextual group in this research. As entrepreneurs have been found to be particularly prone to cognitive biases, the thesis and synthesized framework might also constitute a specified contribution towards Caputo's (2013) notion of a framework needed for thinking about, preparing for, and executing negotiations systematically and strategically, in order to attain a "strategic conceptualization" of negotiations in order to mitigate the effects of cognitive biases (Neale & Northcraft, 1990).

Lastly, the author sees a potentially practical utility from the research conducted in this thesis, contributing to entrepreneurs being more aware of negotiation factors otherwise ignored; the thesis arguably functioning as a short and concise overview of the most relevant cognitive biases in entrepreneurial negotiations, which can lead to improved negotiation effectiveness.

2. Theory

In this chapter, findings from the literature on negotiations, cognitive biases and entrepreneurial cognition will be presented. First, literature on negotiations will be presented, where the scope has been refined to focus mainly on negotiations in a business setting. Second, the chapter will present literature on cognitive biases in relation to a negotiation setting, mainly focusing on the contributing research of behavioral decision making in order to explain the occurrence of biases. Finally, literature regarding entrepreneurial cognition will be presented, laying the foundation for an understanding of negotiating entrepreneurs. The findings from all topics will then be connected at the end of the chapter, to synthesize the theory into a preliminary conceptual framework for use in the empirical study.

2.1 Negotiation

Over the last three decades, negotiation has become widely recognized both as a topic of serious research and as an essential, frequently used set of skills (Movius, 2008). The study of dispute resolution has also become multidisciplinary; bridging disciplines such as economics, political science, sociology, and psychology, and in professional practice areas such as sales, finance, and marketing (Lewicki, 1997). Although multidisciplinary, Roloff, Putnam and Anastasiou (2003) argue that relevant negotiation knowledge typically occurs within one disciplinary home, and does not spread beyond its academic boundary of origin. In accordance with these factors, the task of understanding the entirety of literature pertaining to negotiations can be perceived as difficult (Kolstoe, 2012).

This thesis argues that the literature on negotiations is fragmented, consisting of various scientific disciplines, theories and models. The purpose of this section is therefore to elaborate on the most relevant negotiation theory and principles concerning this thesis, which also lays the foundation for the theoretical framework that is to be developed. The first part will present a short overview of the historical development of negotiation research, in order to understand the theoretical themes that guide the study of negotiation. The following part covers concepts, principles and terminology that are central to business negotiations. Lastly, the section will examine in-depth the paradigms of distributive and integrative bargaining, which relates to the different bargaining scenarios that negotiators have to navigate.

2.1.1 Defining negotiations

Before examining the literature on negotiations, the terms that will be employed throughout this thesis should be briefly defined. Negotiation can be defined as a process where two or more parties seek agreement on what each shall give to, and take from the other(s) in a transaction between them (Movius, 2008; Thompson, 1990; Rubin & Brown, 1975).

Thompson (1990) further summarizes the basic features of negotiation to include the negotiation parties, their interests, the negotiation process and the negotiation outcome. The negotiation *process* is the interaction that occurs between the parties before an outcome, and include communication between bargainers and behavioral enactments of bargaining strategies, whilst the negotiation *outcome* is the product of the bargaining situation itself. Negotiations may also either end in an impasse (failure to reach a mutually acceptable agreement) or in mutually acceptable solutions (ibid).

As exemplified above, this thesis also employs use of the term “bargaining”, when explaining certain negotiation principles or practices. The reason for this is mainly that the terms “negotiation” and “bargaining” are frequently used interchangeably, and that there are few explicit definitions of the latter term in the previous scientific literature. For the purpose of the literature review, the term “bargaining” will not employ a distinctly different meaning than “negotiating”, other than its explicit use in names for negotiation principles, such as “bargaining situation”, “integrative bargaining” et cetera.

2.1.2 Development of negotiation research

Although the accumulated field of negotiations can be considered relatively new, the research on fundamental negotiation concepts arguably started forming during the 1950’s, with the proliferation of game theory studies. In this regard, the multidisciplinary nature of negotiation research has led to a field that has experienced several “iterations” of theories and concepts; examining this research in a historical context enables an outline of the state-of-the-art developments of the field, which spans a variety of disciplines. Furthermore, as the field of negotiations is built from findings of both researchers and practitioners, an overview of theory development aids in categorizing the notable contributions from each of the different groups.

Negotiation research has undergone several phases during the latter half of the previous century, characterized by different paradigms of thought (Thompson et al, 2010). Normative

research dominated the 50's and 60's, inspired by research on game theory, economics and mathematics, and prescribes what people would do if they were wise, all-knowing and fully rational (ibid). The work of John Nash (1950; 1951) re-focused on bargaining situations that did not need someone to lose in order for another to win, but instead were optimized by including information from both parties in order to maximize the total gain (Kolstoe, 2012; Thompson et al, 2010). This research was a shift away from zero-sum games, but was still based on the assumption that the bargainers were fully rational, and analyzed what each negotiator should *optimally* do.

Walton and McKersie (1965) draw on a wide range of literature and theories from economics, psychology and group dynamics, which resulted in a model of four sub processes of negotiation, the most notable of which were the concepts of distributive and integrative bargaining (Kochan and Lipsky, 2003). Distributive bargaining was defined as situations focusing on maximizing one's own gains by the use of tactics and being assertive, in order to claim more value, while integrative bargaining referred to the process of cooperating in order to find common interests and "increase the pie" they were negotiating over (ibid; Kolstoe, 2012). Following this advancement of theory building, one of the most important theoretical distinctions in the field of negotiation started to form: the one defining normative and descriptive research, the latter of which recognizes that negotiators do not always behave rationally (Thompson et al, 2010).

The research of Tversky and Kahneman (1974) on behavioral decision theory, presented scientific findings that showed negotiators were biased, and not rational, in their decision making. Raiffa (1982) expanded on this by attempting to provide a prescriptive framework for negotiators, which studied how negotiators actually behave when making decisions in negotiations. At the same time, Fisher and Ury (1981) published what is arguably the most known practitioner-oriented work in the field of negotiations, which built on behavioral decision making to focus more heavily on trying to achieve "principled bargaining", a non-conflicting form of integrative bargaining that focuses on the psychological factors of the human mind. Since the 1980's contributions from behavioral decision theory and descriptive negotiation research, the 90's were strongly influenced by social psychology, exemplified by research on mental models, emotion, ethics, biases and perceptions (Bazerman et al, 2000). Thompson et al (2010) argue that the turn of the millennium has produced research that has become more cognitively focused (Thompson et al, 2010).

In sum, the development of the field of negotiations has seen a shift from a narrow view of absolute rationality in game theory bargaining situations, to seeing negotiations as complex processes that involve concepts and theories from a wide range of academic disciplines. Descriptive negotiation research has become more prevalent, and the literature seems to be growing in the direction of the psychological influence in negotiations (Malhotra & Bazerman, 2008). However, it is further implied that a framework for bridging the gap between psychological influence and negotiations is currently lacking (ibid).

2.1.3 Negotiation strategies and terminology

Through reviewing the combined literature from both researchers and practitioners, certain strategic concepts and terminology have been identified as being widely recognized and used throughout the field of negotiations. It can therefore be argued that an introduction to and understanding of these concepts is essential for most empirical studies of negotiation processes and outcomes. The following section will briefly list these concepts, with the exception of distributive and integrative bargaining (which will be examined in-depth in chapter 2.1.4), before explaining how they are applied in the negotiation setting.

Preparation

Although not a part of the theoretical frameworks mentioned previously, the role of preparation in negotiations is identified as being an important finding, particularly across practitioner literature. Fisher & Ury (1981; 2011) and Lax & Sebenius (2006) emphasize it heavily, while Bazerman & Moore (2009) claim it is “critical” – mentioning that they have noticed that students who fail to thoroughly prepare for a simulation are routinely “clobbered by their opponent”. Malhotra & Bazerman (2007) extend this to the professional world, by arguing that they have become aware that the most common and costly mistakes take place before the negotiation even begins, after training and consulting with several thousand negotiators and dealmakers. In interviews of negotiation experts, Kolstoe et al (2012) also documented that all of the interview subjects were adamant about the importance of preparing for negotiations, and that neither tactics nor other schemes could make up for preparing well. In aiming to prepare adequately, the following concepts are of particular importance.

BATNA, ZOPA & Reservation Point

According to Thompson et al (2010), the most commonly investigated source of power in negotiations is the *negotiator's best alternative to a negotiated agreement* (BATNA), as it has become the primary indicator of a negotiator's relative power in negotiations. Explained simply, a negotiator's BATNA is the external alternative to a negotiation, that is available even if the current negotiation goes nowhere (Fisher & Ury, 2011). The implication is thus that the BATNA determines the point at which a negotiator is prepared to walk away from the negotiations; if the alternative option would be superior to the suggested proposal(s) in the negotiation (Thompson et al, 2010). Strongly related to a negotiator's BATNA, and at exactly which point a negotiator is willing to walk away, is the concept of a *reservation point*. A reservation point is the quantification of a negotiator's BATNA, and according to Raiffa (1982) the point where a negotiator would be indifferent between reaching a deal with the other party, or walking away to exercise their BATNA (Thompson et al, 2010). In other words, the reservation point is similar to a bottom line. Exemplified: If a seller were to get less than their reservation point, they would want to pursue their alternative, which could be another customer. Similarly, if a buyer has to pay more than their reservation point, they would want to exercise their BATNA, which could be going to another vendor.

These examples also show that reservation points are not determined by what the negotiator's want to achieve, but rather what their BATNA represents (ibid). If you can get a similar product elsewhere, to a price less than your max budget for that item, it would be reasonable to pursue that other option instead. This also means that if a suggested deal is within the acceptable range of both negotiator's reservation points, they should be able to strike a deal. This concept is known as the Zone of Possible Agreement (ZOPA), and is the set of all possible deals that would be acceptable to both parties (Malhotra & Bazerman, 2007). In practical terms, this means that the ZOPA reflects a deal which is better than no agreement.

The importance of a negotiator's BATNA, and the need for preparation which identifies what that alternative is, is highlighted by Thompson et al (2010) who points to research that has documented a strong, causal relationship between the strength of a negotiator's BATNA and the negotiator's ability to claim resources in a specific negotiation; negotiators with attractive BATNAs are considered powerful, by being decidedly more assertive in negotiations. Although the above concepts can often be quite explicit, or quantifiable, Fisher & Ury (2011) argue that the most important thing is to simply be aware of them; knowing you have other options limits the chance of a suboptimal deal to occur.

Negotiation Strategies/Styles

Both researchers and practitioners describe the concept of negotiation strategies, or styles, respectively. Marks & Harold (2011) define negotiation strategy as a broad, general plan of action used to attain a negotiator's goals, and make a distinction from tactics on a matter of scale – tactics are short term and adaptive moves, while strategies include the use of multiple tactics and represent stylistic approaches to the negotiation process. This latter description of a stylistic approach is in parallel with Shell's (2008) notion of a personal negotiation style being a critical variable in bargaining, where depending on the situation, each style can be both effective and expose the negotiator to certain dangers. These notions of strategies are based on the Dual-Concern model, which argue that conflict management is a function of high or low concern for self, combined with high or low concern for others (De Dreu et al, 2001). Both Shell (2008) and Marks & Harold (2011) present five negotiation strategies or styles that describe approaches to negotiations, which are presented below. For the sake of relevance, the two styles most commonly related to entrepreneurial negotiations will be detailed more in-depth, while the remaining three are mentioned briefly.

Collaborating

Also referred to as integrating or problem solving, the collaborating strategy is often hard to implement. It represents a high concern for attaining one's own outcomes, as well as the attainment of desired outcomes for the other party, and often relies on accurate information and a candid disclosure of interests in order to craft a solution that maximizes the joint gains of both parties. This strategy is particularly appropriate in situations where there is value in developing better solutions beyond those that are immediately apparent, and is in line with the concept of integrative bargaining. For entrepreneurs with limited resources, a collaborative style which probes the counterpart for original solutions can aid in "expanding the pie".

Competing

Also called contending or dominating, the competing strategy often frames negotiations as games that can be won or lost. It represents a higher concern for one's own outcomes, and a lower regard for the outcomes of others. This strategy often relies on concepts such as leverage, deadlines, persuasion, misrepresenting and assertion. Although strong in distributive bargaining situations, the dominating of the bargaining process can be hard on relationships.

For some entrepreneurs this style can be the default, either due to a potential inexperience in negotiating overall (contrasted with a more complex collaborative style), or due to potentially “typical” personality characteristics: assertiveness, overconfidence, competitiveness et cetera.

Compromising, Accommodating and Avoiding

Negotiators with a **compromising** predisposition are usually eager to close the deal by “closing the gap”, gravitating towards making a compromise between the parties. Although this give-and-take approach to find an acceptable middle ground is often considered “reasonable”, it risks making concessions too quickly. Also referred to as obliging or yielding, the **accommodating** strategy focuses on solving the other party’s problems. Often appropriate for situations where the focus is on the longer term relationship, or when negotiating from a position of limited power, this strategy can have disadvantages in difficult negotiations that might require some push-back on certain issues. Lastly, the **avoiding** approach involves dodging the confrontational aspects of negotiation, or situations that involve negotiating at all. Although avoidance can be experienced by others as tact and diplomacy, it can also lead to situations that “leaves money on the table”, for example in a salary negotiation.

The literature on bargaining styles makes care to note that there is no “correct” style for negotiations, but rather, that that these styles can indicate systematic strengths and weaknesses for particular bargaining situations (Shell, 2008; Marks & Harold, 2011). Each person has a unique combination of preferences, and the ability to use different styles in different situations can be advantageous as a negotiator (Shell, 2008). The general categorization of these negotiation behaviors of the involved parties – competitive and cooperative – are also considered closely related to the type of negotiation that unfolds: distributive and integrative (Stoshikj, 2014).

2.1.4 Distributive and Integrative negotiations

The interdependent nature of negotiations makes it a unique form of social interaction. Rooted in managing conflict and addressing perceived incompatibilities, negotiation employs persuasion and argumentation, but extends beyond this into concern for constituents’ interests and positions, and exchanging proposals and counterproposals in order to formulate mutually acceptable solutions (Roloff et al, 2003). One of the significant paradigms in the literature on negotiations, is the distinction between distributive and integrative bargaining. This

conceptualization does not suggest a dichotomy, but rather a spectrum where most negotiations fall somewhere between the two extremes (Hawes & Fleming, 2014).

Distributive bargaining refers to the aspects of bargaining in which the interests of the parties are in basic conflict, and where each party aims to win the bigger share of what is being divided (Hopmann, 1995). In other words, a negotiation in which one party's gain results in an equivalent loss to the other party – also known as a win-loss situation, or zero-sum game in game theory (Malhotra & Bazerman, 2007). The focus of such negotiations is to claim all of the possible value, while convincing the other side to accept the deal (Hawes & Fleming, 2014). Hawes and Fleming (ibid) continue to argue that although this has historically been how most people have approached negotiations, particularly in negotiations that revolve mostly around price, a distributive orientation can often be hard on relationships due to its competitive and information-withholding interaction style.

In contrast, integrative bargaining refers to a situation in which the parties work to maximize the joint gains of both parties, often by identifying mutual interests and creating a larger amount of value to be shared by them (Hopmann, 1995). Successful integrative negotiations (win-win situations) thus depends on open exchange of information, inventiveness, cooperation and uncovering common interests (Roloff et al, 2003). The paradigm of integrative negotiations that benefit both parties is also central in practitioner-oriented works, like Fisher and Ury's seminal book *Getting to Yes* (1981). A classic example of integrative bargaining from this work, is one concerning the dividing of an orange between quarreling siblings: unable to decide who should get it, they decide to split it in half. Sibling A eats half the fruit, and throws away the peel, while sibling B throws away the fruit and uses the peel for baking. Fisher and Ury (ibid) thus argue that too many negotiations end up with one half of an orange for each side, rather than one whole fruit for one, and one whole peel for the other.

Although distinctly different, distributive and integrative bargaining are not mutually exclusive – some negotiations draw from both types of processes, either in sequences or at different times or stages of the interaction (Roloff et al, 2003). Against this backdrop, Hawes & Fleming (2014) have introduced the concept of “adaptive negotiations”, which posits that outstanding negotiators have the ability to adjust and modify interaction patterns to a given situation, in order to maximize the potential for success. This is also in line with Adair & Brett (2005) who found that the cooperative and competitive behaviors of negotiators fluctuated across different stages of the negotiation process. They also found that what

negotiators do in the first half of the negotiation, has a significant impact on their ability to generate integrative solutions with high joint gains; if they do not get to information sharing by the midpoint of the negotiation, potential joint gains might prove elusive (ibid).

A major mistake of many negotiators would thus be to view a negotiation as distributive too early in the process; in other words, to conclude that there are no more common interests to be explored through sharing of information or creative brain-storming (Kolstoe, 2012; Adair & Brett, 2005). Although the implementation of an integrative approach can be hindered due to many factors, like absence of participants with a collaborative approach, a high number of possible options or complexity of the interactions, Foroughi (1998) classifies the major obstacles for reaching integrative agreements into two groups: cognitive biases and the socio-emotional aspects of negotiator behavior (Stoshikj (2014). Examples given of these biases are the wrongful assumption of a fixed pie (distributive mindset), viewing the negotiations through a negative frame (loss perspective, rather than gain), and focusing excessively on the most recent information provided. Stoshikj (ibid) argues that good knowledge and exercise on these biases should be practiced, in order for the negotiator to remain reasonable and unbiased during the process, a notion also shared by Neale & Northcraft (1994) and Caputo (2013).

2.2 Cognitive Bias

According to the cognitive approach within negotiation research, which focuses on cognition and decision-making, negotiations are complex decision-making tasks where negotiators are faced with alternative courses of action, and where choices are determined by the negotiator's judgments of the other party, their own role, and the negotiation situation as a whole (Thompson, 1990). Behavioral decision research thus emphasizes that while advising negotiators to be rational is necessary, it is far from sufficient, and that negotiators therefore also need to be made aware of the mental habits and biases that might prevent them from following rational advice (Bazerman & Moore, 2008). Adding to this view, Neale and Bazerman (1991) argue that in order to negotiate more effectively, negotiators need to understand and reduce the cognitive errors that occur during their decision process.

In their study on improving negotiation effectiveness, Bazerman & Neale (1982) found that even rudimentary training on biases is an effective means of improving the decision-making process in negotiations. As negotiation processes are characterized by a strong

interdependence between participants, the outcomes are affected by the decisions of the parties involved and, in extension, the cognitive misperceptions that may bias their decision-making (Caputo, 2013). Contrary to this, Caputo (ibid) found that although these cognitive biases are deeply addressed in decision-making literature, less was done with reference to negotiating contexts.

The purpose of this section is therefore to elaborate on the most relevant cognitive biases for the negotiation context, which also contributes to the categorization prospect of the theoretical framework that is to be developed. The first part will present an explanation and definition of cognitive biases that is to be employed by this thesis. The following part presents an overview of the cognitive biases that have been identified as the most relevant for both the negotiation and entrepreneurial context. Lastly, the section will examine literature that discusses the role of cognitive biases as “good or bad” phenomena in specific circumstances, most notably in the negotiation setting in general, or for the entrepreneur specifically.

2.2.1 Defining cognitive biases for a negotiation setting

The birth of cognitive negotiation theory by scholars mainly came as a response to one of the limitations of game theory, which was that it assumed an unrealistic degree of negotiator rationality (Malhotra & Bazerman, 2008). First came Tversky and Kahneman’s (1974) foundational work on behavioral decision theory, introducing the concept of cognitive heuristics and biases when making decisions under uncertainty, before Raiffa (1982) provided a conceptual perspective on negotiation, arguing an understanding not only of what negotiators *should do* in a rational perspective, but also of what they are *likely to do* in a behavioral perspective (Thompson et al, 2004). This latter work of Raiffa described both what the focal negotiator should anticipate in the behavior of the other side, as well cognitive barriers to rationality in one’s own approach (Malhotra & Bazerman, 2008). Cognitive biases can thus be defined as the systematic deviations from objective standards such as rational behavior, facts, statistics or logic (Morewedge et al, 2015). For the purpose of this paper, cognitive biases will be defined as the collection of these systematic errors and patterned fallacies (Thompson & Lucas, 2014).

As a category, cognitive biases encompass several psychological principles that describe deviations from rational decision making. Simon’s (1955) concept of bounded rationality proposed the notion that people have a limited scope for collecting and processing

information, and that they are only rational within the bounds of the information available. They make decisions based on information that is judged as good enough, but not perfect (Mulholland, 2008). This cognitive limitation leads negotiators to “subjectively optimize” or satisfice, instead of seeking optimal solutions (Foroughi, 1998).

Another psychological principle is the concept of two-process theory of reasoning, which is summarized by Stanovich & West (2000). They distinguish between System 1 and System 2 thought, characterizing the former as automatic, effortless and largely unconscious, and the latter as conscious, deliberate and systematic (Bazerman & Tsay, 2009). Explained simply by Kahneman (2011), System 1 thoughts are represented by involuntary activities, like reacting to a sudden sound. System 2 thoughts are represented by a concerted effort requiring attention, like trying to look for a woman with white hair in a crowd. Contrary to common belief, in important and complex decisions and negotiations, the limits to people’s cognitive resources shift them toward System 1 thought (Bazerman & Tsay, 2009).

Thus it is argued that cognitive biases mainly arise from decisional and judgmental heuristics, which are simplifying strategies to cope with complex information and issues (Tversky & Kahneman, 1974; Caputo, 2013). Another way of looking at heuristics is as knowledge structures which are based on the negotiators particular set of past experiences (Foroughi, 1998). As heuristics are “rules of thumb” that allow us to make quick estimates of likelihood or value, these automatic and often unavoidable forms of cognition can result in predictable errors or biases (Erhlinger et al, 2014). These biases can among other things lead to reduction in the chance of mutual agreement, negotiators can “leave value on the table” or damage relationships by wrongful perception of their counterparts (Thompson & Lucas, 2014). Furthermore, studies have shown that people are often unaware of their own biases, and have difficulty debiasing their decision making (Morewedge et al, 2015).

The heuristics-and-bias tradition has been criticized by some scholars, like Gigerenzer (1996), who argues that the norms for evaluating reasoning have been too narrowly drawn and direct attention away from detailed models of cognitive processes. This thesis will still utilize the heuristics-and-bias tradition as its main framework for explaining cognitive processes. This is due to two reasons: The first is that this tradition has a central place in negotiation literature, through the contributions from behavioral decision theory; it is arguably the de facto standard of cognitive bias reasoning in this setting (Bazerman & Moore, 2009; Malhotra & Bazerman,

2008; Caputo, 2013). Although other conceptualizations of cognitive reasoning exist in the psychology literature, they would arguably not be as relevant, or applicable, to the negotiation setting. The second is that the scope of this thesis is purposefully narrowed down to the *role* of cognitive biases in a business negotiation setting for entrepreneurs, rather than an investigation of how best to explain cognitive biases across academic disciplines. This would also be in line with Gigerenzer (1996), who criticized the tradition on a *general* level, particularly within the overarching field of cognitive psychology.

2.2.2 Overview of biases

Although there are identified hundreds of cognitive biases across academic domains, there are certain biases that are featured more prominently in both general decision-making literature, as well as in specified negotiation literature (Thompson et al, 2004; Gimpel, 2008; Caputo, 2013). As the purpose of this thesis is to examine the role of cognitive biases in business negotiations for entrepreneurs, the scope has been limited to cover biases that appear relevant to both 1) the negotiation setting, and 2) the entrepreneurial context.

Framing and reframing

One of the most important cognitive biases across domains is arguably the concept of framing, which can be explained as the psychological lens in which the negotiation is viewed (Putnam & Holmer, 1992). Through this lens, bargainers understand the situation, interpret others' behavior and make choices regarding their own behavior (McGinn & Nöth, 2012). Framing thus revolves around individuals having different perceptions and reactions based on how a problem is posed to them, where alternate wordings of the same objective information can significantly alter the decisions that people typically make (Caputo, 2013). In this conceptualization, to frame a negotiation is to select certain aspects of a perceived reality, and making them more salient, in order to promote a particular problem, interpretation, evaluation or recommendation (Entman, 1993, in McGinn & Nöth, 2012). As decisions are altered despite the fact that the frames should have no effect on the rational decision, the framing bias functions as a starting point for the study of cognitive biases in negotiation (Caputo, 2013).

Framing and reframing are important concepts in the study of negotiation, as they help decipher how negotiators perceive of the negotiations: as a loss or a gain situation, what reference points are central to the discussion, and the range of confidence for making a judgment. Particularly the notion of gain or loss frames, is central to the decision-making

literature. Kahneman & Tversky's (1979) Prospect theory holds that when choosing between options in a situation of certainty, an individual's response to a loss is more extreme than their reaction to a gain (Putnam & Holmer, 1992). Individuals frame potential gains and losses as positive or negative, and are found more likely to accept a settlement when faced with a potential gain, while holding out for future concessions when faced with a potential loss (Neale and Bazerman 1991, in Putnam & Holmer, 1992). The key insight to be drawn from Kahneman and Tversky is that it is possible to take the same objective problem, and get predictably different results, simply by changing the frame (Bazerman & Moore, 2009).

Framing also has an impact on a decision-maker's attitude towards risk: tending to be risk-seeking for losses, and risk-averse for gains (Gimpel, 2008). In outcomes that are framed positively, as a gain, people prefer a sure outcome over a risky gamble, whilst when outcomes are framed negatively, as a loss, people prefer risky gambles over sure outcomes (Thompson & Lucas, 2014). In an example from Kahneman & Tversky (1981), regarding the adoption of a program to combat a fictional disease outbreak, where one alternative is certain and the other probabilistic, people would choose the sure outcome when choosing between alternatives regarding how many people would be saved, but prefer a gambling outcome when having to choose between alternatives regarding how many people would die. While the two sets of choices were objectively identical, the changing of frame from "lives saved" to "lives lost" was sufficient to change the most common choice from risk-averse to risk-seeking (Bazerman & Moore, 2009). Since almost any decision can be reframed as a gain or loss relative to something, decision-makers' reference points for defining gain and loss are often arbitrary (Thompson & Lucas, 2014).

Framing thus has important implications for negotiations, particularly in regards to tactics used by negotiators. Neale and Bazerman (1985) found that negotiators were significantly more likely to make concessions when their frame was positive, compared to negative. This implies that by framing the negotiation as gains to the opponent, a negotiator could induce more concessionary behavior (Bazerman & Moore, 2009). Other effects to the negotiation setting are negotiators with positive frames completing more transactions and attaining higher overall profits than those who viewed outcomes as losses, and that negative frames are linked to escalation of conflict and potential impasses (Putnam & Holmer, 1992). A more practical conceptualization of *reframing*, is to actively use the cognitive bias of framing to change the frame of a negotiation to one of: relationship over profits, ethics over losses et cetera.

Anchoring

Closely related to the concept of framing, is the cognitive bias of anchoring. The bias occurs when a salient reference point – termed an anchor – influences how people think and make judgments (Thompson & Lucas, 2014). The concept is based on the fact that in many situations, people make estimates by starting from an initial value, and then adjusting towards what they believe to be the final answer. The problem arises in these adjustments typically being a) insufficient, and b) based on arbitrary numbers or incomplete computations (Tversky & Kahneman, 1974). Furthermore, people have a tendency to take any available information (relevant or not), as an initial anchor, before adjusting towards an answer (Gimpel, 2008). One example is Kahneman and Tversky's (1974) wheel-of-fortune study, where participants were asked to estimate the percentage of African countries in the United Nations. After being given random starting numbers (ie 65 to one group, and 10 to the other), these arbitrary numbers had a significant effect on their final answers (45 for the first group, and 25 for the second) (ibid).

