In early 2008, Microsoft Corporation offered $31 a share to buy Yahoo Inc., beginning what would become a long and bitter battle at the negotiation table. Microsoft’s goal: to become a formidable competitor in the world of Internet search-related advertising against Google, the market leader. Yahoo quickly turned down Microsoft’s first offer, saying the bid was much too low. Disagreements over price continued, and after months of negotiations, Microsoft withdrew its offer from the table, saying it had “moved on.” The inability to reach an agreement caused concern and anger among Yahoo shareholders and led to an aggressive move by billionaire investor Carl Icahn: he bought a stake in Yahoo, in hopes of naming an entirely new Board of Directors that would be willing to accept Microsoft’s offer. According to Icahn, Yahoo’s directors “acted irrationally and lost the faith of shareholders.” Seeking an alternative to the Microsoft buyout, Yahoo began talks with Google to discuss the possibility of delivering Google ads next to Yahoo search results. Microsoft took the threat seriously and just weeks after withdrawing its bid, was in talks with Yahoo yet again. This time the talks did not revolve around a full takeover, but rather around the possibility of a collaboration between the two companies on Internet advertising. Microsoft hoped a deal would hinder Yahoo’s potential deal with Google. However, weeks later Yahoo announced that its negotiations with Microsoft were in fact over and that the company had struck the deal with Google. The new deal failed to sit well with much of Yahoo’s top management, and within a week, five top executives as well as several senior engineers announced their intention to leave the company. Microsoft, who had publicly admitted that much of the reason they sought to acquire Yahoo was for its group of talented engineers, saw an opportunity. The company took out a full-page ad in the San Jose Mercury News, whose distribution area includes the Yahoo headquarters, to recruit Internet search specialists.

Negotiations like the one between Microsoft and Yahoo often involve a complex mix of strategy, signaling, and personality. Whereas most of us are not negotiating giant corporate deals one thing that business scholars and businesspeople are in complete agreement on is that everyone negotiates nearly every day. *Getting to Yes* begins by stating, “Like it or not, you are a negotiator. . . . Everyone negotiates something every day” (p. xvii).³ Similarly, Lax and Sebenius, in *The Manager as Negotiator*, state that “Negotiating is a way of life for managers . . . when managers deal with their superiors, boards of directors, even legislators” (p. 1).⁴ G. Richard Shell, who wrote *Bargaining for Advantage*, asserts, “All of us negotiate many times a day” (p. 6).⁵ Herb Cohen, author of *You Can Negotiate Anything*, dramatically suggests that “your world is a giant negotiation table” (p. 15).⁶ Perhaps these statements indicate why a recent business article on negotiation warned, “However much you think negotiation is part of your life, you’re underestimating” (p. 76).⁷ *Negotiation is your key communication and influence tool* inside and outside the company. Anytime you cannot achieve your objectives (whether it be a company merger or a dinner date) without the cooperation of others, you are negotiating. We provide dramatic (and disturbing) evidence in this chapter that most people do not live up to their negotiating potential. The good news is that you can do something about it.

The sole purpose of this book is to improve your ability to negotiate in the contexts that matter most to you. We present this information through an integration of scientific studies of negotiation and real business cases. And, in case you are wondering, it is not all common sense. Science drives the best practices covered in this book. We focus on business negotiations, and understanding business negotiations helps people to be more effective negotiators in their personal lives.⁸

In this book, we focus on three major negotiation skills: (a) creating value, (b) claiming value, and (c) building trust. By the end of this book, you will have a mind-set that will allow you to know what to do and say in virtually every negotiation situation. Moreover, the fact that you have a mind-set (also called a mental model)⁹ will mean that you can prepare effectively for negotiations and enjoy the peace of mind that comes from having a game plan. Things may not always go according to plan, but your mental model will allow you to update effectively and most important, to learn from your experiences.

**NEGOTIATION: DEFINITION AND SCOPE**

Negotiation is an interpersonal decision making process necessary whenever we cannot achieve our objectives single-handedly. Negotiations include not only the one-on-one business meeting but also multiparty, multicompany, and multimillion-dollar deals. Whether simple or complex, negotiations boil down to people, communication, and influence. Even the most complex of business deals can be analyzed as a system of one-on-one relationships.

