
When Individual Bargaining Skills Aren't Enough

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Business leaders have focused too much on building general negotiation skills—such as identifying interests behind positional statements or inventing options for joint gain—and not enough on addressing strategic shortcomings in how the organization pursues its goals and structural constraints within the organization that affect its negotiation capabilities at the table.

It is often said that negotiation is a fundamental skill, in business and in life. Yet interventions designed to build these individual skills often fail to produce the desired results. Workshops that receive glowing evaluations too often produce participants who admit months later that little has changed. In part this can be attributed to the difficulty of implementing new skills and breaking old habits.

However, as Professor Lawrence Susskind and I argue in a forthcoming book (*Building A World Class Negotiating Organization*, Harvard Business School Press), such failures also occur because leaders have focused too much on building general negotiation skills—such as identifying interests behind positional statements or inventing options for joint gain—and not enough on addressing strategic shortcomings in how the organization pursues its goals and structural constraints within the organization that affect its negotiation capabilities at the table.

Strategic Shortcomings

Poor alternatives. Some firms face poor prospects at the table because their alternatives are poor. Consider the experience of a procurement team for a major computer maker. For a decade the team had cultivated and developed a close relationship with a single “qualified” supplier who had crafted a unique solution for the buyer. When the team went to renew the deal, the supplier demanded a 50% increase in price. Members of the team enrolled in several classes on negotiating collaboratively and took away various pieces of advice, which included demanding objective criteria to support the price increase, listening for hidden interests, and discovering additional sources of value to the supplier. Yet these prescriptions did not produce the desired result: a decrease in price from the supplier. What options remain?

In this instance, the team needed to change its fundamental strategy of negotiating with a single supplier, and focus on improving their alternatives away from the table. When he first heard this suggestion, the commodity manager groaned, “But it would take at least six months to qualify a second supplier and cost us millions.” As the discussion continued, however, it became clear that the cumulative cost of the 50% increase would run into the tens of millions. Ultimately, the team decided it had to spend time educating and qualifying a second supplier. When the existing supplier discovered that the team was serious about developing a second supplier, they immediately returned to their original price. “It was a huge pain, but it saved us a lot of money compared with the proposed increase,” commented the commodity manager a year later.

Unclear value propositions. Sometimes strategic shortcomings result from larger market or industry trends that make it difficult for an organization to explain the value of its goods or services. Case in point: for seven years in a row a global advertising firm finds itself facing demands for fee reductions from its largest clients. A change leadership team within the company is given the task of hiring a negotiation consulting and training firm to “help us learn to negotiate better terms.” The consultant interviews leaders and is struck by this complaint: “our clients don’t understand; we are not a commodity!” The consultant also reviews stories collected before the training about difficult negotiations the trainees have conducted in the last year. And he learns that the industry as a whole is still consolidating. “What they need,” he confides in a colleague, “is to demonstrate to their clients—quantitatively and qualitatively—that they are not a commodity in an oversupplied market. Until they do that, the clients will keep demanding price reductions, and will often get them.”

The consultant proceeded by developing tailored training to raise awareness not just of negotiation skills, but to identify barriers to implementing skills, and to make explicit the link between negotiation and strategic opportunities and threats. He organized a suite of services designed to help the change leadership team 1) identify better preparation practices for the company; 2) move the company toward contractual options that included greater bonus incentives to meet client-relevant goals (like sales); 3) engage leadership in a dialogue about how to support new systems and risks; and 4) use the negotiation challenge as an information feedback loop about their competitive challenge (identifying tangible examples of value added). Skill building was one piece of the puzzle, but absent other efforts, change was not likely to occur.

Rewards. A third kind of strategic problem can arise when firms fail to create or implement reward systems that reflect their professed priorities and values. It is common for firms to focus on value—for stakeholders, customers, and so forth—but much less common for them to measure value in terms of a balanced scorecard that includes how much the negotiation cost in time and resources,

how much risk was mitigated or managed, and the state of relationship sat the end of the process.

In one case, a manufacturing firm that had reduced payments year-after-year to a supplier for five years found itself needing the supplier to ramp up production in an environment where the supplier was suddenly in great demand. Unsurprisingly (though it came as a shock to the manufacturer) the supplier felt no strong obligation to help. The manufacturer lost tens of millions in product that it was unable to ship that quarter because of the missing part. The tangible costs and benefits of relationships are seldom documented as well as they should be in evaluations of negotiation success. Negotiators with best intentions and great skills are bound to resort sooner or later to behaviors that reflect narrow metrics, even when they know it is not helping the organization in the long run.

Structural Constraints

It isn't just strategy that undercuts negotiation practice. Structural constraints can be just as challenging.

Poorly organized “back tables.” Most negotiators understand the importance of careful preparation prior to coming to the table. But in a time-crunched, matrixed, right-sized world, preparation is often given short shrift. Consider the case of a computer manufacturer. Its negotiation process called for commodity managers to work with business leaders to determine scope and pricing targets, and then to go to the table to try to achieve their targets. This meant shuttling back and forth between the supplier and various internal stakeholders to assess whether a supplier's counterproposal involving newly created options was acceptable. Negotiators reported that supplier began to go around them, sensing that the organization had not sent negotiators who were empowered to invent options at the table.

