

Chapter 1

THE GOAL IS NOT A GOOD DEAL, BUT A GOOD OUTCOME

When I began working as a professional negotiator, I envisaged myself making deals: helping companies reach strong and profitable commercial agreements. Instead, I was inundated with contractual disputes, business alliances in trouble, partnerships on the rocks. The disputes ranged from relatively small local purchase and sales transactions to multimillion-dollar international ventures bound by detailed contracts; from recent fallings-out to old battles that had nearly exhausted the parties in courts. Yet, despite this diversity, they had one important thing in common: they had all started out with “yes.”

The phenomenon transformed my view of negotiation. Until then I had focused on negotiation as a transaction, with a concrete set of objectives and a definable end. The negotiator’s goal, according to every book I read, was to secure a set of terms that would maximize “our side’s” gains while giving enough value to the other side to win their agreement. The end of the negotiator’s line of sight was an agreement. While he or she might anticipate and try to reduce implementation problems by peppering the contract

with performance guarantees, liquidated damages clauses, and so on, the focus remained firmly on the deal.

Yet experience showed me plainly that getting a deal, even a “good” deal, was not enough. Every one of these expensive and emotionally draining disputes had started out as a deal that both parties had felt was good—at least good enough to sign on to at the time. So why were so many going bad? The answer was clear: they were failing to create successful working relationships. A deal is nothing but a promise. A relationship—marked by open, two-way communication, respect, empathy, trust, reliability, and sincere efforts to promote long-term mutual benefit—is what will see that promise through implementation and beyond.

Short-Term Fixation, Long-Term Loss

My first consulting client opened my eyes to the importance of looking beyond the deal. Choi had a thriving business importing American meat, which he sold to the many Western restaurants and chains that were popping up across Korea. For several years he had bought beef from a single supplier in Texas, his orders more than doubling each year. However, things changed suddenly in November 1997 when Korea was hit by the Asian financial crisis.

Virtually overnight, Korean currency dropped to less than half its value against the dollar. Banks desperately called in loans in hopes of avoiding collapse. To stave off national bankruptcy, Korea had to accept an IMF bailout and trusteeship, a painful humiliation. Worst of all for Choi, the Korean public reacted to the crisis with an intense wave of nationalism: boycotting all foreign products and businesses. By December, usually the busiest time of year in the food industry, the only people to be seen in foreign-linked restaurants were the staff.

Reeling from the one-two punch of currency devaluation and customer desertion, Choi called his supplier to say that he would have to cancel the orders he had contracted for the next several months, until the economic situation in Korea improved and the

boycott was called off. He expected some sympathy, even words of support for his plight. It was, after all, a national crisis, not a business failure—and the supplier, as it had stated many times, was his “valued partner.” Instead, he was stunned a few weeks later to receive a letter of demand from the beef exporter’s lawyer, telling him that by failing to pay on time for his last order and canceling his precommitted next order, he was in violation of their contract. If he didn’t immediately rescind his cancellation, the letter said, they would sue.

When Choi came to see me to help him negotiate a settlement, he was gripping the letter tightly in his hand and shaking it as he spoke. “I’ve been giving these people my business for four years,” he fumed. “I went to visit their ranch. I even invited them to stay in my home. MY HOME! Now, the first time I have a problem they send me this?” He flung the letter onto the table in disgust.

I tried to explain to Choi that the supplier was just switching into automatic contract-compliance mode, not specifically picking on him, and that the language in the letter was standard legalese, not a personal insult. But it was clear that neither explanation took away the sting. More helpfully, I told him that I thought we could resolve the matter by coming up with a plan to extend the payments and orders over a longer period. He agreed, but kept repeating numbly, “I have given them my business for four years. I had them into my home.”

In fact, we easily resolved the business dispute. Within months, Korea was on its way to economic recovery, and Choi was able to recommence business and complete the contract. However, once he had fulfilled his order, he refused to do business with the Texas supplier ever again. Over the next years the Korean economy thrived and Choi’s business boomed. However, it was another meat supplier who reaped the benefits.

The Texas company had thought transactionally. While they were fully within their rights to enforce the terms of their contract, they missed the bigger point. By treating a business partner as nothing more than a set of agreements and showing concern only

for their own interests, they failed to connect with him as a human being trying to do his best under difficult but temporary conditions. By focusing exclusively on the deal at the expense of the relationship, they sacrificed much greater long-term business profits.

