



Partners are a source of new means, a source of new ideas, a way of sharing risk, and the people who help you create an opportunity.

## The crazy quilt principle: Form partnerships



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**T**hink you can go it alone in starting a business? Think again. We're not saying you must have a cofounder, but you do need other people. More important, your business needs other people. In fact, other people—a supplier who can provide raw materials you need, a customer who's interested in what you have to offer, an acquaintance who introduces you to new potential partners—may end up having a more profound impact on your venture than you'd ever imagine.

We've described how the effectual logic that guides expert entrepreneurs turns traditional causal business logic on its head. This is certainly true when it comes to partnerships. What distinguishes effectual partnerships from causal

partnerships is the belief that those who choose to engage with the venture in some way, those who self-select into it, ultimately make the venture what it is.

If you start with certain goals in mind, as causal thinkers do, you select partners who help achieve them. The venture will dictate the partnerships. But if instead you start with a given set of means—who you are, what you know, who you know—and let various ends emerge, the partnerships create the venture. You'll see a partner as someone with another set of means to add to the mix, someone who may end up transforming the venture in a way you could not anticipate. You'll think of a partner not as a partner but as a stakeholder.



The effectual process involves interacting with any and all stakeholders willing to make actual commitments to the project, even though some interactions may result in commitments while others may not.

### THE PATCHWORK QUILT AND THE PUZZLE

Metaphorically, we contrast effectual and causal approaches using the image of a quilt and a jigsaw puzzle. Making a patchwork quilt differs from putting together a puzzle in at least four ways:

- Unlike the puzzle solver, the quilter determines the pattern. Even when he begins with a basket of random patches, he can choose which patches to use and juxtapose them in a way that is personally pleasing and



#### Research Roots

##### THE INTERSUBJECTIVE

For hundreds of years, philosophers have argued about whether we see the world objectively (fact-based and measurable) or subjectively (interpreted or perceived). But recently, Donald Davidson (2001) proposed a third alternative—that we see the world intersubjectively. What he means by this is that it is nearly impossible to observe anything in isolation and that as human beings we make sense of the world by developing shared understandings. The concept of the intersubjective acknowledges that we are deeply social beings, and when projected onto the problem of starting new ventures, it explains why partnerships, particularly effectual partnerships, are so important.

meaningful. A puzzle can come together in only one way.

- Large quilting projects are usually communal: a good quilter works with others who bring their own baskets of patches along with their tastes and talents. In the process, the quilter must decide who to work with and why, manage various coordination issues, and deal with the unexpected. The puzzle solver may work with others, but this means only that the puzzle may come together more quickly, not that it will be transformed in any way by the contributions of others.
- The uncertainty of what the quilt will look like when it is done, is resolved one commitment at a time. Whether it is the quilter making a decision, or a group that decides on a color scheme, a stitch or a border, unlimited possibilities are gradually managed down to a finished result.



#### Research Roots

##### PARTNERSHIPS AND SOCIAL MEDIA

Fischer and Rueber (2011) looked at how entrepreneurs use online social media, such as Twitter, to connect to stakeholders. What they found is that effectuation is clearly enabled by these new tools and that entrepreneurs use them to develop their businesses. The primary outcome of using social media was to expand the means an entrepreneur has to work with, but for the tools to be productive, the entrepreneurs had to adopt a community orientation and adhere to community norms.



- The quilt must be not only pleasing and meaningful, but also useful and valuable—ultimately, it has to keep human bodies warm or embody their aesthetics. The puzzle just needs to get finished; all the pieces must be in place. The completed picture may be pleasing to look at, but it serves no other purpose.

An effectual logic for building a new firm or a new organization or any type of collaborative institution incorporates similar subjective, intersubjective and objective elements that make it more analogous to stitching together a patchwork quilt than solving a jigsaw puzzle.