Similar experiments have been replicated with other arbitrary numbers, like the last two digits of their social security number (Gimpel, 2008) or different listing prices for the same house to be evaluated by real-world real estate brokers on-site (Northcraft & Neale, 1987). Galinsky & Mussweiler (2001) points to research that shows that expertise in the domain of judgment (ie real estate agents) or familiarity with the task does not moderate the effects of anchors, making even seasoned experts susceptible to an anchoring bias. Similarly, research also showed that extremity or plausibility of the anchor did not moderate the effects, enforcing the hypotheses and results on arbitrary numbers (ibid).

Anchoring can bias judgments in several stages of the negotiation process. Caputo (2013) lists examples of anchoring affecting the initial positions, aspirations or bottom lines of negotiators; that reservation prices are often anchored on unreliable information; as well as first offers being found to significantly affect final profit, serving as anchors for both parties of the negotiation (Ritov, 1996). Findings by Galinsky and Mussweiler (2001) showed that those who made first offers in distributive negotiations claimed more of the value, and that first offers have a particularly strong anchoring effect under great ambiguity; if the other party has a good sense of the bargaining zone or knows their own value of the item, the first offer will have little value. If the opponent lacks information, however, they might make inferences about the value of the object based on the first offer (Bazerman & Moore, 2009). This

inference of value based on an arbitrary number, might prove interesting when looking at entrepreneurs who exhibit overconfidence, particularly if it is regarding their own products.

Overconfidence

Perhaps one of the most prevalent biases, the overconfidence bias refers to the tendency of an individual to be more confident in his or her abilities or judgments than is measurably justified (Ehrlinger et al, 2014). Overconfidence also refers to unwarranted confidence in judgments of the occurrence of positive events, and underestimation of the likelihood of negative events (Thompson et al, 2004). A general example of this bias, is that people tend to consistently rate themselves “above average” in a number of traits, skills or even their academic standing among peers in their university class. In a related negotiation experiment, 58% of subjects predicted that their negotiation outcome would fall in the upper 25% percent of outcomes negotiated by all subjects (Kramer et al, 1993, in Gimpel, 2008). While some people indeed are above average, it is statistically impossible for the majority of people to be above average (Ehrlinger et al, 2014). Due to the overwhelmingly strong results showing that people tend to be overconfident, overconfidence is not as noteworthy in certain research fields (Yudkowski, 2008).

In the study of negotiations, however, the overconfidence bias holds a central place. Similar to other fields, research in negotiation literature suggests that the typical negotiator is overconfident when resolving disputes (Lim, 1997). Furthermore, overconfidence in the negotiation setting often results in overly optimistic judgments about the likelihood of attaining a good outcome (Gimpel, 2008). This leads to negotiators making fewer concessions and reaching fewer agreements than realistically confident negotiators (Neale and Bazerman, 1985, in Thompson et al, 2004). One explanation offered for why negotiators tend to be overconfident in their judgments, is the failure of seeing the conflict from the perspective of the other side (Neale & Bazerman, 1985, in Lim, 1997). This ties into advanced practitioner-advice regarding not only knowing your own BATNA, but also the one of your opponent, in order to make the best judgment in a negotiation. Another explanation offered is that negotiators may be overconfident due to a self-serving function; believing more strongly in the accuracy of one’s judgments than warranted allows for a positive self-image and enhanced faith in one’s negotiating abilities (Kramer et al, 1993, in Lim, 1997).

On a related note to the latter explanation, research has shown that some individuals exhibit higher levels of overconfidence than others, and building on this insight, Barney and Busenitz (1997) found that entrepreneurs were more confident than ordinary managers (Forbes, 2004). Usually of interest in connection with entrepreneurs' initial decisions to start new ventures, which is a probabilistically poor but socially useful endeavor, overconfidence has also been shown to influence growth forecasting, as well as the aforementioned negotiating, which many entrepreneurs continue to do on a managerial basis long after the funding of a firm (ibid). Overconfidence also applies quite significantly in the domain of planning, where it is known as the planning fallacy (Yudkowski, 2008). A fitting example of this type of fallacy, is shown in experiments where students were overconfident about the delivery time for their academic papers (ibid).

2.2.3 Cognitive biases – good or bad?

In defining cognitive biases earlier in this thesis, a distinction was made between heuristics as simplifying strategies that cope with complex information and issues, and cognitive biases as the systematic and predictable errors and fallacies that may follow these heuristic-based judgments. Although this definition is indeed deemed relevant and suitable for the purpose of examining biases that occur within the context of negotiations, it is not necessarily as obvious a definition when considering other contextual groups or scenarios. In some cases, even, scholars also debate if the views on cognitive biases within negotiations have perhaps been portrayed excessively one-sided (Lim, 1997).

In his research on overconfidence in negotiations, Lim (ibid) notes that previous research on judgmental and decision biases often highlight the negative consequences that can result from relying on them, and that a number of authors have argued this fascination to be “overwhelming”; in other words, that the research itself holds “a bias about biases”. Given that negotiators who have difficult aspirations (target level) have been shown to achieve greater outcomes for themselves than those with easily attainable aspirations, Lim further hypothesizes that the possession of such aspirations could minimize the adverse effects attributed to overconfidence, and highlight its potential adaptive value (ibid). This is in line with Thompson and Hastie (1990), who have suggested that overconfidence may encourage a persistence in effort, which can manifest itself in exploring more ways to achieve such targets.

Despite previous research by Neale and Bazerman (1985) which indicated that overconfidence in arbitration led to detrimental negotiation results, Lim's results led to suggesting that negotiators shouldn't necessarily be trained to avoid overconfidence, but rather to recognize which situations are most appropriate for being realistically confident (Lim, 1997). This notion is in line with Bazerman & Moore (2009), who argue that it is the indiscriminate acceptance of heuristics that is unwise, not necessarily the heuristics and biases in themselves. The reason for cognitive biases to still remain negatively portrayed in negotiations, then, is tied to the aforementioned tendency of people to be unaware of biases' existence and their impact on decision making. In other words: failing to distinguish between situations in which they are beneficial, and situations in which they are harmful (ibid)

Looking past negotiations specifically, Haselton et al (2015) attempts to explain cognitive biases through the lens of evolutionary psychologists, evaluating them based on how well they contribute to human fitness. Viewed in this manner, cognitive biases which also positively impact human fitness is not so much a design flaw, as much as a design feature. A poignant example of such design is found in Thompson & Lucas (2014), who contrast the forming of an impression of a new next-door neighbor through an extensive search (interviewing friends and family, or even hiring a private detective), with simply relying on a first impression. Whereas the prior method is clearly more thorough and time-consuming, the latter is typically adequate for most non-conflict situations. Haselton thus argues that a "processing limitations" explanation for heuristics is not complete; of all possible cognitively economical short-cuts, a few have been favored by evolutionary selection. This duality of usefulness of cognitive biases, is particularly evident in the case of the entrepreneur.

Keeping to research on overconfidence, Busenitz and Barney (1997) posits that overconfidence enables an entrepreneur to proceed with an idea before all of the steps related to a specific venture are fully known. Despite significant uncertainties related to these decision-making situations, a higher level of confidence is suggested to likely encourage an entrepreneur to take action before it "makes complete sense" (ibid). Cassar and Friedman (2007) adds to this, arguing that overconfident individuals are more likely to initiate startup activity, and further, to found operational businesses based on this startup activity. The notion of a *duality* of usefulness of cognitive biases for entrepreneurs, first emerges when you view these seemingly positive mindsets up against the high rates of venture failure. Although Hayward et al (2006) are careful to emphasize that not all founders are overconfident, they

present a theory of entrepreneurship which models how overconfident actors are more likely to initiate and incorporate ventures, as well as how their ventures are also more likely to fail. This suggested duality between usefulness and harmfulness, indicates that the role of cognitive biases in negotiations can be influenced significantly by tendencies that seemingly occur more frequently amongst entrepreneurs.

2.3 Entrepreneurial Cognition

Recent research has shown that entrepreneurs are more susceptible to certain cognitive biases, compared to managers who are not entrepreneurs, although it is not yet empirically clear exactly why (Forbes, 2004). For example, Busenitz and Barney (1997) found that entrepreneurs displayed a greater reliance on the overconfidence bias (overestimating the probability of being right) and the representativeness heuristic (the tendency to overgeneralize from a few characteristics or observations), compared to ordinary managers.

Since prior research had shown that entrepreneurs did not appear to differ greatly from non-entrepreneurs in terms of personality characteristics, the research focus started shifting towards an approach that emphasized the role of cognitive factors in entrepreneurship (Baron, 1998); in other words, how entrepreneurs – in terms of cognitive processes - attempt to make sense of the world around them. As an example, Palich and Bagby (1995) found that although there were few differences between entrepreneurs and non-entrepreneurs' preference for risk-taking, they did differ in regards to how they cognitively categorized business situations: entrepreneurs would consistently perceive them more positively in terms of opportunities. Despite these and other examples, the reasons for these differences remain without consensus.

The purpose of this section is therefore to elaborate on the most relevant theory regarding entrepreneurial cognition, which helps explain the role of the actors (entrepreneurs) in the theoretical framework that is to be developed. The first part will present a definition and short overview of the emergence of entrepreneurial cognition research. The last part of the section will examine literature that discusses *why* the cognition of entrepreneurs differs from others.

2.3.1 Defining entrepreneurial cognition

Previous research on differences between entrepreneurs and others generally examined psychological, personal or demographic differences, and after significant research on the topic it is now often concluded that most of these psychological differences are small or nonexistent (Busenitz & Barney, 1997). More recently, several scholars have suggested either that 1) the previous research had examined the “wrong” individual differences (ibid), or 2) entrepreneurs might be as different from each other as they are from the rest of the population (Palich and Bagby, 1995). This combined realization created interest in examining the differences in *behavior* between entrepreneurs and others, focusing on the cognitive dimensions of entrepreneurship (Busenitz and Barney, 1997; Palich and Bagby, 1995). Building upon such findings, Busenitz and Lau (1996) developed the umbrella term “entrepreneurial cognition” to refer to the collection of cognitive processes that such studies identified as being characteristic of entrepreneurs (Forbes, 2004); a definition which will also be employed in this paper.

A psychologist by training, but with the added identity of being an entrepreneur, Baron (2004) suggests that a cognitive perspective may provide important insight into key aspects of the entrepreneurial process. This cognitive perspective emphasizes the fact that everything one thinks, says, or does, is influenced by mental processes – the cognitive mechanisms through which one acquires, stores and uses information to accomplish a wide range of tasks (Sternberg, 1999; in Baron, 2004). Continuing in this line of thinking, Baron posits that entrepreneurs may be influenced by several cognitive biases; for instance, that individuals who choose to become entrepreneurs may be more likely to assume that things will turn out well (having an optimistic bias). More interestingly, he proposes that entrepreneurs may be better at knowing when to switch from quick and effortless processing of information (heuristics) to more effortful and analytic thought (systematic processing). It is important to note that this cognitive perspective is suggested to be viewed as complementary to other views of entrepreneurship, rather than an exclusive explanation of distinguishable entrepreneurial characteristics (ibid).

With the advent of this new string of research, other scholars also proposed ways in which cognitive theory/biases could explain the differences between entrepreneurs and others. Palich and Bagby (1995) postulates that although entrepreneurs may have no greater propensity towards risk than non-entrepreneurs, they may simply categorize and frame the same stimuli

differently than non-entrepreneurs; in other words, that their engagement in riskier behavior may be the result of framing a given situation more positively than negatively, and focusing their efforts towards meeting these perceived favorable outcomes. This is echoed in research by Simon et al (2000) which suggests that risk perceptions may differ because certain types of cognitive biases lead entrepreneurial individuals to perceive less risk.

More recent research returns to the issue of overconfidence, and proposes that while highly confident judgment which fuels overconfidence may be damaging in many settings, it may also be instrumental to success in others due to the production of a crucial by-product, namely positive affect (Hayward et al, 2010). To exemplify this scenario, Hayward et al (ibid) use the example of Thomas Edison's extraordinary confidence and unwavering resilience in attempting to create the first commercially practical light bulb, which needed more than ten thousand experiments before obtaining any positive results. They argue that like other entrepreneurs, Edison could afford to be overconfident with regard to his experiments, because this promoted the positive affect that ultimately helped him to persevere and prevail (ibid).

On an applied note, this poses the question of whether there are situations in which entrepreneurs should be overconfident, because the longer term benefits of such confidence might outweigh the concern for erroneous judgment. Of particular interest for this thesis, is whether this also might be the case in negotiations, and if there is a difference between types of negotiations (ie purely distributive vs relationship-building). In conclusion, with research suggesting that entrepreneurs do indeed differ from others, and that a cognitive perspective might help explain these differences, it would seem beneficial to explore why these different tendencies occur in entrepreneurs at all.

2.3.2 Why do entrepreneurs think differently than non-entrepreneurs?

In line with the cognitive research view on entrepreneurship, Forbes (2004) contrasts at least two possible explanations that propose why entrepreneurs think differently than non-entrepreneurs. The first holds that entrepreneurial cognition are traits that become characteristic of entrepreneurs due to a self-selection process, where those who are more susceptible to or make greater use of biases and heuristics in decision making, are the very

ones who are most likely to become entrepreneurs or find themselves in an entrepreneurial context (Busenitz & Barney, 1997). The opposite would then be true for more cautious decision-makers, who tend to be attracted to larger organizations where more methodical information is readily available (ibid).

The reasoning behind this view is anchored in the “utility of non-rational decision-making”, where it is argued that biases and heuristics can be effective under conditions of uncertainty and complexity. For entrepreneurial ventures in particular, the window of opportunity is short, and successfully starting a new business involves multiple hurdles where simplifying mechanisms to solve them may be crucial (ibid). This first view thus places the source of entrepreneurial cognition within individuals, and reason that some individuals are inherently either more susceptible to cognitive biases, or on the other hand, at being more cautious decision makers (Forbes, 2004).

The second explanation holds that entrepreneurial cognition is a result of aspects of the entrepreneurial experience, where entrepreneurs work in situations and conditions that are expected to maximize the impact of cognitive errors and biases; in example, scenarios characterized by information overload, high levels of uncertainty, novelty, emotion and time pressure (Baron, 1998). The reasoning behind this view suggests that entrepreneurs, more than other people, are regularly exposed to situations which test their cognitive capacities in a way that increases their susceptibility to a number of cognitive biases (ibid). This second view thus implies that entrepreneurial cognition and potential susceptibility to cognitive biases is rooted, at least partly, in contextual factors that surround the entrepreneur (Forbes, 2004).

In returning to the testing of overconfidence, as Busenitz and Barney had done previously, Forbes' (ibid) results showed that individual age, a firm's decision comprehensiveness (ability to scan, analyze and plan), external equity funding and a founder-role affected the degree to which entrepreneurs were overconfident. The findings therefore suggested that entrepreneurial cognitive biases were a function of both individual and contextual factors, although they also underscored that entrepreneurs are not cognitively homogenous (ibid). Although this previous research has focused on entrepreneurial cognition in relation to decision-making, it has not examined the effects of entrepreneurial cognition in the context of a negotiation setting; a situation which often embodies several of the before mentioned entrepreneurial factors like uncertainty, complexity, novelty, and time pressure.

2.4 A preliminary theoretical framework

Drawing some preliminary conclusions from the reviewed literature, it is apparent that both negotiation and entrepreneurial literature are increasingly focusing on cognitive factors in their respective research areas. Despite this cognitive movement, the link between entrepreneurial cognition and cognitive biases in the negotiation setting is found to be almost non-existent. Perhaps even more surprisingly, there seems to be a gap between entrepreneurial literature and negotiation literature overall; in other words, that there is scarcely any research on the topic of entrepreneurs in the context of negotiations.

The purpose of this thesis is to create new knowledge regarding the role of cognitive biases in business negotiations for entrepreneurs, by focusing on the particular cognitive conditions of entrepreneurs. Although the literature in this particular intersection is currently lacking, the reviewed theory is synthesized into a theoretical framework that can help bridge this gap, by linking the topics of entrepreneurial cognition and negotiation literature through a common connection to cognitive biases. The preliminary framework can be used to make inferences and suggest propositions across the topics included, and thus fulfills its purpose of being utilized to better understand the data collected in the empirical study that follows.

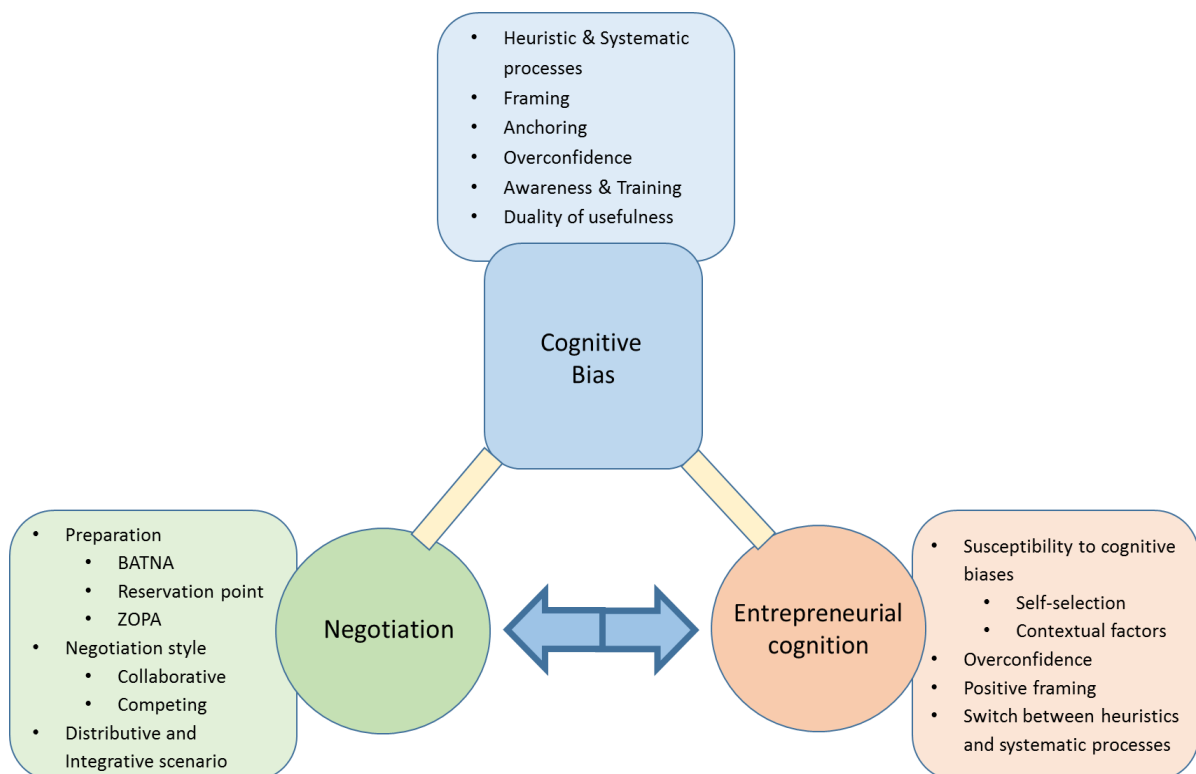


Figure 1 Illustration of the framework, which connects negotiation and entrepreneurship theory through literature on cognitive biases, in order to create a combined framework for an exploratory study on the role of cognitive biases in business negotiations for entrepreneurs

By combining relevant theory within the three sub-topics outlined in figure 1 above, the framework is expected to give rise to a wider understanding of cognitive biases in relation to both negotiations in general, and entrepreneurs specifically. For the topic of negotiations, the inclusion of distributive and integrative bargaining scenarios gives an understanding of the *context* in which cognitive biases for entrepreneurs will occur. Going one step further, the collaborative and competing negotiation styles illuminate *behavior* that can be exhibited by entrepreneurs in these negotiation settings. Finally, the concept of preparation, and its related sub-concepts of BATNA, reservation point and ZOPA, aids in providing variables that can be tested towards the *impact* of cognitive biases, with or without preparation done beforehand.

For the topic of cognitive biases, heuristic and systematic processes give an understanding of what *categories* of cognitive behavior that can be exhibited by entrepreneurs in the business negotiation setting. Theory on framing, anchoring and overconfidence provides a framework for which *types* of cognitive biases that are more relevant, more frequently occurring, and with hypotheses of their *effects* on the interaction. Research on awareness and training in regards to cognitive biases, directly links the preparation aspect of negotiations, with the susceptibility to cognitive biases aspect of entrepreneurial cognition. Lastly, the concept of a duality of usefulness provides a theoretical background to evaluate the effects of cognitive biases in a neutral manner, enabling categorizations of both detrimental and beneficial effects.

For the topic of entrepreneurial cognition, the research on entrepreneurs' susceptibility to cognitive biases centers on the individual subjects, and gives reasons both for *whether* they might deviate from other research subjects, as well as *why* this might be the case. The inclusion of research that posits a potential ability of certain entrepreneurs to switch between heuristics and systematic processes, links this contextual group to general research that is detailed in cognitive bias literature, and can make future empirical findings more relevant to entrepreneurial literature. The key contribution to the framework overall, however, lies in the research on entrepreneurs' tendencies for overconfidence, positive framing and other cognitive biases, as this provides research findings that can be directly applied towards similar findings in both the cognitive bias and negotiation literature. In other words, that one can start making inferences that have the potential to be valid across all of the topics included.

3. Methodology

This chapter will outline the methodology utilized for conducting research in this master thesis. First, the use of a qualitative research approach and case study method will be discussed. Second, the chapter will review how empirical data has been collected through semi-structured interviews of entrepreneurs, as well as how the data has been analyzed through case and cross-case analysis. Finally, the chapter concludes with a reflection of the chosen methodological approach, and a discussion of its challenges and limitations.

3.1 Research strategy

As the purpose of the thesis is to investigate *what* role cognitive biases plays in a negotiation setting for entrepreneurs, with scarce literature on the topic, the thesis will be guided by principles from a theory-building approach in order to contribute new knowledge to the topic (Eisenhardt, 1989). Under this consideration, a qualitative research method has been chosen, as one of the advantage of this method is that detailed and exact analysis of a few cases can be produced (Flick, 2015). Since the research questions also deal with investigating the entrepreneurs' susceptibility to and awareness of cognitive biases, the thesis will employ a case study research method, which aids in probing further into their subjective experiences. Considering the lack of frameworks for this intersection of topics, both for the qualitative study and review of literature, an explorative research perspective is deemed appropriate.

3.2 Literature acquisition

In order to understand the empirical data relating to the role of cognitive biases in business negotiations for entrepreneurs, a review and compilation of literature regarding negotiations, cognitive biases and entrepreneurial cognition was deemed necessary. With a difficulty of finding relevant theoretical frameworks for the topic of the thesis, the review of literature began with researching the references of relevant literature ("snowballing"), and the references of those references, until a point of saturation was reached in the direction pursued (Randolph, 2009). Considering the fragmented and multidisciplinary state of negotiation research, a semi-structured research effort was employed in addition to the initial snowballing method; this ensured a wider search for relevant literature, although it was also more time-

consuming. The review of literature followed the notion of being a narrative review, in that it attempted to give an account of the literature in the sense of a general overview (Flick, 2015).

At the beginning of the review of literature, the Harvard Business Review (HBR) and its associated faculty was examined closely in order to identify state-of-the-art research on the cognitive approach to negotiation; efforts which also led to the discovery of Harvard's Program on Negotiation (PON) research. Parallel to the above snowballing efforts, began initial efforts to conduct searches in structured databases, namely Oria (NTNU's library database) and SCOPUS. The final method of searching was through Google Scholar, which proved best for the initial probing searches of new lines of inquiry, in addition to highlighting the most relevant works of negotiation practitioners. In conclusion, snowballing was experienced as the most effective way to find relevant research, also for conflicting viewpoints or strings of research. It could be of interest to note that the success of this method might be attributed to thorough reading and reference-probing of most articles encountered.

A noticeable finding from the compilation of literature, is that although most research papers in the literature review covers two topics, ie negotiation and cognitive bias, or cognitive bias and entrepreneurial cognition, no research was found to cover both *entrepreneurial cognition* and *negotiations*. This indicated that there seemed to be a pronounced research gap in the intersection between entrepreneurial cognition and negotiations, as even with entrepreneurial literature in general there are few direct research ties to negotiations.

3.3 Research design

The following section details the choice of a multiple case study research method and selection of subjects, before discussing the subsequent collection and analysis of data.

3.3.1 Qualitative case study

As the focus of the research is to contribute new knowledge from empirical studies of a contemporary topic, a case study research method is chosen. The application of this method onto the thesis purpose is also in line with Yin's (2014) notion that case studies are particularly relevant when investigating a real-world case where the boundaries between

phenomenon and context are not entirely evident. A case study is also intended to focus on understanding the dynamics present within single settings (Eisenhardt, 1989).

The case study is further conducted as a holistic multiple case study (Yin, 2014), where the units of study are individual entrepreneurs with significant negotiation experience.

Conducting a multiple case study allows for richer probing and investigation across individuals with different external variables, and the possibility of noticing patterns of replication or contrast between entrepreneurs, which can contribute to new understanding.

The analytical advantage from having two or more cases may also be substantial, as it contributes to the chances of a good study by being less vulnerable than single-case designs (ibid). The case study units being defined as individual entrepreneurs is due to the assumptions that 1) this is the deepest level of investigation possible, which seems necessary for a study of cognitive judgements and the susceptibility to and awareness of these, and 2) that there could be interesting findings related to considering individual variables more so than a small group definition of the subjects. This bounding of case units also contributes to the possibility of a cross-case analysis on an individual level, during later analysis of results.

In choosing case units, it is necessary to establish the boundaries and criteria for selecting the cases before data-collection can commence (Stake, 1995). The individual entrepreneurs interviewed are thus selected based on the following criteria:

- Has been an entrepreneur for 3 years or more, as this presumably means they have significant negotiation experience.
- Is a founder of the startup, as this might affect the feeling of ownership in negotiations
- Executive management type, or responsible for negotiating in his or her role.
- Has (current) experience from a technology startup, as it is perceived to be an area with significant uncertainty and complexity of negotiations (Susskind, 2006).

Through these criteria, the final group of entrepreneurs had the following characteristics:

- Co-founders of their startups
- Either CEOs or COOs
- 75 % of the subjects have experience from more than one company, thus later referenced as “serial entrepreneurs”

- Half have a formal educational background in entrepreneurship (including negotiation modules), while the other half is strictly through experience.
- Half of the startups are valued at between 100 million – 1.5 billion NOK, while the other half are still early stage.
- 6 male and 2 female entrepreneurs. Not balanced gender-wise, but might reflect the actual gender divide amongst technology entrepreneur founders.
- International scope of the businesses.

An overview of the subjects is found in table 4, appendix A1.

The thesis thus has 8 entrepreneurs as units of analysis, mainly due to assumption that this number is enough to generate theory, but also due to the expected limitations of time and resources for the single author, in a master thesis project. However, this is in line with Eisenhardt's (1989) range of four to ten cases being sufficient for generation of new theory, as well as a plausible number for achievement of theoretical saturation – the point where incremental learning is minimal (Glaser and Strauss, 1967)

3.3.2 Data Collection - Interviews

After the selection of relevant case study entrepreneurs, data collection commenced. The chosen method of data acquisition was interviewing of the case study entrepreneurs, which is in line with Yin (2014) who argues that interviews are one of the most crucial tools in obtaining evidence in case studies. In advance of conducting the interview, an interview guide was made (Appendix A4). The participants were also informed of their participation, with explicit assurances that the protection of privacy and confidentiality would be upheld.

