The deal was dead. Most people could not imagine turning down a multibillion-dollar acquisition offer. However, that is exactly what Chicago-based Groupon Inc. did in late 2010. Google had offered Groupon $6 billion. Venture capitalist, Paul Kedrosky, bemoaned, “I would have taken that $6 billion in a heartbeat. I would have been knocking over random strangers to accept it.” Google’s interest in Groupon was to tap into Groupon’s massive human network of sales employees and their relationships with small businesses. What was Groupon’s best alternative to accepting the Google offer? Well, Groupon had many potential suitors, including Yahoo!, who previously offered $3 billion, and Groupon confidently believed that it still had lots of room to grow (at the time, Groupon did roughly $2 billion in sales and kept half, making $1 billion in revenue). However, the rejection of Google’s offer came at the risk of Groupon’s venture bankers. Accel Partners, Battery Ventures, Digital Sky Technologies and New Enterprise Associations had invested a combined $169.8 million in Groupon. What was Google’s best alternative to a negotiated agreement with Groupon? Either try to buy something or make it themselves. In this sense, by turning down Google’s offer, Groupon set the stage for the creation of another competitor in their marketplace. According to some business analysts, Groupon created a monster: “I hope they realize that they could have had $6 billion or decide to do battle with a Goliath of the internet world…” Others speculated that Groupon could defend its turf and further lodge its brand in consumer minds and even add another zero to their Miracle-Gro valuation.¹

Negotiations like the one between Google and Groupon often involve a complex mix of strategy, signaling, and of course, the personalities of the negotiators. 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.” 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.” G. Richard Shell, who wrote *Bargaining for Advantage,* asserts, “All of us negotiate many times a day.” Herb Cohen, author of *You Can Negotiate Anything,* dramatically suggests that “your world is a giant negotiation table.” One business article on negotiation warns, “However much you think negotiation is part of your life, you’re underestimating.”

Negotiation is your key communication and influence tool inside and outside the company. Anytime you cannot achieve your objectives (whether an acquisition 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. We do this 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.

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 or mental model that will allow you to know what to do and say in virtually every negotiation situation. 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 perform effectively and most important, to learn from your experiences. Indeed, people who view negotiation as a challenge are more successful in reaching high-quality deals than people who view negotiation as threatening.

**NEGOTIATION: DEFINITION AND SCOPE**

Negotiation is an interpersonal decision-making process necessary whenever we cannot achieve our objectives single-handedly. Negotiations include one-on-one business meetings, but also multiparty, multicompany, and multinational relationships. 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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5 Walker, R. (2003, August). Take it or leave it: The only guide to negotiating you will ever need. *Inc.*, 25(8) 75–82.
6 Gentner, D., Loewenstein, J., & Thompson, L. (2003). Learning and transfer: A general role for analogical encoding. *Journal of Educational Psychology,* 95(2), 393–408.
People negotiate in their personal life (e.g., with their spouses, children, schoolteachers, 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 on multiple levels: 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.9

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) economic forces, (d) information technology, and (e) globalization.

Dynamic Nature of Business

Most people do not stay in the same job that they take upon graduating from college or receiving their MBA degree. Sixty percent of younger workers said it is not very likely or not likely at all that they will stay with their current employers for the remainder of their working life; 6 in 10 employed Millennials reported switching careers at least once; 40% expect to stay at their current position for 2 years or less.10 The dynamic, changing nature of business means that people must renegotiate their existence in organizations throughout 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, lead 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. In November of 2010, a long and winding negotiation stretching back more than three decades was resolved when the Beatles and Apple Computer reached a deal that put the entire Beatles catalogue of albums and singles on the iTunes music site. Apple Computer and the Beatles had been fighting on and off since 1978, when the Beatles accused Apple of infringing on the trademark of their Apple Records. While that dispute was settled when the Beatles licensed the Apple name to the computer company, they fought through the years over Apple’s music synthesizer and iTunes’ apple logo. Apple owned 90% of the online music market, but lacked the Beatles, one of the few bands that had managed to consistently draw huge profits from CD sales after the online digital music revolution. In 2007, the Beatles hired Jeff Jones as the chief executive of their Apple Corps. Unlike his predecessor who was a childhood friend of Paul

McCartney and George Harrison, Jones—an American executive with Sony/BMG—had no such sentimental ties. The nature of their relationship was purely business and defined a new era of deal-making for the company. Once the deal was struck, the previously competitive relationship changed to a cooperative one. In their first week on iTunes, over 2 million Beatles songs were purchased.11

The increasing degree of specialization and expertise in the business world indicates 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 balance of cooperation and competition requires negotiation.