## HOW EFFECTUAL PARTNERSHIPS HAPPEN

Once the entrepreneur has taken stock of her means and affordable loss, she starts to reach out to other people to obtain advice, inputs, knowledge or help. We term this “the ask” and devote the entire next chapter to it because it is such a central part of effectuation. It is also one of the activities where new entrepreneurs have the most difficulty. Based on who she knows, potential stakeholders could be friends, family, work colleagues or random people she meets in the course of daily life. As she finds people who want to participate in the effort to build something (at this point, the “something” may be vague or concrete, but it is always open to discussion), she moves

toward obtaining commitments from the people she interacts with. What counts here is the willingness of stakeholders to commit to the construction process—not their fit or alignment with some preconceived vision or opportunity. Each person who concretely stakes something to come on board contributes to shaping the opportunity. As you read the story of how Anil Parajuli (Practically Speaking, this chapter) blurs the distinction between doctors, tourists, and clients to bring together the stakeholders who run Himalayan Health Care, you will begin to get a flavor for the kinds of creative combinations that emerge.

Whatever each stakeholder commits becomes a patch in a growing quilt whose pattern becomes meaningful only through the continual interaction that brings new stakeholders on board. In other words, stakeholders commit resources in exchange for a chance to re-shape the goals of the project and influence the future that will ultimately result.

Thus, the process of interacting with stakeholders has two contrasting effects: On the one hand, with each new partner, the means of the venture increase (again, we are not talking only about financial means), enabling new possibilities. On the other hand, as commitments accumulate, the goal of the venture crystallizes and the direction becomes more specific.

At some point, stakeholder acquisition ends, and there is no

more room for negotiating and maneuvering the shape of what will be created. As the structures of the market begin to take visible shape and consistent information becomes available, decision-making naturally shifts from a focus on control and shaping the venture, to one that makes increasing use of prediction in operating the venture.

As we begin to bring this all together, it is useful to see that the interactions between effectual stakeholder partners are based on the other three main principles of effectuation:

- **Each stakeholder brings new means to the venture (Means).** Each interaction seeks to combine individuals and their various means to create something novel and valuable. In this way, the entrepreneur and the stakeholder select each other.
- **Each stakeholder strives to invest only what he or she can afford to lose (Affordable Loss).** Since it is not clear at the early stages of the effectual process what the pie will be, let alone how much each piece will be worth, stakeholders cannot effectively use expected return as their immediate criterion for deciding what resources to invest. Instead, stakeholders have to reconcile within their own minds whether they can live with the loss of what they are contributing to the enterprise. Here, as well, the selection process goes both ways.





## Practically Speaking

### A MOUNTAIN OF PARTNERS

It seems so straightforward. Companies generate revenue and—ideally—return a profit to their owners. Charities, by contrast, do not generate revenue, and certainly not profit. But enter the creative entrepreneur. The word is actually a concatenation of two: in French, “entre” means between and “preneur” means taker. Which makes an entrepreneur literally someone who takes from between.

### Steep trail

On a trek in the mountainous country of Nepal, Anil Parajuli met porters from the northern Dhading district. The porters asked for medicine to take back to their village. Curious, Parajuli undertook his first medical assessment trek in 1991. That experience clarified the need to bring medical expertise to the villages of Nepal. Parajuli then talked with a friend in New York who offered to establish a non-profit and solicit funds in America. He met doctors who had come to Nepal on vacation but were willing to offer their expertise to locals needing medical attention. Pharmaceutical firms with medication to donate found their way to him. And gradually, an entity that is known today as Himalayan Health Care (HHC) emerged.



### Collaborative cure

The model for HHC is a reflection of its partners. Parajuli runs “medical treks” that bring foreign doctors into remote villages to treat the sick, train local healthcare workers, and build awareness about the needs of his country. Oh—and did we mention?—generate revenue. If you are a doctor with itchy travel feet and want to perform medicine “in the wild,” the rate is about £1,800 for a two-week trek (you pay for airfare, moleskin for blisters, and any other personal expenses—[himalayanhealthcare.org](http://himalayanhealthcare.org)).