Data was collected from the 8 individual entrepreneurs through semi-structured interviews which were conducted once, and lasted for approximately 75 minutes. With permission from the entrepreneurs, the interviews were audio recorded, in order for the author to transcribe the interview later on. In addition to this recording, the author also took notes during the interview, and concluded each session with writing a concise case report shortly after; in order to retain most of the information gathered through sitting in on the interview (Yin, 2014).

The semi-structured interviews had several advantages for a thorough qualitative data collection process, particularly in that it allowed for capturing behavior, reflections and expressions that are not explicitly covered by the proposed framework (Bryman, 2008). It also meant that questions that covered the scope of the interview were prepared in advance, while the interviewer also had the possibility of deviating from the questions or formulations in order to probe into interesting directions that developed through a dialogue (ibid). However, the author took considerable measures to ask open questions that were aimed at avoiding any coloring of findings. Asking open questions also allowed for personal views, which combined with more focused questions introduced issues that the interviewees would not have mentioned spontaneously (Flick, 2015). Since the questions were formulated in advance, the author first tested them with both faculty and class mates at the NTNU School of Entrepreneurship (NSE). Considering their experience from being entrepreneurs, such a revision aided in validation of relevance and acted as a protection against leading questions.

3.3.3 Data Analysis

For the data analysis process, an abductive research approach was chosen. An abductive research method was deemed appropriate as the thesis draws extensively upon a theoretical framework in order to interpret the empirical findings, before aiming to extend existing theory through these findings. By analyzing the empirical findings through the theoretical framework, the study is thus guided by previous knowledge in order to build new theory. This is in line with the abductive approach, which consists of assembling or discovering, on the basis of an interpretation of collected data, such combinations of features for which there is no appropriate explanation in the knowledge that already exists. (Reichertsz, 2010). Due to the exploratory nature of the study, data analysis commenced before the conclusion of the data collection process. This was intended to aid in the discovery of new research paths or revising a research design that potentially did not fulfill the purpose of the thesis (Yin, 2014).

After conducting the actual interviews, a transcription process began. All of the interviews were transcribed word for word, while simultaneously marking the areas which were deemed interesting, and placing them in a separate “findings” document which provided a more general overview of the interview contents. After transcription, the interviews were then listened to again, revising both the transcription document and findings document in case anything has been missed. Once all interviews were transcribed, the author used the software

analysis tool NVivo to categorize and code the extensive amounts of data. This was also helpful for gaining an overview of the potential findings of the data collection (Yin, 2014).

The categorization (or “coding nodes”) was sorted into specific topics and domains, guided by the subtopics integrated into the theoretical framework, with new categories being added for clusters of information that started to form, albeit unanticipated (Flick, 2015). The total number of transcribed words numbered at just over 100.000, with 1156 coded tags placed in this data material. The coding structure can be viewed in figure 3, Appendix A2, while a hierarchy chart of the coding categories can be viewed in figure 4, Appendix A3. In writing the master thesis, the relevant coded text was placed in Word documents for each chapter of the findings (The Negotiation Process, Understanding your counterpart et cetera), before being organized, systematized and color-coded in order to make sense of the gathered material. Such organization of the data material also enabled cross-case analysis and cross-topic analysis, which was further shaped through the writing of a disposition of the chapter prior to the actual writing process. Once a first draft of the chapter had been outlined, the author then reviewed the concise case reports and interview notes, to make sure no findings or points of interest had been missed. As a result of these efforts, the thesis ended up utilizing 149 direct quotes from the entrepreneurs, an overview of which can be viewed in table 3, Appendix A1, with an abundance of others being incorporated into passages of the findings chapter text. This active utilization of empirical findings has shaped the thesis significantly.

3.4 Quality of the research

This section discusses *reliability*, and *construct* and *external validity*, which are important criteria for assessing the quality of a case study research design (Yin, 2014). As *internal validity* seeks to establish causal relationships, which is not particularly applicable for exploratory or descriptive studies, it will thus not be covered further.

Reliability is concerned with the objective of enabling other researchers to repeat the same procedures over again, to arrive at the same findings and conclusions (ibid). In attempting to shape a repeatable study, the author has strived to thoroughly document the steps and procedures involved in the data collection and analysis process, both through the methodology chapter, and through figures and tables in the appendix which can provide a greater overview. The collection and analysis of data was also stored categorically through an online file-storing

system (Google Drive), indicating a *case study database* which is argued to strengthen case reliability (ibid). Finally, the interview guide provides some repeatability in data collection.

As *construct validity* is concerned with identifying correct operational measures for the concepts being studied, several iterations of the purpose and research questions were performed throughout the study process, many with the aid of faculty and supervisors of the author. More specifically, a lot of revision went into the distinction of “role”, “nature” and “susceptibility” of cognitive biased. Yin (2014) also lists several tactics for dealing with construct validity, two of which are particularly relevant for this thesis: using multiple sources of evidence and establishing a chain of evidence. Using multiple sources of evidence has been a goal of the author since determining the number of case subjects initially, and is strongly related to Mathison’s (1988) notion of data triangulation as the use of multiple methods, data sources and researchers to enhance the validity of research findings. By using several interviewees as data sources, the *data triangulation* approach works to confirm that statements might be valid across subjects. Since the theoretical field is also fragmented, the thesis has also benefited from a *triangulation of theory* against the same empirical findings. Throughout the thesis, the systematic nature of the presentation of theory, findings, discussion and final conceptual framework arguably functions as a *chain of evidence* for the reader.

External validity is concerned with the generalizability of findings beyond the case study conducted, and aims at reducing the errors and biases which are inherent in qualitative methods (Yin, 2014). Due to the active use of a preliminary theoretical framework, this thesis has arguably aimed for an analytical generalization of the results; in other words, that the study starts with theory, collects and analyzes findings, before generalizing them back to the theory (ibid). As the research design is multiple case, the generalizability is not necessarily contained to the theory; although not statistically significant, the cross-case analysis has indicated that several of the findings ultimately detailed in the synthesized framework are valid across several entrepreneurs, and thus should be able to be replicated externally. In order to improve the study, the author recommends an extension of the study both across number of individuals, as well as characteristics of the individuals (founder, executive role et cetera).

3.5 Limitations

The main limitations to the methodology of this thesis, concerns whether the appropriate methods were utilized. Although interviews were deemed appropriate for this study, direct observations or experiments would arguably increase the external validity of the study. As the entrepreneurs have subjective recollection to incidents which might have transpired a long time ago, several negotiation anecdotes might be remembered incorrectly. However, as the master thesis has time and resource limitations, while also employing an exploratory research perspective, this potential loss due to lack of other methodologies are mitigated to some degree by the pragmatic concerns of conducting research in this domain.

A second limitation concerns the replicability of results, as the literature in the thesis mainly has employed a snowballing and unstructured search method (Yin, 2014), particularly through the initial snowballing efforts beginning with relevant negotiation material already being slightly familiar to the author. Although the methods have been deemed as adequate for the specific topic of this thesis, which lacks existing conceptual frameworks, the ad hoc and subjective manner of selecting relevant articles affects the reliability of the results.

In regards to the selection of cognitive biases for further examination in the review of literature, a small selection of highly relevant biases was chosen as opposed to a larger selection/overview of related cognitive biases. The task of covering all cognitive biases is deemed too demanding for the review in this thesis, as there are several hundred across literatures. A decision was made to keep biases in the framework to a relevant minimum.

The decision to undertake multiple-case studies has benefited both the validity (general robustness) and research contributions (novel findings) of the thesis, but has also proved both time and resource demanding for a single author in a master thesis time frame. Particularly the level of depth in the rigorous categorization and examination of 8 individual 75 minute interviews led to a much-delayed writing process, and should be a consideration when evaluating the scope of future research attempts with a similar design. Yet, with all these concerns, the thesis is thought to have benefited greatly from exactly such a research design, although possibly demanding in replicability for other researchers wanting to explore further.

4. Results

In this chapter, findings from the empirical study are presented. The findings from the case study interviews are structured in a similar format to the presentation of theory earlier in the thesis, in order to achieve a systematic and thorough categorization and presentation of data. First, findings on negotiations are presented, mainly focusing on the negotiation process and psychological schemas. Second, the chapter presents findings on the cognitive biases of framing, anchoring and overconfidence. Finally, findings regarding entrepreneurial cognition center around the unique cognitive conditions of entrepreneurs in the negotiation setting.

4.1 Negotiation

«Everything I do is negotiating, all the time.»

– Entrepreneur 4

One of the overarching themes from all interviews conducted is demonstrated through the entrepreneurs' views and perceptions of what and how negotiations are, in their experience. Negotiations are deemed essential for business in general, critical for startups in particular, and at the extreme, *vital* for founding entrepreneurs. This is expressed both on a pragmatic and philosophical level: you negotiate with customers, partners, suppliers, competitors and investors, but also with employees, co-founders, your family and even yourself. Keeping with a focus on external negotiations, however, this attention to negotiation skill is based on the notion that entrepreneurs, almost by definition, start out with few resources. The ability to think outside the box, and then asking for those things, can thus be of paramount importance. "I mean, we don't have money, we don't have people, we might not have the competencies. We really need everything" (Entrepreneur 2). The management of time and resources also becomes imperative; both of which can benefit from a continually developing negotiation prowess.

4.1.1 The negotiation process

This view of negotiation importance was further explored to find two views of the negotiation process itself: 1) that negotiations for an entrepreneur does not have a typical start or stop phase, but is a continual process, and 2) that "everything" can be negotiated. With regards to

the former, most of the entrepreneurs found themselves to be “always in the middle of a bunch of negotiations” (Entrepreneur 4), the bigger of which having been negotiations with giant global corporations that are “a beast on its own; how to negotiate. We’ve had sales processes that have lasted four years” (Entrepreneur 8). This highlights two distinct variables for the view on the negotiations process: the frequency of negotiating, and their total length.

In terms of frequency, even if a negotiation typically has “ended”, it might not be completely finished, as the deal that was struck might want to be renegotiated either by the entrepreneur or their counterparts at a sooner or later point in time, or that a deal was not struck at all – *for the time being*. Although the entrepreneurs can clearly distinguish between separate negotiation sessions, they seem to predominantly view negotiations with a counterpart as a succession of single negotiations, successful or not, thus having a longer-term focus on the overall relationship over time. In terms of total length, in the longer negotiation processes that may last months or years “you have to be incredibly professional in how you follow up and build up your case” (Entrepreneur 8). Because bigger corporations have long decision making processes, with many people involved, in many cases the same negotiation issue can pass through 4 or 5 different departments (IT, legal, procurement, management et cetera) before reaching a conclusion. Even in the cases where they more quickly strike a truly good deal and consider the negotiations themselves as concluded, this relational focus can be observed in the entrepreneurs’ passionate concentration on “customer success departments”, “partner relationship managers” and other counterpart retention initiatives.

The latter view on the negotiation process, that “everything” can be negotiated, is also anchored in this perception of a longer-term negotiation cycle. This “everything” is not necessarily related to specific individual issues in themselves, as much as every *situation*, and the combination of individual issues which are usually part of a larger proposed deal. Even if there are certain issues that seemingly cannot be negotiated directly (like compensation or price), a few of the entrepreneurs expressed that you can always try; “and if it doesn’t work, get an understanding for why it doesn’t work” (Entrepreneur 7). This understanding of the bigger pains for the counterpart can be valuable in itself, but can also aid in negotiating more effectively on the other less inflexible issues, or help focus on what type of leverage to build for *future attempts* at negotiating. Important factors to consider when determining negotiation effort are still 1) how much time can be expended on trying to negotiate, and 2) the potential impact a continued persistence will have on the relation across the length of negotiations.

Although one important foundation in this pursuit of sustainable relations is to reach agreements that are mutually beneficial for the parties over time (examined in-depth in chapter 4.1.5), there also seems to be a distinct value in the conscious management of the actual *negotiation process* over time. Seeing each negotiation session as part of a bigger whole, rather than merely an isolated event with associated consequences, appears to be a critical conceptual foundation for most of the following findings in this thesis, particularly relating to the cognitive perception of negotiations and how to maneuver within them. This encompasses what they view as important to prepare for, how they should treat their counterparts, what strategies and tactics to use or be cautious about, and ultimately, what they view as contributing to negotiation success or prowess. Interestingly, the most emphasized contributing factor to negotiation success isn't related so much to what entrepreneur negotiators need to do, as much as what they need to understand.

4.1.2 Understanding your counterpart

«If there's anything I'd say, it's that it is the most important, by far.»

– Entrepreneur 8

An emphasis on understanding the psychology of negotiations is another fundamental conceptual foundation of the empirical study, and is predominantly tied to the notion that all negotiations revolve around people and thus that “everything is about people’s psyche” (Entrepreneur 4). This notion is extended to a particular focus on understanding “what makes people tick, what triggers them, what they like and what you need to avoid” (Entrepreneur 8), in an attempt to “be in the other parties’ shoes, becoming familiar with their bargaining position” (Entrepreneur 5). This focus on understanding the individual participants in the negotiation, rather than simply the mechanics of negotiating with other companies or entities, is also reflected in how the entrepreneurs perceive of similarities across negotiation scenarios: although people are fundamentally different, and need to be approached accordingly, “it’s the same traits you need to draw on: your ability to read people, mirror them, and then at the same time engage them with the message you’re bringing with you” (Entrepreneur 8).

A conscious and attentive focus on the counterpart in negotiations also has implications for what skills and strategies some of the entrepreneurs believe are essential to negotiation

success. “I’d say it’s... the best negotiators are also the most empathetic, and the most intuitive in terms of understanding other people” (Entrepreneur 3). On a related point, two of the serial entrepreneurs explicitly mentioned that one of the first things they do is try to figure out what their counterparts KPI’s (Key Performance Indicators) are, what they are measured on, and what’s important for them to achieve – including figuring out what will give them a monetary bonus! The purpose is twofold: the first is that by being inquisitive about this, one can understand what characterizes the counterparts work-life, enabling an evaluation of relative strengths and weaknesses between both parties’ interests and positions. The second is the possibility of uncovering that money might not be the only answer; ie the counterpart might not want to acquire companies that have negative turnover, as this would give the acquiring company a negative bottom line. In such a case, no bonus is reachable, and thus there is probably little incentive to strike a good deal for *the participants in the specific negotiation transaction*, even though the deal overall might benefit the acquiring company.

Although the ability to understand the counterpart and their position is highlighted as characteristics of an adept negotiator, a few of the entrepreneurs warn about taking it too far. “Sometimes you can become a bit too empathetic; allowing yourself to be affected by the other person’s situation, and easing up on your terms a little. That’s not always so good. (Entrepreneur 4). A balance is therefore advocated: knowing when to «shut off», as understanding and being empathetic doesn’t equal allowing a coloring of one’s own position. One of the entrepreneurs takes this “shutting off” concept further, explaining that the aim is to know who the counterpart is and what they think about, in order to figure out “where to attack”. “I know how to manipulate you, if needed. Yes, manipulate is a negatively charged word, but I mean manipulation in the form of subscribing to the same reality” (Entrepreneur 3). This proactive use of psychology is covered in-depth in chapter 4.2.1, but also applies to the defense against certain tactics. If you have a deep understanding of your counterpart, it is also easier to identify incongruent behavior or excessive claims that come off as uncharacteristic.

An aim for all negotiators could be to always “try to understand the intention or motives of your counterpart” (Entrepreneur 2). An example given, is that it makes little sense to try to understand a complex legal text, if one doesn’t understand the intention behind the wording; if the motive is deceit or exploitation, interpreting the text won’t necessarily uncover the underlying issue. A final thing to note regarding the psychological understanding of

negotiations is that the entrepreneurs highlight the volatility of it; a lot of times what is picked up on is not necessarily the actual strength of position of the negotiation participants, as much as how *they view it psychologically*. Similarly, “what kind of position you feel you are in, that affects your psychology; deciding how tough you dare to be” (Entrepreneur 6). Considering the intricacies of this psychological understanding of negotiations, it can be beneficial to further explore the mental frameworks and associations being exercised in order to navigate the negotiation process. Suitably, this study has uncovered examples of exactly what kinds of frameworks entrepreneurs might consciously utilize.

4.1.3 Psychological schemas: “Poker vs Dating”

« I mean, it's always a game. That's why I think of it like a poker game.»

– Entrepreneur 4

In investigating the entrepreneurs' view on negotiations, several findings reinforced the notion of it being thought of as similar to a game. Intuition, strategizing, confidence and the masking of true feelings are all concepts that can be applicable to both a game and a negotiation, and when one considers that both playing and negotiating involves an unpredictable human element, it can feel intuitive to draw a link between the two. What is more interesting, however, is *what kind of game* the entrepreneurs feel like they're playing, and how this conceptual framework manifests itself in the way they will behave against their negotiating counterparts. Starting broadly, most entrepreneurs play something akin to poker.

In constructing a conceptual framework for negotiations, poker is found to be the most recurring analogy employed by the entrepreneurs. This is not surprising, considering that even in colloquial speech surrounding human interactions most people might employ terms like having “a poker face” or “an ace up your sleeve”. The interesting thing regarding the entrepreneurs is that these terms become mental representations of negotiating tactics or psychology. “If I *need* you to invest in me, and if I express that, then you've altered the balance of power just by that. So, it's something about not showing your cards” (Entrepreneur 3). This poker face analogy is almost universally applied by the entrepreneurs when talking about not revealing too much information through body language, something which is deemed especially important relative to how they should negotiate through the ups and downs of their startups' status. Even if their startup might be experiencing a period where they're struggling

with something, they might still project that things are going well and that the future looks bright. “I never lie, for example I just avoid telling information that is not to our advantage, unless they ask explicitly” (Entrepreneur 4).

Exploring this type of framework more in-depth, another conceptual analogy surfaced, namely the use of “trump cards”: any type of asset that gives an advantage over the counterpart. In this framework, the entrepreneur tries to figure out how many trump cards each side possesses, before deciding how to play them out correctly during the course of a negotiation. The more cards, the better, and sometimes one attempts to negotiate for as long as possible before having to use one. One example of a trump card could be that multiple investors are interested, in which one could play up initial discussions of terms with other investors, to one not conceding anything in the current negotiation. A counterpart example could be that they are in no rush to make an agreement, contrary to the entrepreneur, and thus can stall strategically. When enquired further, it was expressed that part of this reasoning comes from imagining a negotiation a bit like a legal case being fought in the courtroom. “You have two parties, who are in a conflict, and then you have lawyers on both sides continually trying to find something they can use against the counterpart” (Entrepreneur 4). Departing from the poker playing and judicial contexts, however, the other main type of game the entrepreneurs feel like they’re playing, takes a decidedly more personal turn.

« But throughout the whole process (...), I think it’s like a dating game. »

– Entrepreneur 8

This notion was brought up spontaneously by two of the serial entrepreneurs. The argument is that whether it is fundraising, sales, or recruiting, negotiations are similar to a dating game in that it is a building of a relation where one has to be able to mirror the other party, understand what bites, and figure out what makes them want to talk and engage with someone. Once past the initial process and things start to materialize, there is also a big difference in how to proceed *dependent on the different people* one is dealing with. Another viewpoint shared by several of the entrepreneurs, is to be a bit detached from what is happening, and from the potential outcome: it’s a good thing to meet different people, and talk to them about possible agreements, but whether it becomes a deal or not should be a secondary concern. “If you make your intentions too apparent, some of the excitement is lost... for the chase. One should never underestimate the chase.” (Entrepreneur 3). Some of the entrepreneurs spoke of this as a

genuine “FOMO” (Fear of missing out), exemplifying it by stating that a detached interaction can lead the counterpart to start questioning why the entrepreneur wasn’t more eager to work with them: anxiously pondering if the entrepreneur suddenly has more options than they initially were aware of, and they went out too strong, or if the entrepreneur has a more attractive technology than first estimated, et cetera. The advice is to play it cool, but also to maintain a balance. “Because, you do wish that they will continue being interested in what you do, and in you and your team” (Entrepreneur 7). Looking beyond which of these frameworks that are applied: in dealing with the complexity of entrepreneurial negotiations, the most important key is found to be elsewhere; in the art of preparation.

4.1.4 Preparation

« One has to attempt in all negotiations to find good long-term solutions for both parties. And one does that by being very well prepared, knowing the counterpart well, knowing what the counterpart could be interested in or should be interested in, but also knowing the advantages and disadvantages of that kind of cooperation. »

– Entrepreneur 5

The findings from the empirical study show that preparations are of significant importance for achieving a good negotiation outcome, although there were individual differences both to what extent the entrepreneurs prepared for specific negotiation sessions, as well as the manner in which these preparations were executed. An extensive overview of the different preparation elements which surfaced during the interviews are presented in Table 1. The elements are sorted in a categorical manner, with adhering descriptions and related negotiation concepts.

In addition to the mental aspects of negotiations, preparation aids in understanding the practicalities of deal making. Time is spent anticipating and readying for a negotiation interaction, usually involving a mapping of one’s own situation. One entrepreneur highlighted that in this regard, preparations are crucial if only to avoid damaging your own situation; one might actually create a weaker situation for oneself if not properly prepared. This is particularly related to what alternative options are truly available, in addition to “at least knowing where the walk away is. Sometimes you’re so keen on closing a deal, that you forget that you perhaps shouldn’t agree on this and that thing.” (Entrepreneur 1). Advancing past the general applicability of preparations, a few of the findings from Table 1 are presented further.

TABLE 1 - Preparation elements for negotiating entrepreneurs

Preparation	Description	Concepts
1. Find the right negotiation partner <ol style="list-style-type: none"> Locate decision maker mandate Important where you use your time Beneficial to meet/work with them in advance 	Finding the right person to negotiate with, to avoid negotiations that drag on or lead nowhere. The closer one is to the decision maker, the faster and more valuable the negotiations become. As entrepreneurs have many roles in their firms, and generally for startups, time is of the essence. Meeting socially or work-related in advance of negotiations helps relation building.	Navigating hierarchy Resource allocation Relation building
2. Research individual negotiation partner <ol style="list-style-type: none"> Social media: LinkedIn, Twitter KPI, Bonus, what's their incentives 	Researching the individual(s) participating in the negotiations. Investigate changes to interests, job situation or life situation. Attempt to figure out how they are measured, and what incentivizes or motivates them to strike a deal. What is their internal influence in the company?	Understand counterpart Individual motivation
3. Research company of negotiation partner <ol style="list-style-type: none"> Website; mission, vision, culture, #employees If customer: ask them to send information 	Researching the company represented in the negotiations. Examine information related to mission, vision, culture and company interests – look for a match with your startup. Engaging customer in case preparations can give them “skin in the game” – invested in potential success.	Understand counterpart Customized offer
4. Reach out to network <ol style="list-style-type: none"> Find experienced resource person 	Reach out to available networks to aid in preparing for negotiations. Find experienced resource person with knowledge of the domain/industry/counterparts involved in the negotiation.	Mitigate power asymmetry
5. Determine ZOPA <ol style="list-style-type: none"> Set target, starting and reservation point Identify dimensions one can negotiate on Look for matches/mismatches of interest 	Determine Zone of Possible Agreement. Set targets one would hope to achieve, starting point and a walkway point. Attempt to do the same for the counterpart. Do calculations and evaluate potential income and upside. Identify dimensions that have low value for startup, great value for the corporation, and vice versa. Attempt to draw lines between matches and mismatches.	ZOPA Integrative bargaining
6. Determine BATNA <ol style="list-style-type: none"> Both your own, and that of your counterpart Strengthen BATNA by exploring more options 	Determine Best Alternative to Negotiated Agreement. Determine both for yourself, and for your counterpart. Strengthen BATNA by exploring more options, playing partners against each other, and continually build leverage through the negotiation process	BATNA Play against each other
7. Investigate market <ol style="list-style-type: none"> Find comparable business cases Identify value add to counterpart 	Investigate market conditions for justification of claims/terms. For investment valuation: look for comparable business cases domestically or abroad. The more information the better; remember time management. Identify how product or service adds value to counterpart's business.	Justification Framing, anchoring Integrative bargaining
8. Compile information in shareable frameworks <ol style="list-style-type: none"> Powerpoint, excel etc. Forecast numbers, growth curves and upside 	Compile collected information in understandable and shareable frameworks. Find “proof” in the numbers, in order to justify business case. Bigger deal requires more effort on material. For big companies – help your negotiation counterpart secure buy-in from other stakeholders.	Framing Overconfidence
9. Prepare whole team for negotiations <ol style="list-style-type: none"> Be in sync – don't be “divided and conquered” 	Prepare the whole team for the upcoming negotiations. Coordinate the team in terms of ZOPA. Also protects against counterpart's attempts at “divide and conquer” tactics.	Defence against tactics
10. Prepare for specific negotiation session <ol style="list-style-type: none"> Set goal for session – an “ask” Prepare tactics and answers to hard questions Anchor in any proposed contracts If different culture: read up on differences 	Prepare for the specific negotiation session. Remember to have a goal for each session – always have an “ask”. Prepare price tactics, and answers to hard questions that might arise in the negotiations. If preparing a contract in advance of negotiations, anchor it heavily in your favor: starts the negotiating on your side, instead of at the middle and downwards to counterparts' preferences. If engaging in cross-cultural negotiations, read literature in order to prepare for it.	ZOPA Tactics Anchoring Negotiation style

Finding the right negotiation partner in an organization is deemed by the entrepreneurs to be particularly important for startups, with a special focus on identifying the decision maker for a deal. “It’s important, we can attest to that. Especially when you’re an entrepreneur; if you miss there, you won’t be heard, and you won’t be believed in” (Entrepreneur 2). For a few of the entrepreneurs, a negotiation is centered around how to allocate time, and thus they try to figure out who the decision maker in a deal is “so that I use the time correctly, where it’s possible to move it [the deal]” (Entrepreneur 7). To mitigate a potential mismanagement of time in this regard, several of the entrepreneurs thus spend more time on it in the preparation phase instead. In addition to doing research, one of the entrepreneurs offered a quicker way to figure out who to negotiate with. “I ask directly. (...) Is it you who’s going to sign on this deal? No? Ok, but then I want to speak to the boss.” (Entrepreneur 3).

Even more interesting, are the findings related to how entrepreneurs understand their BATNA, ZOPA and Reservation points over time. Specifically, a few of the entrepreneurs might agree to noticeably substandard deals, depending on how they view the *value of the partner itself*; for example, if the partner is a critical bellwether, where other players in their industry will follow. To mitigate the adverse effects of this strategy, one of the entrepreneurs employs a shorter resignation period for the contract. “And then the gain is bigger by entering into a bad contract with a short resignation period, which can be renegotiated in the future, rather than not entering any contract, because then it all stops completely” (Entrepreneur 4). The aim is thus to renegotiate the contract when the startup is in a stronger position in the future, something which is echoed by another entrepreneur who finds it particularly important for smaller partners. “For us it’s important with a synergy effect of people starting to pay, rather than what they pay” (Entrepreneur 7). Finally, another strategy can be to offer discounts for the first year, but then transition into normal payment the next. Yet, discounts can be dangerous if given excessively, as it “completely impairs your own story. When you do stuff like that, it’s the same as saying it’s not worth the original price” (Entrepreneur 8).