**Economic Forces**

The unemployment rate in January 2011 was 9.0%, with about 13.9 million persons unemployed.12 That was down slightly from the 15.3 million unemployed in November of 2009, the highest number of unemployed Americans since the Bureau of Labor Statistics began tracking the nation’s unemployment in 1948.13 Economic pressures and forces such as these mean that negotiators need to know how to operate in uncertain and ambiguous environments. Focusing on minimizing losses may loom larger than focusing on profits.

**Information Technology**

Information technology also provides special opportunities and challenges for negotiators. Information technology 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. Among elected officials, staff members, and other in the United States House of Representatives there were 9,140 Blackberry users in 2010. It has become not only necessary, but vital, for elected representatives and staff members to be connected at all times to constituents, fellow representatives, and business partners.14

**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, InfoPrint, a combination of IBM’s printing systems division with the huge Japanese company Ricoh, requires a great deal of cross-cultural adaptability. For Sandra Zoratti, the head of global solutions at InfoPrint, it’s often been a learning experience. From the start, she found Japanese executives very subdued. “I’m Italian, so I talk with my hands and get enthused about what I’m saying. Once, when I gave a presentation in my usual

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style, it got so little response from my audience that I really thought I blew it,” she said. “But two weeks later, they gave my proposal the go-ahead. It turned out they did get what I was saying; they just didn’t show it at the time.” The two companies hold cultural training for all employees. That includes an interactive blog called Culture Jam, where employees from both companies can ask questions and receive feedback. Managers need to develop negotiation skills that can be successfully employed with people of different nationalities, backgrounds, and personalities. 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. 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 a 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. However, these same people believe most of their colleagues are distinctly ineffective at the negotiation table. Most people often fall extremely short of their potential at the negotiation table, judging from their performance in 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 TRAPS

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 capitalize on their 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.)

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19 Thompson & Hrebec, “Lose-lose agreements:”
20 Ibid.
4. **Settling for terms that are worse than your best 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.

**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 a skill 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 biases: 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 them. Two-thirds of MBA students rank their decision-making abilities as above average.\(^{21}\) In one investigation, people who were self-absorbed in terms of reflecting upon their own values were more likely to exhibit decision-making biases, such as the confirmation bias. In contrast, people who had taken time to focus on values that were not important to them were more likely to focus on valid threats and assess correlations more accurately in data.\(^{22}\) The National Safety Council estimates that 1 in 4 crashes on the highway involve cell phone use—either dialing, talking or texting—and as many as 10,000 deaths can be attributed to one of the activities. Yet, drivers overestimate their own abilities to multitask. According to David Strayer, the director of the University of Utah Applied Cognition Lab, “We have a tendency to overrate our own abilities. We think we are better than average drivers and we think we are better than average multi-taskers.”\(^{23}\)

**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. Three weeks into the 2010 BP Deepwater Horizon oil disaster, the former chief executive of BP, Tony Hayward, downplayed the looming environmental disaster despite mounting evidence to the contrary. Hayward claimed the

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\(^{23}\) Walter, L. (2010, June 1). Why we need to hang up on our distracted driving addiction. *EHS Today. Ehstoday.com*
spill in Gulf of Mexico was “relatively tiny” compared with the “very big ocean.” Oil continued to leak at a rapid rate for nearly two months until the well was finally capped, and the total amount of oil poured into the Gulf surpassed the 1989 Exxon Valdez disaster as the largest spill in US history.24

Satisficing

A third reason why people often fall short in negotiation is the human tendency to satisfice.25 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, 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.”26 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.27 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.28 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.29 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.30

30 Ehrlinger, Johnson, Banner, Dunning, & Kruger, “Why the unskilled are unaware.”
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 negotiation outcomes. We invite managers to be active learners in terms of understanding their own values when it comes to negotiation.

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 this 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. 31

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. 32 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

32 Bazerman & Neale, Negotiating rationally; Fisher & Ury, ‘Getting to yes.’
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 for 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 negotiation effectiveness. In short, effective negotiation requires practice and feedback. The problem is that most of us do not get 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: Life 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.\(^{33}\) Casual 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 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.34

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 industries. 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 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.

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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. \[35\]

Even through a sustained recession, in which the US national unemployment rate hovered around 10%, many people reported that unemployment, even though painful, had actually improved them in some ways, by being less reliant on materialism, using free time for volunteering, becoming more sensitive to the suffering of others, and reevaluating career choices for their next jobs. \[36\]

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