A further challenge then kicked in. Once this back and forth process had led to an agreement on scoping and pricing, the negotiation was turned over to the Legal department to negotiate terms and conditions. A whole new set of negotiations was launched, involving a new set of issues (intellectual property, privacy, liability, indemnification, etc.) in a much more positional tone. As the legal negotiation went on an on, both the supplier and the internal customers felt stymied. Each side blamed the lawyers—including its own. For their part, legal insisted that they were protecting the company as a whole from enormous exposure and risk.

In this case, training turned out to be a first step in reconfiguring the internal structure and sequence of the negotiation process. A Global Solutions (GS) team was formed to liaise between legal representatives and commodity managers. A preparation process was instituted, which required the commodity manager and GS member to work together to understand and rank all of the company's interests in advance. Benchmarks were gathered, and authority to invent options was explicitly granted by the Vice President, who was delighted to have the chance to review a strategic plan (a shift from often seeing the deal for the first time when his signature was required, and having to listen to convoluted explanations for why terms were structured and worded one way or another). The company has in the last year run billions of dollars worth of deals through the new process. Training was a key first step—but just a first step. Again, skills training alone would have been unlikely to generate a real return on investment for the team.

Principle-agent dynamics. In the case just described, the company had not empowered its negotiators to invent options, and the role and authority of the legal team was also vague. Therefore suppliers often made “end runs” to more senior leaders to get deals done, demoralizing the negotiation team. But consider problems across the table as well. Imagine you have a very good relationship with a long-term client, only to find that the client has been told by her leaders to bring a consultant to the renegotiation. The consultant has promised leaders a substantial savings and has yoked his compensation to achieving it. Your counterpart looks sheepish but explains, “I’ve been told to let them do this.” The negotiation has now been structured in a way that focuses on achieving a new set of goals (the agent’s) that may in some cases conflict with his client’s. For example, an agent may want short-term savings whereas the client (and you) prefer operational efficiency and continuing quality of service. In this case, training that focuses only on individual skills is not likely to help overcome the structural dilemma facing the negotiator.

Stove-piped human resource budgets. In large organizations, training and development expenditures are often earmarked for a particular service, such as coaching, or training, or consulting. When a trainer, consultant or coach seeks to provide a more systemic solution that could yield significantly higher ROI, the response is often, “I don’t know who you would talk to about that. I have dollars for training, only.” Even a business leader inside the organization who wants to champion such an integrated solution can find that the human resource budget in his or her organization is not designed to handle such an effort.

What should organizations that want to maximize return on investment be prepared to do?

Authorize an organizational negotiation assessment.

Conducting an assessment involves confidentially interviewing a representative set of negotiators and their leaders. An interview typically takes 30-60 minutes and involves a set of diagnostic questions as well as drawing out stories of recent difficult negotiations. Stories often generate more useful information than even the best open-ended questions, because they contain examples of behaviors and systems in motion, as well as “theories in use” that guide negotiators. Ideally the assessor is also given an opportunity to talk with counterparts of key partners outside the organization, in order to compare how the organization sees itself with how others see it. The assessor can use this information to develop a “diagnosis” of the organization’s strengths and weaknesses, with (masked) examples of each drawn from stories. Such an assessment can inform next steps, including coaching, systems changes, new resources, and training. The assessment should include the following considerations, each of which carries a set of questions.

- A description of the strategic context and challenges. What is happening in the industry as a whole? Does the organization have strong or weak competition? Is their value proposition changing? Why? Are there new players or coalitions that need to be taken into account? To what degree are the negotiators at the table hamstrung by not having a core value proposition that they can demonstrate (and bet on, as a part of their own compensation)? Do new processes (e-auctions, for example) shape the degree of freedom that negotiators have?
- Attention to organizational constraints and the opportunities that are being missed as a result. Do negotiators have the authority they need to invent options at the table? Are negotiators given the time and knowledge resources to prepare effectively? Are there sufficient mechanisms in place to monitor commitments? Are key stakeholders left out of the process or brought in too late to participate constructively?
- An inventory of gaps in analytical and communication skills that could reasonably be address through tailored negotiation training. Carefully tailored training that focuses on building skills that are needed for success in the client’s environment can complement broader efforts toward organizational change—and generate useful discussions about what needs to happen in addition to training.

Generate recommendations to the organization’s leaders

A good assessment should spell out how to create a real change in behavior, given existing strategic

and structural barriers. At the strategic level, this can mean describing a new value proposition, a new strategy for building a coalition, or a new way of structuring compensation or risk. At the structural level, it might mean re-engineering the negotiation preparation process, so that negotiators have access to a broader range of stakeholders and experts prior to the negotiation, have increased authority to invent options at the table, or combine two- or three-stage negotiations into one. At the level of individual learning, it could mean providing a model, a language, shared concepts, and opportunities to practice difficult negotiations that involve the specific challenges faced by each audience.

Good trainers often do some of these things in the course of preparing a program. But lasting change is most likely to occur with careful up-front assessment and when leaders commit to supporting new systems and resources. At one level this requires thinking beyond stove-piped budgets for “training” and “consulting” and “coaching.” But at another level it means acknowledging that negotiation is not just an individual capability, but an organizational one. If a half-century of research in social sciences has anything to tell us, it is that situations are almost always more powerful determinants of behavior than intentions. Negotiation behaviors are most likely to change when an organization is willing to go beyond a commitment to training by actively supporting new structures, strategies, and incentives.

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