Looking beyond the deal doesn't mean ignoring commitments. Commitment is what differentiates relationships from one-night stands, or healthy business partnerships from single transactions. For the beef supplier to have said, "Okay, never mind. Times are tough. Let's just drop the whole thing," would be no more relationship-oriented than shouting, "Pay up or else!" However, there are a number of things the cattle company could have done to strengthen the relationship and maximize long-term business gain during this difficult time.

Most important, the president, who had negotiated the original deal with Choi, could have spoken to him personally and collaboratively, as a partner facing a crisis that was hurting both their businesses. This would have opened the door to joint and productive problem-solving, possibly even to finding new areas for mutual gain, such as taking advantage of the Korean currency's weakness to import to America ranch machinery or vehicles at reduced prices. Instead, by sending a letter of demand through the company's lawyers, the president conveyed the messages that "I'm not interested in your problems," and "I only posed as your partner to get the contract." The result was that the Texas company not only lost Choi's loyalty and the profits their relationship would have generated over the long term, but also suffered a reputational loss as Choi recounted his tale of fair-weather friends throughout his wide business network.

Deals Versus Relationships

Negotiating relationships is a process, not an act or a transaction, because it doesn't have a clear beginning or end. Nor, like a contest on the playing field or in the courtroom, does it have one winner

and one loser. Your goal is to reach an agreement to work with another party *in the future*, under conditions that enable both sides to prosper.

Traditional deal-based negotiation is transactional. It's about this deal, these terms. Get a signature, and you're done. With its emphasis on winning and losing, transactional negotiation is frequently compared to a game (of wits) or a battle (of nerves). But there is a crucial difference between reaching an agreement and competing in a game or fighting a battle: games and battles don't require cooperation once they are concluded.

There are other critical differences:

- In a deal, the goal is confined to getting an agreement. In a relationship, the goal is working together profitably, starting from the first agreement, then building far beyond it.
- In a deal, the party you are negotiating with is, to a large extent, your opponent. In a relationship, the other party is your preferred partner.
- Deals are about getting as much of what you want as you can carry away. Relationships are based on fair division and joint burden-sharing.
- In a deal, you hold yourself aloof from the other party: hiding information, guarding your responses, pressing your position. In a relationship, you are more relaxed, open, and natural: sharing information and truly seeking to understand and resolve differences.
- In a deal, you may exaggerate the strength of your position or try to trick the other side into giving in. Successful relationships are based on honesty, reliability, and follow-through.

- Deals are static, inflexible, with exhaustive contracts intended to guarantee that every term and condition will remain “carved in stone” until the transaction is completed. Relationships are also based on fundamental agreements, but they are more accommodating, less rigidly detailed. Because relationships take place over time, change needs to be anticipated and managed constructively rather than ignored because it falls outside of the scope of the initial agreement. Relationships are dynamic, not carved in stone.

Not all deals require relationships in order to succeed, of course. When you sell your old car through an online ad or bargain over a ceramic pot in a foreign market while on vacation, it truly is a transactional activity. The goods are delivered the moment the deal is sealed, and you are unlikely ever to see that person again. But such cases are the rare exception. Most negotiations—from mergers and acquisitions, to supplier contracts, to interdepartmental meetings for allocating funding or agreeing on where to hold the company picnic—are for arrangements that will be implemented over time (sometimes years) or that will lead to future arrangements. Even when you are unlikely to meet that individual customer or supplier or even colleague ever again, the relationships you build throughout the negotiation and implementation process will have an impact on your future business by shaping your reputation and the number and type of references you receive.

Here is an example. Last year I bought a houseful of furniture for our new home in Oregon. The salesman was wonderful to work with. Even though he knew that this was a onetime deal (I had made it clear that there were no more rooms in the house to furnish!), he treated it as a relationship. He asked me how I wanted to work with him. When I said I preferred to be left alone until I had made up my mind, he honored that request. He gave me information and pointed out other possible options

I could consider, but he never forcibly steered me toward a more expensive line or pressed me to buy unwanted extras. Because it was a large order, I was able to negotiate free delivery and assembly. The negotiation was pleasant and professional. At no point did the salesman make me feel like he was doing me a favor. Most impressive, a week or so after the delivery he called to make sure that everything had been installed to my satisfaction.