This communication of a story is also found to be particularly important in relation to preparation, albeit of the counterpart. Two of the entrepreneurs pointed out that in their experience, “most people are pretty bad at preparing themselves” (Entrepreneur 3). Due to this, one can make arguments that “sort of gets accepted quickly, because they aren’t really thought through [by the counterpart]” (Entrepreneur 1). The argument is then that the counterpart doesn’t have enough information to make good decisions, which creates an

opportunity to build a “shared” narrative which is in favor of the entrepreneur. Since the entrepreneurs spend time preparing everything, and the counterparts are absolved of having to do the work, it is also easier to accept this view of the world to be true. The implications of such a scenario will be examined more in depth in chapter 4.2.1 on Framing & Reframing.

Finally, the findings show that the entrepreneurs perceive of and execute preparations quite differently. Although the majority of entrepreneurs prepare diligently for specific negotiation sessions, there are variations to both what steps are involved, and how explicitly they are performed. One entrepreneur explained that the thought of preparations never occur explicitly, “it’s just sort of my daily life, consisting of a continuous flow of things like this, and I just work on thinking and making notes of this stuff all the time” (Entrepreneur 4). So although the entrepreneur in question asked around 100 (!) investors for feedback on potential terms in advance of the company’s first investment, in order to determine a ZOPA, it wasn’t perceived as preparation; it was simply a part of the job and task at hand. More noticeably, another entrepreneur stated that “I really don’t do a lot [of preparation]” (Entrepreneur 8). The reasons for this seem to be twofold: the first is that the company has expanded such that parts of the negotiation process are standardized and delegated, and that for example customized data demos are prepared by someone else, although presented by the entrepreneur in question. The other is that the entrepreneur feels that after many years in the industry, “you’ve polished so much on your own answers and your own story, that you’re prepared” (Entrepreneur 8).

Although this can indicate that some entrepreneurs might not prepare significantly in advance of specific negotiation sessions, others findings from the same entrepreneur helps explore this notion further. The first is that when explaining fundraising negotiations that ended quite poorly, the main reason identified was a lack of preparation. The other relates to a development over time; while previously having done research on counterparts’ industries, or read up on relevant metrics for an investment negotiation et cetera, the entrepreneur described the current fundraising process as follows: if after talking with a VC (venture capitalist) the entrepreneur doesn’t get the desired reaction, he’ll try another approach with the next one. If this does produce the desired reaction, he’ll stay on that track until another adjustment is deemed necessary. This happens unconsciously, after having come to understand how this loop of adjustment might transpire. When considering that the entrepreneur in question has met with “probably around 300 till now, and yeah, probably a lot more too” (Entrepreneur 8), and similar examples surfacing from other entrepreneurs, the findings seem to indicate that

it's not so much a question of preparation or not, as much as of *direct* and *indirect preparation*, and the role of continued iterations over time. Unsurprisingly, such iterations are also found to be indicative of the entrepreneurs' current negotiating style and strategies.

4.1.5 Negotiation styles

« You want a negotiation situation where both leave the negotiation with a feeling of winning, because you're going to have a relationship onwards »

– Entrepreneur 7

All of the entrepreneurs were found to have a fundamentally collaborative negotiation style. They aim to create win-win situations for both parties in a long-term relational perspective, and strive to negotiate across several dimensions and perspectives simultaneously, where “it's not just about splitting evenly, but to create more value” (Entrepreneur 2). The findings also show that this way of negotiating is a conscious choice by the entrepreneurs, with several explicitly contrasting their style with a win-lose mentality, and one entrepreneur stating that “if one party isn't happy, then I think that it hasn't really been a good negotiation” (Entrepreneur 4). At the same time, they also display an adaptive mindset, acknowledging that there are indeed situations where a distributive negotiating style is perhaps needed, and where they might employ it. Examples given of this are negotiations with procurement departments, or term-sheet negotiations with investors; “and that's a null-sum game deluxe. (...) because you spend a lot of time on it, and it doesn't generate any total value” (Entrepreneur 6).

« Trying to achieve a negotiation result where only the one party succeeds, that's like shooting yourself in the foot down the line. »

– Entrepreneur 5

The findings also seem to indicate that one of the main reasons for the entrepreneurs' collaborative negotiation style is based on their focus of creating lasting relationships that can be beneficial in a long-term perspective. One of the entrepreneurs stresses the importance of win-win situations and “not just a win-lose, because those agreements don't last particularly long, and creates a whole lot of problems” (Entrepreneur 5). This was exemplified in two ways: 1) a partner won't be incentivized to sell your products, if their margins are too low,

and 2) even if you manage to strike a deal, renewals or renegotiations might be impossible. It is thus advised to ensure the partner has good incentives, for the deal to have *value over time*. Considering that certain negotiations necessitate a certain level of distributive bargaining, another entrepreneur added that one way to solve this challenge is to always begin with integrative negotiations, first attempting to expand the pie, before ultimately moving on to negotiate the remaining parameters that are inherently distributive in nature

Another interesting finding regarding negotiation strategies or styles, was an emerging theme of what *personal characteristics* the entrepreneurs either exhibit or aspire to possess. The following characteristics were expressed to be intrinsic to the entrepreneurs: open, positive, fair, professional, calm, nice, humble, honest (regarding both strengths and weaknesses), have integrity and being respectful. One entrepreneur currently based in the US noted: “I’d say I’m a mix of typically Nordic where you sort of wish to be open, while having learned a little of how it is to be in the US. (...) a mix of being hard, while having the humility that comes from wanting the best for both parties” (Entrepreneur 7). Others mentioned maintaining integrity to be of paramount importance, with a few alluding to having “a sort of karma-thinking, believing that some way or another things come back to you.” (Entrepreneur 2). Three of the serial entrepreneurs also stressed the value of being honest, gladly admitting faults and omissions about the technology, their teams or their business proposals. “For me it’s really important that I really feel I can stand behind what I propose” (Entrepreneur 6).

Closely related, a few of the entrepreneurs also try to do things that induces “a good mood” in the negotiation session. This can be “everything from small things, like it being fruit, coffee and lunch [provided] (...) to giving the counterpart some early wins to start with.” (Entrepreneur 1). Albeit a kind gesture, the entrepreneurs acknowledge that this likeability also holds a strategic purpose in disarming potential hostility, making people more positive, happy and positively inclined to make a deal. As one entrepreneur explained: “You can go ahead and try making deals with people you really dislike, but that’s really quite difficult. So being liked by a counterpart, that actually has a significance.” (Entrepreneur 5). Another entrepreneur added: “(...) we try to be positive, open and nice, we’re good at handshakes and small talk. And sometimes that’s half the negotiation.” (Entrepreneur 2).

Having a negotiation strategy that makes one likeable, seemingly also has long-reaching value for entrepreneurs outside of the negotiations. Several of the entrepreneurs highlighted the

power of one's reputation, both good and bad. "I'd much rather have a positive reputation, and be someone people want to cooperate with, and want to make a deal with (...) rather than being recognized as a hardcore negotiator" (Entrepreneur 4). Likewise, on the other hand: "Loss of face is pretty painful, and it can have direct economic and career implications (...) so building partnerships over time, where you build trust, is extremely important in business." (Entrepreneur 3). A few entrepreneurs also noted how good publicity can play a big role; sometimes people will suddenly want to make deals only because you're featured in the news.

The entrepreneurs' focus on establishing good rapport also extends to some extent to the realm of body language and emotion. Although most entrepreneurs had not consciously reflected extensively about their or their counterparts body language, they did acknowledge that it was useful in at least two ways. The first is helping decipher the real positions of the counterpart, as "most people who are satisfied after a negotiation, they show it. And often before you're completely finished" (Entrepreneur 5). The other is being able to keep emotions in check, where one entrepreneur stated in somewhat Nordic terminology that he "tries to be a cold fish", the benefits of which were "Credibility. Calm. An aura in the room of being in control, without it being cocky." (Entrepreneur 8). The danger of the failing with the latter is that "if I'm upset, then it's very easy for you to become upset too. So, you really shouldn't show too much emotion" (Entrepreneur 1). In sum, controlling what one wants to show.

Finally, one of the entrepreneurs demonstrated a slightly different view of the concept of distributive and integrative negotiations, namely "position and value based negotiations". In addition to distributive null-sum negotiation, "position" seems to be understood as a position of power: "Startups have in extremely few cases, position. Of course, when you become Uber or AirBnB then you have position" (Entrepreneur 3). Similarly, in addition to integrative value creating negotiation, "value" is explained as creating a *shared narrative of the future*: "See, up there ahead lies something we both can achieve, and this is how we help each other with getting there" (Entrepreneur 3). This subjective cognitive construction of negotiation schemas thus incorporates certain added features as integral, if not inherent, to how the entrepreneur views successful negotiating. In this example, the most salient being a shared narrative; and more specifically, a shared narrative that only one of the parties is responsible for creating.

4.2 Cognitive biases

«It's rare that the negotiations become as rational and theoretically perfect as one had envisioned.»

– Entrepreneur 6

Another overarching theme from the empirical study, is the presence of cognitive biases. Either explicitly discussed by the entrepreneurs, or simply observed in or inferred from situations they described, cognitive biases are found to be a pervasive element in both the negotiation setting overall, and seemingly, also in their daily lives as startup founders. Focusing on business negotiations, however, the effects of cognitive biases are found to be of significant importance for the negotiating entrepreneur; both in terms of the effect on their own cognitive reasoning, but even more so as *tools* that they can employ or induce in others. Awareness and familiarity with these biases thus facilitates a stronger negotiation skill, both for entrepreneurs themselves, or for those who find themselves on the other side of the table.

4.2.1 Framing and Reframing

« Building a world. Constructing a world. And then getting the other to believe in it being the right description of the world.»

– Entrepreneur 3

The ability to frame and reframe, is found to be one of the most relevant cognitive biases for negotiating entrepreneurs to master. This resonates with the popular conception that entrepreneurs are adept at storytelling, a notion that many entrepreneurs strongly identified with when considering their own negotiation style. “If you’re going to view negotiations in the big picture, then storytelling is what I think is the most important for new companies” (Entrepreneur 3). Another entrepreneur noted that although there are different approaches to negotiating, there are a few shared principles like “How to tell a story. And then telling a slightly different story; slightly different angles, other words.” (Entrepreneur 8). The reason for this emphasis on storytelling in negotiations is that it enables “setting a context, psychologically (...) either of what can happen, or what the future is” (Entrepreneur 1).

As mentioned in earlier chapters, some of the entrepreneurs focus on creating a shared narrative of the future; and it all starts in the preparation. It has previously been implied that the counterpart often doesn't have enough information to make good decisions, something the entrepreneurs take advantage of by "making sure my information-position is stronger. Not to own it, and make better choices than the counterpart, but to share it (...) in that way you get to build a shared narrative that maybe is a bit more influenced by how I see the world" (Entrepreneur 3). A lot of this preparation relates to actually compiling the information, more so than having a complicated collection process, and presenting it in an understandable and shareable framework, like in a Powerpoint presentation or Excel sheet. The information itself is usually forecasting, aiming for justification through numbers: how many projected customers, the growth in the market, customer churn, development in cost over time et cetera. In a young industry that does not have as much historical data or customers, the advice from the entrepreneurs is to understand it better than anyone else. "And I know that also makes it very easy to be labeled an expert. Because no one else (...) has the insight we have, in the whole world. So, I know that's a unique thing to build around." (Entrepreneur 8).

The entrepreneurs thus attempt to guide the negotiations by amassing and sharing knowledge, albeit in the lens of how they themselves view the future to be. "So, I make the [pitch] deck. I make sure to take action. I make sure to, like, make the map" (Entrepreneur 3). According to the entrepreneurs, with a well-articulated suggestion of how the world looks, it's easier for the counterparts to agree to it being reasonable; perhaps even more so because they aren't required to do that work themselves, and that the preparation in itself speeds up the process. In order to cement the feeling of it being shared, the following is advised: "It's a little hard to sell a story with a shared narrative if the negotiations and contractual agreement also don't reflect this. (...) So, having a kind of balance in the contractual in the negotiation is very important because (...) it helps validate that you're actually in it for the reasons you've said you're in it for" (Entrepreneur 3).

One of the entrepreneurs touched upon framing on a more philosophical level; which is a good example of the mindset that goes into this approach. "First of all, you need to be confident in what you sell, and then you have to mature them [the counterpart] to understand the same as you feel you understand yourself" and "you can never change others, you can only change yourself (...) by that I mean you can change what you deliver or say or do, which creates a change in the counterpart" (Entrepreneur 8). These high-level ideas are

representative of the rationale behind framing and reframing, but are also just one part of its function; some of the entrepreneurs also view it in more explicitly practical terms.

« You can warp anything, you know. »

– Entrepreneur 1

In a more tactical, rather than strategic sense, several other examples of framing surfaced during the interviews. The most applicable relates to being selective when evaluating proposed deals or terms. For example, when proposing a contract clause which is slightly positive and slightly negative for the counterpart “I only highlight the positive, while the negative... we either don’t mention it at all, or don’t highlight it” (Entrepreneur 1). The rationale is that it relates more to the feelings of the counterpart: by focusing on the positives of something, rather than allowing the counterpart to fixate on the negative, the counterpart can experience the positive feeling of achieving a win – even though the full picture is more complex than that initial sensation. On the opposite spectrum is the use of framing to mitigate power tactics: big corporations will often host the negotiations in their own locales, in order to induce a sense of “homecourt advantage”. “But we’ve turned it around to something positive: we actually think it’s a bit cool to be at the big corporations! So I don’t think it’s had the intended effect on us.” (Entrepreneur 2).

Another thing is to play up a patent pending application, for the entrepreneur to seem bigger than they actually are, despite the uncertainty surrounding whether it will be approved at all in the future. Finally, some entrepreneurs note their inclination to portray things “through rose-colored glasses”, in the sense of exaggerating their confidence in something. “Never reveal that there’s something you’re uncertain about, or don’t have control over. (...) Always appear extremely confident. (...) I almost change personality, when I do all these things. I become like another role where I appear and behave a little differently” (Entrepreneur 4). Even as such confidence can provide beneficial to the underdog entrepreneur, it also has its pitfalls.

4.2.2 Overconfidence

« I don’t know if it’s genuine, but I believe it. »

– Entrepreneur 3

The empirical study has uncovered that entrepreneurs indeed do have a tendency for overconfidence, perhaps even more so than the common negotiator, as the entrepreneurs also seem to identify strongly with the success of their startups. In stating this, it is important to clarify that there is a difference between *acting* overconfident (which was found to be of a lesser degree) and *negotiating* overconfidently; the distinction being how you come across (ie cocky) versus how confident you are in your assumptions (ie position). This does not mean, however, that the two elements are not interconnected; the perceived level of own confidence by entrepreneurs does seem to have an effect on their tendency for overconfidence.

Most entrepreneurs evaluated themselves to be confident, yet humble, acknowledging that there are others who are more skilled than themselves. “I usually always negotiate with people who are better than me, who have more experience than me. So I’m more focused on learning (...) and, that I’m pretty open for input.” (Entrepreneur 4). They also made a point to emphasize that “I think there’s a big difference between confidence and cockiness. Call it a certainty. A certainty that you know what you’re doing, that it’s right, and that you can stand behind it.” (Entrepreneur 8). The responses also indicate that confidence can be context-dependent. “If I’ve prepared well, and know the industry or type of player (...) I can have a lot of confidence. Then I feel that I have control. Nothing can come up that’s unknown or unclear.” (Entrepreneur 1). In settings that are unfamiliar, or if things aren’t going to well with the business or legal matters, this can lead to the opposite. “So if I feel that I’m weak, for example when we’re struggling with fundraising, I might not be as confident as I’ve been previously.” (Entrepreneur 7).

This latter notion of context dependency, is further explored by one of the entrepreneurs who states that “often you negotiate in some way or another, on your own value; having good traction, doing well, and then you know your own value better and better. And perhaps also, going out higher [in demands].” (Entrepreneur 6). An example of this traction given by another entrepreneur is that if you sign a deal with a competitor to your counterpart the week prior, it can be a real strength going into the next negotiations. Sometimes, however, the perceptions don’t always relate to the real negotiating position one might have. “I think my confidence [as a negotiator] is good. Actually, sometimes I perhaps think I’m better than I really am. (...) because we really haven’t achieved that much as of yet.” (Entrepreneur 2).

Relating to the previously mentioned value of creating a FOMO in negotiations, one entrepreneur exemplifies the thought process related to the interchange of perception and actuality. In acting detached with an investor, the entrepreneur could say something like “this contract is nice, really, but we have 10 others waiting, so we’ll just keep moving”. Whether this is genuinely the case or not, the entrepreneur believes it to be true. “It’s a little like that building a company. Even if all the pieces aren’t in place, and even if we really need this contract, you believe that ‘no, if we don’t get this one, we’ll get 10 others’. ‘if you don’t want to work here, there’s 10 others who do’. ‘if you don’t want to invest in us, there’s many who do, because what we’re doing is kick-ass.’” (Entrepreneur 3). On a relatedly humorous note, the entrepreneur exemplified this type of thought process by quoting the character George Costanza from the TV-show *Seinfeld*: “You know, it’s not really lying if I believe it”.

Sometimes, however, this perceived position of strength can backfire. After getting their first sales, one entrepreneur’s previous firm proclaimed to potential buyers some calculations that showed they would soar. “But there we came off to bad start from day one in all negotiations (...) because we really didn’t have documented results. (...) And we got a bad reputation, because we almost were not [perceived as] serious.” (Entrepreneur 5). Even though they ended up being right in the end, the damage to some extent had already been done. Summing up the experience, he noted that “we hadn’t prepared sufficiently, we had a little too much confidence tied to our own position, and misunderstood the counterpart’s position, unfortunately.” (Entrepreneur 5). In new industries, and with new business models, sometimes the entrepreneurs need to experiment and see what happens in order to progress: “And there it was a few times that one went too far in relation to what the partners were comfortable with, and got that blow pretty hard in the back of the head later. (...) whether it was right or wrong, in some negotiations you have to act, with incomplete information.” (Entrepreneur 3).

The entrepreneurs also note a certain naiveté when tackling established industries, which can lead to overconfident actions or underestimating the power of incumbents. “And I’m not sure if that’s right or wrong. Because sometimes the naiveté is a weapon; that you push forwards. You do things, take a little hit, but then you adjust and everybody understands that the intention was good (...) you make amends, and then you continue.” (Entrepreneur 3). Being overconfident isn’t always detrimental, implying that the entrepreneurs learn to become more aware of it through trial and error: “When I started I probably often thought that I could lead negotiations all by myself, but I guess I’ve realized that it’s isn’t that easy; it’s often a

strength that we are several.” (Entrepreneur 2). One of the areas where this overconfidence through trial and error can manifest itself directly, is found in the use of the anchoring bias.

4.2.3 Anchoring

« You always anchor. »

– Entrepreneur 1

The utilization of the anchoring bias has been found to be a critical tool for negotiating entrepreneurs, to the extent that it is one of the few biases that they explicitly mention, discuss and analyze. “Anchoring is very important. We always shoot out an anchor on almost anything, really. And usually the counterpart does too.” (Entrepreneur 2). When exploring further why the anchoring bias seems to be so widespread, one reason given is “because we know we won’t receive what we first ask, it’s always a negotiation on the first offer. So, we almost have to anchor in order to end up in a place where we want to be.” (Entrepreneur 2). Considering the chance of the counterpart anchoring on a wide range of issues, particularly price and contract clauses, “I make it [the contract] in mega-favor of us. Almost excessively. (...) so that we start a little on our side, instead of at the middle and then just negotiating so everything becomes worse.” (Entrepreneur 4). In the opposite case, the entrepreneurs point to VC term-sheet investment contracts often being anchored heavily in favor of the investors: “They start with a bunch of shareholder rights, and then you have to almost chop through it; like chopping a path through the Amazon [rainforest].” (Entrepreneur 6).

The irrational nature of the anchoring bias, however, makes it a delicate matter to manage effectively, particularly regarding price. “There’s no doubt that anchoring often has an effect. But it’s very hard to say where the anchor comes from.” (Entrepreneur 6). For the valuation of a startup, one can usually compare revenue growth, customer acquisition and similar metrics comparable to other firms, but not always. “I’m looking at a technology startup now, and it’s like, they have no sales or anything. And then it becomes, in a sense, completely arbitrary.” (Entrepreneur 6). In those situations, the use of anchoring and good benchmarks become important tools to convince investors of the firm’s value. Considering the inherent uncertainty related to startups in general, most of the entrepreneurs choose to always anchor high with price. “I always have an attitude of-, usually everybody reacts to it being expensive, -an

attitude of it being peanuts; it's super cheap! The return on investment is sky-high, so if you don't get back your money's worth, you shouldn't even consider being a part of this, right.” (Entrepreneur 8). Although a risk, it's worth doing because “everybody enjoys haggling, so it's nice to give discounts. Everybody likes to feel they've made a good deal, I think that's true for seriously everyone; (...) coming back internally and saying like ‘damn, I got a 40% discount, after going back and forth so many times; this is the best deal!’.” (Entrepreneur 8).

As mentioned in the chapter on preparation, excessive discounts can impair your own story, so whenever the entrepreneurs have to make concessions, they make sure to frame them. “Saying ‘damn, we almost never give discounts, it's almost unheard of, but we're really keen on getting you onboard. If we can get anything in return, like marketing rights or reference calls (...) you can get a 8% discount’, right” (Entrepreneur 8). Keeping the discount low is intended to give the impression of the product or service really being that valuable. Similarly, some of the entrepreneurs will employ “red herrings” to mislead when giving concessions, for example adding a couple of contract clauses that really aren't that important, but pretending that they are, to appear compromising when removing them later on. “Then I'll be like ‘oh no, that's terrible, for us to get rid of those six [clauses], all those six are really important to us. Oh god. But ok, perhaps we can give up these three at least, so it becomes a compromise, right’, and then I give up the three that I really don't care about.” (Entrepreneur 4). Yet one has to be careful not to overdo anchoring, as “we've also noticed sometimes that, ok, we're pushing a bit hard here. We have to make sure we don't lose the deal, or that it comes back to bite us later.” (Entrepreneur 1).

Although the anchoring bias is difficult to guard against, some of the entrepreneurs reflect on ways to attempt to mitigate its effects. The first relates to staying close to your initial anchor, if it's reasonable. “Both parties know that the first number you come out with, is a little bit over (...) and it forms an expectation of landing somewhere in the middle. But that's a little silly. (...) It's never smart in a negotiation to adjust simply for the sake of adjusting.” (Entrepreneur 6). Another entrepreneur added “If you then keep negotiating, you sort of show that you can actually accept going further down. And then it's really just up to the stamina of the counterpart, how far down you'll go.” (Entrepreneur 5). One way to stand firm, is to attempt to rationally decide on a price in advance of the negotiation, internally decide on what is acceptable before looking broader for alternatives, and also defining a clear walkaway point. Another is to use the market forces, if you're in a position to do so (nearing an Initial

Public Offering et cetera); there can be no hard feelings due to everyone having access to the same public information. Finally, one can simply justify the costs: “We try to give a realistic picture of our costs, and explain why we think it’s a valid number. If it seems plausible (...) they usually go along with it being reasonable.” (Entrepreneur 2).

In conclusion, a general lesson on the use of the anchoring bias, was put forth by one entrepreneur: “What we’ve learned, is that we achieve a lot better results just by asking for a higher price. Plain and simple.” (Entrepreneur 2). On the subject on when to start anchoring, the opinions are varied. “It’s often so that the one who mentions price first, has partially lost a little bit, because then you have a starting point it’s definitely not going to be.” (Entrepreneur 5). Another entrepreneur who prefers to wait with pricing, notes that because they don’t have any comparable competition “it’s probably an advantage, while at the same time making the whole journey heavier, as they don’t have experience with buying the product.” (Entrepreneur 8). One entrepreneur looks at it more in context: “If we know a lot about what costs and accounts they have, it can be wise to set a price from our side first to anchor it. (...) Similarly, we perhaps prefer the counterpart to give a price first, when we have no clue what it’s worth to them. Because then we avoid anchoring hard on something that’s not beneficial to us; maybe we had an opportunity to ask for more.” (Entrepreneur 2). Observing this adaptability to context, is also a key piece to understanding the fuller picture of entrepreneurial cognition.

4.3 Entrepreneurial Cognition

«Entrepreneurs understand that starting a new company per definition is risk, all of it. So adding more risk onto that pile sort of isn’t that dangerous. You think more upside.»

– Entrepreneur 1

The final overarching theme from the study, are observations and reflections on entrepreneurial cognition; what separates them from non-entrepreneurs, how they behave, how they learn and, ultimately, how they make sense of and tackle the world around them. Explicitly focusing on negotiations, the findings show that there are many different cognitive approaches among the entrepreneurs, and furthermore, that these combinations of processes are both uniquely varied and seemingly equally successful in their own ways. Negotiation

proficiency aside, the findings also help shed light on the potential link between entrepreneurial cognition and the susceptibility to cognitive biases. In assessing the factors of entrepreneurial cognition, it can be beneficial to first examine some of the differences between entrepreneurs and non-entrepreneurs, and the context in which they negotiate.

4.3.1 Differences between entrepreneurs and non-entrepreneurs

« They just have to make sure they won't get scolded by their boss, if you get me, while we're just thinking 'we have to make this happen to survive'. So, the starting point is completely different.

– Entrepreneur 4

The findings show that the differences between entrepreneurs and non-entrepreneurs do not exist in a vacuum, as there is an inherent power imbalance between entrepreneurs and bigger corporations. This has implications both for how the negotiating entrepreneur will cognitively process certain negotiations, as well as how they might be approached by other negotiation participants, depending on the context and the relative position of power between them. In this matter, the entrepreneurs have several thoughts on the major differences to be found. “If you're an entrepreneur, you have an understanding for the entirety [of the company]; you can make decisions.” (Entrepreneur 3). As established corporations usually have more procedure, having to check with different departments or decision makers, another entrepreneur adds that “We have more of the full picture; shorter decision paths and stuff like that (...) Flexibility, really. Entrepreneurs are a lot more flexible than what a big company is.” (Entrepreneur 1).

This rigidity of established companies was further expanded upon by one of the entrepreneurs: “A lot of the focus of established companies are on what's a no-go. (...) entrepreneurs maybe have more possibilities to change focus along the way, and be less chained to how things have to be.” (Entrepreneur 2). Negotiating with bigger companies can therefore often be a time-consuming endeavor, something which was expressed by one entrepreneur as “it's not just time, but it's the process. It's incomprehensible that some of them get anything done at all; it's completely insane”. (Entrepreneur 8). As quoted earlier, the entrepreneurs have a different view of risk and potential upside, something which comes in conflict with the big corporations' notion of time: “They have all the time in the world (...)

for an entrepreneur making a deal with a bigger company, it should preferably happen overnight. We want to run really fast.” (Entrepreneur 4). Time is thus an advantage the corporations know they have over the entrepreneurs, and they can exploit that. “I knew immediately that he was just trying to stall, to make me more impatient and possibly agree to less beneficial terms. When I understood that, I was a bit distressed.” (Entrepreneur 4)

This is just one example of tactics employed by corporations who have negotiated with the entrepreneurs, others being: treating the entrepreneurs like children, switching out negotiators mid-negotiation, secretaries taking over e-mail correspondence on behalf of the boss (saying he or she is not available), raising their voice or shouting, leaving the negotiations suddenly, good cop/bad cop, and letting it be known repeatedly who’s the most powerful party. Of interesting note is one of the female entrepreneur’s experiences with “the classic that ‘I’m a girl, and young’ and stuff like that” (Entrepreneur 4), something none of the male entrepreneurs touched upon at all throughout all interviews. Although such tactics are intended to induce insecurity or doubt, the entrepreneurs mainly see the disadvantages to this approach: “I don’t think it’s smart. Because you fortify the positions, which can often come in the way of expanding the pie. (...) If you feel like it’s a battle, that’s not necessarily when you’re at your most creative.” (Entrepreneur 6). Being the underdog can sometimes also have its advantages, however: “You might give off the impression that you’re even more of an underdog than you really are (...) making them be a little like ‘listen here, kids, this is how it works, how it should be, and if I were you I’d do this and this’.” (Entrepreneur 1).

