

## **Introduction: Adding Value through Negotiation**

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*When a fine sword first comes out of a mold, it cannot cut or pierce until it is sharpened. When a fine mirror first comes out of a mold, it cannot reflect clearly until it is grounded and polished.*

*Thomas Cleary*

*When a fine negotiator first comes out of a mold, he cannot create value until he is developed.*

It was in 1716 that French diplomat, Francois de Callieres wrote the worlds' first book on negotiation, *On the manners of negotiating with princes*. It was in this book that he famously observed that the fate of the greatest states depends almost entirely on the good or bad conduct of their negotiators. It appears that his comments have stood the test of time, for even in today's increasingly competitive global economy, the fate of an organization depends largely on the skill and conduct of its negotiators.

To appreciate the critical role of skilled negotiators, one has to look no further than at the dismal record of mergers and acquisitions, especially recent high-profile deals. Acquirers have wiped more value off their market capitalization through failures in due diligence during the negotiation process than through lapses in any other part of the deal (Aiello & Watkins, 2000). For example, despite the grand promises of the "transformative" mega merger between AOL (America on Line) and Time Warner, "some \$200 billion in shareholder value had vanished" (Munk, 2004: xiii). Similarly, the \$5.8 billion acquisition of Rubbermaid by Newell was described by *BusinessWeek* as the "merger from hell" as it effectively robbed Newell's shareholders of 50% of their investment, and Rubbermaid shareholders of a further 35% (Harding & Rovit, 2004). After the acquisition, Newell's former CEO admitted that Newell had overpaid. In another transaction, Quaker Oats acquired Snapple for \$1.7 billion, which some industry analysts said was as much as \$1 billion too much. Twenty eight month later Quaker Oats sold Snapple to Triarc Companies for less than 20% of what it had paid (Eccles, Lanes & Wilson, 1999).

Are these examples outliers? Perhaps not. A study by KPMG International in 1999 looked at shareholder returns on corporate mergers relative to the performance of other companies in the same industry one year after the announcement of the merger. Using this

commonly cited standard of success, it “found that 83 percent of mergers failed to unlock value” (Harding & Rovit, 2004: 5).

While there are many reasons why mergers and acquisitions fail to unlock value, an analysis of these factors reveals that the most major mistakes are related to the negotiators’ irrational and self-serving behavior. These include: hubris; over optimism; information availability bias; confirmatory bias; escalation of commitment; and “deal fever”— individuals produce many deals because they are evaluated on the basis of the number of the deals done and not on the basis of their intrinsic value.

In a recent survey, two hundred and fifty global executives involved in mergers and acquisitions admitted that there were breakdowns in their due-diligence processes, and half these individuals reported that this resulted in important issues not being detected. Amongst the most common mistakes they reported was a failure to understand that the targeted companies had “perfumed” themselves for sale just before they were acquired (Harding & Rovit, 2004). For example, in the acquisition of Rubbermaid by Newell, Rubbermaid used a classic time pressure tactic and gave Newell only three weeks to perform its due-diligence. Instead of negotiating a more reasonable time period, Newell accepted the short deadline and expedited the process. It was only much later that Newell discovered that Rubbermaid “perfumed” its balance sheet and inflated its worth before closing the deal by stuffing the distribution channels with heavy promotions and deep discounts.

But not all companies perform as dramatically poorly as AOL and Time Warner, Newell and Rubbermaid or Quaker Oats and Snapple. What distinguishes the more successful firms from the less successful ones is that they have, what I call, a clear and disciplined *negotiation thesis*. They know precisely what value they must get from the deal, how the deal should be designed to create that value, and they focus diligently on negotiating this value. Among the serially successful deal makers are Bain & Company, a top-tier private equity firm; Cinven, a leading European private equity firm; and Nestle, a Swiss conglomerate and textbook acquirer. These companies know how to avoid the traps of deal making and how to create value through superior negotiation capabilities.

If companies like these are a seeming rarity, it is not only because many business enterprises have not fully recognized the value of effective negotiation. The stellar failures can be traced back to the institutions whose purpose it is to train the business executives and future deal makers. Although some better-rated business schools are leading the way by including

negotiation courses in their list of core MBA courses, others have yet to follow this lead. However, the majority of future business executives will not hold MBA degrees. Thus, future deal makers should be required to study negotiation and build effective negotiation skills early in their undergraduate programs and professional careers. A well-designed experiential negotiation course or workshop, based on solid principles, practice, reflective analysis, and analogical reasoning (Moran, Bereby-Meyer, & Bazerman, 2008), will indeed add value. After all, negotiations are a core business skill for anyone looking to create successful deals.