### Self-selection

Parajuli offers us a unique insight into how entrepreneurs can do so much with what seems like so little. They are not only unconcerned by artificial distinctions, they encourage the people around them to help create opportunities that bridge those distinctions. By letting a volunteer self-select into also being a paying customer, letting a trekker also share her medical expertise, Parajuli opens up the range of people, time, and money resources available to him and his healthcare initiative.

### Distinguished entrepreneur

Parajuli just celebrated 20 years of running HHC. In that time, he has run over 80 medical treks into the Dhading region (the north part that borders Tibet) and the Ilam region (the eastern part bordering India) of Nepal. He has provided primary healthcare services to tens of thousands of rural Nepalese and runs the Parajuli Community Hospital, offering 24-hour service and employing Nepalese medical doctors and 40 staff. Furthermore, he has bridged the gap between hundreds of international doctors and local healthcare providers, and is advancing into education as well as income-generating programs for the people of Nepal. Customers? Partners? Creators of a venture? Yes.





## Research Roots

### MARKETS ARE CO-CREATED

Explanations for how markets come into existence cover the entire field of social studies from psychology and sociology to economics and marketing. However, none of these fields agree or offer a comprehensive explanation for the generation of new markets.

In the field of marketing, some researchers have started to adopt the view we use in this book, which is that markets are co-created by supplier and consumer interactions. Vargo and Lusch (2004: 1–17) propose that in developed economies most markets are for services, not products, and that products be viewed as valuable for the services they provide. In either case, the value of the services provided is realized by customers interacting with the service. The ultimate point at which value is created is when customers interact with a service. Therefore, there is no such thing as firms creating value without interaction with customers. Markets have two active sides to them: they are co-created.

- **Every interaction contains unexpected contingencies (Surprise).** If you don't allow contingencies to influence your venture, you end up with purely transactional relationships aimed at reaching a predetermined goal. Contingencies don't only undermine the value of current means in achieving given goals; they also provide opportunities to create new value through those means in pursuit of new goals.

If your takeaway from reading this chapter so far is that effectual partnerships encourage you and your venture to go in directions you

couldn't have possibly imagined when you started, that's good. Effectuation does not seek to find a single optimal solution. Instead, you and your partners create a new venture that is the result of sufficient conditions as opposed to necessary conditions—one that is the right venture for all of you.

### BI-DIRECTIONAL PERSUASION

Working in an uncertain environment, with a product or service that is yet to be defined, you have to be persuasive—and—be able

to be persuaded. In talking about being persuasive, we don't mean that you have to be a sales shark. And in talking about being able to be persuaded, we don't mean either that you should be wishy-washy, vague or opinion-free.

What we do mean is that if you can't convince anyone to work and create with you—be it potential customers, suppliers, etc.—then you have no business. Being persuadable so you can co-create with others is important as well.

Creation, then, is the outcome of interaction between stakeholders.





## Practically Speaking

### A MESSY COLLABORATION

When was the last time you enjoyed a glass of orange juice from a Tetra Pak carton? Made from a mix of plastic, paper and aluminum, those containers do a great job of keeping natural beverages fresh. They're also likely to end up as non-biodegradable waste that burdens landfills, costs money, and puts the squeeze on the environment.

### Natural solution

You may be thinking this story is about recycling used cartons, and perhaps making a business of it. But it's not. That has already been done. Across Europe, the system for collecting and recycling cartons is well developed. Every year, around 25 billion containers end up at recycling plants, where the paper fiber is extracted and remanufactured into new packaging such as cereal boxes.

### Residual problem

Which is terrific... as far as the paper portion of your drink carton is concerned. But what about the plastic and the aluminum? You're not likely to see those in a cereal box. The reason is that the gooey muck left over from the paper part of the recycling process gets dumped into landfills. For a large recycler such as Stora Enso in Barcelona, that means 30,000 tonnes a year of sludge, costing about £1.3 million to "tip" into the Earth. Messy however you look at it.