Had the salesman treated this as a transaction, wringing the most he could out of the sale, he might have come out with a higher immediate gain. (On the other hand, I might have walked out of the store having bought nothing, as I had at two previous furniture showrooms with overbearing salespeople and take-it-or-leave-it attitudes.) However, by treating this as a valued relationship, he came away with a number of longer-term benefits. First, I wrote a note to his boss, saying what a great salesman he was and crediting him for the size of the purchase. When the furniture arrived a bit late, I took it in stride, having enough stored goodwill toward the company to accommodate a few small difficulties. Since then I have regularly recommended the store—and that salesman by name—to family and friends who are looking for furniture. I even made it a point to try out his parents' restaurant, which he had mentioned when we were chatting after the sale.

Let's compare this to the very different experience my friend Jeremy had with the agent managing the commercial property where he had his office. The property market had boomed in his area, and landlords were feeling their power. Hoping to lock him in at the current peak price, three months before Jeremy's initial lease was to expire the landlord sent him an e-mail informing him that they were planning to raise his rent by 80 percent and warning that if he didn't commit to another two-year lease within the next week they couldn't guarantee the "goodwill" rate. The tone could best be described as officious. When Jeremy called the landlord's agent to discuss ways to reduce the increase, the agent was unashamedly rude. "We have people lining up for this

property,” she said. “There’s nothing to discuss. Do you want the deal or not?”

Feeling trapped because he had just paid for some expensive office renovations, Jeremy reluctantly signed the lease. But after that, he made it a point to document every failure of the management or minor problem that occurred, from elevators breaking down to undue noise during office hours. When people asked him if there was space available in his building, he warned them away from “those bloodsuckers.” Six months later, when the property market started to decline, Jeremy couldn’t stand it anymore. Although he knew that by breaking the contract he risked legal action and would suffer expensive relocation costs, he moved out. When the landlord threatened to sue to collect the amount remaining on the lease, Jeremy shot back with his evidence of the building management’s negligence and said he was ready to go to court and make it public. The landlord settled, with Jeremy forfeiting only his initial rent deposit.

Who benefited more? The furniture salesman, who approached a onetime deal as a relationship, or the landlord, who approached a multiyear relationship as if it were a transaction?

Rules of Relationship

Relationships exist at many levels of intimacy. They are not all deep or lasting. No doubt in your own life you have experienced a wide variety of personal relationships: from classmates or colleagues you work with on a daily basis for a fleeting time, to the hairdresser or barber you see once a month for years, to family and friends with whom you share intimate bonds throughout your lifetime. Obviously, these very different relationships require different levels of trust, openness, and commitment.

Commercial relationships run the same gamut: from small customers who purchase limited quantities of your product, to giant

retailers who buy up nearly all of your output; from suppliers who sell you readily available commodities, to high-tech manufacturers who provide you with customized components. You have relationships with business partners, service providers, clients, consultants, employees, bosses, and colleagues. Despite the vast differences among these relationships, they all involve people with whom you work and share a mutual dependence.

Every relationship, regardless of depth, requires words, attitudes, and behavior that express a positive connection. Here is my top-ten list for negotiators:

- Respect, friendliness, a sense that you like the other person as a human being, not merely as a means, or obstacle, to your end
- Fairness in distributing and carrying out both responsibilities and benefits
- Honest, open, and positive communication
- Care and concern for the other's well-being, both within and beyond the immediate transaction
- Empathy and understanding
- Collaborative efforts toward mutual success
- Reciprocity, returning favors, responding to trust with trust
- Open-mindedness, flexibility, and willingness to adapt to different ideas and to changes
- Appropriate commitment at each stage of the relationship
- Dependability, maintaining your understandings, and following through with your promises

This may seem to be an overwhelming list, but it's actually the way we approach normal human relations. Think of even a casual friendship—say with a colleague or neighbor—and you will see that you instinctively follow all of these rules to some extent. You want nothing from these informal associations besides the general benevolence of the other party, and yet you take the positive steps needed to gain and maintain their goodwill. You smile and say good morning; you show concern and care when he appears with his arm in a sling; if she offers you a gift of some vegetables from her garden, you share something with her some other time. This is the natural way human beings interact to create smooth and cooperative relationships.

Why then should it be less natural or intelligent to show the same positive manner toward the person on the other side of the negotiation table, whose active collaboration you are pursuing and whose cooperation you will rely on for your own success in carrying out the agreement? Simply stated, it's not. The grave danger is becoming so focused on the deal that you forget the human being with whom you have to fashion the deal, the person who will say "yes" or "no" to the terms you propose, and the people who will implement any final agreement.