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⁷Walker, R. (2003, August). Take it or leave it: The only guide to negotiating you will ever need. *Inc.*, 75–82.
⁸Gentner, D., Loewenstein, J., & Thompson, L. (2003). Learning and transfer: A general role for analogical encoding. *Journal of Educational Psychology*, 95(2), 383–408.
CHAPTER 1  Negotiation: The Mind and The Heart

People negotiate in their personal life (e.g., with their spouses, children, school-teachers, neighbors), as well as in their business life. Thus, the scope of negotiation ranges from one on one to highly complex multiparty and multinational deals. In the business world, people negotiate at multiple levels and contexts: within departmental or business units, between departments, between companies, and even across industries. For this reason, managers must understand enough about negotiations to be effective negotiating within, between, up, and across all of these organizational environments.

NEGOTIATION AS A CORE MANAGEMENT COMPETENCY

Negotiation skills are increasingly important for managers. Key reasons for the importance of negotiation skills include (a) the dynamic nature of business, (b) interdependence, (c) competition, (d) the information age, and (e) globalization.

Dynamic Nature of Business

Mobility and flexibility are the dictates of the new world of work. Most people do not stay in the same job that they take upon graduating from college or receiving their MBA degree. Members of Generation Y will change jobs, on average, every two years. The dynamic, changing nature of business means that people must negotiate and renegotiate their existence in organizations throughout the duration of their careers. The advent of decentralized business structures and the absence of hierarchical decision-making provide opportunities for managers, but they also pose some daunting challenges. People must continually create possibilities, integrate their interests with others, and recognize the inevitability of competition both within and between companies. Managers must be in a near-constant mode of negotiating opportunities. Negotiation comes into play when people participate in important meetings, get new assignments, head a team, participate in a reorganization process, and set priorities for their work unit. Negotiation should be second nature to the business manager, but often it is not.

Interdependence

The increasing interdependence of people within organizations, both laterally and hierarchically, implies that people need to know how to integrate their interests and work across business units and functional areas. For example, after the merger of Adobe and Macromedia, many Macromedia employees worried that their company’s distinctive culture would disappear. In an attempt to instill some of that culture in the new company, several ex-Macromedia employees were rewarded with key positions. Then, suddenly the tables turned: Macromedia was taking over, and it was the Adobe employees who were nervous. The increasing degree of specialization and expertise in the business world implies that people are more and more dependent on others. However, others do not always have similar incentive structures, so managers must know how to promote their own interests while simultaneously creating joint value for their organizations. This task requires negotiation.

Competition
Business is increasingly competitive. In the first three months of 2008, 8,713 businesses filed for bankruptcy, the highest quarterly bankruptcy level since 2005.12 Such volatility means that companies must be experts in competitive environments. Managers not only need to function as advocates for their products and services, but they also must recognize the competition that is inevitable between companies and, in some cases, between units within a given company. Understanding how to navigate this competitive environment is essential for successful negotiation.

Information Age
The information age also provides special opportunities and challenges for the manager as negotiator. The information age has created a culture of 24/7 availability. With technology that makes it possible to communicate with people anywhere in the world, managers are expected to negotiate at a moment’s notice. Computer technology, for example, extends a company’s obligations and capacity to add value to its customers. For example, Scott McNealy, chairman and ex-CEO of Sun Microsystems Inc., checks his email every 15 to 20 minutes, beginning at 6:00 a.m., even if it means he has to walk behind the bleachers during his son’s soccer games. McNealy’s father, who was a senior executive for American Motors, once said that he didn’t spend more time with his kids because he was “responsible for 10,000 people at work, and that their lives would be disrupted if he didn’t make the right decisions.” McNealy used the same philosophy in his own work.13

Globalization
Most managers must effectively cross cultural boundaries to do their jobs. Setting aside obvious language and currency issues, globalization presents challenges in terms of different norms of communication. For example, the alliance between Upjohn, a U.S. pharmaceutical company, and the Swedish business Pharmacia was threatened when it became obvious that the cultures of the two companies were clashing. The Americans could not understand why the Swedes went on vacation for the whole month of August, and the Swedes could not understand why the Americans did not allow alcohol to be served at lunch. Over time, small disagreements grew into more serious ones.14 Managers need to develop negotiation skills that can be successfully employed with people of different nationalities, backgrounds, and styles of communication. Consequently, negotiators who have developed a bargaining style that works only within a narrow subset of the business world will suffer unless they can broaden their negotiation skills to effectively work with different people across functional units, industries, and cultures.15 It is a challenge to develop negotiation skills general enough to be used across different contexts, groups, and continents but specialized enough to provide meaningful behavioral strategies in any given situation.

