Negotiating *the* Sweet Spot

CHAPTER ONE

What Is the Sweet Spot?

RECENTLY I WAS PART OF A DEVELOPMENT TEAM WITH several colleagues, designing a new online multi-course specialization. This was a mammoth project, and each of us faculty members working on it had our own idiosyncratic needs and predilections. I was admittedly one of the more "idiosyncratic" players, determined to do things my way. During a kick-off planning meeting, five of us sat around the table and did our best to balance speaking our minds with attempting to be collegial. We had to make several key decisions: the sequencing of the courses (i.e., who would teach first, second, etc.); the creation of a final project encompassing all material across the courses; the filming schedule; and other issues. I had strong feelings about all of these issues. I wanted my course to be first in the sequence (to accommodate my travel schedule), I wanted to be filmed in the afternoons (knowing I would need a miracle hair and make-up session beforehand!), and I wanted as little to do with the final project as possible. However, I did not want to come in like a tiger, given that none of us had previous working relationships and appearing demanding would create and escalate tension in the group.

Then, something interesting happened just a few minutes into our first meeting. The project director—a high-level staff member—presented what she described as a "fair and reasonable" schedule on a pre-made PowerPoint. I wasn't pleased by what I saw on the screen: My course was scheduled second to last, I had to take the first crack at writing the final project, and the filming schedule was all over the map. Ugh. I glanced around and others seemed to be in silent agreement with her proposal.

After about forty-five minutes of indirect conversation, the meeting was adjourned. "Well, dealing with other faculty members is never easy," I consoled myself as I stood to leave. But as I walked out, another group member said, "I actually think it would make sense to have your course come first in the sequence." I said, "Really? Would you be okay with that?" Definitely, she said, because she had not yet written her content and needed a few more weeks to prepare. She added that my content would lay the groundwork well for the other courses. Seeing an opportunity, we quickly pulled the other three faculty members back into the room for an impromptu conversation. It turned out one of them wanted to write the final project because they were working on a large new business case; another wanted to film only in the morning due to afternoon childcare commitments. On the back of the PowerPoint printouts, we sketched out a plan that was nothing like the "fair and reasonable" default, but that we all agreed was better. Within forty-five minutes, we'd found the sweet spot!

Looking back, I realized that I'd experienced a "near miss." My colleagues and I had almost gone down a path that would have resulted in wasted time, energy, sacrifice, and expense, not to mention simmering tension and resentment—all because we were convinced that other people held polar-opposite views, or at least didn't agree with us. Wanting to avoid stress, be good colleagues, and preserve our reputations, we'd silenced our objections and offered concessions. Luckily, we second-guessed ourselves and ultimately found the sweet spot, but may well not have! Think about how many times in life people settle for a less-than-optimal arrangement, including near misses.

People do this so much that there's even a name for it. Nobel Laureate Herb Simon coined the term "satisficing" to refer to situations in which people settle for less-than-optimal outcomes.[1]

Satisficing is the opposite of optimizing. When we satisfice, we settle, capitulate, throw in the proverbial towel. Conversely, when we optimize, we leverage all the potential in the relationship in a mutually rewarding fashion. So why do people satisfice instead of optimize? According to Simon, people are too lazy and miserly with their time to bother to think, research, and optimize. As "cognitive misers," Simon argues, people try to minimize energy expenditure and look for shortcuts.

Now hold on a minute. As a business school professor who teaches negotiation courses, I am surrounded by people who are anything but lazy! In fact, they are adamant about upping their game, and willing to devote significant time and energy into improving their skills in every element of business. There must be something else going on. In my research on negotiation, I've observed and measured three "traps" that effectively prevent people from finding the sweet spot.