Other ways to reestablish power balance is mentioned to be: calling them out on their tactics, making them come to your offices, using the need for approval by the board as an excuse to hold off important decisions, including even more experienced people than the counterpart’s on your side, and simply staying quiet after an offer has been made to induce a need to fill the void with a concession. In the events that entrepreneurs negotiate with other entrepreneurs, the situation is a bit different. “It’s not even close. Oh my god, an entrepreneur can make a decision on the fly. I mean, you don’t have a 130 days sales cycle with an entrepreneur.” (Entrepreneur 8). Sharing a feeling of being “in the same boat” leads to negotiations where both parties understand “that it’s important that the partnership lasts, and that it’s important to generate income as both will be talking with their investors”. (Entrepreneur 3). Some of the entrepreneurs point to the same shared understanding also being problematic at times, with both attempting to reduce what things should cost, empathizing too much with the financial

situation of the other, or having too much ownership of their respective services. In addition: “Most entrepreneurs are really good negotiators. That’s how they’ve managed to strike deals that have made them climb and move up” (Entrepreneur 4).

4.3.2 Planning vs Intuition

« It’s always both. You make a plan, and then the discussion never really turns out the way you think »

– Entrepreneur 5

The following two subchapters deal with the entrepreneurial cognition-related elements found with the entrepreneurs in the empirical study, being categorized in a “planning vs intuition” before an “experience vs theory” segment, respectively. The purpose of this structure is to uncover the tendency for the entrepreneurs to switch between heuristic and systematic processing, and to what extent they rely on their subjective experience over theoretical or scientific frameworks for negotiating. An extensive overview of the various cognitive elements that were found with each entrepreneur is presented in Table 2. The findings are sorted in a categorical manner, by topics relevant to the chapter, listed after the corresponding entrepreneurs they are tied to, explicitly expressed and more indirectly throughout the study.

In the categorization of planning vs intuition, the findings show that entrepreneurs lean strongly towards the latter. Although there is an understanding of the necessity for both, as indicated in the quote above, several of the entrepreneurs rely heavily on intuition over planning, with responses ranging from “I take things as they come, mostly.” (Entrepreneur 7) to “I think I’ve enjoyed winging it. I think it’s a cooler challenge to come a bit unprepared, trying to be smart and quick on your feet in the negotiations.” (Entrepreneur 8). The entrepreneurs acknowledge that there are both strengths and weaknesses to this approach. “It’s a strength because I can be more flexible and responsive in a negotiation. If the process changes, if there’s new information or something that happens that isn’t according to plan.” (Entrepreneur 3). Another entrepreneur adds that it aids in simply getting things done: “You have the guts, and drive and confidence to believe in your own gut feeling and just say ‘oh lord, let’s just do it like this’ (...) or you suddenly come up with something [in a locked situation] (...) and then you have the solution.” (Entrepreneur 4). The weakness is a tendency to deviate from a plan; particularly harmful when having built a plan one needs to stick to.

Table 2 - Entrepreneurial cognition elements of negotiating entrepreneurs

Entrepreneurs	Planning	Intuition	Experience	Theory
Entrepreneur 1	Hard to make a specific plan	Take things as they come. A lot, sometimes.	Negotiation is learning by doing. Learned a lot by watching others negotiate.	Good tools from theory: Tables, procedures, ZOPA and listing needs for each party.
Entrepreneur 2	Rarely make a very good plan	A little too much of taking things as they come	First and foremost learn by doing it yourself. Also learn by watching others, taking notes.	Theory can be very useful. Solid foundation, which you build upon with experience.
Entrepreneur 3	Weak on firm frameworks.	Everything is intuitive.	Experience is everything. Think the human element increases as the deal grows.	Read a little bit; skeptical. A system, yes, but you need to find your own method.
Entrepreneur 4	Not explicitly. Continuous flow of taking notes.	A bit too often take things as they come. Usually dealt with on the fly.	Very practical person. Only learn from experience. Learn from mistakes, or others'.	Not very theoretical person. Know some tools, but never think of them structurally.
Entrepreneur 5	Makes plans...	...but things usually turn out differently.	Mostly by own experience.	Know very little theory. It's quite trivial, didn't give much.
Entrepreneur 6	Makes plan in advance. Not very structured.	Not detail oriented. Have some principles, and take it from there.	Mostly hereditary and environment. Experience is really important.	Read a little. No doubt some things have an effect on negotiations.
Entrepreneur 7	Prepared. Script and keywords. Meeting agenda. Evaluation notes afterwards.	Mostly take things as they come, though.	Most important is to reflect over experiences. What happened, why, how?	Gained a lot from theory. It's as if things are put into a system.
Entrepreneur 8	Cooler to come unprepared.	Always liked winging it.	A lot is intuitive; experience through trial and error. Learn something deep within you.	Don't have theoretical frameworks. Read a little about cultural differences.

Another interesting thing to note is that most of the entrepreneurs, who indeed value intuition highly, also seem to hesitate slightly when discussing their approach: “Actually a bit too much of taking things as they come, when I think about it.” (Entrepreneur 2). Some of the entrepreneurs note that it is difficult to make good plans ahead of a negotiation, “as I think it always turns out differently than what you believe in advance.” (Entrepreneur 1). Despite this obstacle, some manage to do it. “I’ve prepared, sometimes I’ve written keywords and a script (...) I usually always set a goal for the meeting (...) and have a meeting template that I’ve made.” (Entrepreneur 7). This is followed up by writing notes during the meeting, and making a summary of it afterwards, including a section on evaluation. “Yeah, like what happened, why did it happen, what worked and what didn’t.” (Entrepreneur 7). An interesting finding from a cross-case study comparison, is also that a few of the entrepreneurs don’t perceive themselves as being very structured, although compared to the other entrepreneurs, they seem to be: “I’m a very unstructured person. I don’t do anything properly, or thorough or detailed. And I do things on-the-go. (...) so it’s funny when you say preparation, I think ‘yeah, all of this I do, but I do it without thinking of it being preparation” (Entrepreneur 4). Finally, one entrepreneur notes that “I’m not particularly detail oriented. (...) that’s a thing in negotiations, being able to understand what’s really important and what’s not.” (Entrepreneur 6).

4.3.3 Experience vs Theory

« On my part it comes down to experience; trying and failing. I like that approach because it’s just like you learn something deep within yourself.”

– Entrepreneur 8

In the categorization of experience vs theory, the findings show that the entrepreneurs lean strongly towards the former. Despite an acknowledgement of the potential value of theoretical frameworks, most of the entrepreneurs stress the importance of experience. “I feel negotiations are a subject that is learning by doing. I don’t really think it’s something you can read yourself to know from a book.” (Entrepreneur 1). Although experience is emphasized significantly more than theory, the findings seem to show that this is somewhat affected by personal preference “It’s hard to learn negotiations without being in one. On my part, I have to do things in practice. I only learn from experience. (...) if people have told me something, I don’t learn it; I have to have done it [myself].” (Entrepreneur 4). The entrepreneurs also

mention the value of observing others: either on the opposite side of the table, or people in their extended team (chairman, lawyers et cetera). “You learn an incredible amount just by watching and taking notes.” (Entrepreneur 2). One entrepreneur also reflects on the importance of experience over time: “From being machine-like and procedural on low values and short contracts (...) to gigantic contracts that can span across 10 years and have billions of dollars. Then I think the human aspect increases proportionally. Because there it’s about people meeting people, and managing to find something both can live with.” (Entrepreneur 3).

When probing further on why some of the entrepreneurs didn’t rely much on theory, the answers were varied, yet somewhat skeptical in different ways. “I guess I’ve read 3 books, but it didn’t give me much, it was very familiar things. (...) a lot of this is so trivial and simple that you think about it without having learned it.” (Entrepreneur 5). Part of this criticism was related to “typical American management literature”, wondering if perhaps textbooks would be better. Another entrepreneur expands on this skepticism: “I read a little in the beginning, because then I was so hungry for information. (...) but I’m like, a little skeptical to literature. Yes, you can use it as a reference, but a good negotiator, or good company builder, finds his method. Because everything becomes fake if you don’t have it yourself.” (Entrepreneur 3). The entrepreneur continued by contrasting this acquired knowledge with those who have taken a 3-day course at work, or use a manual on their computer. “Then I fall off a little, because I’m not negotiating with this person; I’m negotiating with a system.” (Entrepreneur 3). Another was more modest in the critique, saying simply “There are articles like that [on what you should or should not do] everywhere, but I mostly skim over a lot of information. Some of it is poignant and good, and some of it is not.” (Entrepreneur 8).

Some of the entrepreneurs have had better use of both the literature and negotiation classes they’ve come across. “It gives you sort of a foundation, which you can build upon with experience.” (Entrepreneur 2). Although these entrepreneurs still value experience, particularly the reflection and iteration between negotiations, theory functions as an overarching framework for concepts and experiences gained: “It’s just as if things are put into a system, so that you understand why people respond as they do when you say one thing versus another, or you behave in one way compared to another.” (Entrepreneur 7). Some of the entrepreneurs also find specific use of the theory: “There are some main principles, like anchoring and that about preparation and understanding the needs of the counterpart and those kinds of things. I feel that’s sort of theories that you’ve learned.” (Entrepreneur 1). This is in

contrast with one of the serial entrepreneurs, who felt it was a little unfortunate that he did not learn about negotiations at university, relying mostly on things learned through experience. When asked about tactics in negotiations: “I’ve experienced good cop/bad cop of course, but not much more, I think. In that case I’ve overlooked it.” (Entrepreneur 5).

This also touches upon the notion of negotiation training, which is relevant considering that half of the interviewees have a formal entrepreneurial education, which included learning about negotiations. From a cross-case study comparison, the findings show that all of the entrepreneurs with an entrepreneurial education found the negotiation classes highly valuable; including those who now rely mostly on their experience: “I think it was very good. Because I often think of it now, that like ‘shit, I should have remembered what I learned there’. That it was very important, but then it was premature. I didn’t understand the importance of it (...) because I sat there thinking ‘I’m such a practical person’.” (Entrepreneur 4). Another entrepreneur adds that even with learning useful theories, tables, procedures and concepts through negotiation classes, things are a little different in real-life negotiations: “It didn’t turn out the way we thought, at all. That’s because all negotiations are different, and all people are different, and know different things. Some know a lot about negotiations, others little; some are very theoretical, some are not. So I feel everything becomes different.” (Entrepreneur 1).

The findings also show some of the perceived changes in the entrepreneurs over time. “Another thing is being comfortable with negotiating. After a while you’ve had a fair amount of deals that have been quite large, and then the next negotiation doesn’t appear as scary.” (Entrepreneur 6). In terms of what has changed in more practical terms, the opinions were varied: “You become more strategic, as a person (...) plain and simply that you think further ahead.” (Entrepreneur 4) and “Perhaps a bit more aware. That I’ve become more aware of why things work as they do.” (Entrepreneur 7). One of the entrepreneurs also touched on the procedure of things: “I think I’m a lot more patient now, and a lot more structured. (...) And that I use more time on the right type of preparations.” (Entrepreneur 5). These preparations extend to understanding the counterparts’ status quo, their incentives, how they are measured and rewarded, and generally how the people in the negotiation are. “So the more I know them, the better, really.” (Entrepreneur 5). Finally, several of the entrepreneurs emphasize the continued learning by trial and error: “And I fail a lot all the time (...) that’s what you learn from, right? That I’ve done something, and then being like ‘shit, ok, now I know why I can do that’, because it had this and that consequence.” (Entrepreneur 4).

5. Discussion

In this chapter, a discussion on the findings from the empirical study will be conducted. The discussion will begin with a thorough review of the most important findings from the case study interviews, comparing them with the compiled literature and preliminary theoretical framework presented earlier in the thesis, in order to connect them to the research questions and purpose of the master thesis. Lastly, the chapter concludes with a synthesizing of the most relevant theoretical and empirical findings from the research conducted in this study, into a holistic conceptual framework for cognitive biases in business negotiations for entrepreneurs.

5.1 The Entrepreneurial Negotiation Process – It’s all about relationships

A critical conceptual foundation for most of the findings in this thesis, relates to how the entrepreneurs view the negotiation process: that it’s all about maintaining relationships. The finding that entrepreneurs seem to predominantly view negotiations with a counterpart as a succession of single negotiations, and thus having a longer-term focus on the relationship over time, implies that there might be a distinct value in the conscious management of the negotiation process for entrepreneurs. Beyond the practical consequences of this, detailed in the empirical study, this also has an impact on the related theoretical findings in negotiation literature. In summarizing the basic features of negotiation, Thompson (1990) defines the negotiation process as “the interaction that occurs between the parties before an outcome”. An operationally sound definition, as every negotiation interaction will attain an outcome at some point in time, this definition does not seem to capture the view entrepreneurs have of the negotiation process; namely that 1) it is an interaction that occurs before *and* after an outcome, possibly for an indefinite amount of time, and 2) that the process in question can take several months or even years, depending on the type of negotiation. In this regard, the literature on negotiations seems to traditionally separate the “negotiation process” from the “maintaining of a relationship after an outcome” in a sequential manner, whereas entrepreneurs seem to view them as running in parallel, if not being the exact same thing. In other words, the literature does not take into account the situation of entrepreneurs, who are arguably always in need of maintaining good relationships with their negotiation counterparts.

Another finding was related to the view that “everything” can be negotiated. Combined, these two findings help explain why all the entrepreneurs interviewed exhibited a collaborative, or

integrative, negotiation preference (more on negotiation style in chapter 5.5). As the entrepreneurs view almost all negotiations to have a relational element, it seems logical that win-win value creating solutions are viewed as an ideal, while distributive win-lose negotiations are perceived as detrimental and damaging to future negotiation success. Continuing in this line of thought, this focus on the importance of long-term relationships also helps explain why some entrepreneurs were shown to exhibit an accommodating (yielding) negotiation style when they deemed it necessary for the value of the relationship; particularly when in a position of limited power. This adaptability of negotiation styles is also in line with Shell's (2008) notion of each style being effective and exposing the negotiator to certain dangers, depending on the situation.

Finally, this relationship focus also seems to indicate that entrepreneurs have a high probability of generating integrative solutions, as Adair & Brett (2005) found that what negotiators do in the first half of the negotiation has a significant impact on potential joint gains. Although Kolstoe (2012) and Adair & Brett (2005) suggest a major mistake of many negotiators is to view negotiations as distributive too early in the process, this does not seem to be the case for entrepreneurs. The findings imply that in this regard, the entrepreneurs would most likely start out with an integrative mindset, before potentially switching to distributive negotiations only if they deemed it necessary. Throughout the entire empirical study, there were also no observations which indicated a "fixed pie bias"; due to the relational focus, the entrepreneurs always seemed to focus on creating solutions with high joint gains. This has two possible implications for negotiations: 1) that those who negotiate *with* entrepreneurs can explore win-win scenarios more efficiently, and 2) that entrepreneurs seek win-win solutions even in situations where there traditionally would be little flexibility (fixed pie). As entrepreneurs traditionally have fewer resources than their counterparts, they seemingly do not focus solely on negotiating the agenda-specific negotiation issues, as there are several non-monetary outcomes that can still add value for the entrepreneur.

5.2 Understanding your counterpart – A focus on individuals and incentives

Another essential conceptual foundation underlying most findings in this thesis, relates to the entrepreneurs' emphasis on understanding the psychology of negotiations; particularly understanding the *individual* negotiation counterparts, and not just the companies they represent. The rationale is to attempt to be in the other parties' shoes, and become familiar

with their bargaining position, implying that the entrepreneurs try to understand their counterpart's BATNA and pains through an individually targeted form of perspective taking. This focus on getting a fuller understanding of their counterparts is in line with Hopmann's (1995) explanation of integrative bargaining, where the parties work to maximize the joint gains of both parties, often through "identifying mutual interests". What is interesting to note, however, is that some of the serial entrepreneurs take this understanding one step further. By trying to figure out how their counterparts are measured and rewarded in their respective companies, the entrepreneurs seemingly also focus on identifying "personal interests". As an attempt at understanding, this serves to map out *external* factors that are not inherently a part of the negotiations themselves, but which can still affect the outcome. It also enables the entrepreneurs to find additional win-win solutions that satisfices non-deal specific issues, something which might not be intuitive nor apparent for most integrative negotiators.

This notion of incentives is extended to a focus on making sure that the counterparts (company-level included) are properly motivated to not only strike a deal, but make efforts to ensure that it will be upheld over time. This means that even if a deal is struck in which the parties have mutual gains, some of the entrepreneurs emphasize that unless these gains are considerable, there is potentially less value in the deal over time, as it might get terminated prematurely or not be renewed later. In addition to these risk-averse reasons, there is also the possibility that a well-incentivized counterpart can work on one's behalf, for example when re-selling the entrepreneur's product to end customers. Compared with the definition of integrative bargaining employed by Hopmann (1995), similar to the principled bargaining approach in Fisher & Ury (1981), these findings imply that integrative entrepreneur negotiators not only look at "maximizing joint gains of both parties", but aim to maximize joint gains *over time* in order to ensure a good relationship that is sustainable. In other words, although both research and practitioner literature focus on the importance of joint gains for negotiators, they do not seem to consider how these gains will be maintained after an initial deal is struck. Consequently, these definitions in existing literature might not adequately describe integrative *entrepreneur* negotiators, who have an explicit and conscious need for managing the gains of a relationship beyond its initial beginning in the negotiation process.

5.3 Psychological schemas – The “gamification” of negotiations

In terms of conceptual frameworks, most of the entrepreneurs in the study view negotiations as similar to a poker or dating game. Although these analogies might come across as trivial, on a practical level the findings seem to show that entrepreneurs who use them actively are more meticulous in analyzing either their counterparts, or their joint relationship with them. In the example of trump cards, the entrepreneur is constantly keeping a mental score of advantages and potential counters, and continually assessing the relative power balance and external alternatives to an agreement (BATNA). In the example of dating, the entrepreneurs are continuously monitoring how the relationship is coming along, and whether they can induce a chase around the image of them having several options, and thus being an attractive investment or business partner. The common denominator of both concepts, is the framework of *a game in general*, which seemingly raises a general awareness in the entrepreneurs on the need for caution, tact and strategy when dealing with their counterparts in a negotiation. This is arguably beneficial in attempting to mitigate cognitive biases, as it can function as a “framework for thinking about, preparing for, and executing negotiations systematically and strategically” which is highlighted by Caputo (2013) as necessary for overcoming such biases. Malhotra & Bazerman (2007) also point to research showing that negotiators learn far more when they are able to extract abstract principles from experiences, and that one way of doing this is through applying *analogical reasoning* – comparing situations on similar dimensions.

On a theoretical level, the use of these schemas has implications for possibly defining entrepreneurs as a certain type of negotiator. Although one of the entrepreneurs expressed that the poker game analogy comes from imagining negotiations a bit like a legal case where “you have two parties, who are in conflict (...)”, which closely resembles Hopmann’s (1995) definition of distributive bargaining as “the aspects of bargaining in which the interests of the parties are in basic conflict (...)”, such a parallel does not capture the range of entrepreneurial attitudes to negotiations, even within the same individual person. Roloff et al (2003) posit that *some* negotiations draw on both distributive and integrative bargaining processes, either in sequences or at different times or stages in the interaction. Considering the finding that the entrepreneurs’ mainly have an integrative mindset (chapter 4.1.5), the inclusion of entrepreneurial characteristics to negotiation literature would arguably correct the above statement by Roloff et al (ibid) to: *most, if not all*, entrepreneurial negotiations draw on both distributive and integrative bargaining processes. The findings of this study thus seem to show

that most entrepreneurs exemplify Hawes & Fleming's (2014) concept of "adaptive negotiators": skilled negotiators who have the ability to adjust and modify their behavior to a given situation, in order to maximize the potential for negotiation success.

Finally, although all the entrepreneurs displayed this type of adaptive attitude, the notion of a dating game schema was only brought up by two of the serial entrepreneurs. Similar to the discussion in chapter 5.2, it is also serial entrepreneurs who have a stronger focus on understanding counterpart KPI's and finding incentives that sustain relationships over time. These findings might imply that more negotiating experience, possibly for entrepreneurs specifically, leads to a stronger focus on maintaining relationships; something which does not seem to be covered in neither negotiation nor entrepreneurial literature. This could be partially due to the aforementioned notion that negotiation literature tends to view the negotiation process as concluding with a negotiation outcome (Thompson, 1990), or that practitioner-oriented works (Fisher & Ury, 1981; Shell, 2006) have focused on "at the table" scenarios which feature more negotiation tactics and styles, rather than the aftermath of negotiation outcomes. Another reason proposed is, as mentioned in the methodology chapter of the thesis (chapter 3.2), that there seems to be few direct research ties between entrepreneurial and negotiation literature in general, much less on longitudinal research studies.

5.4 Preparation – Particularly important for entrepreneurs

The findings show that preparations are of significant importance for entrepreneurs, although there are individual differences both to the extent of preparation as well as the types of preparations being conducted (chapter 4.1.4). Some of the entrepreneurs prepare consciously and systematically in advance of each negotiation session, some do it without thinking about it explicitly, while others feel they don't do a lot of preparation. The finding on the latter group is in sharp contrast with most practitioner literature (Fisher & Ury, 2011; Lax & Sebenius, 2006) who emphasize it heavily, and Malhotra & Bazerman (2007) who argue that the most common and costly mistakes take place before the negotiation even begins, after training and consulting with several thousand negotiators and dealmakers. The interesting thing to note about the latter group of entrepreneurs, however, is that they seem to have acquired an extensive accumulated experience in the specific domain or type of negotiations they normally do. The findings thus seem to indicate that it is not so much a question of preparation or not by entrepreneurs, as much as of *direct and indirect preparation*, and the

role of continued iterations over time. Combining 300 investor meetings with an explicit attitude of continued iteration between negotiations, as one entrepreneur has done, implies that they indirectly are extremely well prepared for yet another of these negotiations, and simply begin to standardize their approach to some extent. In other words, even though some of the entrepreneurs don't actively prepare as much, they seem to already *be* quite prepared.

This difference of explicit attitudes to preparations among entrepreneurs, is in contrast with Kolstoe's (2012) interviews of negotiation experts, where all interview subjects were adamant about the importance of preparing for negotiations. Part of the reason for such a contrast between negotiation experts and negotiating entrepreneurs, might be attributed to certain entrepreneurial factors, namely that entrepreneurs were found to always consider the tradeoffs between time spent on a matter and its potential benefits, as they usually have multiple roles and responsibilities in their firms. Although preparing for negotiation sessions might increase gains in the one specific deal, founders/CEO's might be more focused on the number of deals conducted instead. This is also in contrast to specialized negotiation roles, for example in procurement departments of large companies, who can focus "all their time" on negotiating. The findings thus also seem to imply that entrepreneurs to a greater extent have a long-term strategic perspective that extends beyond single negotiations - which is the main focus of negotiation literature (Raiffa, 1982), particularly practitioner's (Lax & Sebenius, 2006) – to viewing negotiations as variables that affect *their businesses' total gain over time*. This is arguably in contrast with a popular image of entrepreneurs mainly being impulsive, indicating a more sophisticated strategic approach.

This strategic perspective of negotiations, combined with the relational focus discussed earlier, is also expressed through the entrepreneurs' tendency to view single negotiations as a *means* to the firm's ultimate success. This was exemplified through agreeing to noticeably substandard deals, depending on how the entrepreneurs viewed the *value of the partner itself*. In other words, "sacrificing" a deal in the present, if it can lead to a better outcome in the future. From the findings, such actions seem to be based on the entrepreneur's thorough understanding of their own BATNA, ZOPA and Reservation points, to the extent that these concepts also take on an element of time, and their values months or even years down the line. Comparing this with literature on the ZOPA, which Malhotra & Bazerman (2007) define as the set of all possible deals that would be acceptable to both parties – in practical terms a deal which is better than no agreement – entrepreneurs seem to find more deals acceptable than

intuitively warranted, but with the *expectation that they will be able to change the agreement or power balance over time*. With the exception of tools that enable such a revision, like short resignation periods or first year discounts, this approach relies heavily on the entrepreneurs' exhibiting of the optimism and overconfidence biases. Although it can indeed be rational to take deals that are bad in the present, if the value increases over time, it is arguably irrational to plan for the future to unfold as expected, if based on feelings and confidence in their firms' future success, rather than on documented results or growth rates. This is not to say that having an optimism or overconfidence bias is detrimental to the situation (more on this in chapter 5.7); simply that entrepreneurs are found to exhibit them quite frequently.

Considering the strong emphasis on the importance of preparation by both practitioners and researchers in the negotiation literature, one could argue that the concept of preparation by default is equally relevant for a negotiating entrepreneur. A heightened importance, however, is identified on both a theoretical and empirical level. Theoretically, when cross-referencing this emphasis with research on entrepreneurs' susceptibility to certain cognitive biases (Forbes, 2004), in addition to research on cognitive biases showing that an awareness and even rudimentary training on biases is an effective means of improving the decision-making process in negotiations (Bazerman & Moore, 2008; Neale & Bazerman, 1991). Empirically, when findings show an opportunity to significantly frame negotiations through preparations and the counterparts' lack thereof, in addition to the entrepreneurs' understanding of anchoring effects as a powerful tool in negotiations due to a thorough mapping of the negotiation situation (more on both of these biases, in chapters 5.6 and 5.8). It can therefore be argued that preparations are particularly important for the negotiating entrepreneur: both because they are more susceptible to cognitive biases, and the ease of mitigating such effects through awareness in advance of a negotiation, as well as the opportunity to induce cognitive biases directly (anchoring) or indirectly (framing) in order to increase total negotiation gains.

5.5 Negotiation styles – “The Nordic way” and Entrepreneurial reputation

As mentioned throughout this discussion chapter, the entrepreneurs in the study were found to have a consciously collaborative negotiation style that aims to create win-win situations in a long-term relational perspective, with an adaptive mindset for situations that might require distributive bargaining. Using the Dual-Concern model by De Dreu et al (2001), the entrepreneurs thus exhibit a high concern for attaining one's own outcomes, as well as those

of the other party. This collaborative style (Shell, 2008; Marks & Harold, 2011) is explained to be particularly appropriate when there is value in developing better solutions beyond those immediately apparent, a seemingly accurate notion considering there were no observations which indicated a “fixed pie bias” in the study: the entrepreneurs always seemed to focus on creating solutions with high joint gains. Rather than simply expanding the literature to cover entrepreneurs under these styles, however, it might also be of interest to dwell on why this collaborative nature seems to be so common for entrepreneurs.