MOST PEOPLE ARE INEFFECTIVE NEGOTIATORS

On the question of whether people are effective negotiators, managers and scholars often disagree. Many people regard themselves to be effective at negotiation. These same people believe most of their colleagues are distinctly ineffective at the negotiation table. However, our performance speaks louder than our self-proclaimed prowess. Most people often fall extremely short of their potential at the negotiation table, judging from their performance on realistic business negotiation simulations. Numerous business executives describe their negotiations as win-win only to discover that they left hundreds of thousands of dollars on the table. Fewer than 4% of managers reach win-win outcomes when put to the test; and the incidence of outright lose-lose outcomes is 20%. Even on issues on which negotiators are in perfect agreement, they fail to realize it 50% of the time. Moreover, we make the point several times throughout this book that effective negotiation is not just about money—it is equally about relationships and trust.

NEGOTIATION SANDTRAPS

In our research, we have observed and documented four major shortcomings in negotiation:

1. Leaving money on the table (also known as “lose-lose” negotiation) occurs when negotiators fail to recognize and exploit win-win potential.

2. Settling for too little (also known as “the winner’s curse”) occurs when negotiators make too-large concessions, resulting in a too-small share of the bargaining pie.

3. Walking away from the table occurs when negotiators reject terms offered by the other party that are demonstrably better than any other option available to them. (Sometimes this shortcoming is traceable to hubris or pride; other times, it results from gross miscalculation.)

4. Settling for terms that are worse than the alternative (also known as the “agreement bias”) occurs when negotiators feel obligated to reach agreement even when the settlement terms are not as good as their other alternatives.

This book teaches you how to avoid these errors, create value in negotiation, get your share of the bargaining pie, reach agreement when it is profitable to do so, and quickly recognize when agreement is not a viable option in a negotiation.


18Thompson & Hrebec, “Lose-lose agreements.”

19Ibid.
WHY PEOPLE ARE INEFFECTIVE NEGOTIATORS

The dramatic instances of lose-lose outcomes, the winner’s curse, walking away from the table, and the agreement bias raise the question of why people are not more effective at the bargaining table. Because negotiation is so important for personal and business success, it is rather surprising that most people do not negotiate very well. Stated starkly: It just does not make sense that people would be so poor at something that is so important for their personal and business life. The reason is not due to a lack of motivation or intelligence on the part of negotiators. The problem is rooted in four fundamental problems: egocentrism, confirmatory information processing, satisficing, and self-reinforcing incompetence.

Egocentrism

Egocentrism is the tendency for people to view their experiences in a way that is flattering or fulfilling for themselves. Two-thirds of MBA students rank their decision making abilities as above average.\(^{20}\) Egocentrism and the suspension of reality certainly influenced executives at Citigroup and J.P. Morgan Chase & Co. to manipulate cash flows at Enron.\(^{21}\) The belief that they could mislead Enron shareholders and minimize perceived risk of being accused of deception was likely fueled by unwarranted beliefs about their role. Egocentrism also played a role in the American Airlines negotiations in April 2003 in which bankruptcy was narrowly avoided. American said it had to have $1.8 billion in annual cuts from all employee groups as part of a $4 billion effort to restructure the company. The airline was losing $5 million a day. The three major groups involved—pilots union, professional flight attendants, and the ground workers of the transport workers union—all believed they deserved more than that to which others were entitled.\(^{22}\)

Confirmation Bias

Confirmation bias is the tendency of people to see what they want to see when appraising their own performance. The confirmation bias leads individuals to selectively seek information that confirms what they believe is true. Whereas the confirmation bias may seem perfectly harmless, it results in a myopic view of reality and can hinder learning.

Satisficing

A third reason why people often fall short in negotiation is the human tendency to satisfice.\(^{23}\) According to Nobel Laureate Herb Simon, satisficing is the opposite of optimizing. In a negotiation situation, it is important to optimize one’s strategies by setting high aspirations and attempting to achieve as much as possible; in contrast,

\(^{22}\)Torbenson, E. (2003, April 3). American pilots agree to plan to avoid bankruptcy. *Dallas Morning News*.
when people satisfice, they settle for something less than they could otherwise have. Over the long run, satisficing (or the acceptance of mediocrity) can be detrimental to both individuals and companies, especially when a variety of effective negotiation strategies and skills can be cheaply employed to dramatically increase profit. (We discuss these strategies in detail in the next three chapters.)