Given the limited exposure of a majority of current and aspiring negotiators to the study of negotiation and the fact that most negotiators often fail to reach integrative negotiation agreements (Thompson, 2005), the purpose of this book is to introduce the readers to key factors involved in an effective negotiation and a successful deal. The book includes 22 chapters covering critical topics such as how to prepare and dynamically plan for negotiations, how to build relationships and establish trust between negotiators, how to negotiate creatively to create mutual value, how to avoid cognitive biases and negotiate rationally, how to use power and persuasion effectively in the pursuit of mutual goals, how to tackle ethical dilemmas appropriately, and how to transact with negotiators on a global basis across multiple cultures.

The following section provides brief descriptions of the chapters in this book.

### **Chapter One: Planning and Preparing for Effective Negotiation.**

Comprehensive preparation and continuous planning are perhaps the most important elements of any successful deal. In this chapter, Meina Liu and Sabine Chai provide guidelines for conducting a well-rounded analysis of factors impacting the negotiation. Specifically, they suggest how to identify and analyze the opportunities and constraints impacting the negotiation. These include the issues at the table and each party's position, interests, preferences, goals, and alternatives.

### **Chapter Two: Setting (and choosing) the Table: The Influence of the Physical Environment in Negotiation**

Little is known about the effects of the physical environment on negotiation outcomes. Yet negotiations take place in a variety of environments from coffee shops to boardrooms, each with its own potential to change the nature of the interaction and the final outcome. Graham Brown suggests that an understanding of the physical environment and how it triggers attitudes and shapes outcomes can be key to improving negotiation effectiveness. Be it the temperature of the

room, the color of the walls, or the smell of flowers as you enter the space, he reviews the territoriality literature and demonstrates how the physical environment indirectly or directly influences negotiation outcomes.

### **Chapter Three: Negotiation Approaches: Claiming and Creating Value.**

How negotiators approach a negotiation has a significant impact on its process and outcomes. Researchers have described negotiation as consisting of two fundamentally different processes: discovering all the value that can be created and dividing it among the negotiators. Jill Purdy discusses the processes of claiming and creating value and addresses the challenge known as the negotiator's dilemma, which occurs when negotiators engage in both cooperative and competitive behaviors during negotiation. She concludes the chapter with an overview of interest-based negotiation, which emphasizes principled rather than positional bargaining.

### **Chapter Four: Creativity in Negotiations.**

Joachim Hüffmeier and Guido Hertel examine how creativity contributes to creating novel and more beneficial agreements. They present the value creating strategies that are used by creative negotiators to add value to the deals. These tried-and-tested strategies include log-rolling, exploiting compatible interests, unbundling issues, expanding the resource pie, using contingent contracts, making time trade-offs, and risk-sharing. They also discuss hindrances to creativity and conclude with recommendations of contextual conditions that support creative solutions in difficult negotiation situations.

### **Chapter Five: Social Capital in Negotiation: Leveraging the Power of Relational Wealth**

Negotiation is an arena in which greater attention to social capital can lead to improved interactions, processes and, most importantly, outcomes. Negotiators interested in an additional resource to enhance distributive and/or mutual gains, should consider the social ties that they have with their negotiating counterparts and with individuals and groups outside the specific negotiation arena. In this chapter, Ariel Avcigil and Eun Kyung Lee examine how social capital can influence negotiation processes and outcomes. In doing so, they examine social capital benefits and costs and how these can be applied to a negotiation setting. They conclude by highlighting the implications for negotiators and outline ways in which negotiators can be strategic in creating and maintaining social capital.

### **Chapter Six: Trust Building, Diagnosis, and Repair in the Context of Negotiation**

Most, if not all, negotiators would agree that trust is critically important in negotiations. But what is trust? How can trust be built? How can one accurately assess another's trustworthiness? And can trust be repaired after a violation? These questions, Donald Ferrin, Dejun Tony Kong, and Kurt Dirks suggest, are as difficult to answer as they are important for negotiation effectiveness. Fortunately, trust researchers have made significant advances in the last 15 years toward answering these very questions. In this chapter, they summarize the empirical research on trust and discuss how it can be put into practice to effectively diagnose, build, and repair trust in the context of negotiations.

### **Chapter Seven: Power and Influence in Negotiations.**

Relative power is often thought to be deciding factor in any negotiation outcome, but what is the role of power relative to a party's ability to use effective persuasion strategies and other negotiation skills? Defining power as the potential to influence others and influence as power in action, Min Li and Julie Sadler review the role of power by integrating different sources of power with negotiation situations. They focus also on the power dynamics that commonly influence negotiations, and illustrate the effects of a power imbalance on the negotiation process and outcome. The authors conclude the chapter by making suggestions as to how to manage power imbalances, proposing a link between certain power bases and specific influence tactics, and by proposing how to translate power into influence in different national and cultural contexts.