One reason proposed is based on Palich and Bagby (1995), who found that entrepreneurs differ from non-entrepreneurs in how they cognitively categorize business situations: consistently perceiving them more positively in terms of opportunities. Since entrepreneurs often work with innovative solutions, particularly in the tech sector, it might also be natural to probe for creative solutions with mutual gains before engaging in distributive bargaining which at its core has a winner and a loser. Another reason proposed is that entrepreneurs tend to have considerably fewer resources than their counterparts, and thus that collaborative negotiating simply might be the most efficient way of expanding the resource base of their own firms: “we really need everything” (chapter 4.1). As the entrepreneurs also have full overview over their businesses compared to non-entrepreneur counterparts (chapter 4.3.1), they are better positioned to both receive and trade concessions which might otherwise seem trivial for role-specific negotiators, yet can hold added value for companies in their early days. Considering the finding that entrepreneurs exhibit higher levels of overconfidence than ordinary managers (Busenitz & Barney, 1997), this might imply that entrepreneurs, more than others, are inclined to take on the challenge of creating original solutions in negotiations.

An interesting finding that emerged on top of this collaborative nature, was a theme of personal characteristics which several entrepreneurs related to being a “Nordic” or “Norwegian” style of negotiating. Irrespective of labeling, there was a recurring trend of the entrepreneurs aspiring to be open, positive, fair, nice, honest, respectful and having integrity. This is deemed interesting, as no literature has been found to describe personal characteristics aspired to by negotiating entrepreneurs, in the search and compilation of theory for this thesis. Particularly the serial entrepreneurs stressed the value of being honest, gladly admitting faults and omissions about the technology, their teams or their business cases. Although only speculation, this might be rooted to some extent in having dealt with a considerable number of investors, as due diligence processes and even the actual investment decisions themselves

might be strongly tied to the entrepreneurial team appearing trustworthy; most entrepreneurs are familiarized with the notion that investors invest “in the team”, more than the technology. This transparency has the potential to be detrimental to negotiation success, yet is mitigated somewhat by the findings showing that although the entrepreneurs are open about weaknesses, they are also firm in pointing to upside and the potential gains of a deal. Delivering a convincing pitch on the latter seems to be tied to the entrepreneur’s ability to frame the issue in question, a notion which will be explored in-depth in chapter 5.6.

Most of the entrepreneurs in the study also distinguish between confidence and “cockiness”, which in addition to the conscious focus on inducing “a good mood” in negotiations, might indicate that the entrepreneurs actively do several things to appear cooperative rather than competitive. This appearance of being cooperative rather than competitive, can be viewed in light of Roloff et al (2003) who state that successful win-win negotiations depend on open exchange of information, inventiveness, cooperation and uncovering interests. In other words, entrepreneurs seem to take active measures to ensure a positive climate for integrative bargaining, to increase their chances of negotiation success. From a cognitive bias perspective, this is also in line with Caputo’s (2013) notion of an emotional bias, where a good mood increases the reliance on heuristics, and results in more biased judgements. Since the entrepreneurs focus on *appearing* cooperative, fair and professional early on, this might indicate an attempt at inducing a “halo effect” in negotiations, a cognitive bias not explicitly mentioned in entrepreneurial cognition literature nor notably in negotiation literature. Considering the findings of this study which show that the entrepreneurs focus extensively on long-term relational success, combined with their notions of the power of reputations, this arguably necessitates theory expansion on the *importance of reputation for entrepreneurs*.

In their research on distributive reputation, Tinsley et al (2002) examine how reputations influence negotiation behavior and subsequent outcomes, by considering “how social information that is very often available to negotiators is used by the parties to shape their negotiation processes and affect outcomes”. They note that negotiators seem to consider the reputation of counterparts in a rational attempt at decreasing uncertainty for an upcoming negotiation, itself an example of a “halo effect” incurring: a cognitive bias in which an initial impression of a person influences the observer’s thoughts on other qualities; in this context a distributive reputation might lead to thinking the counterpart will be ruthless et cetera. The study found that not only did a distributive reputation hurt the chances of creating joint gains,

but also that the advantages by expert negotiators over novices were outweighed by the disadvantages of their distributive reputation. They also found that even unjustified reputations might create self-fulfilling prophecies: one party's perceptions of the other side can affect the other side's actual behavior. Since the entrepreneurs in this thesis seem to induce a positive "halo effect", however, it is also relevant to include Curhan et al (2003) who found that positive *feelings* (not just positive outcomes) resulting from one negotiation can be economically rewarding in the next, both in terms of individual and joint gains.

The implications of all these findings is that it appears critical for entrepreneurs to uphold a good reputation: both to avoid evoking a distributive schema in their counterparts when a negotiation has integrative value, but also in order to extract more economic value over successive negotiations in a relationship that lasts for an extended period of time. It also implies, however, that entrepreneurs maintaining an *integrative* reputation might lead to counterparts negotiating more *openly*, matching their a priori expectation of the negotiation. This expansion of theory thus also implies that reputations might serve as an antecedent for the cognitive biases that occur in negotiations; if expecting a distributive or integrative counterpart, one might act in ways that either attempt to confirm or mitigate this behavior, be it through anchoring, framing, or the exhibiting of an overconfidence bias.

5.6 Framing – A core advantage to the negotiating entrepreneur

Framing and reframing is found to be one of the most relevant cognitive biases for negotiating entrepreneurs, both directly through the empirical findings and indirectly from existing literature on cognitive biases and negotiations. As framing revolves around individuals having different perceptions and reactions based on how a problem is posed to them (Caputo, 2013), the fact that the entrepreneurs so strongly identify with storytelling as part of their negotiating style, could imply that framing *is inherent in most of the entrepreneurs' communication*, and not just in conscious and deliberate framing attempts. According to Entmann, (1993) to frame a negotiation is to be selecting certain aspects of a perceived reality, and making them more salient, in order to promote a particular problem, interpretation, evaluation or recommendation. This links directly to the entrepreneurs who "build a shared narrative that maybe is a bit more influenced by how I see the world", and arguably in a more complex way than initially anticipated. Starting in the preparations, and taking advantage of the fact that

their counterparts tend to be less prepared, some of the entrepreneurs act swiftly and decisively in order to *anchor their own frames* to affect both parties in the negotiation.

The entrepreneurs make sure to present a compilation of knowledge that is framed through their own lens, and when well-articulated and delivered convincingly, it is easier for the counterparts to agree to this frame being reasonable, particularly as they aren't required to do any of this initial work themselves. Seemingly fueling this convincing framing, the findings indicate that the entrepreneurs *tend to frequently exhibit an optimism and overconfidence bias*. Connecting this to Neale & Bazerman (1991), who found that individuals are more likely to *accept a settlement when faced with a potential gain*, while holding out for future concessions when faced with a potential loss, the entrepreneurs are consistently shown to frame their businesses cases as opportunities for gain: be it through a potential upside, current traction, having an extraordinary team et cetera. The findings thus seem to indicate that this framing through an optimistic and overconfident bias can indeed lead to more concessionary behavior by the counterparts, despite largely being based on projections that are uncertain or arbitrary. With both parties usually having access to the same present-day data, this framing outcome is in line with Bazerman & Moore's (2009) highlighted notion of it being possible to take the same objective problem and get predictably different results simply by changing the frame.

Consistently framing deals as positive opportunities also has an impact on a decision-makers' attitude towards risk; who tend to be risk-seeking for losses, and risk-averse for gains (Gimpel, 2008). In the context of entrepreneur negotiations, an example of this could be that investors would want to close a deal quickly (risk-averse) when they view the business case favorably, while opting to stall the negotiation or delay concessions (risk-seeking) when viewing the case unfavorably. This could imply that the best negotiating entrepreneurs are those who are most able to convince their counterparts that their proposed deals or future business success is a credible opportunity for a gain, rather than an opportunity for a loss. Objectively, it is always significant risk associated with investing in a startup, and a due diligence process aims to attain an objective view of the current state of the business. Consequently, what might separate the entrepreneurs who gain investments or deals from those who don't, could critically be their ability to frame their projected success as a lesser risk than what is rationally the case. Although the findings are inconclusive in this regard, the entrepreneurs seem to intuitively view it in a similar manner, as they routinely highlight the positive issues over the negative ones for the counterpart in a deal (chapter 4.2.1)

Finally, Neale & Bazerman (1985) found that negotiators were significantly more likely to make concessions when their frame was positive, compared to negative, which implies that by actively framing the negotiation as gains to the opponent, a negotiator could induce more concessionary behavior (Bazerman & Moore, 2009). Building on this and the discussion above, the findings of this empirical study seem to indicate that entrepreneurs who actively and consistently use framing, can *significantly alter the variables of risk perception and concessionary behavior in negotiations*. Moreover, when viewing the findings on framing in conjunction with those of the other biases and negotiation concepts, a potential synergy effect emerges: more than simply being a collection of separate tactics like anchoring, overconfidence and preparation, the study shows that all of these elements can build off each other, combining to create a convincing “view of the future” where the *entrepreneur’s goals and vision become the frame the entire negotiation is conducted within* – which is arguably of great benefit in mitigating an inherently unbalanced power asymmetry between entrepreneurs and bigger corporations. This thesis thus argues that framing is an *essential* tool for entrepreneurs to employ, as it can give them a negotiating edge, and that a mastery of other cognitive biases and negotiation concepts can work to strengthen its natural effectiveness.

5.7 Overconfidence – The power of conviction

Overconfidence is found to be another highly relevant cognitive bias for negotiating entrepreneurs, as the findings seem to validate both Lim’s (1997) suggested notion that the typical negotiator is overconfident when resolving disputes, as well as Busenitz & Barney’s (1997) findings that entrepreneurs display a greater reliance on the overconfidence bias, overestimating the *probability* of being right. The key terms here are *probability*, and like in Ehrlinger et al (2014), being more confident than is *measurably* justified: the findings mainly document the entrepreneurs’ basis and rationale at the time of making judgements, rather than whether these assumptions end up accurately materializing or not. As this discussion chapter also will show, the exhibiting of the overconfidence bias might in itself alter the trajectory of the negotiation process, possibly working as a self-fulfilling prophecy towards the initially overconfident assumptions. In this regard, Hayward et al’s (2010) proposition is found to be particularly applicable to the findings of this study: that while highly confident judgements which fuels overconfidence may be damaging in many settings, it may also be instrumental to success in others due to the production of a crucial by-product, namely positive affect.

In addition to the earlier definitions above, overconfidence also refers to unwarranted confidence in judgements of the occurrence of positive events, and underestimation of the likelihood of negative events (Thompson et al, 2004). This notion is directly linked to the example of the entrepreneur who could proclaim having “10 others waiting”, as a matter of attitude rather than fact (chapter 4.2.2). However, if not excessively exaggerating this notion or being “caught” by the counterpart, the findings seem to indicate that this display of overconfidence can be positive in negotiating, for at least two reasons. The first relates to the entrepreneur’s BATNA: instead of negotiating from a position of weakness (perhaps they only have one, or no alternative offers), the self-convincing (or perhaps self-illusion) of the situation being otherwise, might in fact lead to negotiating from a position of strength.

Thompson et al (2010) points to research which has documented a strong, causal relationship between the strength of a negotiator’s BATNA and the negotiator’s ability to claim resources in a specific negotiation; negotiators with attractive BATNAs are considered powerful, by being decidedly more assertive in negotiations. Fisher & Ury (2011) further argue that although the BATNA can often be quite explicit or quantifiable, the most important thing is simply *knowing* you have other options in order to limit the chance of suboptimal deals to occur. Although having a strong BATNA may hold many benefits, the literature thus seems to highlight the mental advantage it gives you – negotiating confidently due to *believing* one has a stronger position. Against the backdrop of these notions of a BATNA in negotiations, the findings seem to indicate that this assertiveness and power-enhancement can be achieved also through an *imagined* BATNA. In other words; truly believing one has other options, whether this is true or not, seems to enable the entrepreneurs to negotiate with the same assertiveness and appearance of power as if this was indeed the case. But as the findings also show, this overestimation of BATNA can backfire if perceived as not being serious by the counterparts.

A second reason for overconfidence potentially being positive in entrepreneurial negotiations, relates to an inadvertent creation of a FOMO (not appearing to be touched upon in existing literature): by attempting to validate their initially overconfident assumptions, the ripple effects of the entrepreneur’s investigation might in fact lead to real change. Through investigations that are aimed at *confirming* their own view of the world (that “10 others are waiting”), their network can be expanded, which in turn might notice increased activity and talk surrounding the entrepreneur and, ultimately, might lead the network to become more

interested in investing; even if this heightened interest mainly is the result of a *perceived* increase in attractiveness among investors, rather than the actual business case itself. In other words, by investigating a perceived BATNA which should induce a FOMO among counterparts, a FOMO might indeed be created due to the activity of the entrepreneur in their communities. This unanticipated benefit can be related to Thompson & Hastie (1990) who suggests that overconfidence may encourage a persistence in effort, which can manifest itself in exploring more ways to achieve high aspirations. Unanticipated benefits to overconfidence might also explain entrepreneurs agreeing to substandard deals under the assumption that their startup will be significantly stronger in the near future: the mere act of signing multiple customers might possibly increase the entrepreneur's negotiation leverage against others.

One explanation offered in the literature for why negotiators tend to be overconfident in their judgments, is the failure of seeing the conflict from the perspective of the other side (Neale & Bazerman, 1985). When reviewing all findings in the study, this explanation does not seem particularly fitting for entrepreneurs; who explicitly focus on understanding their counterparts. The findings thus seem to indicate a leaning towards the other, namely that negotiators may be overconfident due to a self-serving function: believing more strongly in the accuracy of one's judgments than warranted to allow for a positive self-image and enhanced faith in one's negotiating abilities (Kramer et al, 1993, in Lim, 1997). This latter notion is indeed relevant, but can arguably be specified even further for negotiating entrepreneurs: the entrepreneurs in the study were not shown to be as overconfident regarding weaknesses or explicitly measurable conditions, as much as being overconfident about potential upside and the future success of their startups (chapter 4.2.2). This can indicate that entrepreneurs tend to be *more overconfident in parts of the negotiation; predominantly in areas of great ambiguity*.

Given that negotiators who have difficult aspirations have been shown to achieve greater outcomes than those with easily attainable aspirations, this more selective expression of overconfidence is arguably in line with Lim's (1997) suggestion that such high aspirations could minimize the adverse effects attributed to overconfidence, highlighting a potentially adaptive value. Viewing overconfidence also in conjunction with other biases like framing, particularly *as an anchor under great ambiguity* (more on this in chapter 5.8), Kramer et al's notion can be further specified as being self-serving to the negotiator not merely for internal reasons (self-image and faith in abilities), but also for external reasons – the improvement of actual negotiation outcome. It is important to mention that although not exhibiting as much

overconfidence regarding weaknesses, the entrepreneurs still seem to exhibit a significant *optimism bias* – framing them more positively and assuming that things will turn out well.

Despite significant uncertainties, overconfidence also enables an entrepreneur to proceed with an idea, and take action before it “makes complete sense” (Busenitz and Barney, 1997). This was expressed by the entrepreneurs both in regards to experimenting in new industries and with new business models in order to progress, with mixed results, but also in relation to overconfidence where “the naiveté is a weapon” to push forwards. Although volatile in terms of potential advantages and disadvantages, the combined findings thus seem to indicate that the entrepreneurs do indeed experience a duality of usefulness of the overconfidence bias, and that they in line with Hayward et al (2006) sometimes can *afford to be overconfident*, due to the positive affect that helps them persevere and prevail. The findings of this empirical study therefore seem to support Bazerman & Moore’s (2009) argument that it is the indiscriminate acceptance of heuristics that is unwise, not necessarily the heuristics and biases in themselves. Unfortunately, there is still a tendency for people to be unaware of the existence of biases, and their impact on decision making (ibid). This poses the question of what situations might be appropriate for *entrepreneurs* to exhibit overconfidence, where the longer-term benefits of such confidence outweighs the concern for erroneous judgement. Although requiring more research, the findings indicate that it might be particularly beneficial in situations relating to the *framing and forecasting of the future*: both by enabling more assertive negotiating, the bias potentially acting as a self-fulfilling prophecy, and because no objective answers exist.

5.8 Anchoring – Mitigating the inherent power imbalance

Anchoring is found to be an integral cognitive bias for negotiating entrepreneurs, particularly due to the conscious awareness and utilization of it as a tool in negotiations. As the bias occurs when a salient reference point influences how people think and make judgements (Thompson & Lucas, 2014), and can bias judgments in several stages of the negotiation process (Caputo, 2013), the entrepreneurs are found to *actively utilize it to steer negotiations in their favor*. Apart from the entrepreneurs’ subjective use of anchoring, the findings show that the anchoring bias can hold a special relevance for entrepreneurs for at least two reasons.

The first is that entrepreneurs are continually in negotiations where the power is unevenly distributed, implying that any measures that can level the playing field are of benefit to the

entrepreneur. This is explicitly expressed by several of the entrepreneurs, who point to their anchoring on almost anything, both due to the counterpart doing it as well, and facing an expectation of ultimately landing on something *other* than the first offer. Preemptively anchoring to get a head start in the negotiations is also exemplified through making contracts heavily in favor of the entrepreneurs, or anchoring high on price. Although potentially risky, this is in line with Galinsky & Mussweiler (2001) who points to research that shows that expertise in the domain or familiarity with the task does not moderate the effects of anchors, making even seasoned experts susceptible to an anchoring bias. And similarly, that extremity or plausibility of the anchor does not moderate the effects (ibid). These findings viewed against theory imply that the anchoring bias is primed for use in the ambiguous setting of entrepreneurship and technology forecasting, and further, that it is one of the most effective ways for entrepreneurs to *mitigate the counterpart's advantage in resources and experience*.

The second is that since entrepreneurs are often operating businesses without directly comparable products and services, anchors can end up being more arbitrary due to the inherent ambiguity surrounding technology startups (obscure ZOPA). In this regard, Galinsky & Mussweiler (2001) show that those who made first offers in distributive negotiations claim more of the value, and that first offers have a particularly strong anchoring effect under great ambiguity. Although one entrepreneur warns of mentioning price first due to it possibly becoming a “starting point it’s definitely not going to be”, this is mitigated by the utilization of an anchor. Seemingly for this reason, the entrepreneurs have noticed that they achieve better results simply by asking for a higher price, and that it helps having an attitude of this high price unquestionably being worth it, as “everybody enjoys haggling” if they feel they end up with a good deal. These findings are also in line with Bazerman & Moore (2009) who note that if the opponent lacks information, they might make inferences about the value of the object based on the first offer. Considering this context, the findings seem to imply that entrepreneurs should not only think of what they anchor, but also *how* they anchor it. In the context of the thesis, it implies that *arbitrary anchors might benefit from convincing frames*.

When reviewing literature which states that people adjust away from initial values (anchors) either insufficiently or based on arbitrary numbers or incomplete computations (Tversky & Kahneman, 1974), and furthermore that people tend to take any available information (relevant or not), as an initial anchor (Gimpel, 2008), the importance of framing is heightened; having a convincing frame seems to aid in making an arbitrary anchor seem more plausible or

credible. This notion is echoed in the entrepreneurs focusing significantly on giving either a 1) realistic picture of costs (chapter 4.2.3), or 2) a well-articulated suggestion of how the world looks (chapter 4.2.1). With the indication that entrepreneurs seem to be more overconfident about potential upside and the future success of their startups (chapter 5.7), the findings seem to imply that the anchoring bias can be significantly strengthened when supported by framing and overconfidence, and being based on thorough preparation which compiles relevant data. The thesis thus argues that it is crucial for negotiating entrepreneurs to be aware of the anchoring bias: both for defense against-, but mainly using it in conjunction with other biases.

5.9 Entrepreneurs vs Non-entrepreneurs – Perceiving risk differently

Forbes (2004) points to research that has shown that entrepreneurs are more susceptible to certain cognitive biases, compared to managers who are not entrepreneurs, although it is not empirically clear exactly why. Although viewed only from the angle of the entrepreneur, the findings in this thesis can aid in illuminating *potential reasons for why* this difference exists. Slightly postponing the discussion on a potential self-selection process (becoming an entrepreneur or not) to chapter 5.11, the findings detail several differences related to the *contextual environment* of entrepreneurs and non-entrepreneurs once they have made their choice, and how this might affect their tendencies for heuristic and systematic processing

Palich and Bagby (1995) posits that although entrepreneurs may have no greater propensity towards risk than non-entrepreneurs, they may simply categorize and frame the same stimuli different than non-entrepreneurs; in other words, that they engage in riskier behavior due to *framing* a situation more positively than negatively. The entrepreneurs in the study express several contextual issues that can contribute to an exploration of such a notion. First, that entrepreneurs *perceive of risk* differently: as starting a company per definition is risky, additional risk is simply “added to the pile”, and they focus on the potential upside instead. This perception of risk does not merely indicate a more positive framing of a situation, but also indicates that entrepreneurs might experience a *dulling* reaction to compounded risks; in other words, that additional risk carries less and less cognitive impact on their risk perception. The second is that entrepreneurs have significantly more flexibility and decision making power, possibly implying that they more easily engage in risk due to an increased *locus of control* (Wijbenga et al, 2007): as entrepreneurs are not limited by hierarchical and procedural barriers to decision making, they objectively have more options and alternatives in modifying

or reversing certain decisions at a later point in time. This might lead to an increased feeling of control over own outcomes, rather than by outside forces, arguably mitigating an aversion to risk. It is relevant noting that this feeling is subjective, possibly enabling an *illusion of control* (overconfidence).

Simon et al (2000) further suggests that risk perceptions may differ because certain types of cognitive biases lead entrepreneurial individuals to perceive less risk. In this regard, Baron (1998) posits that entrepreneurial cognition is a result of working in scenarios of information overload, high uncertainty, novelty, emotion and time pressures, thereby regularly exposing them to situations which test their cognitive capacities in a manner that increases their susceptibility to cognitive biases. Considering the entrepreneurs' multiple roles in their firms, often without prior experience, the findings show this contextual description to be accurate for the interviewees. As the entrepreneurs also express that managers from established companies often focus on what's a no-go (limitations), while entrepreneurs have the flexibility to pursue different alternatives (possibilities), this indicates that entrepreneurs are perpetually more unbound from systematic procedures than non-entrepreneurs, which opens for a greater reliance on heuristics, and in turn, *more susceptibility to cognitive biases*. In other words, that their different contexts seem to promote a tendency for entrepreneurs to utilize System 1 thinking, being automatic and unconscious, over System 2, being deliberate and conscious (Bazerman & Tsay, 2009). This heuristic effect can arguably be compounded even further for *negotiating entrepreneurs*, with research showing that in important and complex negotiations, the limits to people's cognitive resources shift them toward System 1 thought (ibid).

5.10 Planning vs Intuition – Adaptivity of heuristic and systematic thinking

The potential tendency for negotiating entrepreneurs to utilize heuristic rather than systematic processing, is seemingly validated through the findings that most of the entrepreneurs lean strongly towards intuition over planning (chapter 4.3.2). With responses ranging from simply having a disposition to intuition, “mostly taking things as they come”, to notions of *enjoying* “winging it (...) it's a cooler challenge to come a bit unprepared”, the findings seem to show examples beyond just a tendency for heuristics; and more a *preference* for heuristic thinking. One of the entrepreneurs further explains an intuitive approach as “confidence to believe in your own gut feeling”, arguably validating a potential susceptibility to cognitive biases. Malhotra & Bazerman (2007) claim too many negotiators view negotiations as “all art and no

science”, thereby relying on gut instinct or intuition. They further argue that “gut instinct is not a strategy”, rather being a hinder to effective negotiating, At the same time, several of the entrepreneurs express that they perhaps rely too much on their own intuition, potentially indicating an awareness either of 1) their tendency for heuristic thinking, or 2) the general drawbacks to such an approach. As there also is an explicit understanding of the necessity for both planning and intuition, the findings touch upon the notion of *adaptivity*.

In this regard, Baron (1998) proposes that entrepreneurs may be *better at knowing when to switch* from quick and effortless processing of information (heuristics) to more effortful and analytic thought (systematic processing). This is an interesting notion to explore, because although negotiating entrepreneurs are certainly not always affected by cognitive biases, studies have shown that people are often unaware of their biases, and have difficulty debiasing their decision making (Morewedge et al, 2015). Through the study conducted in this thesis, spanning the negotiation process from the initial preparations to the longer-term relationship maintenance, the combined findings indicate that this proposition of improved switching between heuristics and systematic processing might be valid in at least one aspect. As most of the entrepreneurs seem adept at balancing framing and storytelling against the utilization of numbers and hard facts in their negotiating (often well-prepared in advance, either directly or indirectly), the proposition appears valid in a *procedural* sense; in other words, that entrepreneurs skillfully switch between the types of cognitive thinking for *different stages of the negotiation process*. Yet, as several of the entrepreneurs seem inclined to rely heavily on intuition in dealing with *unanticipated* information, the findings do not sufficiently explore the consistency in switching proficiency within a single negotiating stage.

5.11 Experience vs Theory – A question of true negotiation efficiency

The entrepreneurs were found to rely heavily on their experience, with several expressing in various ways that negotiation proficiency is about “learning by doing”. Although this notion is supported both in research (Tinsley et al, 2002) and research-leveraged practitioner literature (Malhotra & Bazerman, 2007), the latter also makes sure to emphasize that learning from experience alone can be a “disastrous mistake for executives”. The problem, they argue, is that extraordinarily successful – or lucky – people tend to conclude from their experience that they are “invulnerable”, thus insufficiently correcting their own behavior or overgeneralizing their experience across contexts; a problem considering the extensive

evidence that psychological biases afflict even highly trained and experienced professionals (ibid). This heavy leaning on experience is thus also indicative of a *representativeness bias*, where decision-makers underestimate the error and unreliability of small and nonrandom samples; the most common of which is personal experience (Tversky & Kahneman, 1971, 1982 in Busenitz & Barney, 1997). It is further argued that entrepreneurs must necessarily rely on such decision-making, however, when large random samples are not available, if the resources (including time) to engage in systematic data collection are not present, or if this systematic data collection might prematurely reveal products and technologies to competitors.

Although entrepreneurs therefore need to be cautious, as their confidence in judgments is often unwarranted (overconfidence) and based on relatively small sample sizes (representativeness), the findings on indirect preparedness in this study might arguably challenge the notion that all personal experience is “small sample sizes”, particularly if consistently accumulated in similar domains (300 investor meetings et cetera). This could also partially explain some of the entrepreneurs’ decision to avoid active preparation: the accumulated experience is tested through iterations and revisions *over time*, thus to some extent improving on the inherent experience base. On the other hand, another way of looking at heuristics is as knowledge structures which are based on the negotiator’s set of past experiences (Foroughi, 1998). In this regard, although experience can lead to improved negotiation prowess, it does not necessarily lead to an improved awareness and understanding of cognitive biases; this latter notion seemingly supported through the findings of this thesis.

Considering Hayward et al’s (2006) suggestion of a beneficial positive affect, negotiation could arguably be applied merely through “learning by doing”. Yet, considering the high rates of venture failure, something the entrepreneurs themselves acknowledge, unfortunately timed missteps in negotiations might arguably contribute to these entrepreneurial failure rates. For the average entrepreneur, at the least, it would thus seem beneficial to include theoretical and scientific principles as well, to *increase* the odds for negotiating and entrepreneurial success. Further exploring this argument, the findings also detail why the entrepreneurs do not utilize theory or literature as a greater part of their negotiation repertoire. Some of the entrepreneurs explain the dependency on experience as something akin to “innate” or “hereditary” negotiation traits, while others refer to the notion of human elements increasing in importance over time (table 2); both of which are arguably not widely covered in neither research or practitioner-oriented negotiation literature. In this regard, the entrepreneurs touch upon the

argument that entrepreneurial cognition might be due to a self-selection process (see chapter 5.9), where those more susceptible to or make greater use of biases and heuristics, are the ones most likely to find themselves in an entrepreneurial context (Busenitz & Barney, 1997).

