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## PERSPECTIVE TAKING AND FOUNDER EQUITY SPLITS: AN EXPERIMENTAL STUDY OF INTERSUBJECTIVE INTERACTIONS (SUMMARY)

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≈ SUMMARY ≈

## PERSPECTIVE TAKING AND FOUNDER EQUITY SPLITS: AN EXPERIMENTAL STUDY OF INTERSUBJECTIVE INTERACTIONS

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### Principal Topic

One of the very first interactions entrepreneurs engage in when starting a new venture is splitting ownership between founding partners. Co-founder interactions start from a position of wanting to come together rather than through conflict or disagreement over extant issues. At the same time, the capabilities and resources differ even when their aspirations dovetail nicely. It is important that cofounders figure out ways to leverage the intersubjective core they share and overcome differences that might hinder their equity splits. The only way they can come up with an agreement that works for both venture and entrepreneur is if each cofounder strives to and is capable of taking the perspective of the other. Drawing on perspective taking literature from psychology, we examine the relationship between PT and equity splits between cofounders.

### Method

We use a two stage experiment to investigate two cofounders deciding on the initial equity split in a new venture. In Stage1, subjects read about two co-founders A and B who brought different but equally valuable skills and resources to the startup and decided what the equity split between A and B should be. In Stage2, they negotiated the split. Subjects in the study were randomly assigned to one of three conditions: (1) Control: subjects did not know which of the two cofounder roles they would be playing during the negotiation; (2) Reinforcement: subjects were assigned roles in the first stage and continued in the same role during negotiations; and (3) Reversal: subjects roles were switched during the negotiation from the ones they were assigned initially.

### Results and Implications

In this paper, we identify perspective taking as an important predictor for founder equity splits. Our sample consisted of 241 respondents across the three treatments. Subjects' beliefs about which criteria should determine equity splits impacted their decision in the first stage. In line with prior research, we find that experience, social networks, idea, trust and friendship were important criteria. Unlike prior studies, however, several of these effects disappeared during the second stage of the experiment when subjects actually negotiated equity.

The study contributes to a promising beginning that can help unpack the nexus of intersubjective interactions in entrepreneurship.

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