Let's look at each of these attitudes and behaviors within a negotiation context.

Respect, Friendliness, and Liking

Whether you are negotiating a deal or trying to resolve a dispute, it almost never pays to be nasty or to demean the other side. It's such common sense that it's hard to understand why so many people choose a hostile approach. Ask yourself: Do you feel more cooperative toward people who put you down or who, while you are talking to them, scowl at you or roll their eyes? Does having someone reply to your friendly overtures with a silent poker face make you feel more relaxed and creative or more defensive? You wouldn't be in the negotiation if you didn't share a common interest

in working together, so why pretend otherwise? Unfortunately, many people seem to believe that acting surly gives them an edge. Mostly, it just creates resistance.

I have seen negotiations fall apart because one side comes on aggressively or dismissively, such as perpetually reminding the other how much bigger their company is than their counterpart's or using body language that signals contempt. All this does is set off a defensive reaction, along with alarm bells over how unpleasant any working relationship with that party might be. In extreme cases it leads to direct retaliation. A very successful Indian businessman told me how he had walked out of an acquisition negotiation because the attorney on the other side, a white South African, had opened the meeting by shaking everyone's hand but his, the only dark-skinned person in the room. When I asked him if he had damaged his interests by passing up what he admitted was a lucrative deal, he replied nonchalantly, "There are so many fish in the ocean. Who needs a rotten one? I just made the deal with someone else."

Disrespect also leads to indirect retaliation. A supplier to Ford Motor Company found a unique and very effective way of getting back at the automaker for what he felt was its procurement department's bullying negotiation tactics. He shared his experience in an article published in the *Harvard Business Review*, whose U.S. circulation runs to a quarter of a million. The automaker, he complained to all who would hear, "seems to send its people to 'hate school' so that they learn to hate suppliers. The company is extremely confrontational. After dealing with Ford I decided not to buy its cars."¹ He may have continued to work with Ford for economic reasons, but he had exacted his revenge.

On the other hand, people are far more compliant with someone who is likeable and behaves as if he or she likes and respects *them*. You create liking through affiliation (establishing likeness) and affirmation (giving praise).² Affiliation is as simple as finding something you have in common with the other person.

Informal conversations before the negotiation uncover those points of connection, reducing emotional distance and creating the beginnings of a relationship. I may be American and you Russian, but if we both love Tolstoy or have studied in Paris, we become less wary of each other. As the connections grow, so does our willingness to help each other out.

Offering praise is the other building block of liking. Some people are afraid to praise, feeling that it weakens them in a negotiation. In fact, it's quite the opposite. Of course, you mustn't get carried away: fawning and flattery are simply annoying. But offering a genuine compliment to another's attributes ("What a beautiful office you have!"), accomplishments ("We are very impressed with the quality of your prototype"), attitude ("I really appreciate your efforts to resolve this"), or actions ("That's a great help. Thanks!") makes the other feel appreciated. Appreciation opens the door to cooperation.

At a minimum, whether you are negotiating a deal or a dispute, you will come out ahead by being pleasant and respectful to everyone at the table, using their names, starting off with a smile, listening politely and sincerely, and continually sending off positive signals that you want to work with them. Friendliness does not mean that you can't be firm or that you'll only say things the other party wants to hear. It doesn't require acceptance of their viewpoint or acquiescence in their wishes. It simply means never being personally insulting or pointlessly disagreeable.

Fairness

Fairness will be dealt with at length in the next chapter. However, it deserves a quick mention here in the context of friendliness. A common negotiation misstep is to use cooperative language while pursuing utterly one-sided gains. A negotiator might start off with a big smile and say, "I'm looking for a win-win deal," then do everything in his or her power to win the whole lot.

To be effective, friendly words have to be matched with discernibly fair treatment. The two add up to sincerity. Friendliness

without fairness appears as mere wolfish manipulation and can create a powerful sense of revulsion that may not only destroy long-term relationships but even overturn a signed deal. In fact, experiments performed by neuroeconomists on negotiators connected to MRIs found that perceptions of unfairness cause the brain to light up in the same area as when one is physically affronted by a repulsive taste or smell.³ When the unfair demand follows a friendly lead-in, the reaction is particularly bitter—like taking a spoonful of what you thought was honey, only to get a mouthful of motor oil!

