The negotiation did not begin with each party sizing up the other and presenting offers accompanied by PowerPoint decks flanked by attorneys and senior executives. Quite the opposite. Disney chief Bob Iger and 21st Century Fox chairman Rupert Murdoch were drinking wine at Murdoch’s Moraga Estate winery in Bel Air, and discussing disruptive internet trends impacting their respective television and film companies. In this meeting, they realized that they shared much in common. A few weeks later, Iger called Murdoch to explore a merger. Given how well the two had connected over wine, Murdoch was interested. The two chiefs met in secret, without PowerPoint presentations, and teams of senior executives at both companies were strategically left out of the loop. The negotiations, like the wine get-together were smooth, cordial and informal. Two months later, Iger and Murdoch stood arm-in-arm atop a London skyscraper to announce their intention to construct a $52.4 billion acquisition deal.1

Whereas most of us are not involved in billion-dollar negotiation 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.”2 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.”3 G. Richard Shell, who wrote Bargaining for Advantage, asserts, “All of us negotiate many times a day.”4 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.”5

Anytime you cannot get what you want without the cooperation of others, you are negotiating. Negotiation is an interpersonal decision-making process necessary whenever we cannot achieve our objectives single-handedly. For this reason, negotiation is your key communication and influence tool in most 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. inc.com
Part I • Negotiation Essentials

Now, a depressing fact: over 80% of corporate executives and CEOs leave money on the table. In this chapter, we explain why educated, smart, motivated people often do not realize their negotiating potential. The good news is that you can do something about it.

The purpose of this book is to improve your ability to negotiate. We do this through an integration of scientific studies on 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, but the principles in this book will no doubt help you in all aspects of your negotiating life.6

THE MIND AND HEART

Across the sections of this book, we focus on the mind of the negotiator as it involves the development of rational and thoughtful strategies for negotiation, designed to maximize economic value. We also focus on the heart of the negotiator because ultimately we care about relationships and trust. The opening example clearly indicates that the trust developed between Bob Iger and Rupert Murdoch laid the foundation for a successful negotiation deal.

Relationships versus Economics

In virtually any negotiation, two things are at stake: economic value (i.e., money and scarce resources) and people (relationships and trust). This book focuses on how negotiators can be effective in terms of maximizing both economic value and enhancing relationships at the bargaining table. We base our teachings and best practices on scientific research in the areas of economics and psychology, reflecting the idea that both the bottom line and relationships are important for successful negotiation.7

Many people believe they need to choose between getting what they want or being liked. These negotiators often believe that by “taking one for the team,” they can later maximize their economic gain.8 This strategy is not advisable because we negotiate in long-term relationships with people who have short-term memories. The relational sacrifice we make today may not be remembered or reciprocated by the receiving party tomorrow. When people make economic sacrifices in hopes of securing or maintaining relationships, they are often disappointed. In this book, we focus on how negotiators can achieve their economic objectives and enhance their long-term relationships, without simply paying more or receiving less.

Satisficing versus Optimizing

In this book, we distinguish between satisficing and optimizing. According to Nobel Laureate Herb Simon, satisficing is the opposite of optimizing.9 Satisficing refers to doing just enough to reach one’s minimum goals. When negotiators satisfice, they take shortcuts and do not maximize their potential gains. Conversely, when negotiators optimize, they capture all of the potential gain in a situation.

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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.
8 Thompson, L. L. (2017). Don’t take one for the team. Kellogg News and Events. kellogg.northwestern.edu/news_articles
In negotiation 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 individuals and companies, especially when a variety of effective negotiation strategies and skills can be effectively employed to dramatically increase economic gains. We discuss these strategies in detail in the next three chapters.

**Short- versus Long-term Relationships**

Another distinction people often struggle with concerns strategies they might use in short-versus long-term relationships. The intuition is that if a person believed the negotiation was a single-shot situation, they might behave differently—perhaps more aggressively—than if they anticipated interacting with the counterparty in the future. In the networked, virtual world, this distinction is nearly irrelevant because most of our interactions are recorded or known to others. Even if a negotiator does not actually meet a given counterparty again, by virtue of social media, a detailed account of their interaction would surely be visible for anyone to see. When the ex-CEO of Uber Travis Kalnick got into a heated argument with an Uber driver, he did not realize that Fawzi Kamel had a dashboard recording of the infamous conversation, nor that the recording would be posted online.10 For these reasons, I encourage all of my students and executives to assume that the details of their negotiation communication and behavior will be accessible for anyone who might be interested, and consequently, to act as though all negotiations have long-term implications.

