

Negotiation Excellence: The practical art of cutting deals

ABSTRACT:

In a diverse world of different goals, opinions and agendas, the power to negotiate may be the single-most important determinant of a person or entity's, well, power. Yet, success in negotiations requires a certain finesse that has proven elusive to teach or study. Michael Benoliel, a negotiation specialist at SMU and editor of the recently published book, '*Negotiation Excellence: Successful Deal Making*', weighs in on the topic.

TEXT:

It is impossible for everybody to agree on everything – not in our daily lives, and certainly not in the business environment where millions, billions of dollars are potentially at stake, pending outcomes of agreements. Differences remain, yet somehow, conclusions have to be reached.

Do you start a fist-fight?

No. You sit down, face each other across the table, and negotiate.

Every day, there are countless negotiations going on. It can be as simple as a delivery schedule or a job applicant's salary. At a larger, more complicated level, it is also about the lengthy list of details that has to be ironed out when merging two companies.

"The price of failed negotiations is often high – loss of value, missed opportunities, or protracted conflicts," said [Michael Benoliel](#), a professor of organisational behaviour and human resources at Singapore Management University (SMU).

"It is only when negotiators have effective negotiation skills (that) they will be able to negotiate efficiently, create mutually beneficial agreements and resolve disputes constructively. In short, create optimal agreements that create value," he said.

Benoliel, who teaches negotiation at SMU's [Lee Kong Chian School of Business](#), is also editor of the recently launched book '[Negotiation Excellence: Successful Deal Making](#)', which pulls together the latest insights, findings and cases on the art of resolving differences.

Sure, the price of failed negotiations can be high, but it is especially painful and costly when the failure happens during the process of putting together two companies. "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 behaviour," wrote Benoiel in the book's introduction.

"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 numbers of the deals done and not on the basis of their intrinsic value," he added.

Examples of such value-destroying deals include the US\$200 billion decimated when AOL took over Time Warner; the US\$5.8 billion acquisition of Rubbermaid by Newell, which caused shareholders of both companies to lose value.

Trust, gender, ethics

Benoiel has written several books on the discipline. Previous titles include '*Negotiating*' (2009); '*The Upper Hand*' (2006) and '*Done Deal: Insights from Interviews with the World's Best Negotiators*' (2005).

His latest, published by World Scientific, goes beyond the three 'I's of negotiation (Interaction, Interdependent parties and Incompatible goals) and into the finer aspects of negotiation. Experts in the field – from SMU and various other universities – share insights in this 475-page volume.

For example, there is a chapter on "trust", written by [Donald L. Ferrin](#), another SMU professor in organisational behaviour and human resources, together with Dejun Tony Kong and Kurt Dirks, doctoral student and professor at Washington University respectively. A critical element in any negotiation, the authors looked at how "trust" can be built, how can to assess trustworthiness, and how it can be repaired after a violation. Thanks to advances made by researchers in this field, there are now empirical answers to these questions, and in their chapter, the authors explained how 'trust' may be effectively diagnosed, built and repaired in practice.

Can the role of genders make a difference in the negotiation process? According to the chapter jointly-written by [E. Layne Paddock](#), an organisational behaviour and human resources professor at SMU, and Laura Kray, who teaches leadership at University of California, Berkeley, the short answer is 'yes'. Beyond simply pointing out how differences can occur, the authors provided practical advice on how to address those specific issues that could arise in negotiations.

[Gregor Halff](#), who teaches corporate communications at SMU, wrote one of the two case studies featured in the book: the epic takeover of Arcelor by Mittal Steel in

2006. As one of the largest industrial mergers in recent years, the hostile bid by Indian billionaire Lakshmi Mittal for his Luxembourg-based rival drew attention not just from within the steel industry, but also from unions, banks, various European governments and shareholders. Written from Arcelor's perspective, Halff described the negotiation process, showing how the takeover battle was not merely about wrestling control in a high-profile industry, but also a global battle of public opinion.

The landmark alliance between car manufacturers Renault and Nissan was the subject of the other case study. Written by Stephen E. Weiss, professor at York University, the chapter described how the manufacturers' approach to negotiation led to a successful partnership between these two vastly different companies. That the partnership works is even more remarkable, given the cross-border, multi-cultural nature of the deal.

Other chapters in the book explored topics like creativity in negotiations, power and influence in negotiations, negotiation strategy and negotiation ethics. There are also essays on the role of communication media in negotiations and negotiation via emails. In all, the "Negotiation Excellence" combines the effort of 39 contributors in 22 chapters.

Teaching and measuring "negotiation"

To be sure, some might wonder, can a soft-skill such as "negotiation" be taught in a formal academic environment?

Similar questions have been posed (and justifications attempted) for other essential business skills such as innovation and entrepreneurship. From Benoliel's perspective, even if specific techniques cannot be emulated, the principles of negotiation can certainly be learnt.

"Negotiators can learn when to make the first offer and when to let the other side make the first offer. They can learn how to frame effectively situations and arguments. They can learn the value creating strategies by trading off between issues, adding issues to the negotiation mix, or creating contingent contracts," Benoliel noted. That said; there are indeed certain intuitive abilities that cannot be imparted, for example, a sense of good timing – when to make an offer or a concession, he added.