Honest, Open, and Positive Communication

When I teach negotiation, I am regularly astonished by the number of otherwise decent people who approach their first role plays by shutting down all honest communication. They may seek to mislead the other side by hiding their true objectives, pretending they want things they don't actually want and claiming that they don't want things they do. Or they will clam up, revealing nothing at all. When asked what their priorities are or what price they're looking for, they will answer with vacuities such as "That depends." Then silence. The result in the first instance (misleading) is that they end up with things they don't want. In the second (stonewalling), if they reach any deal at all, it will be of low value, since they never asked for what they wanted.

Negotiating is an attempt to reach a mutually rewarding arrangement that maximizes your goals. You can rarely attain a goal by aiming in the opposite direction or by refusing to aim at all. Whether you need delivery by a certain date, want to keep a house purchase within a set budget, or would prefer to settle a dispute out of court, you will get the results you are after most reliably and efficiently by first asserting what it is that you want. Saying otherwise will just send the negotiation on an unproductive path.

At minimum, bluffing, misdirection, and stonewalling are wastes of time. Worse, these behaviors are generally understood by society

to be hostile and morally repugnant. Unlike at the poker table, where bluffing is part of the game, social expectations don't disappear at the negotiation table, especially when the negotiation is intended to create a cooperative bond. As with any relationship, business demands honesty and openness.

Moreover, even from the most Machiavellian perspective, the chances that you will get caught giving false information are higher now than at any point in human history. In the linked world of the twenty-first century, information has become remarkably easy to obtain and verify. You might be able to get away with deception on occasion, but over time being known for not playing straight will ruin your reputation and destroy your business.

While honesty and openness are prerequisites to effective negotiation, they alone are insufficient to create a mutually satisfying relationship. The negotiator across the table could, for example, honestly and openly tell you that he thinks you are stupid or that she is not the least bit interested in your needs, but those negative approaches would not likely lead to a successful outcome. Communication that builds relationships also must be positive.

A former student wrote me for advice after failing to negotiate a higher job title to go with the new position and transfer she had been offered. She sent me the e-mail traffic that had led to the communication breakdown. In her last message, after being told by the COO that securing the title she had asked for would be difficult, she had fired back, "I know you *think* that, but you've never given me an acceptable reason to believe it." The COO didn't reply. My guess is that he was questioning whether he wanted to work with her after all.

Although her words were open and honest, they were also attacking and demanding. They led in no positive direction. After we discussed the likely impact of her first message, she wrote a follow-up e-mail the next day apologizing for hitting "Send" too hastily. She wrote, "I know and appreciate you are working hard to give me the best package you can within company guidelines.

However, it is difficult to justify leaving my community and taking on more responsibilities unless I can clearly see it as a step forward. Can you help me understand why the proposed title is a problem? If it's just a matter of wording, I am certain that we can work together to find language that would suit all parties." He responded with an apology of his own for not explaining himself earlier. Within two days, they were able to settle on a mutually acceptable title and job scope.

Care and Concern

To build a rewarding relationship, you need to demonstrate that you care about your counterpart's well-being. Care is more than honest and positive communication or even the fair division of benefits. It is a visible sign that you value others as more than a source of revenue, that you are personally concerned about them.

Care can be shown in a thousand little ways within a negotiation. You might start by asking your counterpart where it would be most convenient to meet. I assure you that this will earn you far more negotiating pull than if you insist that he comes to your office, then stick him in an uncomfortable chair a few inches lower than your own in an attempt to establish dominance. Moreover, the need for care doesn't exist only during the negotiation. To gain the most out of the deal you need to make sure that someone in your company is responsible for the relationship expectations that have been raised during the negotiation.

Several years ago I met a man who produced foreign language versions of leading international magazines. He told me about his very different experiences with two of his suppliers: the publishers of a well-known American men's magazine and an equally popular French women's monthly.

"The Americans," he said, "were very friendly during the negotiation. They showed a great interest in my knowledge of the publishing business. They asked me lots of questions about my experience and said I was just the partner they were looking for. I really

got a warm feeling. But after we signed the deal, I never saw them again. Every month they would send me the copy to translate and ask for my accounts. That was it. When I asked them if they wanted to see the local edition before we went to print, they said, 'No, we trust you know your market.' It was a nice way of saying, 'Don't bother me. Just send the royalties.'