**Intra- versus Inter-organizational Negotiation**

Would you imagine that there might be different strategies for negotiating with internal people (i.e., inside one’s own organization) versus external people (i.e., people not employed by one’s own organization)? At first blush, it would seem that internal negotiations might go more smoothly and collaboratively than external negotiations. However, that is not always the case. Envy and internal competition may in fact loom larger when people negotiate internally versus externally.11

**Low- versus High-Stakes Negotiation**

On countless occasions, managers and executives in my classroom have commented that they are not concerned that they failed to reach a win-win outcome because the negotiation was “low stakes.” When I then ask them how many “low stakes” negotiations they are involved in per week, they often say as few as 3 and as many as 15, with an average of about 8 or 9. If we then extrapolate for just 1 year, this totals over 400 negotiations; across a span of 5 years, that is 2,000 negotiations! Even if each negotiation was only $100, we are now starting to approach a non-trivial economic value. Given that there are no costs for attempting to optimize, I encourage managers and executives to treat each negotiation—however small the stakes may be involved—as a significant opportunity to enhance economic and relational outcomes.

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WIN-WIN, WIN-LOSE, AND LOSE-LOSE NEGOTIATION

Win-win negotiations are situations in which both negotiators optimize the potential joint gains. In this sense, they have captured all the possible value in the relationship. In this book, we will refer to win-win agreements as integrative agreements because the outcome is one that creatively combines parties’ interests in a way that maximizes the joint economic value. Win-win agreements are typically variable-sum as opposed to fixed-sum situations. Win-lose negotiation refers to situations in which one party prevails at the other party’s expense. This may be because one party has threatened the other party or that one party has capitulated to the other party. Whereas win-win agreements are those in which both parties have gained, win-lose negotiations are ones in which one party has gained at another’s expense. Lose-lose negotiations are situations in which both parties have made sacrifices that are ultimately unwise or unnecessary, resulting in an outcome that both parties find less than satisfying.12

NEGOTIATION AS A CORE MANAGEMENT COMPETENCY

Negotiation skills are increasingly important for managers. There are several reasons for this, including: the knowledge economy, specialized expertise, information technology, and globalization.

Knowledge Economy

Most businesses and industries today were not in existence 10–20 years prior. According to the Bureau of Labor Statistics, more than 70,000 businesses have developed since 2010.13 In the last five years, more than 15 startup companies, including Compass, Instacart, Carbon3D, OpenDoor, Avant, and Blue Apron grew from nothing, and are now worth billions.14 Many companies have disrupted traditional business models, spurring managers to reinvent themselves as knowledge brokers in the information economy. Because the nature of knowledge work changes rapidly, managers of all ages are continuously negotiating their professional identity, acquiring new skills, and moving into new jobs, industries, and markets. Most people do not stay in the same job that they take upon graduating from college or receiving their MBA degree.

Millennials are the largest group of professionals in the workforce.15 A large-scale LinkedIn study reported that millennials change jobs four times (churns) in their first decade out of college, compared to two job changes by Gen Xers in that same time period.16 LinkedIn examined its 500 million users, and looking back 20 years, found that churn is accelerating, especially in certain industries.17 A long-term study of baby boomers by the Bureau of Labor Statistics revealed that people held an average of 11.7 jobs between age 18 and 48; 27% were

14 Carson, B. (2016, December 26). These 15 startups didn’t exist 5 years ago—now they’re worth billions. Business Insider. businessinsider.com
17 Guy Berger, G. (2016, April 12). Will this year’s college grads job-hop more than previous grads? LinkedIn. blog. linkedin.com/
prone to “hop,” defined as having 15 or more jobs over a career; and 10% held 0–4 jobs. What is changing is the stigma associated with job-hopping. Many career coaches encourage millennials to change jobs every 3–4 years. The job-hopper is not simply in pursuit of higher wages; they are willing to take pay cuts for the right job in a positive work culture and career growth. Millennials are getting married and having children later than previous generations, and thus, relocation is doable and often desirable.

**Specialized Expertise**

The advent of decentralized business structures and the absence of hierarchical decision making provide opportunities for managers, but 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 joint ventures, partnerships, product launches, reorganizations, and project teams.

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, when Walmart realized that their hierarchical, lumbering internal culture did not allow them to offer a responsive online retail presence, they recruited Jet.com founder Marc Lore to run Walmart’s entire domestic e-commerce operation. Upon his arrival, a series of internal negotiations began surrounding how Walmart could shift its business model, yet still honor the founding principle of value to their customers. Lore recognized the interdependence between the brick and mortar marketplace and the online marketplace and integrated both sectors’ interests through creative internal negotiation.