### Practically Speaking *(continued)*

#### Residual opportunity

Unless you are Hans Cool or Gijs Jansen, that is. Where we see mess, they see potential in extracting value from the plastic/aluminum soup left over from Tetra Pak recycling. After talking about this potential in an MBA class, their classmates introduced the pair to Carlos Ludlow-Palafox, a Ph.D. in chemical engineering from Cambridge University working on pyrolysis, a process that gasifies plastic. The partners formed Alucha, a company whose name combines the word aluminum with the Spanish verb *luchar*, meaning to struggle. The next step was to manage the struggle by engaging as many committed partners as possible.

#### Partner soup

Cool and Jansen's first stop was a visit to Stora Enso in Barcelona. After hearing their idea of converting sludge into value, the manager of the recycling mill walked the pair out to a shuttered building in the compound and showed them a dormant machine—a previous attempt at a system for processing plastic/aluminum waste. Could they use the space to try again with a new technology? Cool and Jansen then met with the German aluminum processor Konzelmann. Would they be interested in the grade of aluminum Alucha could extract from packaging? In Austria, the pair talked with GE Jenbacher, maker of generators that run on specialized gas. Might they be interested in co-developing machinery that would burn the gas that results from extracting plastic waste from aluminum waste? As the yeses mounted up, the struggle turned into a business.

#### Clean evidence

Since starting in 2004, Cool and Jansen, together with their partners, have faced technical, regulatory, and operational struggles. But together with their partners, their efforts yielded a functioning plant that today runs five shifts, 24 hours a day, seven days a week. Their compensation comes in many forms, from revenues that should reach £1.8 million (2011), to an award from the EC as one of the best LIFE environment projects of 2010, to the satisfaction of seeing trucks loaded with aluminum headed for production instead of sludge headed for landfill. Not to mention the knowledge that they provide Stora Enso with 20% of its steam needs by burning the gas generated in their process. Future efforts may direct that gas directly to a special generator that produces electricity for the plant or even for sale on the grid. From the grunge of entrepreneurial struggle, they show us how partners combine to form the glamor of an entrepreneurial venture that creates both profit today and a cleaner environment tomorrow.

## CREATING MARKETS THROUGH PARTNERSHIPS

Effectuation emphasizes commitments from stakeholders as a way to manage, reduce, and/or eliminate uncertainty in the environment. Each committed stakeholder expands the means

available to the venture, making the venture more viable. And each committed stakeholder steers the concept of the venture to one that more people have bought into—increasing the likelihood that the idea is one that presents good validity.

Partners can come in different shapes and forms—what matters is that they commit to a future in which they all find a stake, and they influence one another's ideas about what shape that venture should take. In an effectual partnership, what matters is that all parties find something in it for them.





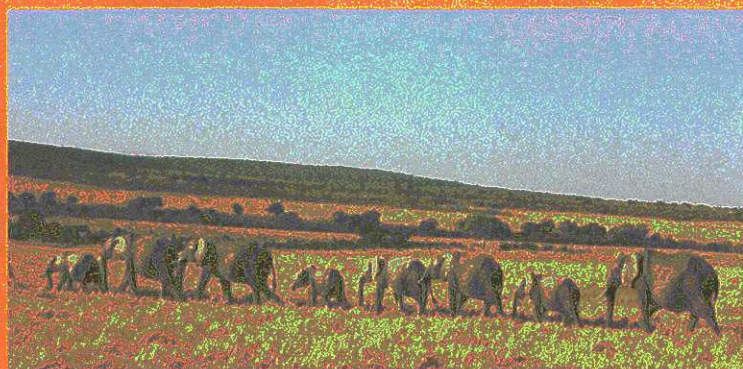
## Practically Speaking

### HUNTING WITH THE PACK

Baloo Patel was born in Uganda in 1939, but the tracks to his entrepreneurial career had already been laid; laid by hand, in fact, by ancestors who had been brought from India to work on the East African Railway.