"The French, on the other hand, are on the phone with me practically every week, checking on what I'm doing and offering their suggestions. They want to see each month's edition before it goes out, though they probably can't read it, just to make sure we're in alignment on the look. Last year they asked me to add a men's magazine from their line. That would mean dropping the American magazine, because the market was too small for both. It was a tough choice, because the American magazine was well established, but eventually I went with the French publisher."

"Why was that?" I asked.

He answered in three words: "Because they care."

Empathy and Understanding

Negotiation is about resolving differences, so there will invariably be times when you see things differently from the person on the other side of the table. However, that does not mean that you need to vilify other parties, denigrate their beliefs or ideas, or insist that they are wrong to feel the way they do. Empathy is a great bridge-builder. As with liking, it doesn't require agreement, just an understanding that there are more shades in the world than black and white.

For example, the owner of the professional firm you are seeking to acquire may have put a higher value on her client list than you consider valid. You are certainly correct to question the legitimacy of her estimate, to point out the different considerations that have gone into your calculation, to explain why you believe your valuation is more reasonable, even to make it clear that you are unwilling to pay the price she has asked. At the same time, you

can empathize with the pain she must feel in giving up a business she has spent so many years building, understand the value she has attached to every one of those hard-won clients, and imagine the fears she might feel about her economic future. Showing fellow feeling will get you a good deal farther than saying, "You're crazy if you think your business is worth that much!"

Even in disputes, it is important not to let your anger over the issues translate into personal resentment against the other negotiator. Casting the other side as the embodiment of the problem increases resistance to any settlement while it decreases your perspective and creativity. It may be a truism, but a fight really does take at least two. If before negotiating a dispute you spend some time thinking about how the other side will see things, how he will feel, and why he will feel that way, then you will be prepared to empathize with rather than react to any hostility. By validating his right to be unhappy and appreciating the difficulties he (as well as you) has faced, you can help him open up to a different perspective, even to begin to empathize with you. It is amazing how quickly this will move the conversation from accusation into problem-solving.

Although people may *behave* unreasonably from time to time (and some may do so on a regular basis), it is rarely true that they *are* utterly unreasonable. You just have to find the doorway into their reasoning.

Collaborative Efforts Toward Mutual Success

A relationship is founded on the understanding that we're in this together. I need steady customers, and you need reliable suppliers. I need skilled labor, and you want work that rewards those skills. You and I are each looking for a quiet roommate to share the cost of rent. The more effectively we fulfill each other's needs, the more we both prosper. Indeed, the relationship is only viable as long as we *both* feel it is satisfying our interests. If you think I am pushing only my own benefit at your expense, you will respond in kind until there is no mutuality left.

Unfortunately, while the reality of implementation is “us,” it is common for negotiators to approach dealmaking as “me against you.” Especially when negotiators aren’t involved in implementation—and their performance is assessed on immediate transactional gains—it’s easy to fall into the zero-sum trap of measuring success by how much one side can squeeze out of the other. But it is close to impossible to build a trusting relationship while simultaneously seeking to profit at the expense of the other party.

This mismatch between the transaction and the relationship is one of the most vital reasons that companies need to begin looking beyond the deal and to develop negotiation performance indicators that take profitability, not just price, into consideration. Otherwise, they may end up as Enron did, paying its negotiator a \$54 million bonus for hammering through a power-generation deal in India that not only never made a penny but actually lost the company billions of dollars—helping to drive Enron into bankruptcy. (I’ll talk about that more in the next chapter.)

Cutthroat transactional negotiation can also destroy relationships with outside parties. Accusations of one top discount retailer’s callous treatment of employee claims, for example, have spawned a number of searing documentaries, dozens of protest websites, and literally thousands of lawsuits, not to mention an employee turnover rate that is five times that of the more employee-friendly warehouse store, Costco. Beyond the workplace, the negative publicity about strong-armed negotiation tactics has led to widespread community resistance to store expansion.

Costco, on the other hand, benefits from tremendous goodwill as a result of its more collaborative policy toward its employees. Costco’s founder and CEO, Jim Sinegal, has explained that supporting his employees is a long-term strategy. “Wall Street is in the business of making money between now and next Tuesday,” he said. “We’re in the business of building an organization, an institution that we hope will be here fifty years from now. And paying

good wages and keeping your people working with you is very good business. . . . Imagine that you have 120,000 loyal ambassadors out there who are constantly saying good things about Costco. It has to be a significant advantage for you.”⁴

Negotiating collaborative relationships with your business partners begins the process of synergy. By working together to ensure mutual long-term success, you can collaborate on ways to reduce costs and increase efficiencies, to develop new or improved products, and to explore market-leading opportunities.