The increasing degree of specialization and expertise held by businesspeople indicates that people are more and more dependent on others. However, other people 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. For example, Cheng Wei, founder and CEO of Didi Chuxing, was in a cooperative relationship with legendary investor Masayoshi Son, when Son wanted to invest in Wei’s company; but when Wei refused Son’s investment, thereby creating a competitive situation in which Son threatened to instead invest in a rival company. Ultimately, Wei relented and took the $5 billion investment for the tech startup.

**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. Because customers expect companies to be accessible to them 24/7,
businesses have reimagined how to respond quickly. For example, in 2016, only 2 million businesses were on Instagram; in 2017, 25 million had accounts, and over 80% of Instagram users voluntarily connect with these business accounts. Conversely, people who are not online feel the pressure to perform when they finally do log back on. For example, Arianna Huffington, founder of The Huffington Post, promised her daughter that during her college tour she would not check her smartphone. Huffington kept her promise, not turning on her smartphone during the tour, but while her daughter slept in the hotel room that night, she admitted to staying up all night answering e-mails and making sure she didn’t miss anything from the few hours she took off.22

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. Chip Starnes, cofounder of Specialty Medical Supplies, learned a harrowing lesson in cultural fit when he showed up at his factory near Beijing, China, to deliver severance payments for 30 workers laid off when Starnes moved a company division to Mumbai, India. The remaining 100 employees, convinced the entire factory would be closed, demanded severance and barricaded Starnes inside the plant for 6 days. Cases of managers being held captive by dissatisfied workers, while police look the other way, is not a rare circumstance in China, a cultural fact that Starnes certainly learned. After accepting the workers’ demands—giving 97 workers 2 months’ salary and compensation, and rehiring the previously laid-off workers on new contracts—Starnes was released. Most notably, Starnes was able to learn from his leadership failure and developed a new product to manufacture in Shenzhen.23

Managers need to develop negotiation skills that can be successfully employed with people of different nationalities, backgrounds, and personalities. Consequently, a negotiator who has developed a bargaining style that works only within a narrow subset of the business world will suffer, unless they broaden their negotiation skills to effectively work with different people across functional units, industries, and cultures.24 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.

NEGOTIATION TRAPS

Judging from their performance in realistic business negotiation simulations, most people fall short of their potential at the negotiation table.25 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,26 and the

incidence of outright lose-lose outcomes is 20%.\textsuperscript{27} Even on issues where negotiators are in perfect agreement, they fail to realize this 50% of the time.\textsuperscript{28}

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

- **Leaving money on the table** (also known as “lose-lose” negotiation) occurs when negotiators fail to recognize and capitalize on their win-win potential.
- **Settling for too little** (also known as “the winner’s curse”) occurs when negotiators make a too-large concession, resulting in a too-small share of the bargaining pie.
- **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.
- **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 reveals 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.

**BECOMING AN EFFECTIVE NEGOTIATOR**

In reviewing all of the ways that negotiators fail, it is important to be clear about what it means to be an effective, successful negotiator. Successful negotiation strategies involve preparation, strategy at the negotiation table, and then, post-negotiation behaviors. Exhibit 1-1 summarizes the behaviors and measures that are important to consider when evaluating negotiation performance. Prior to negotiation, a key skill is to initiate negotiations and then, prepare effectively. During negotiation, the negotiator executes their planned strategy and should be ready to evaluate the quality of negotiated settlements. Following the negotiation, there is always concern about whether the agreed upon terms will be honored and how the negotiation will affect one’s reputation. Indeed, investigations of contract negotiations consider four key objectives in assessing the quality of contracts: (1) how to maximize the likelihood of reaching a good agreement; (2) how to reach an agreement that fulfills the intended purpose; (3) how to reach an agreement that will last; and (4) how to reach an agreement that will lead to subsequent negotiations.\textsuperscript{29}

The dramatic instances of lose-lose outcomes, the winner’s curse, walking away from the table, and the agreement bias raise the question of how people can become more effective at the bargaining table. Fortunately, we’ve studied this question in depth and have developed a method by which people can measurably improve their performance.

In this book, we focus on three major negotiation skills: creating value, claiming value, and building trust. By the end of this book, you will have a mental model that will allow you to prepare for virtually every negotiation situation. By preparing effectively for negotiations, you can enjoy the peace of mind that comes from having a strategic plan. Things may not always go

\textsuperscript{27} Thompson & Hrebec, “Lose-lose agreements in interdependent decision making.”

\textsuperscript{28} Thompson & Hrebec, “Lose-lose agreements in interdependent decision making.”

according to plan, but your mental model will allow you to perform effectively and, most important, to learn from your experiences.

There are three key elements to improving your negotiation skills: feedback, strategy, and focused practice.