Starting out as a bank teller in Kenya, Patel soon began working in a tour

operating company. Believing he could improve the business, he participated in a management buy-out of the operator, and with the stroke of a pen became an entrepreneur.



### Individual growth

With responsibility for the tour business, Patel started to imagine new services and new offerings. Clients enjoyed seeing the Kenyan landscape and wildlife from the ground, but might they find the view from the air to be even more dramatic? In 1981, he bought a plane and entered the aviation business. And in 1986, he bought a balloon and offered silent aerial excursions above the Masai Mara. Business soared, and Patel used the proceeds to expand into real estate, printing, insurance, and mining.

With every step of expansion, Patel had the benefit of knowing the clients and the market, so he could be comfortable with demand, but he took the risk associated with buying hard assets on his own. This risk was underscored in his printing venture with his cousin Nayan. In 2002 Patel observed that only about 300,000 physical phone lines supported Kenya's population of 35 million people. The cellular industry was poised to take off. He was going to benefit by printing prepaid cellular phone cards. So he invested in specialized equipment for secure card printing. But the cellular phone operators in Kenya had existing partners, and Patel was on his own. His equipment lay dormant for years, until disruptions in Kenya's transportation system left the operators without foreign printed cards, putting Patel in business—finally.

### Shared growth

The experience added to Patel's sophistication, which enabled him, together with his son Rohan, to expand the business into Wilderness Lodges, their high-end hospitality offering within the boundaries of Kenya's national parks that use properties leased from the government. Their latest venture, Sankara Hotels and Resorts, a hotel management company, will hold no hard assets, but partner with owners to operate contemporary five-star hotels for business travellers in Africa's key growing cities.

Our new business, Sankara, is based on the Sanskrit word meaning "causer of tranquillity." Appropriately named, our goal is to develop refined hotels that offer functional yet tranquil guestrooms whilst simultaneously offering vibrant recreational and entertainment facilities that will become the center of daily urban life. On a personal note, it has a special meaning for me; I find that the more I spread risk and reward with my partners, the more tranquil I am in running the business.

Baloo Patel





## Practically Speaking *(continued)*

### Entrepreneurial growth

As you venture out into the savannah of entrepreneurship, it is worth thinking about who might share risk with you. Not only will these people or companies lower the amount of money you need, they will also have an incentive to help you succeed. Perhaps the real entrepreneurial lesson from Kenya is that hunting is more effective when you're part of a pack than when you're on your own.

But the result created something new for both parties, something beneficial to both, and something neither could have created on their own.

Getting started on building a stakeholder commitment could be the hardest part. Once the conversation has begun, the possibilities begin to unfold.

### TAKEAWAY: BUY-IN IS BETTER THAN SELLIN'

We close this chapter with a practical answer to the philosophical question of how you think about the effectual interaction. The answer is simply that buy-in is better than sellin'. In other words, effectual interaction comes together at commitment. So as nice as it is to have someone who is willing to make a transaction with you, what you really want is that concrete and rational commitment to co-creating an idea with you.



### So What?

Partners self-select into new ventures and commit different means to the effort. Without commitments, you don't have a partner; you have merely a potential partner. Committed stakeholders co-create ventures that don't always look like the original venture you had in mind. You influence them, and they influence you.



### What Now?

Time for some personal reflection:

- ☐ Are you persuadable, willing to reshape your venture with partners in order to gain their commitment to it?
- ☐ What are you unwilling to change? Why?
- ☐ What potential partners would like to see you succeed? Why?
- ☐ How, specifically, will you know if potential partners are actually committed to the relationship in some way?
- ☐ Now . . . go and talk with potential partners. What would it take for them to commit to working with you?



### Think It Through

- ☐ How does viewing everyone as persuadable change your view of the world?
- ☐ When "co-creating" an opportunity . . . who is the entrepreneur? Why?