Reciprocity

Balance is at the heart of relationships. If someone buys you lunch or gives you a lift home when your car breaks down, you will typically feel an obligation to repay the social debt, either in kind or through some roughly equivalent benefit. It’s human nature. Within negotiation, reciprocity is also the process of exchange that allows us to test the other’s reliability and, from that, begin to build trust.

If, on the other hand, a freeloader sticks you with the bill or asks repeatedly for unreciprocated favors, you will begin to distrust, even dislike, that person. Think of the neighbor you never see unless she wants to borrow something or the co-worker who constantly asks you for help but never gives you credit for your contribution. Within negotiation, this would be the person who pumps you for information but refuses to give out any information of her own; who pleads with you to “help me out” but never gives an inch in return. Failing to reciprocate is the quickest way to kill a relationship.

Reciprocity doesn’t mean automatically matching concessions, although one assumes some give-and-take on terms. Rather, it takes place on a more personal, behavioral level. If you are friendly, I respond with friendliness. If you open up a bit, such as by sharing your priorities, I open up an equivalent amount—or perhaps a step more. We may take turns hosting the meeting. Each time

you respond in kind, you demonstrate that you are reliable, that you will not take advantage of me, and that I can trust you—and vice versa.

In multiround prisoner's dilemma games in which the players can choose either to give or withhold trust, the strategy that wins every time is called "tit-for-tat." The game works as follows. In each round, two players can choose either to cooperate by bidding high (in which case both win a bit) or to try to undercut the other side by bidding low (in which case the low bidder stands to win the whole pot, as long as the other player bids high). If both parties bid low, however, neither wins anything.

Tit-for-tat is a strategy that works to promote positive behavior through the power of reciprocity. Player A opens with a cooperative move, a high bid. If Player B responds with cooperation, then Player A reciprocates by bidding high on the next move. However, if Player B behaves selfishly by putting in a low bid, Player A reciprocates the next round with a low bid. In every new round, Player A consistently pays back Player B's last move. Eventually, Player B will get the lesson that (1) Player A's actions are a direct result of his own and (2) cooperation is more rewarding over the long run than selfishness.

Tit-for-tat is amazingly effective in molding behavior at the negotiation table. For the most part, it's also simple to do. Most negotiators will respond to cooperation with cooperation. Nearly all are happy to retaliate when they feel they have been harmed. The hard part is to respond positively when the other party moves from negative to positive behavior. It's in our nature to hold a grudge for a while when we feel we've been mistreated, and we tend to want to get in the last blow. However, in this case the natural reaction is not in our best interest. If we fail to respond positively to a concession, the other party may get the message that nothing is to be gained from being more cooperative. A spouse or parent may continue making conciliatory gestures in the face of

repeated rejection, but it's unlikely the negotiator across the table will be so long-suffering.

Open-Mindedness and Adaptability

As we will explore more fully in Chapter Six, preparation is essential to effective negotiation. However, planning ahead isn't the same as a rigid insistence on how the eventual deal or relationship will be structured. We always need to be open to the possibility that the other negotiator may have a good idea we never thought of. If we listen with an open mind, we may even find that the other's plan actually gives us more of what we wanted than our original plan did.

Rigidity is the antithesis of negotiation, killing creativity and cooperation, transforming the process into hard-selling at best, outright coercion at worst. Although it is vital to be firm in one's goals, firmness must be balanced with flexibility and open-mindedness in how to achieve those goals. Only our basic principles should be unbending.

While it's more or less self-evident that one needs to be adaptable within the negotiation process, it's a thornier issue when it comes to implementation. That said, it is no less essential. While businesses may yearn for predictability, in long-term contracts the only thing that's predictable is that something will change. When a critical change does occur, a contract-centered, transactional relationship will be unable to cope with the new circumstances, as we saw earlier with Choi and the beef supplier.