**Feedback**

Experience, in the absence of feedback, is largely ineffective in improving negotiation skills. 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.

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 detrimental because it may lead people to take unwise risks. In most real-world negotiation situations, managers do not receive feedback on how well they are doing. In our research, we have found that people who are provided with feedback immediately following their negotiation are more likely to adjust their strategies and perform better in subsequent negotiations.

Of the many types of feedback that are potentially available to negotiators, information about

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**EXHIBIT 1-1**

Evaluating the Success of Negotiation

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<thead>
<tr>
<th>Prior to Negotiation</th>
<th>Negotiation</th>
<th>Post-Negotiation</th>
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</thead>
<tbody>
<tr>
<td>Initiate negotiation</td>
<td>Strategy</td>
<td>Post-deal implementation</td>
</tr>
<tr>
<td>Preparation</td>
<td>• Opening</td>
<td>Durability</td>
</tr>
<tr>
<td>• Planning worksheet</td>
<td>• First offer(s)</td>
<td>Reputation</td>
</tr>
<tr>
<td>• Assess BATNA</td>
<td>• Counter-offers</td>
<td>Willingness to negotiate again</td>
</tr>
<tr>
<td>• Develop reservation price</td>
<td>• Substantiation and persuasion</td>
<td>Trust</td>
</tr>
<tr>
<td>• Develop target price (aspiration)</td>
<td>• Concessions</td>
<td></td>
</tr>
<tr>
<td>Agreements</td>
<td>• Efficiency</td>
<td></td>
</tr>
<tr>
<td>• Economic value</td>
<td>• Individual gain</td>
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<td>• Joint gain</td>
<td>• Fairness</td>
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<tr>
<td>Relational value</td>
<td>• Satisfaction</td>
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<td></td>
<td>• Fairness</td>
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the counterparty’s interests and priorities are particularly important. For example, negotiators who received feedback about the counterparty’s interests immediately following a negotiation showed the greatest improvement in subsequent negotiations.

**Strategy**

Once a negotiator has learned that they have not optimized in a given situation, the obvious question becomes, “What should I have done differently?” The negotiation strategies we introduce in this book are designed to be relevant across situations and therefore, are not context-dependent. Stated another way: the strategies that lead to success in a pharmaceutical negotiation are also those that lead to success in an oil products negotiation. In fact, our research suggests that it is beneficial for students of negotiation to learn negotiation skills in an industry or domain that they are unfamiliar with. Why? Learning negotiation skills only in a context in which one has depth of expertise may lead to context-dependence, such that the skills do not transfer.

**Focused Practice**

A key step in learning to be an effective negotiator is behavioral practice. It is one thing to passively learn about negotiation skills, it is quite another to put them into practice via simulations. In our research, we’ve found that experiential learning is dramatically more effective than didactic learning (i.e., merely listening to a lecture).

**DEBUNKING NEGOTIATION MYTHS**

When we delve into managers’ theories and beliefs about negotiation, we often find that they operate with faulty beliefs. Before we begin our journey toward developing a more effective negotiation strategy, we need to dispel several faulty assumptions and myths about negotiation. Belief in these myths may hamper people’s ability to learn effective negotiation skills and in some cases, reinforce poor negotiation skills. In this section, we expose four 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, 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 naively

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trust 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 view that negotiation is a mixed-motive enterprise, such that parties have incentives to cooperate as well as compete.  

**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 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. 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 often 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.

Indeed, people who view negotiation as a challenge are more successful in reaching high-quality deals than people who view negotiation as threatening. Moreover, people who believe that negotiation ability can be improved with experience and practice are more likely to discover win-win agreements than people who believe that negotiation skills are not teachable.

**Myth 4: Good Negotiators Rely on Intuition**

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

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managers effectively prepare for negotiation, become more 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). This is all to say that excellent negotiators are not guided by intuition; rather, they are deliberate planners. As a general rule, don’t rely on your intuition unless you are an expert.

CHAPTER CAPSTONE

This book promises three things: first (and most important), reading this book will improve your ability to negotiate successfully. You will experience fewer sleepless nights because you will have a solid framework and excellent toolbox for successful negotiation which can produce better results for you and your business. However, in making this promise, we must also issue a warning: successful negotiation skills do not come through passive learning. Rather, you 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 suggests that students who take the course for a grade will be more effective than students who take the course pass-fail.42

Second, we provide you with a general strategy for successful negotiation in many different kinds of situations. 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 those needed for negotiations in the insurance or software industries. Rather, negotiation skills are transferable across situations.43 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 can be effectively implemented across a wide variety 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 is not dependent 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 person you are negotiating with is every bit as motivated, intelligent, and prepared as you. 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.