The "Show Me the Money" Trap

Let's face it: Win-win in business negotiations usually involves money and other economically tangible resources that can be measured on some universal scale of utility. Because negotiation is typically equated with money, people believe they must choose between being self-interested (i.e., cutthroat) or a team player (i.e., taking one for the team). This false dichotomy results in two suboptimal strategies: people are either too aggressive or too capitulating. The truth is, most business managers care about money *and* relationships. Indeed, Pruitt and Rubin's Dual-Concern model argues that to the extent that negotiators can focus on *both* their own interests and those of the other party, they can find sweet spot deals.[2]

Now here's the rub: Most people believe that *other people* are self-interested. And this often sets businesspeople on a combative course. In short, we don't see others the way we see ourselves. For example, a large study of attorneys revealed that most are intrinsically motivated to do what they do; they're drawn to their profession because they want to make a positive difference. However, these same attorneys believe that their colleagues are strictly motivated by economic rewards (i.e., in it for the money).[3] Thus people are guilty of a double-standard: They believe others are motivated strictly by financial gain, but they themselves are uniquely focused on intrinsic values such as doing good for the world.

Similarly, a detailed study of competitive versus cooperative personality types found that competitors view the world as uniformly competitive but cooperators see the world as much more complex.[4] What does this all add up to? Because we see others as uniformly more self-interested than we are, we often go on the defensive when it comes to conflict, bracing ourselves for what seems to be a clash of interests. And in doing so, we confirm the other party's views about us—namely, they continue to see us as self-interested, and they act accordingly.

Moreover, making more money does not always make people feel more successful or satisfied. How do we know this? In one research investigation, I watched people negotiate and afterward asked them how "successful" they felt. People who had focused solely on their highest financial goals and aspirations felt *less* successful than people who had focused on their minimum goals.[5]

The study that really brought the seeming disconnect between money and relationships home for me was one that I did with my colleagues Rod Kramer and Kathleen McGinn.[6] We observed people negotiating and explored how people felt when their opponent appeared happy versus disappointed. We found that people felt *less* successful when they thought their opponent was happy and felt *more* successful when they thought their opponent was disappointed, because the latter suggested the person in question was "winning" the negotiation. In other words, most people reported thinking, "If the other party appeared happy and satisfied, then I must not have done that well!" However, the feeling of success was bittersweet because the people who felt successful also regarded themselves as less honorable in the negotiations. Thus, doing well financially was often experienced with ambivalence when the other party was dissatisfied.

The key point is that people care about money *and* relationships. So the quality of negotiation cannot be measured just in economic terms. The challenge is that most people don't know how to maximize both—so they choose one to max out or capitulate on both.

The breakthrough research of MIT business professor Jared Curhan on "subjective value" sheds important light on how most people really feel about their negotiations. Curhan and his colleagues developed an instrument known as the subjective value inventory (SVI) to assess four concerns that most negotiators bring to any negotiation table—whether it be the boardroom or the kitchen variety:[7]

- Feelings about instrumental outcomes (a.k.a., economics)
- Feelings about themselves
- Feelings about the process
- Feelings about the relationship with the other party

To prove his point—namely, that people care about more than just money and economics—Curhan looked at the values that people held most dear in their life negotiations, studying carefully the elements that students, community members, and practitioners believe to be of highest importance. He even examined the satisfaction of arguably the most economically-minded group of people he could find: full-time MBA students negotiating employment packages. This would seem to be a situation ripe for cutthroat economics! Imagine that you have just spent over $200,000 paying for a degree, taking tough classes, and losing two years of income, then being in a competitive job market with several hundred similarly accomplished friends and colleagues. Wouldn't you want to maximize your economic outcome?

But Curhan made a startling discovery. MBA students care about *all four* of the factors above as related to their future employment—and to the extent that they feel good about themselves, the process, and their relational and instrumental outcomes in the position they accept, they are *less* inclined to seek a different job the following year!

The "Even-Steven" Trap

The "Even-Steven" trap is the (usually) faulty belief that the best outcome in a conflict or negotiation situation divides scarce resources down the middle. Indeed, most people believe that the division of resources between people should always be equal or equitable. There's a reason we have so many strategies based on the "Even-Steven" principle: "split-the-difference"; "one divides, other chooses"; "let's-go-halfsies"; "meet you half-way"; "give a little, get a little"; and many others.

As part of my research, I ask businesspeople and nonprofessionals about ways to resolve conflicts and settle disputes. Hands down, the most common prescription I get is to *compromise*. "Give and take." And by the way, if I hear one more businessperson say, "I took one for the team," I'm going to scream!