Since some of the entrepreneurs do experience a learning effect from theoretical and scientific principles, however, an *avoidance of literature* seems in line with Malhotra & Bazerman's (2007) notion of this being a slightly misguided (and scientifically incorrect) approach to truly effective negotiation proficiency. The entrepreneurs who utilize literature express it "giving a foundation, to build upon with experience" and that "things are put into a system, so you understand why people respond as they do" when saying or behaving in certain ways (chapter 4.3.3). This is arguably in direct contrast with one of the entrepreneurs who is skeptical to literature, who when asked about tactics had experienced "good cop/bad cop of course, but not much more, I think. In that case I've overlooked it". Although the entrepreneur in question seems to have attained a "textbook" approach to negotiation (integrative negotiation, preparation focus, understanding the counterpart et cetera) despite not having significant exposure to neither literature nor formal training, what seems to still be lacking is abstract categorization of negotiation incidents, in particular an awareness of cognitive biases and of negotiation tactics. Related to this, Neale & Bazerman (1991) argue that in order to negotiate more effectively, negotiators need to understand and reduce the cognitive errors that occur during the decision process. Expressed more explicitly: although most serial entrepreneurs are thus correct in *managing* negotiations without literature, they would arguably be even more *efficient* with theoretical frameworks and an understanding of scientific concepts to aid them.

Finally, on a purely explorative level (not covered in existing literature), the findings on literary skepticism, like "typical American management literature", hint to the entrepreneurs not necessarily resisting theory or literature on a general level, as much as seemingly finding available literature to be *inadequate* or *lacking*, to some degree. This arguably accentuates the need for more specified negotiation literature, particularly in the areas the entrepreneurs emphasize heavily: human understanding, psychological frameworks, relationship building over time, and entrepreneurial factors to business success. The findings that all of the entrepreneurs with formal entrepreneurial (and negotiation) education highly value their training, indicates that negotiation training in various forms arguably will be of use to most negotiating entrepreneurs. Although not sufficiently researched in terms of actual negotiation success and output, it would seemingly at the least lead to more awareness, systematization

and understanding of negotiation concepts and tactics present in entrepreneurial negotiations (chapter 4.3.3), with an opportunity for a reduction of susceptibility to cognitive biases through potentially specified training. As the entrepreneurs also note that changes through experience over time leads to more strategic, aware, structured and patient approaches to negotiation (chapter 4.3.3), literature and training might possibly function as a slight short cut to improved negotiation effectiveness without the need for decades of negotiating experience.

5.12 Synthesizing a conceptual framework for negotiating entrepreneurs

In addition to helping fulfill the purpose of the thesis, this discussion section has analyzed the findings from the empirical study through a comparison with the preliminary theoretical framework (figure 1, chapter 2.4), in order to create a *synthesized conceptual framework for cognitive biases in business negotiations for entrepreneurs* (shown as figure 2, below). This revised framework incorporates the most relevant theoretical and empirical findings from this study, and arguably constitutes a more precise framework for categorizing and understanding findings related to negotiating entrepreneurs. Although a stand-alone result of the study, the synthesized framework is also deemed beneficial in providing a *systematic overview* of the most relevant discussion parts that answer to the research questions and purpose of this thesis.

RQ1: “What is the nature of cognitive biases in business negotiations for entrepreneurs?” is answered equally through the entirety of topics (negotiation, cognitive biases and entrepreneurial cognition) in the discussion, and is therefore detailed through all three topical areas of the framework below. Although drawing on all topics in the discussion as well, RQ2 a): “How susceptible are entrepreneurs to cognitive biases in business negotiations?” is predominantly detailed through the topics of entrepreneurial cognition and cognitive biases, while RQ2 b): “How does this affect their planning and execution of business negotiations?” is predominantly detailed through the topics of negotiation and cognitive biases, in the framework below. The following explanation of the synthesized conceptual framework will therefore expand upon the most relevant findings pertaining to both the discussion and the research questions, before being summarized as more explicit answers to the research questions at the end of this chapter, which together fulfill the purpose of the thesis. As the discussion section has already referenced the literature extensively, the following detailing of the synthesized framework will rather focus on briefly summarizing the most notable points.

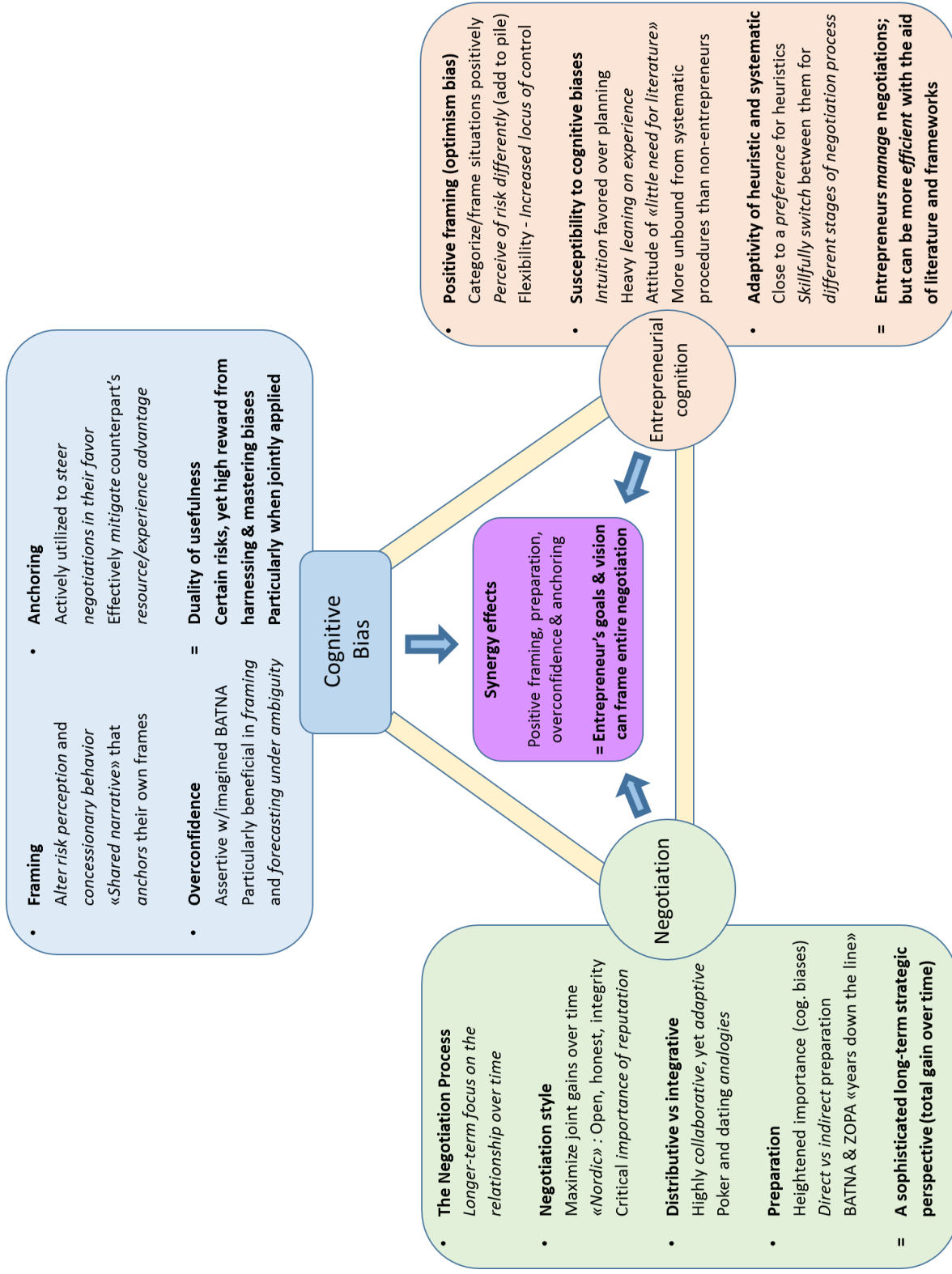


Figure 2 Illustration of the synthesized conceptual framework for cognitive biases in business negotiations for entrepreneurs, revising the preliminary theoretical framework (figure 1) through incorporating the most relevant theoretical and empirical findings analyzed in this study

For the topic of entrepreneurial negotiations, mostly relating to RQ1 and RQ2 b), the negotiation process has been found to constitute a *longer-term focus on the relationship over time*. This aspect of time follows into the entrepreneurs' negotiation style, which focuses on *maximizing joint gains beyond the initial agreement*, through a focus on understanding the counterparts and their personal incentives across the duration of the relationship. Being found to exhibit a self-proclaimed "Nordic" style consisting of *openness, honesty, integrity* et cetera, the study also indicates an importance of *maintaining a good reputation* for entrepreneurs; both to avoid evoking distributive schemas, and to extract more economic value in long-lasting relationships. In distributive and integrative negotiations, the entrepreneurs are found to be highly collaborative negotiators, yet able to adapt their behavior to a given situation. Part of this adaptivity is found in different psychological schemas relating to negotiations being like *a game*, mainly poker and dating, where more negotiation experience indicates a stronger focus on maintaining relationships. Preparation is found to be particularly important for entrepreneurs, both due to their *susceptibility to cognitive biases* and the ease of mitigating such effects through awareness, and the *opportunity to induce cognitive biases* directly or indirectly in their counterparts. The entrepreneurs differ in *direct and indirect preparation*, although with a shared focus on continued iterations over time, also viewing BATNA and ZOPA values months or years down the line. Finally, the findings imply that entrepreneurs view negotiations as variables that affect their *businesses' total gain over time*, indicating a more *sophisticated long-term strategic perspective extending beyond single negotiations*.

For the topic of cognitive biases, relating significantly to RQ1, RQ2 a) and b), the study has shown that entrepreneurs who actively and consistently use *framing*, can significantly alter the variables of *risk perception* and *concessionary behavior* in negotiations. Through the establishment of "*shared narratives*", the entrepreneurs act decisively to *anchor their own frames* to affect both parties in the negotiation, which also seemingly tend to be *fueled by an overconfidence and optimism bias*. Despite potentially detrimental effects, *overconfidence* has been shown to have beneficial effects both in terms of *negotiating from a position of strength, even if it is imagined* (BATNA), or inadvertently *creating a genuine FOMO through attempting to validate one's assumptions*. Overconfidence has also been shown to be particularly beneficial in *framing and forecasting under great ambiguity*, were technology firms seldom face many objective facts. *Anchoring* has been found to be actively utilized by the entrepreneurs in *steering negotiations in their favor*; with the opportunity for *leveling the power balance* and *seasoned experts being susceptible to anchoring* leading it to be an

effective way of mitigating a counterpart's resource or experience advantage. Finally, the findings imply that cognitive biases hold a *duality of usefulness* for negotiating entrepreneurs: there are certain risks inherent to being affected by or using them, yet the potential rewards from harnessing their effects are substantial, particularly when applied simultaneously.

For the topic of entrepreneurial cognition, mostly relating to RQ1 and RQ2 a), the study has indicated that entrepreneurs indeed do *engage in riskier behavior due to framing a situation more positively than negatively.* Entrepreneurs seem to perceive of risk differently, indicating *that additional risk might carry less and less cognitive impact on risk perception* (“adding it to the pile” of risk inherent in startups), as well as seemingly having an increased *locus of control* due to more flexibility and decision making power. Favoring *intuition over planning, leaning heavily on experience, being more unbound from systematic procedures and not actively seeking literature or theoretical frameworks* to negotiating, all contribute to a *heightened susceptibility to cognitive biases.* Although indicating an *adaptivity in switching* between heuristic and systematic thinking for *different stages of the negotiation process,* the entrepreneurs seem to have a *preference for heuristics.* Finally, the findings imply that although entrepreneurs are able to *manage* negotiations, they would arguably be *more efficient* with the aid of literature and theoretical frameworks, *particularly in raising awareness for cognitive biases and tactics.*

A final part deals with potential synergy effects which emerge through the combination of all topics investigated in this study, namely that (positive) framing, overconfidence, anchoring and preparation are shown to be able to build off each other to create a more convincing “view of the future”, where the entrepreneur’s goals and vision can seemingly become the frame the entire negotiation is conducted within – which arguably is of benefit in mitigating an inherently unbalanced power asymmetry between entrepreneurs and bigger corporations. Examples include *anchoring own frames, framing fueled by the overconfidence and optimism bias, overconfident anchoring under great ambiguity, arbitrary anchors benefiting from convincing frames;* all of which can be based on *thorough preparation to increase the level of persuasion or convincing.* Important variables for the occurrence of these synergy effects are the entrepreneurs’ susceptibility to cognitive biases, and their adaptivity to switching between heuristic and systematic thinking throughout the negotiation process.

Based on the entirety of the findings from the study, analyzed in the discussions above, the answers to the research questions and purpose can be summarized more explicitly as follows:

RQ1: What is the nature of cognitive biases in business negotiations for entrepreneurs?

This study has shown that cognitive biases in business negotiations for entrepreneurs are quite *prevalent*, with a *duality of usefulness* in how they can affect the negotiating actors. Certain biases, like the *anchoring*, *overconfidence* and *framing* bias, appear as essential in the “toolkit” of the negotiating entrepreneur, while the *optimism* bias and *representativeness* bias modify how they perceive of and generalize from negotiation experiences. Despite this prevalence, the findings also show that the entrepreneurs have a general *lack of awareness regarding cognitive biases*, something which can be mitigated through an awareness and even rudimentary training on biases (Bazerman & Moore, 2008; Neale & Bazerman, 1991), or through a strategic conceptualization of what constitutes effective negotiation (Caputo, 2013).

RQ2 a): How susceptible are entrepreneurs to cognitive biases in business negotiations?

This study has also shown through both theoretical and empirical findings, that entrepreneurs are *highly* susceptible to cognitive biases in business negotiations, with some entrepreneurs seemingly having an explicit *preference for heuristic processing*. The entrepreneur’s consideration of a time vs benefit tradeoff in the empirical study, expands on theory relating to negotiator’s susceptibility to cognitive biases: entrepreneurs seem *even more likely* than others to *satisfice rather than seek optimal solutions in negotiation* (Foroughi, 1998). The study has also uncovered that the entrepreneurs *lack frameworks* for becoming more aware of cognitive biases, with few entrepreneurs seeking out any such literature. This contrasts with Neale & Bazerman (1991) who argue that in order to negotiate more effectively, negotiators need to understand and reduce the cognitive errors that occur during their decision process.

RQ2 b): How does this affect their planning and execution of business negotiations?

Finally, the study has shown that entrepreneurial negotiations are *significantly affected by cognitive biases through all stages of the negotiation process*. These biases are either to the detriment or gain of the entrepreneurs, although mostly the latter as the findings *indicate an adeptness at using them effectively*, even if not guarding against them. Preparations are done thoroughly both to *safeguard against cognitive surprises*, but seemingly more so to *lay groundwork for the utilization of own biases* and methods of persuasion. The entrepreneurs also *actively attempt to steer the negotiations* through framing, overconfidence and anchoring.

Their susceptibility to biases is seemingly *maintained* through a *preference for intuitive thinking and relying heavily on experience*, more so than planning systematically and seeking out literature and theoretical frameworks. In conclusion, the entrepreneurs' susceptibility to being affected by detrimental effects of cognitive biases, is *arguably also a source of utilizing cognitive biases to their gain or in their favor*. Particularly entrepreneurs who utilize several cognitive biases simultaneously, on a foundation of thorough preparations and a collaborative negotiation style, seem poised to reap rewards from the synergy effects uncovered herein.

6. Implications, limitations and future research

In this chapter, the implications, limitations and future research associated with the thesis is presented. The chapter begins with the theoretical and practical implications of the thesis, before continuing with a review of its limitations. Lastly, the chapter concludes with recommendations for future research.

6.1 Theoretical implications

This thesis highlights the role of cognitive biases in business negotiations for entrepreneurs, which is an intersection which seemingly has been overlooked in existing literature. Although cognitive biases are deeply addressed in decision-making literature, less has been done with reference to negotiating contexts (Caputo, 2013). The review of literature in this thesis further shows that there seems to be a gap between *entrepreneurial* and *negotiation literature overall*; with scarcely any research simply on the topic of entrepreneurs in the context of negotiations. In this regard, the thesis arguably fills an identified research gap between the topics of negotiations, cognitive biases and entrepreneurial cognition. The synthesized conceptual framework of the thesis might therefore also function as a framework for thinking about, preparing for, and executing negotiations systematically and strategically (ibid), in order to develop a “strategic conceptualization” of effective negotiation (Neale & Northcraft, 1990).

In examining negotiation definitions through the contextual conditions of entrepreneurs, the thesis has also contributed nuanced observations surrounding their general validity of these definitions for specific groups. An example of this is a re-interpretation of the “negotiation process” for entrepreneurs (Thompson, 1990), which includes the maintaining of relationships as a factor that runs in parallel to the existing definition, as well as lasting for a longer period of time. Particularly the notion of “time” for entrepreneurs is highlighted several times, like in *maximizing joint gains* (Hopmann, 1995) *over time* or having a more *long-term strategic approach beyond single session negotiations*. The thesis has thus arguably identified definitions in the existing literature which might not adequately describe entrepreneur negotiators, who have an explicit need for managing relationships with their counterparts.

The thesis also expands on theory, particularly in regard to the effects of the overconfidence bias where an imagined BATNA can lead to the assertive negotiating otherwise attributed to a

strong documented BATNA (Thompson, 2010). Furthermore, that the overconfidence bias might not be self-serving to negotiators merely for internal reasons (self-image et cetera), but also for external reasons – the improvement of actual negotiation outcome (chapter 5.7) Finally, the thesis also appears to contribute entirely new theory to literature, like descriptions of personal characteristics aspired to by negotiating entrepreneurs (chapter 5.5) and purely explorative indications that entrepreneurs might experience literature (practitioner’s) to be inadequate, thus hindering an effective distribution of negotiation frameworks (chapter 5.11)

6.2 Practical implications

As most negotiators are not aware of the existence of cognitive biases (Thompson & Lucas, 2014), the synthesized conceptual framework might also be *practically utilized* by practitioners as a framework for developing a “strategic conceptualization” of negotiations. Comparing with Bazerman & Neale (1982) who found that rudimentary training on biases is an effective means of improving the decision-making process in negotiations, the thesis might arguably aid practitioners in improving negotiation effectiveness related to cognitive biases. Seeing as this thesis argues that the literature of negotiations is fragmented, the thesis might also serve as a starting point for exploring the most relevant negotiation theories and concepts.

The research conducted in this thesis is arguably most relevant for negotiating entrepreneurs, who might benefit from an extensive overview of findings and concepts related to their contextual group, particularly as it is detailed in a relatively short and easily readable format. Being contained in a master thesis also enables the possibility of entrepreneurs finding it worthwhile to examine, despite their inherently busy nature and seemingly skeptical view of *general negotiation advice*. As the thesis has examined the duality of effects from biases, the study arguably also might aid in improving negotiation success through a more *conscious adapting to cognitive biases*, particularly for framing, overconfidence and anchoring. Considering that entrepreneurs are particularly prone to cognitive biases (Forbes, 2004), the thesis might also contribute to a general awareness that might mitigate this susceptibility to some degree; potentially affecting their attitudes to preparation, planning and literature-seeking endeavors.

For negotiators in general, the thesis allows for a deeper understanding of entrepreneurial negotiating counterparts, and what cognitive conditions that guide their negotiating. It also

provides some general findings on how to navigate or mitigate inherent power imbalances, as well as when and how the utilization of cognitive biases might prove more beneficial. For students of negotiation, the thesis might contribute to a slightly “accelerated” negotiation proficiency, as the findings show that the entrepreneurs through experience over time become more strategic, aware, structured and patient in their approaches to negotiation (chapter 4.3.3)

6.3 Limitations

In reflection of the conducted master thesis, and the synthetization of a conceptual framework for cognitive biases in business negotiations for entrepreneurs, certain limitations to the thesis have been identified. The main critiques will pertain to the appropriateness of research methods to warrant claims, the inclusion of all relevant subject matter, the limits to time and resources in conducting research, and the scholarly significance of the conducted research.

Considering the lack of conceptual frameworks for the topic of this thesis, the initial compilation and review of literature was guided by an exploratory research perspective. Combined with the author writing this project thesis alone, there are limitations to the extensiveness of such a review in regards to both time and resources for gathering and synthesizing the data. This can potentially manifest itself in an inadequate selection of topics for review, or an insufficient extensiveness of sub-topics within the chosen topics of focus.

Despite an extensive data collection process, continually comparing findings with a thorough review of the literature, there is still a possibility that important concepts, biases or entrepreneurial conditions have been missed in this study. This is attempted remedied by an iterative writing process, where the theoretical and empirical findings are continually viewed against each other, to either improve the assumptions underlying the framework, or to explore other relevant strings of literature that can illuminate and interpret uncategorized findings.

As mentioned in the methodology chapter, there are also concerns regarding the method of collecting data, where interviews arguably would benefit from further triangulation either through negotiation experiments or opportunities for direct observation. Considering the relative novelty of the research topic, however, interviews were deemed the most feasible approach to answering the purpose of the thesis in the scope of a master thesis, while also

contributing valuable findings both on a theoretical and practical level. Similarly, the number of interviewees (8) were deemed appropriate considering the restrictions of the time period.

6.4 Future research

Through the process of conducting the research presented in this thesis, several potential areas of future research have been uncovered. On a general level, one recommendation for future research is to measure entrepreneurs explicit negotiating performance due to cognitive biases. Although suggestive, the findings in this thesis are not able to provide significant results pertaining to *measurable outcomes from the utilization of cognitive biases by negotiating entrepreneurs*, arguably necessitating further research into more quantitative fields. Useful additional questions could be whether this output is mainly detrimental or beneficial to the entrepreneur, and if it has longer-term effects in line with a proposed *duality of usefulness*. Another general recommendation, relates to researching *whether more negotiating experience leads to a stronger focus on maintaining relationships* for negotiating entrepreneurs. As the findings imply that the entrepreneurs have a long-term strategic perspective extending beyond single negotiations, new research could employ more longitudinal studies in this regard.

On a specific level, there are several recommendations for research. The first relates to investigating to what extent framing can influence which entrepreneurs gain investments or deals from those who don't (chapter 5.6), as the findings in the thesis have indicated an overarching effect from framing in entrepreneurial negotiations, although only suggestive. Another area of research could be in investigating further whether entrepreneurs indeed are better at knowing when to switch between heuristic and systematic planning, as this thesis only indicated such an ability *between stages* of a negotiation rather than *in a single stage*. As an off-shoot from negotiations, the thesis also highlights a research opportunity relating to entrepreneurial reputation and the overconfidence bias, where one could investigate how social dynamics and network effects *relate to the inadvertent creation of a FOMO*. Finally, the most uncertain research proposition relates to gender differences, as the study included entrepreneurs of both, albeit with mostly anecdotal findings. Although only suggestive, the female entrepreneurs appeared to be more structured than the male entrepreneurs interviewed when explaining their negotiation process, potentially indicating that the role of gender, education and experience might be of research interest for scholars in the field.

7. Conclusion

This master thesis is a theory building empirical study which has been guided by the following purpose:

To investigate what role cognitive biases play in business negotiations for entrepreneurs

Through the creation of an initial preliminary theoretical framework, which was utilized in collecting data through a qualitative empirical study of 8 negotiating entrepreneurs, the embedded research questions of the thesis have been addressed through a synthesized conceptual framework which incorporates the most relevant theoretical and empirical findings relating to *the role of cognitive biases in business negotiations for entrepreneurs*. As a result, the finished framework is viewed as fulfilling the overall purpose of this thesis.

The study has shown that cognitive biases in business negotiations for entrepreneurs are quite *prevalent*, with a *duality of usefulness* in how they can affect the negotiating actors. Certain biases like the *framing*, *overconfidence* and *anchoring* bias, appear as essential tools to the negotiating entrepreneur, while the study also has found a general *lack of awareness regarding these and other cognitive biases*. As both theoretical and empirical findings indicate that entrepreneurs have a *high susceptibility* to cognitive biases, it is further implied that they are significantly affected by such biases throughout all stages of the negotiation process. This susceptibility is also argued to seemingly be a source of utilizing cognitive biases to their own gain or favor, particularly when applying them simultaneously. In conclusion, the entrepreneurs have also been found to exhibit a long-term strategic perspective extending beyond single negotiations, implying that cognitive biases *affect negotiations over time*.

The thesis is thought to have developed, extended, and created new knowledge across the topics of negotiation, cognitive biases and entrepreneurial cognition, while also accentuating recommendations for future areas of research. In this regard, the combined body of research in this thesis has arguably given rise to a wider understanding of cognitive biases in relation to both the negotiation context in general, as well as for negotiating entrepreneurs specifically.