A relationship, on the other hand, is able to roll with the punches. That doesn't mean accepting change on demand. Reliability is the cornerstone of relationships, whether business or personal. But by incorporating a degree of flexibility, we can actually strengthen reliability. If we sweep potential problems under the rug and rely purely on the enforcement power of the contract, we'll be thrown into dispute every time a change occurs. However,

by anticipating change and foreseeing potential problems, we can create methods for working them out before they become crises.

Veolia Water, which negotiates twenty- to thirty-year water supply arrangements with foreign municipalities, always includes provisions in its contracts setting out how the partners will handle problems that are likely to occur somewhere down the road, from drought to currency devaluations. As often as possible, the company ensures that the same people who negotiate the contract are directly involved in its implementation, maintaining close, regular communication with the business partner for the duration of the project. As a result, despite droughts, cyclones, earthquakes, and tsunamis, Veolia's international partnerships have grown without faltering, making it the world's leading supplier of piped water.

Commitment

One reason people are leery of negotiating relationships is that they fear the requirements of trust and openness subject them to greater risk. It is undoubtedly true that relationships entail risk. But so does business. So does life. And certainly so does a transactional mind-set.

The fear of negotiating relationships comes in part from a misunderstanding of what it means. Looking beyond the deal does not mean opening your books or baring your soul to the other party in the first meeting. That would make no more sense than proposing to someone you'd just met. You don't know enough about the other party—or they about you—to make an intelligent commitment. Relationships need time to develop and to test for fit. By rushing intimacy, you not only risk making a dreadful mistake but you actually discourage the cultivation of trust by failing to give the budding relationship the care and devotion it needs.

As in the game of tit-for-tat, the best way to build a trusting relationship is to commit one step at a time, checking to see that everyone is still together after each new step. Most relationships

will never warrant complete trust or openness, although they will function very well at a reliable level of cooperation. A few will grow into true partnerships. However, even close alliances need clear, confirmable commitments that can be monitored to make sure that the parties remain on track together and to counter the normal tendency to take comfortable relationships for granted.

Another point of caution on making commitments: most people in the world develop trust bonds with an outsider at a much slower pace than Americans, who are accustomed to forming instant relationships. If you force people from more reserved cultures to make commitments at your pace—especially if they come from one of the harmony-based countries of Asia—they will say “yes” in hopes of satisfying you enough that you will stop pushing. But that doesn’t mean “Yes, we agree” or “Yes, we will do it.” It’s more like “Yes, something like that might be nice someday, once we get to know you.” When negotiating internationally, you have to give the other side the time to grow confident in the relationship.

When my firm was negotiating a project with Siam Cement in Thailand, we met a number of times over the span of nearly a year before they felt comfortable authorizing even the first stage of work. Yet, because we had taken the time to reach a solid, mutual agreement—and because we had earned their trust by keeping faith with them through many changes along the way—they resolutely kept their commitment to us, even when less expensive options came along.

Dependability

The final rule of relationships takes us out of the realm of negotiation per se, but it is necessary to make one vital point about implementation. Agreements are successful only when the parties make them in good faith. If you promise more than you can deliver, expect that the deal will break down and that you will wind up in court. If you fail to honor your commitments, expect to lose the trust and loyalty of the other side.

If you are negotiating an arrangement in which you will play no implementation role, it is crucial you make sure that the implementers on your side are committed to carrying out every agreed term precisely as understood by the parties at the time of agreement and to upholding the spirit of the relationship you have created. Your reputation—and the relationships you have created—rest on your credibility.

Why Go to All This Trouble?

Not everyone wants a relationship. Building and maintaining relationships involves a lot more work than simple dealmaking, in which you can be detached, no-nonsense, and unaffected by what comes after. But over time, living off single transactions is downright exhausting and offers ever-diminishing returns. In the long run, you will find that the extra work you put into negotiating relationships will more than pay for itself in tangible gains—and will reward you with a happier life.

In the next two chapters, we will look more closely at how negotiators can avoid serious problems and realize substantial benefits from looking beyond the deal.

KEY LESSONS FROM THIS CHAPTER

- A deal is merely a promise; a relationship ensures the desired outcome.
- Contracts cannot replace communication.
- Negotiating relationships is a process, not a transaction.
- Every relationship requires positive words, attitudes, and behaviors, including
 - Respect, friendliness, and liking
 - Fairness

- Honest, open, and positive communication
 - Care and concern
 - Empathy and understanding
 - Collaborative efforts toward mutual success
 - Reciprocity
 - Open-mindedness and adaptability
 - Commitment
 - Dependability
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