As tempting as it may be to divide resources (like money) evenly, this is not actually what "win-win" means. Win-win is not about *dividing* the pie or the money or the value; rather, it's about *capturing all* the value.

My teaching and speaking has shown that the best way to illustrate the "Even Steven" trap is by telling my favorite story, one attributed to the wise teaching of behavioral scientist Mary Parker Follet.[8] Most recently, I shared this story with the ex-CEO of a large healthcare organization. He said, "Now that makes total and complete sense! It explains not only why people who work in the same organization should find the sweet spot, it also explains why you should find the sweet spot even when you are dealing with customers and suppliers."

Okay, back to the story. Picture two sisters sitting at a table with an orange between them. The sisters love each other, but they *both* want the orange. To complicate matters, there's some difficult family history, with a consistent pattern of competition between the sisters. "I'm not going to back down," one sister says. "Today, this orange is mine!" To that the other sister snaps, "No way! You got your way last time. It's my turn!" And the conflict escalates. Ultimately, they realize that preserving their long-term relationship is more important than the orange. So they agree to cut the orange exactly in half, using precise scientific measurement—"Even Steven."

After the dividing, one sister takes her half, squeezes out the juice, and tosses away the empty rind. Meanwhile, the other sister carefully zests her half of the orange peel (to make her favorite scone recipe) and throws the juice away. After the garbage truck comes and goes, understanding what happened, the sisters are aghast: "You mean, this whole time you only wanted the peel and I only wanted the juice, and now it's too late for us both to fully get what we wanted?"

So what happened to the sisters? They missed the sweet spot! They sliced the orange in half, falling into the "Even Steven" trap! They satisficed but failed to optimize. When we satisfice, we settle, capitulate, and compromise. When we optimize, we leverage, integrate, and expand the value. Even though the sisters cared about each other, they failed to maximize value.

Given how valuable that story has been for me, you can imagine my excitement when I encountered a real-world business example of dividing the orange. In this case, it involved the Kellogg's cereal company (makers of Corn Flakes, Rice Krispies, and many others) and the Seven Brothers Brewery in Manchester, England. Keith McAvoy, the brewery's chief strategist and one of the seven brothers in its name, has spent his whole working life in the beer industry. When Keith learned that the local Kellogg's cereal factory generated more than 5,000 tons of wasted cereal (falling short of quality-control standards), he started to experiment with beer recipes. His experiment led to a partnership with Kellogg's and the production of *Toast Ale* and *Throw Away I.P.A.*—smooth, mellow beers made from corn flakes. So the brewery was able to use Kellogg's waste, but what's in it for the cereal maker? A 12.5 percent reduction in food waste for their UK facilities! So it's a win-win agreement for beer-drinkers and cereal-eaters alike.[9]

Here's my question to you, then: How often have you cut the orange in half, or thrown it across a room, or watched the garbage truck come and go? If you are like most of my managers and executives, you fail to optimize about 80 percent of the time. Specifically, what I typically find is that only 15 to 20 percent of managers *fully* leverage all the potential gains in their negotiations (a.k.a. "optimize")—meaning that 80 to 85 percent of people miss the sweet spot all together (a.k.a. "satisfice"). When I measure exactly how much value is left untapped, it typically amounts to about 20 to 25 percent! Unfortunately, most of the time people are unaware that they did not find the sweet spot!

The "Win-Win" Mirage

During any given week, I teach more than fifty managers and executives about negotiation, through role-play negotiation exercises. I routinely ask them to evaluate their outcomes prior to showing them a deep-dive analysis of their performance. About 99 percent of them strongly believe that their outcomes are, in fact, "win-win." When I ask them why, they say, "We reached an agreement and we're both happy." Then I give them the bad news: Their hard-fought negotiated outcomes are actually not win-win, meaning they left significant value on the table.