Self-Reinforcing Incompetence

To achieve and maintain effectiveness in the business world, people must have insight into their limitations. The same is true for negotiation. However, most people are “blissfully unaware of their own incompetence.” Moreover, it creates a cycle in which the lack of skill deprives them not only of the ability to produce correct responses but also of the expertise necessary to surmise that they are not producing them. As a case in point, Dunning and colleagues examined the question of whether students taking a test had insight into their performance. The students were grouped into quartiles based on their performance. The lowest-performing quartile greatly overestimated their performance on the test. Even though they were actually in the 12th percentile, they estimated themselves to be in the 60th percentile. This example is not an isolated case, according to Dunning. People overestimate their percentile ranking relative to others by as much as 40 to 50 points. A study of CEOs’ merger and acquisition decisions revealed that CEOs develop overconfidence through a self-attribution bias when making deals. CEOs overly attribute their influence when deals are successful. This leads CEOs to make more deals that are not successful. A better business plan would involve judging each deal on its own merits, rather than simply using the past to justify the present decision. Moreover, the problem cannot be attributed to a lack of incentives. The overestimation pattern even appears after people are promised significant financial rewards for accurate assessments of their performance.

Related to the principle of self-reinforcing incompetence is the fact that people are reluctant to change their behavior and experiment with new courses of action because of the risks associated with experimentation. In short, the fear of losing keeps people from experimenting with change. Negotiators instead rationalize their behavior in a self-perpetuating fashion. The fear of making mistakes may result in a manager’s inability to improve his or her negotiation skills. In this book, we remove the risk of experimentation by providing several exercises and clear demonstrations of how changing one’s behavior can lead to better results in negotiation. We invite managers to be active learners in terms of understanding their own values when it comes to negotiation.

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DEBUNKING NEGOTIATION MYTHS

When we delve into managers’ theories and beliefs about negotiation, we are often startled to find that they operate with faulty beliefs. Before we start on our journey toward developing a more effective negotiation strategy, we need to dispel several faulty assumptions and myths about negotiation. These myths hamper people’s ability to learn effective negotiation skills and, in some cases, reinforce poor negotiation skills. In the following section, we expose six of the most prevalent myths about negotiation behavior.

Myth 1: Negotiations Are Fixed-Sum

Probably the most common myth is that most negotiations are fixed-sum, or fixed-pie, in nature, such that whatever is good for one person must ipso facto be bad for the other party. The truth is that most negotiations are not purely fixed-sum; in fact, most negotiations are variable-sum in nature, meaning that if parties work together, they can create more joint value than if they are purely combative. However, effective negotiators also realize that they cannot be purely trusting because any value that is created must ultimately be claimed by someone at the table. Our approach to negotiation is based on Walton and McKersie’s conceptualization that negotiation is a mixed-motive enterprise, such that parties have incentives to cooperate as well as compete.28

Myth 2: You Need to Be Either Tough or Soft

The fixed-sum myth gives rise to a myopic view of the strategic choices that negotiators have. Most negotiators believe they must choose between either behaving in a tough (and sometimes punitive fashion) or being “reasonable” to the point of soft and concessionary. We disagree. The truly effective negotiator is neither tough as nails nor soft as pudding but, rather, principled.29 Effective negotiators follow an “enlightened” view of negotiation and correctly recognize that to achieve their own outcomes they must work effectively with the other party (and hence, cooperate) but must also leverage their own power and strengths.

Myth 3: Good Negotiators Are Born

A pervasive belief is that effective negotiation skills are something that people are born with, not something that can be readily learned. This notion is false because most excellent negotiators are self-made. In fact, naturally gifted negotiators are rare. We tend to hear their stories, but we must remember that their stories are selective, meaning that it is always possible for someone to have a lucky day or a fortunate experience. This myth is often perpetuated by the tendency of people to judge negotiation skills by their car-dealership experiences. Purchasing a car is certainly an important and common type of negotiation, but it is not the best context by which to judge your negotiation skills. The most important negotiations are those that we engage in every day with our colleagues, supervisors, coworkers, and business associates. These relationships provide a much better index of one’s effectiveness in negotiation. In short, effective negotiation requires practice and feedback. The problem is that most of us do not get

29Bazerman & Neale, Negotiating rationally; Fisher & Ury, Getting to yes.
an opportunity to develop effective negotiation skills in a disciplined fashion; rather, most of us learn by doing. Experience is helpful but not sufficient.

**Myth 4: Experience Is a Great Teacher**

It is only partly true that experience can improve negotiation skills; in fact, experience in the absence of feedback is largely ineffective in improving negotiation skills.\(^\text{30}\) Natural experience as an effective teacher has three strikes against it. First, in the absence of feedback, it is nearly impossible to improve performance. For example, can you imagine trying to learn mathematics without ever doing homework or taking tests? Without diagnostic feedback, it is very difficult to learn from experience.