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Appendix

A1 Quotation overview

No.	Section	Quote	Source:
1	4.1 Negotiation	Everything I do is negotiating, all the time.	Entrepreneur 4
2	4.1 Negotiation	I mean, we don't have money, we don't have peo	Entrepreneur 2
3	4.1.1 Neg process	always in middle of bunch of negotiations.	Entrepreneur 4
4	4.1.1 Neg process	a beast on its own; how to negotiate. We've had	Entrepreneur 8
5	4.1.1 Neg process	You have to be incredibly professional in how you	Entrepreneur 8
6	4.1.1 Neg process	and if it doesn't work, get an understanding of wh	Entrepreneur 7
7	4.1.2 Understand	If there's anything I'd say, it's that it is the most	Entrepreneur 8
8	4.1.2 Understand	everything is about people's psyche.	Entrepreneur 4
9	4.1.2 Understand	what makes people tick, what triggers them, wha	Entrepreneur 8
10	4.1.2 Understand	be in the other parties' shoes, becoming familiar	Entrepreneur 5
11	4.1.2 Understand	it's the same traits you need to draw on; your ab	Entrepreneur 8
12	4.1.2 Understand	I'd say it's... the best negotiators are also the mos	Entrepreneur 3
13	4.1.2 Understand	Sometimes you can become a bit too empathetic	Entrepreneur 4
14	4.1.2 Understand	I know how to manipulate you, if needed. Yes, ma	Entrepreneur 3
15	4.1.2 Understand	try to understand the intention or motives of you	Entrepreneur 2
16	4.1.2 Understand	what kind of position you feel you are in, that aff	Entrepreneur 6
17	4.1.3 Psychologic	I mean, it's always a game. That's why I think of	Entrepreneur 4
18	4.1.3 Psychologic	If I need you to invest in me, and if I express that	Entrepreneur 3
19	4.1.3 Psychologic	I never lie, for example I just avoid telling inform	Entrepreneur 4
20	4.1.3 Psychologic	You have two parties, who are in conflict, and the	Entrepreneur 4
21	4.1.3 Psychologic	But throughout the whole process (...), I think it's	Entrepreneur 8
22	4.1.3 Psychologic	If you make your intention too apparent, some of	Entrepreneur 3
23	4.1.3 Psycholog	Because, you do wish that they will continue bein	Entrepreneur 7
24	4.1.4 Preparation	One has to attempt in all negotiations to find goo	Entrepreneur 5
25	4.1.4 Preparation	at least knowing where the walk away is. Someti	Entrepreneur 1
26	4.1.4 Preparation	It's important, we can attest to that. Especially w	Entrepreneur 2
27	4.1.4 Preparation	So that I use the time correctly, where it's possibl	Entrepreneur 7
28	4.1.4 Preparation	I ask directly (...) Is it you who's going to sign on t	Entrepreneur 3
29	4.1.4 Preparation	And then the gain is bigger by entering into a bad	Entrepreneur 4
30	4.1.4 Preparation	For us it's more important with a synergy effect o	Entrepreneur 7
31	4.1.4 Preparation	completely impairs your own story. When you do	Entrepreneur 8
32	4.1.4 Preparation	most people are pretty bad at preparing themselv	Entrepreneur 3
33	4.1.4 Preparation	sort of gets accepted quickly, because they aren't	Entrepreneur 1
34	4.1.4 Preparation	It's just sort of my daily life, consisting of a contin	Entrepreneur 4
35	4.1.4 Preparation	I really don't do a lot [of preparation].	Entrepreneur 8
36	4.1.4 Preparation	you've polished so much on your own answers an	Entrepreneur 8
37	4.1.4 Preparation	probably around 300 till now, and yeah, probably	Entrepreneur 8
38	4.1.5 Negotiation	You want a negotiation situation where both leav	Entrepreneur 7
39	4.1.5 Negotiation	it's not just about splitting evenly, but to create	Entrepreneur 2
40	4.1.5 Negotiation	if one party isn't happy, then I think that it hasn't	Entrepreneur 4
41	4.1.5 Negotiation	trying to achieve a negotiation where only the on	Entrepreneur 5

42	4.1.5 Negotiation	and that's a null-sum game deluxe, because you	Entrepreneur 6
43	4.1.5 Negotiation	and not just a win-lose, because those agreement	Entrepreneur 5
44	4.1.5 Negotiation	I'd say I'm a mix of typical Nordic where you sort	Entrepreneur 7
45	4.1.5 Negotiation	a sort of karma-thinking, believing in some way o	Entrepreneur 2
46	4.1.5 Negotiation	For me it's really important that I really feel I can	Entrepreneur 6
47	4.1.5 Negotiation	everything from small things, like it being fruit, co	Entrepreneur 1
48	4.1.5 Negotiation	You can go ahead and try making deals with peop	Entrepreneur 5
49	4.1.5 Negotiation	(...) we try to be positive, open and nice, we're	Entrepreneur 2
50	4.1.5 Negotiation	I'd much rather have a positive reputation, and	Entrepreneur 4
51	4.1.5 Negotiation	Loss of face is pretty painful, and it can have direc	Entrepreneur 3
52	4.1.5 Negotiation	most people who are satisfied after a negotiatio	Entrepreneur 5
53	4.1.5 Negotiation	Credibility. Calm. An aura in the room of being in	Entrepreneur 8
54	4.1.5 Negotiation	if I'm upset, then it's very easy for you to become	Entrepreneur 1
55	4.1.5 Negotiation	Startups have in extremely few cases, position. O	Entrepreneur 3
56	4.1.5 Negotiation	See, up there ahead lies something we both can	Entrepreneur 3
57	4.2 Cognitive bias	It's rare that the negotiations become as rational	Entrepreneur 6
58	4.2.1 Framing & R	Building a world. Constructing a world. And then	Entrepreneur 3
59	4.2.1 Framing & R	If you're going to view negotiations in the big pic	Entrepreneur 3
60	4.2.1 Framing & R	How to tell a story. And then telling a slightly dif	Entrepreneur 8
61	4.2.1 Framing & R	setting a context, psychologically (...) either of wha	Entrepreneur 1
62	4.2.1 Framing & R	making sure my information position is stronger	Entrepreneur 3
63	4.2.1 Framing & R	And I know that also makes it very easy to be lab	Entrepreneur 8
64	4.2.1 Framing & R	So, I make the pitch deck. I make sure to take act	Entrepreneur 3
65	4.2.1 Framing & R	It's a little hard to sell a story with a shared narra	Entrepreneur 3
66	4.2.1 Framing & R	First of all, you need to be confident in what you	Entrepreneur 8
67	4.2.1 Framing & R	you can never change others, you can only chang	Entrepreneur 8
68	4.2.1 Framing & R	You can warp anything, you know.	Entrepreneur 1
69	4.2.1 Framing & R	I only highlight the positive, while the negative...	Entrepreneur 1
70	4.2.1 Framing & R	But we've turned it around to something positiv	Entrepreneur 2
71	4.2.1 Framing & R	Never reveal that there's something you're uncer	Entrepreneur 4
72	4.2.2 Overconfid	I don't know if it's genuine, but I believe it.	Entrepreneur 3
73	4.2.2 Overconfid	I usually always negotiate with people who are be	Entrepreneur 4
74	4.2.2 Overconfid	I think there's a big difference between confiden	Entrepreneur 8
75	4.2.2 Overconfid	If I've prepared well, and know the industry or ty	Entrepreneur 1
76	4.2.2 Overconfid	So if I feel that I'm weak, for example when we're	Entrepreneur 7
77	4.2.2 Overconfid	often you negotiate in some way or another, on	Entrepreneur 6
78	4.2.2 Overconfid	I think my confidence is good. Actually, sometime	Entrepreneur 2
79	4.2.2 Overconfid	It's a little like that building a company. Even if	Entrepreneur 3
80	4.2.2 Overconfid	But there we came off to a bad start from day on	Entrepreneur 5
81	4.2.2 Overconfid	we hadn't prepared sufficiently, we had a little to	Entrepreneur 5
82	4.2.2 Overconfid	And there it was a few times that one went too	Entrepreneur 3
83	4.2.2 Overconfid	And I'm not sure if that's right or wrong. Because	Entrepreneur 3
84	4.2.2 Overconfid	When I started I probably often thought that I co	Entrepreneur 2
85	4.2.3 Anchoring	You always anchor.	Entrepreneur 1
86	4.2.3 Anchoring	Anchoring is very important. We always shoot ou	Entrepreneur 2
87	4.2.3 Anchoring	Because we know we won't receive what we first	Entrepreneur 2

88	4.2.3 Anchoring	I make it [the contract] in mega-favor of us. Almo	Entrepreneur 4
89	4.2.3 Anchoring	They start with a bunch of shareholder rights, an	Entrepreneur 6
90	4.2.3 Anchoring	There's no doubt that anchoring often has an eff	Entrepreneur 6
91	4.2.3 Anchoring	I'm looking at a technology startup now, and it's	Entrepreneur 6
92	4.2.3 Anchoring	I always have an attitude of-, usually everybody r	Entrepreneur 8
93	4.2.3 Anchoring	everybody enjoys haggling, so it's nice to give dis	Entrepreneur 8
94	4.2.3 Anchoring	Saying 'damn, we almost never give discounts	Entrepreneur 8
95	4.2.3 Anchoring	Then I'll be like, 'oh no, that's terrible, for us to	Entrepreneur 4
96	4.2.3 Anchoring	we've also noticed that sometes, ok, we're push	Entrepreneur 1
97	4.2.3 Anchoring	Both parties know that the first numbers you co	Entrepreneur 6
98	4.2.3 Anchoring	If you then keep negotiating, you sort of show th	Entrepreneur 5
99	4.2.3 Anchoring	We try to give a realistic picture of our costs, and	Entrepreneur 2
100	4.2.3 Anchoring	What we've learned, is that we achieve a lot bett	Entrepreneur 2
101	4.2.3 Anchoring	It's so often that the one who mentions price firs	Entrepreneur 5
102	4.2.3 Anchoring	it's probably an advantage, while at the same ma	Entrepreneur 8
103	4.2.3 Anchoring	If we know a lot about what costs and accounts t	Entrepreneur 2
104	4.3 Entrepreneu	Entrepreneurs understand that starting a new co	Entrepreneur 1
105	4.3.1 Differences	They just have to make sure they won't get scold	Entrepreneur 4
106	4.3.1 Differences	If you're an entrepreneur, you have an understan	Entrepreneur 3
107	4.3.1 Differences	We have more of the full picture, shorter decisio	Entrepreneur 1
108	4.3.1 Differences	A lot of the fous of established companies are on	Entrepreneur 2
109	4.3.1 Differences	it' not just time, but the process. It's incomprehe	Entrepreneur 8
110	4.3.1 Differences	They have all the time in the world (...) for an ent	Entrepreneur 4
111	4.3.1 Differences	I knew immediately that he was just tryingq to s	Entrepreneur 4
112	4.3.1 Differences	the classic that 'I'm a girl, and young and stuff li	Entrepreneur 4
113	4.3.1 Differences	I don't think it's smart. Because you fortify the po	Entrepreneur 6
114	4.3.1 Differences	You might give off the impression that you're ev	Entrepreneur 1
115	4.3.1 Differences	It's not even close. Oh my god, an entrepreneur c	Entrepreneur 8
116	4.3.1 Differences	that it's important that the partnership lasts, and	Entrepreneur 3
117	4.3.1 Differences	Most entrepreneurs are really good negotiators.	Entrepreneur 4
118	4.3.2 Planning vs	It's always both. You make a plan, and then the	Entrepreneur 5
119	4.3.2 Planning vs	I take things as they come, mostly.	Entrepreneur 7
120	4.3.2 Planning vs	I think I've enjoyed winging it. I think it's a cooler	Entrepreneur 8
121	4.3.2 Planning vs	It's a strength because I can be more flexible and	Entrepreneur 3
122	4.3.2 Planning vs	You have the guts, and drive and confidence to b	Entrepreneur 4
123	4.3.2 Planning vs	Actually a bit too much of taking things as they c	Entrepreneur 2
124	4.3.2 Planning vs	as I think it always turns out differently than wh	Entrepreneur 1
125	4.3.2 Planning vs	I've prepared, sometimes I've written keywords	Entrepreneur 7
126	4.3.2 Planning vs	Yeah, like what happened, why did it happen, wh	Entrepreneur 7
127	4.3.2 Planning vs	I'm a very unstructured person. I don't do anyth	Entrepreneur 4
128	4.3.2 Planning vs	I'm not particularly detail oriented (...) that's a	Entrepreneur 6
129	4.3.3 Experience	On my part it comes down to experience, trying	Entrepreneur 8
130	4.3.3 Experience	I feel negotiations are a subject that is learning by	Entrepreneur 1
131	4.3.3 Experience	It's hard to learn negotiations without being in	Entrepreneur 4
132	4.3.3 Experience	You learn an incredible amount just by watching	Entrepreneur 2
133	4.3.3 Experience	From being machine-like and procedural on low	Entrepreneur 3

134	4.3.3 Experience	I guess I've read 3 books, but it didn't give me mu	Entrepreneur 5
135	4.3.3 Experience	I read a little in the beginning, because then I was	Entrepreneur 3
136	4.3.3 Experience	Then I fall off a little, because I'm not negotiating	Entrepreneur 3
137	4.3.3 Experience	There are artickels like that [on what you should	Entrepreneur 8
138	4.3.3 Experience	It gives you sort of a foundation, which you can	Entrepreneur 2
139	4.3.3 Experience	It's just as if things are put into a system, so that	Entrepreneur 7
140	4.3.3 Experience	There are some main principles, like anchoring a	Entrepreneur 1
141	4.3.3 Experience	I've experienced good cop/bad cop of course, bu	Entrepreneur 5
142	4.3.3 Experience	I think it was very good. Because I often think no	Entrepreneur 4
143	4.3.3 Experience	It didn't turn out the way we thought, at all. That	Entrepreneur 1
144	4.3.3 Experience	Another thing is being comfortable with negotia	Entrepreneur 6
145	4.3.3 Experience	You become more strategic, as a person (...) plai	Entrepreneur 4
146	4.3.3 Experience	Perhaps a bit more aware. That I've become mo	Entrepreneur 7
147	4.3.3 Experience	I think I'm a lot more patient now, and a lot mor	Entrepreneur 5
148	4.3.3 Experience	So the more I know them, the better, really.	Entrepreneur 5
149	4.3.3 Experience	And I fail a lot all the time (...) that's what you	Entrepreneur 4

Table 3: Quotation overview

Entrepreneur	# Quotes
1	17
2	18
3	24
4	26
5	15
6	12
7	12
8	25
SUM	149

Subject	Gender	Role	Serial Entrep.	Sector
Entrepreneur 1	Male	Co-founder and CEO	No	Maritime oil and gas
Entrepreneur 2	Male	Co-founder and COO	Yes	Autmation and robotics
Entrepreneur 3	Male	Co-founder and COO	Yes	Proximity data
Entrepreneur 4	Female	Co-founder and CEO	No	Digital media
Entrepreneur 5	Male	Co-founder and CEO	Yes	Industrial chemicals
Entrepreneur 6	Male	Co-founder and CEO	Yes	Online retailing
Entrepreneur 7	Female	Co-founder and COO	Yes	Digital gaming
Entrepreneur 8	Male	Co-founder and CEO	Yes	Maritime shipping

Table 4: Interview subjects

A2 Coding Structure

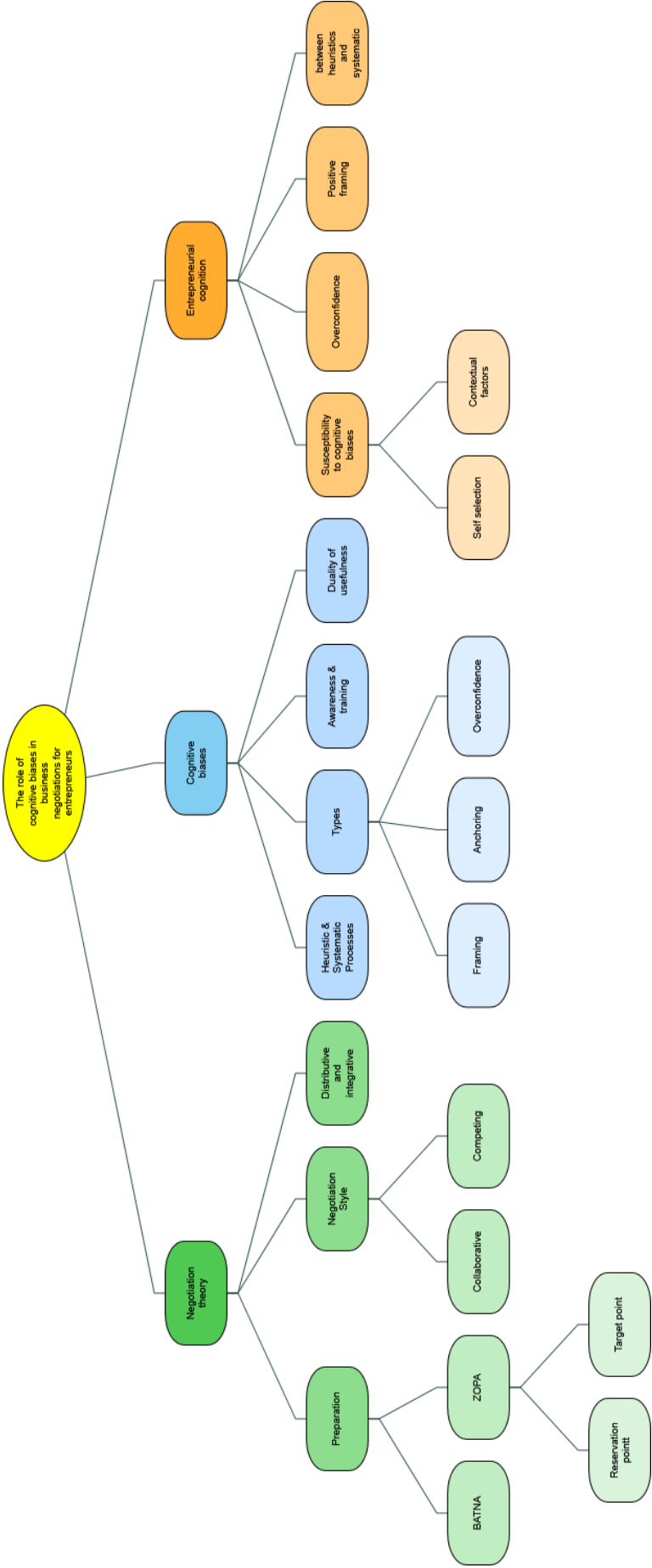


Figure 3 - Coding structure

A3 Hierarchy chart

Overview of the number of coding categories in each subject (negotiations, cognitive biases and entrepreneurial cognition), in the qualitative data analysis software, NVivo.

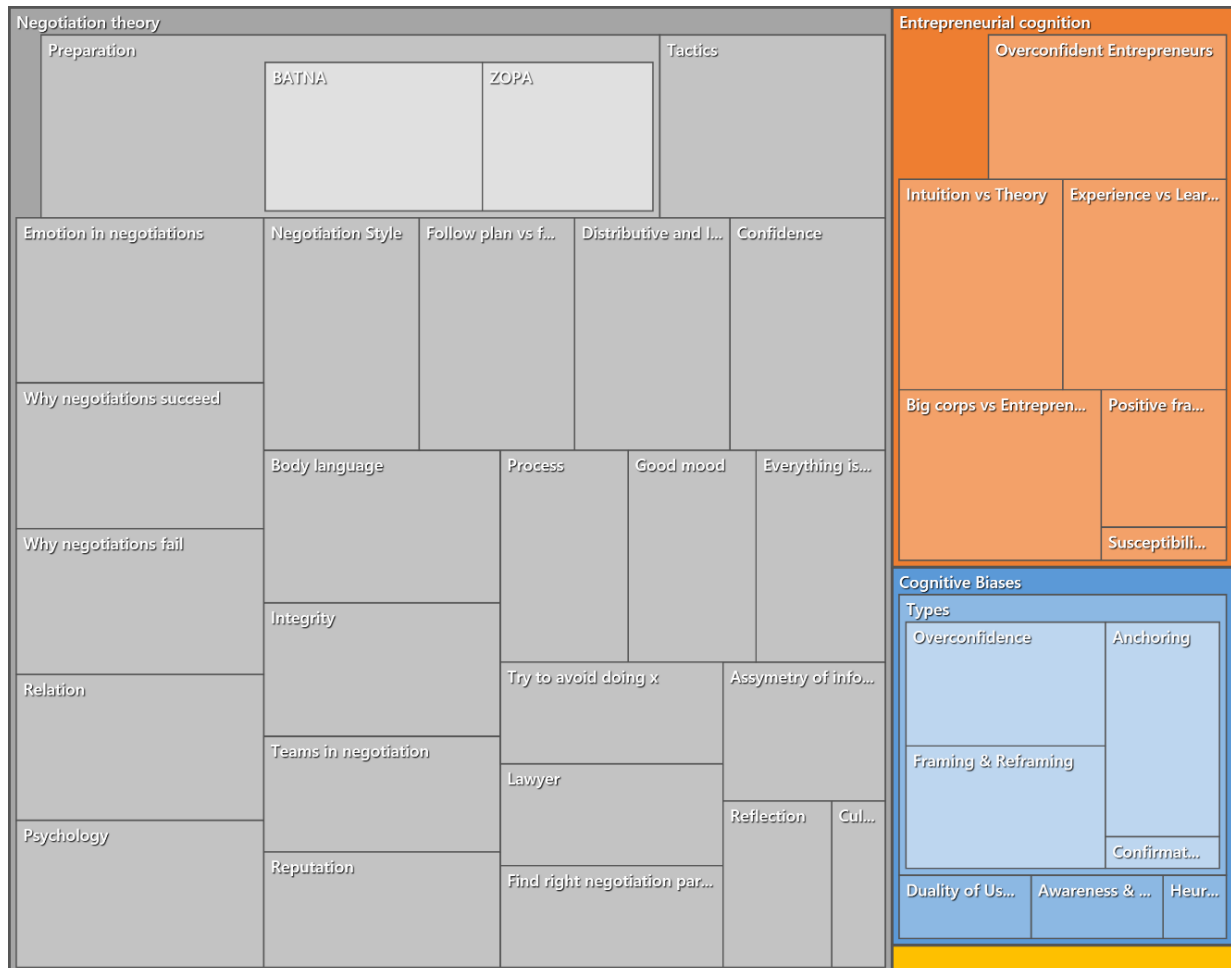


Figure 4 - Hierarchy chart

A4 Interview guide

Kort intro:

Dette er tenkt å være en veldig uformell samtale. Jeg ønsker hovedsakelig å kartlegge gründeres erfaringer fra forhandlinger, både gode og dårlige; jeg er ikke ute etter å bedømme hvor flink du er til å forhandle objektivt sett. Det er ingen fasit i hvordan å forhandle eller hva som nødvendigvis er bra eller dårlig, annet enn det du føler gikk bra eller dårlig for deg selv i spesifikke situasjoner. Høres det greit ut?

1. Anta at jeg aldri har hørt om hvordan man forhandler. Kan du ta meg gjennom en typisk forhandling i hverdagen din? Gjerne fortell om hva du gjør fra du har avtalt en forhandling, gjennom selve forhandlingen, og eventuelt hvis du gjør noe i etterkant.
 - Mulig oppfølging hvis det blir nevnt: "Du nevnte forberedelser. Hvor viktig er forberedelser for deg? Kan du fortelle litt mer om hvordan du forbereder deg?"
 - Er måten du har forberedt deg på vært noe som har endret seg over tid?
2. Er det noen spesielle ting du typisk prøver å unngå i en forhandling, eller noe du typisk prøver å gjøre/få til?
3. Tenk på en (eller flere) spesifikke forhandlinger du har hatt som du følte gikk skikkelig bra. Kan du fortelle litt om den?
 - Hvorfor du tror det gikk så bra; var det noe spesielt du gjorde? Var det noe spesielt motparten gjorde?
4. Tenk på en (eller flere) spesifikke forhandlinger du har hatt som du følte gikk skikkelig dårlig. Kan du fortelle litt om den?
 - Hvorfor du tror det ikke gikk så bra; var det noe spesielt du gjorde? Var det noe spesielt motparten gjorde?
 - I ettertid, er det noe du føler du burde gjort annerledes?
5. Hvordan opplever du deg selv som forhandler?
 - Oppfølging: Har du noen preferanser for hvordan du forhandler? (Har du en viss stil?)
 - Oppfølging 2: Følger du en plan nøye, eller tar du det litt mer på strak arm?
 - Oppfølging 3: Føler du at du har forandret deg siden du først begynte å forhandle?
 - Hvis ja: På hvilken måte?
6. Hva slags selvtillit har du som forhandler?
 - Hvis stor: Har dette utelukkende vært en styrke, eller har du hatt dårlige erfaringer med det?
 - Hvis lav: Kan du fortelle litt om hvorfor du føler det sånn?
7. Bruker du noen spesifikke taktikker i forhandlinger, eller har du opplevd at andre bruker taktikker mot deg?
 - Hvis ja: Fortell litt om det. Hvordan følte du at det påvirket forhandlingen?
 - Eventuelle kontrollspørsmål: Positivt? Negativt? Førte til et spesielt utfall?
8. Er det noen spesielle konsepter fra forhandlinger du mener er veldig viktig?
 - Presisering: Viktig å bruke, eller å vite noe om?

9. Har du forhandlet med andre gründere? Hvordan var det å forhandle med dem?

- Kan du sammenligne det med forhandlinger med folk fra mer etablerte selskaper?
- Hvis de nevner at det er en forskjell: "Hva er den største forskjellen, tror du?"
 - Eksempler hvis de ber om klarifisering: Blir utfallet annerledes? Er prosessen annerledes? Er stemningen/tonen annerledes?

10. Har du noen tanker om psykologi i forhandlinger"? Klarifisering: Har det noe å si?

11. Hva er ditt forhold til kroppspråk i forhandlinger?

- Er det noe du tenker noe særlig over? Hvis ja: på hvilken måte?
- Hos motstander, eller også hos deg selv?

12. Hvordan føler du at du har lært forhandlinger?

- Presisering: Gjennom å gjøre det? Har du lest om det? Observert andre? Andre ting?

13. Helt til sist, er det noen ting som forekommer i forhandlinger som du opplever at påvirker deg mye, eller får deg til å tenke i et spesielt spor?

A5 Compilation and review of literature

Reference	Sub-topic			Source of reference
	Negotiation	Cognitive Bias	Entrepr. Cognition	
Adair & Brett (2005)				Hawes & Fleming, 2014
Baron (1998)				Forbes, 2004
Baron (2004)				Reverse snowballing: Baron (1998)
Barry & Friedman (1998)				Google Scholar: "distributive and integrative negotiations"
Bazerman et al (2000)				Search: Harvard Business Review Faculty, Bazerman
Bazerman & Chugh (2006)				Search: Harvard Business Review Faculty, Bazerman
Bazerman & Moore (2009)				Search: Harvard Business Review Faculty, Bazerman
Bazerman & Neale (1982)				Bazerman et al, 2010
Bazerman & Tsay (2009)				Reverse snowballing: Bazerman & Moore (2008)
Blount & Larrick (2000)				Google scholar: "framing"
Busenitz & Barney (1997)				Forbes, 2004
Cassar & Friedman (2007)				Search: Google Scholar. Term "Overconfidence and entrepreneurs"
Caputo (2013)				Search: Google Scholar. Term "Cognitive bias in negotiation"
Dreu et al (1991)				Dreu et al, 1994
Dreu et al (1994)				Bazerman et al 2010
Ehrlinger et al (2014)				Google Scholar: "list of cognitive biases"
Fisher & Ury (2011)				Course reading University of Wisconsin-Madison/NTNU
Forbes (2004)				Busenitz & Barney 1997 related article
Foroughi (1998)				Stoshikj, 2014
Gigerenzer (1996)				Google Scholar "heuristics and bias tradition"
Gimpel (2008)				Reverse snowballing: Thompson, 1990
Hammond et al (2003)				Harvard Business Review
Haselton et al 2015				Google Scholar: "evolution of cognitive bias"
Hawes & Fleming (2014)				Google Scholar: "ditributive and integrative negotiations"

Hayward et al (2006)				Google Scholar: "Overconfidence and entrepreneurs"
Hayward et al (2010)				Reverse snowballing: Hayward et al (2006)
Kolstoe et al (2012)				Master thesis at NTNU
Lewicki (1997)				Reverse snowballing: Bazerman & Neale, 1992
Lim (1997)				Gimpel, 2008
Malhotra & Bazerman (2007)				Malhotra & Bazerman, 2008
Malhotra & Bazerman (2008)				Google Scholar: "psychological influence in negotiations"
Marks & Harold (2011)				Stoshikj, 2014
McGinn & Nöth (2012)				Reverse snowballing: Larrick & Blount, 2000
Morewedge et al (2015)				Google Scholar: "debiasing"
Movius (2008)				Kolstoe (2012)
Mulholland (1998)				Google Scholar: "overconfidence"
Neale & Bazerman (1985)				Lim, 2007
Neale & Bazerman (1992)				Gimpel, 2008
Neale (1985)				Lim, 2007
Palich & Bagby (1995)				Forbes, 2004
Putnam & Holmer (1992)				Putnam, 2010
Stanovich & West (2000)				Bazerman & Tsay (2009)
Stoshikj (2014)				Google scholar: "integrative and distributive negotiations"
Thompson et al (2004)				Thompson et al, 2010
Thompson et al (2010)				Google scholar "negotiation"
Thompson & Hastie (1990)				Lim, 1997
Thompson & Lucas (2014)				Google scholar "judgmental biases"
Thompson (1990)				Thompson & Lucas, 2014
Thompson (1991)				Thompson & Lucas, 2014
Tversky & Kahneman (1974)				Malhotra & Bazerman, 2008
Tversky & Kahneman (1981)				Malhotra & Bazerman, 2009

Table 5: Compilation and review of literature