It's a seemingly universal problem, something I see routinely. Managers in every industry are under increasing pressure to make economic gains and negotiate good business deals with their suppliers, customers, clients, and stakeholders. Most of them are able to reach profitable business deals and most of them regard their outcomes to be "win-win." However, just like the sisters, they merely satisfice—they fail to optimize. As noted earlier, my research studies reveal that less than 20 percent of people find the "sweet spot"—the readily available solution that would be indisputably better for both parties. Why is this?

The key reason people fail to reach win-win is that *they don't see compromise solutions as failures.* If they did, they would be much more likely to abandon their current behaviors and adopt new ones. Thus suboptimal behavior (i.e., satisficing) is self-reinforcing. We think to ourselves, "I must be doing something right, because I reached a deal and made some profit." Bottom line: We don't know what we don't know. This is the "win-win mirage," the third trap that prevents people from finding the sweet spot.

The numbers can be dismal. In one research study that contained a hard-to-find win-win solution, I found that fewer than 4 percent of managers found the sweet spot (i.e., nearly everyone failed to maximize value) when put to the test.[10] Just like the sisters, even the most highly motivated negotiators don't recognize the opportunity.

I then started to wonder whether people might be so far down the rabbit hole that they would not even know when they were in 100 percent complete agreement with another person. So, in my doctoral dissertation, I included a simulation in which people had *identical* preferences—meaning they wanted the exact same thing! Specifically, it was a car negotiation in which the buyer and seller had obviously opposing interests when it came to price, financing terms, etc., but they actually were in complete alignment on the color—the dealer wanted to sell a certain color and the customer preferred that color as well. I called this alignment a "compatible" interest. My question was whether people would realize when they were in complete alignment with the other person. It almost seemed too silly a question to ask.

It wasn't. To my shock and amazement, I found that 50 percent of the time people believed that the other party had opposing interests even for a completely compatible one! I called this the "incompatibility effect."[11] This meant that people failed to realize when they were on the same page with another person—kind of like what happened in my development team with my fellow faculty members. Moreover, they immediately capitulated to the other person—i.e., made an unnecessary sacrifice. When they missed the sweet spot—that was right in front of them, in this case—I called it a *lose-lose* outcome: neither party got what they wanted!

To find out how widespread this "lose-lose" effect was, I did a large-scale study with Dennis Hrebec, my colleague at the University of Washington.[12] In addition to examining how often people failed to reach, much less even recognize, win-win outcomes, we looked at hundreds of published and unpublished studies and databases related to negotiation. These studies were analogous to the sisters-and-orange situation in that there was a non-obvious "sweet spot" solution that often eluded well-intentioned, highly motivated players. In our analysis of more than five thousand people, we discovered that negotiators failed to realize when they were in complete agreement with the other party about 50 percent of the time, and fell prey to the lose-lose effect about 20 percent of the time. In other words, even when people were in 100 percent agreement with each other, they didn't realize it nearly half the time!

This reality, when pointed out to negotiators, leads to what I've come to call the "Negotiation V8 moment," named after the old commercials for V8 vegetable juice, where people realize they should've had the healthy beverage instead of something else: "I should've had a V8!" In negotiation, it's something like, "I can't believe I didn't see that!" For example, I was once working with the attorneys in a large professional services firm. After completing a negotiation simulation, in which parties could land upon a true "sweet spot" agreement if they were able to identify their points of compatible alignment, only 15 percent actually discovered these mutual interests. The others falsely assumed that the counterparty had opposing interests, and thus failed to reach sweet spot deals. When I showed them the results, many of them had a "Negotiation V8" moment!

So why do people miss compatible issues and fail to identify even obvious sweet spot arrangements? A key reason is that most of the time, people assume that others have directly opposing goals; they hold a "fixed-pie" perception and believe that splitting the difference is the best they can do. However, splitting the difference is a *win-win mirage*, as discussed earlier, meaning that while it appears to be a way of embracing both parties' interests, it actually doesn't leverage the true interests of the parties.

In this book, I refer to arrangements that capture all the potential value in a relationship as the sweet spot because there often exists a near-optimal, highly satisfying, relationship-preserving solution for personal and business problems. The sweet spot is the solution that maximizes the value—both economic *and* relational—for everyone concerned.