By its very nature, no negotiation process is a carbon copy of the other. Yet, there are some fundamental principles and methods to define and measure negotiation outcomes beyond just the dollar sign. For one, before a party enters into a negotiation, it is important to first draw up a "negotiation thesis". They need to ask themselves: why are they doing this and how will the negotiation create value? This helps to clearly define a specific set of objectives.

Beyond financial objectives like cost savings, return on investments and so on, there are also non-financial goals that, at times, are not easily measurable. For example, Cisco Systems – the global market leader in networking equipment and technology, and one of the most prolific acquirers in the IT industry – has given itself the goal that managers of all its acquired companies need to believe in employee ownership, said Benoliel.

In other acquisition deals, a cultural fit between the acquiring company and the acquired company is a critical non-financial objective that can also be quantified. “The problem is not in the ability to measure non-financial objectives. The problem is that some negotiators go to the table without knowing specifically what they want to get out of the negotiation. Effective negotiators articulate clear, precise, and measurable objectives in the preparation process,” said Benoliel.

Culture and style in negotiation

In a porous and connected world where cross-border deals are more often the norm than the exception, a lot of negotiation, unsurprisingly, takes place across cultures and languages. This is a point well recognised by Benoliel. However, he is quick to point out that there are differences in negotiation styles not just between Asian and Western negotiators, but also between, say, a Japanese negotiator and his Indian counterpart.

“Today, in a global economy, it is more important than ever to understand these differences and learn how to bridge them. Some of the differences are related to trust, relationships, risk tolerance, and time.” For one, Asians negotiators tend to be distrusting. They also have low tolerance for risk. Thus, they invest enormous amount of time in building trust from the heart by first building relationships in informal settings.

Businessmen in China, for example, like to say over endless rounds of toasting, ‘Let us be friends first, then we talk business.’ “(While) Asians negotiators are ‘relationship negotiators,’ Western negotiators are ‘contract negotiators’ – they invest little in building relationships and move quickly to concluding the deal,” Benoliel noted.

Differences will also occur in communication styles and the way a negotiation is framed. “Asian negotiators, in general, tend to be competitive, adopting a win-lose approach to negotiation. For many, the idea that negotiation is not a competitive sport, that it can produce two winners, is foreign and even naïve,” he said.

Also, “Asian negotiators, concerned with ‘face’ and harmony, communicate in a more suggestive, symbolic, and metaphoric fashion. Never direct,” said Benoliel. By contrast, Western negotiators, who tend to be less concerned with ‘face’ and maintaining harmony, communicate directly and precisely.

"Their message is in the lines and not in between the lines. The direct style of communication is interpreted by Asian negotiators as aggressive, uncivilised, and devil-like, because as the Chinese say, 'only the devil walks in a straight line'," he quipped.

Negotiation, following the crisis

Negotiation, as an art, and science, is a dynamic one, as practitioners react and adapt to the changing environment. In this vein, the recent financial crisis served to stress the critical importance of several issues related to the negotiation process: the value of reliable information; the critical role of due-diligence and preparation, as well as the role of agents.

Home-buyers, lenders and investors that had exposure to the American housing market prior to the crisis, here is a reminder. "Many homeowners, investors, companies, and countries got into deep trouble because they failed to do a solid due diligence. They did not adopt the motto of private equity forms: 'In God we trust; the rest bring data'," said Benoliel. Even the so-called independent rating agencies merrily stamped 'AAA' ratings on what were really junk bonds, and were allowed to function as trusted "agents" of investors.

"The implication of the crisis is that it is too dangerous to delegate due-diligence to third parties; to agents. So if you must work with agents, you must hedge the risk. Those who purchased the junk bonds stamped as triple-A failed to purchase insurance," he said.

Go to the field

The 2008-2009 crises will soon be a distant memory and new crises will happen. Nevertheless, the criticality of negotiation as a skill and as an academic discipline – while not quite yet the core offering of every business school – is expected to grow. The way Benoliel sees it; there should be some changes in the way negotiation is studied.

Citing studies, he noted that some 70% of the knowledge in the academic negotiation is based on experimental studies using undergraduates as subjects. Unsurprisingly, they have little vested interest in the negotiation simulations that they are going through. To them, they are merely taking part in a 'risk-free' exercises, far removed from real-life situations, the results of which have no consequences.

Not only do such methods provide an inaccurate picture, they give rise to rather distorted views of real world negotiations, Benoliel said. "Studying negotiations in behavioural laboratories can never capture the full dynamic and turning points of negotiations in organisations," he said.

A simulated negotiation to sell a parcel of land by students in a behavioural laboratory carried over 20 minutes will be very different compared to selling a parcel of land by real-life business executives – a process that will likely take months or even years. “The negotiation field, therefore, should move into studying negotiation in natural contexts – in organisations,” he said.

However, he recognises that changes will be “exceptionally slow”, mainly for practical reasons. Obviously, it is easier for negotiation scholars to say, collect data from 200 students within the cosy confines of behavioural laboratories over two weeks, as compared to doing the same from 20 executives from different organisations over two years. “We hardly have, for example, any participant/observer studies that actually track mergers or acquisitions negotiations from the pre-negotiation stage to the post negotiation stage,” he added.

So while books like “Negotiation Excellence” will provide invaluable insights on the study of this subject, Benoliel believes negotiation scholars – just like real-life practitioners of this art – need to explore new surroundings if they want to go further. “They must also act like anthropologists or marine biologists – go to the field and study psychological, managerial, and organisational constructs in the organisations,” he said.

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