### **Chapter Eight: Power and Influence in Sales Negotiation.**

While the previous chapter outlines the role of power in negotiations, this chapter hones in on the role of power in sales-related negotiations. A common question asked by both buyers and sellers with low bargaining power is how to negotiate effectively with a sole supplier or a powerful buyer. Ababacar Mbengue, Joël Sohier, and Patrice Cottet review the literature on power imbalances in sales negotiations, identify the sources of imbalance, and provide interesting examples of the dynamics typically observed in industries where power is in the hands of a dominant player (e.g., Microsoft, Wal-Mart, Best Buy, DeBeers). They conclude the chapter with tips on how to negotiate more effectively with dominant sellers or powerful buyers.

### **Chapter Nine: Negotiation Strategy.**

Experienced negotiators stress that strategy is critical to reaching a successful deal. But what exactly is a good negotiation strategy? In this chapter, Brosh Teucher asks what a good

negotiation strategy entails, summarizes key negotiation strategies, and stresses that good negotiators are not afraid to shape and reshape their strategies in mid-negotiation.

### **Chapter Ten: Personality and Negotiation.**

Alice Stuhlmacher and Christopher Adair provide a brief background on why personality is an important influence on negotiation outcomes, how individual traits relate to aspects of negotiation, and what negotiators should know about their own and other's personality before sitting down at the negotiating table. They provide also an overview of research on relationship-orientations, Machiavellianism, the five-factor model, self monitoring, and self efficacy traits as they apply to the negotiation process. In addition, the authors emphasize the role of the environment in determining which personality traits are emphasized in different situations, and explain the negotiation-related implications of the human tendency to attribute actions to one's personality.

### **Chapter Eleven: Judgment Bias and Decision Making in Negotiation**

William Bottom, Dejun Tony Kong, and Alexandra Mislin take a historical perspective to the study of negotiations, looking specifically at the wonderfully educational role of errors. They focus on negotiator biases as highlighted first by Walter Lippmann from his participation and observation of the failed negotiations of the 1919 Paris Peace Conference. Such biases include those stemming from the availability, anchoring and adjustment, and representativeness heuristics. Also discussed are the related biases of overconfidence and perceptions of integrative potential as well as the role of issue framing on the level of acceptable risk.

### **Chapter Twelve: The Role of Gender in Negotiation.**

At the negotiation table, does being male or female matter? This question, Layne Paddock and Laura Kray propose, has important implications, especially if the answer is "yes," as women and men negotiate over larger (e.g., compensation, condominium purchases) issues, as well as everyday issues (e.g., weekly work schedules, children's bedtimes). They examine the idea of gender, identify the answer to whether gender within negotiation matters, and draw on previous empirical and theoretical reviews and more contemporary research to explain why and when gender matters in negotiation. They conclude the chapter with practical advice related to gender in negotiations.

### **Chapter Thirteen: Physiology in Negotiation.**

Negotiations are complex social phenomena. Smrithi Prasad and Jayanth Narayanan suggest that they are driven by two fundamental motives: competition and cooperation. Although the mechanisms behind these motives are closely correlated with basic human physiological functions, few studies have examined the physiological factors that affect the behavior of negotiators, the process of negotiation, and its outcomes. However, a handful of studies have examined how physiological systems affect the psychological and social processes that are relevant in a negotiation. In this chapter, they explore the motives of competition and cooperation and the physiological processes underlying them. Specifically, they examine the role of the endocrine system and the nervous system in driving negotiation processes.

#### **Chapter Fourteen: Understanding Negotiation Ethics.**

The business world has faced a number of moral challenges in recent history. In the face of these events, it has become especially important to understand how to recognize and resolve potential ethical conflicts. In the negotiation context, it is common for parties to believe that their counterparts have acted unethically, just as it is common for negotiators to engage in behaviors without realizing that they may be viewed as unethical by others. In this chapter, Kelvin Pang and Cynthia Wang bring to the fore situations in which ethical considerations are often overlooked, and help illuminate the human tendencies that sometimes lead us to behave unethically. They address various factors including how self-interest, norms, fairness biases, collective dilemmas, and cultural stereotypes affect ethical considerations during negotiations and impact negotiation outcomes. They conclude the chapter by presenting strategies for resolving such ethical dilemmas.

#### **Chapter Fifteen: Navigating International Negotiations: A Communications and Social Interaction Style (CSIS) Framework.**

As important as it is to communicate effectively during negotiations, doing so becomes exponentially more important and complex when negotiators are faced with counterparts from different cultures. Viewing culture as both implicit and unstable, Nancy Buchan, Wendi Adair and Xiao-Ping Chen adopt the communication and social interaction style (CSIS) framework to make sense of the impact of this variable on negotiation interactions. Among other aspects, they examine how individuals from different cultures attend to contextual cues in their environment and use such cues to reason and relate to others during negotiations. The CSIS framework explains why misunderstandings occur in intercultural negotiations, and also suggests means to bridge communication gaps in order to achieve a win-win solution for negotiators from different cultures.