The second problem is that our memories tend to be selective, meaning that people are more likely to remember their successes and forget their failures or shortcomings. This tendency is, of course, comforting to our ego, but it does not improve our ability to negotiate.

In addition, experience improves our confidence, but not necessarily our accuracy. People with more experience grow more and more confident, but the accuracy of their judgment and the effectiveness of their behavior do not increase in a commensurate fashion. Overconfidence can be dangerous because it may lead people to take unwise risks.

**Myth 5: Good Negotiators Take Risks**

A pervasive myth is that effective negotiation necessitates taking risks and gambles. In negotiation, this approach may mean saying things like “This is my final offer” or “Take it or leave it” or using threats and bluffs. This is what we call a “tough” style of negotiation. Tough negotiators are rarely effective; however, we tend to be impressed by the tough negotiator. In this book, we teach negotiators how to evaluate risk, how to determine the appropriate time to make a final offer, and, more important, how to make excellent decisions in the face of the uncertainty of negotiation.

**Myth 6: Good Negotiators Rely on Intuition**

An interesting exercise is to ask managers and anyone else who negotiates to describe their approach to negotiating. Many seasoned negotiators believe that their negotiation style involves a lot of “gut feeling,” or intuition. We believe that intuition does not serve people well. Effective negotiation involves deliberate thought and preparation and is quite systematic. The goal of this book is to help managers effectively prepare for negotiation, become more self-aware of their own strengths and shortcomings, and develop strategies that are proactive (i.e., they anticipate the reactions of their opponent) rather than reactive (i.e., they are dependent upon the actions and reactions of their opponent). Thus, excellent negotiators do not rely on intuition; rather, they are deliberate planners. As a general rule, don’t rely on your intuition unless you are an expert.

LEARNING OBJECTIVES

This book promises three things: First (and most important), reading this book will improve your ability to negotiate successfully. You and your company will be richer, and you will experience fewer sleepless nights because you will have a solid framework and excellent toolbox for successful negotiation. However, in making this promise, we must also issue a warning: Successful negotiation skills do not come through passive learning. Rather, you will need to actively challenge yourself. We can think of no better way to engage in this challenge than to supplement this book with classroom experiences in negotiation in which managers can test their negotiation skills, receive timely feedback, and repeatedly refine their negotiation strategies. Moreover, within the classroom, data suggest that students who take the course for a grade will be more effective than students who take the course pass-fail.31

Second, we provide you with a general strategy for successful negotiation. Take a look at the table of contents. Notice the distinct absence of chapter titles such as “Negotiating in the Pharmaceutical Industry” or “Real Estate Negotiations” or “High-Tech Negotiations.” We don’t believe that negotiations in the pharmaceutical world require a fundamentally different set of skills from negotiations in the insurance industry or the software industry. Rather, we believe that negotiation skills are transferable across situations. In making this statement, we do not mean to imply that all negotiation situations are identical. This assumption is patently false because negotiation situations differ dramatically across cultures and activities. However, certain key negotiation principles are essential in all these different contexts. The skills in this book are effective across a wide range of situations, ranging from complex, multiparty, multicultural deals to one-on-one personal exchanges.

In addition, this book offers an enlightened model of negotiation. Being a successful negotiator does not depend on your opponent’s lack of familiarity with a book such as this one or lack of training in negotiation. In fact, it would be ideal for you if your key clients and customers knew about these strategies. This approach follows what we call a fraternal twin model, which assumes that the other person you are negotiating with is every bit as motivated, intelligent, and prepared as you are. Thus, the negotiating strategies and techniques outlined in this book do not rely on “outsmarting” or tricking the other party; rather, they teach you to focus on simultaneously expanding the pie of resources and ensuring the resources are allocated in a manner that is favorable to you.

In summary, our model of learning is based on a three-phase cycle: experiential learning, feedback, and learning new strategies and skills.

THE MIND AND HEART

Across the sections of this book, we focus on the mind of the negotiator as it involves the development of deliberate, rational, and thoughtful strategies for negotiation. We also focus on the heart of the negotiator, because ultimately we care about relationships

and trust. We base all our teachings and best practices on scientific research in the areas of economics and psychology reflecting the idea that the bottom line and our relationships are both important. The scandals that surfaced in the corporate world in 2001 fueled a backlash against the business world. These salient incidents rekindled negative perceptions of businesspeople—and MBAs in particular: “[The] emphasis on analysis has produced a generation of MBAs who are critters with lopsided brains, icy hearts, and shrunken souls” (p. 39). Such an assessment provides all the more reason to put the focus on the heart and relationships in business.