### **Chapter Sixteen: Building Intercultural Trust at the Negotiating Table.**

Intercultural negotiations are often characterized by a lack of trust. This is not surprising given that building trust is hard within the context of a business relationship and even harder when the person across the table speaks an entirely different language and comes from a different culture than yours. In this chapter, Sujin Jang and Roy Chua examine the challenges of intercultural negotiation, with a focus on the critical role of trust. They discuss what trust is, why it matters, why it is so difficult to establish trust in intercultural negotiations, and offer guidelines for building trust in intercultural negotiations.

### **Chapter Seventeen: Negotiating the Renault-Nissan Alliance: Insights from Renault's Experience.**

In this case study, Stephen Weiss describes the negotiations leading up to the Renault-Nissan alliance. Many observers doubted that Renault and Nissan would reach an agreement in 1999, let alone develop a partnership that 10 years on, is lauded throughout the auto industry for its success and foresight. He identifies Renault's interests and the strategic alternatives it had at the time, and outlines how it prepared for the negotiations, how the negotiations actually played out and their eventual outcome. Important lessons from this case study include the value of probing beyond surface differences, expanding typical avenues for preparation, conceiving of unusual forms of relationships, the importance of managing the influence of a counterpart's no-deal alternatives, and the value of incorporating long-term effects into the evaluation of an agreement.

### **Chapter Eighteen: The Arcelor and Mittal Steel Merger Negotiations.**

A phone call on the night of January 26, 2006 launched this century's largest industrial merger between Arcelor and Mittal Steel. It was during that conversation that Indian multibillionaire Lakshmi Mittal made his unfriendly bid for Mittal's main competitor, Arcelor. In this case study, Gregor Halff describes how the negotiations between the world's two largest steel producers attracted a huge amount of attention from not only the steel industry, but governments, unions, banks, and shareholders as well. The battle for Arcelor became a battle for global public opinion, with each side counting on a media relations team for its defense. This case describes the negotiation process from Arcelor's perspective.

### **Chapter Nineteen: The Emotional Underbelly of Collaboration: When Politics Collide with Need.**

How does one go about encouraging collaboration amongst politically divided stakeholders who

hold deep suspicion and distrust of one another? In this case study, Daniel Shapiro describes two key components to improve relations. First, encourage norms of cooperation to override adversarial attitudes. Second, equip stakeholders with the Core Concerns Framework and associated skills to navigate the emotional complexities of political decision making. He illuminates the approach through a case study based upon his consultation for the leadership of a diverse coalitional government, and briefly notes the positive impact of the intervention on collaboration and productivity within the government.

### **Chapter Twenty: The Role of Negotiation in Building Intra-Team and Inter-Team Cooperation**

Negotiation is a key mechanism for fostering team cooperation and resolving team conflicts. But effective team negotiation is complex, involving both structural and process aspects such as the management of power-relations, conflicting goals and differing practices, as well as the building of mechanisms for coordinating, communicating, and decision making across large teams. In this chapter, Helena Desivilya Syna examines the intersection between two social and organizational phenomena: teams and negotiation. She focuses on informal team negotiation, addresses overt and hidden attempts to reach consensus, presents and discusses three cases using conceptual frameworks, and integrates theory and practice of team negotiation.

### **Chapter Twenty One: The Role of Communication Media in Negotiations.**

How does negotiating over the phone impact the outcomes relative to face-to-face negotiations? Shira Mor and Alexandra Suppes provide theoretical and practical insights on how negotiators can utilize different forms of media to their advantage. They first explain how communication media differ and in turn, influence negotiation outcomes. They then discuss how relationship building and impression management are facilitated or hindered by the availability of different communication cues. Finally, they summarize research findings on the role of the media in influencing distributive and integrative negotiation outcomes.

### **Chapter Twenty Two: Negotiation via Email.**

Increasingly, negotiation interactions are taking place outside of face-to-face meetings as more negotiators use electronic communication channels to conduct business. Negotiation via email has significant impacts on the dynamics between negotiators, their level of trust and cooperation, the type of information they share, and the outcomes. Noam Ebner argues that while theoretical models of negotiation take inter-party communications into account, they do not usually examine

the effects of particular communication media. In this chapter, he examines the effects of email communication on relational and transactional elements of negotiation, outlines common pitfalls, and makes recommendation on how to improve the outcomes of email negotiation.

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