Successful Entrepreneurs Must Learn to Negotiate
by Larry Susskind

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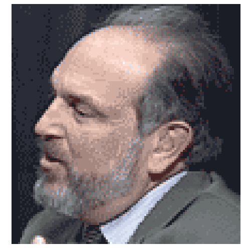

If you can't negotiate, you can't be a successful entrepreneur. My new online class at MIT is designed to help both new and experienced entrepreneurs improve their negotiation skills. This includes learning how to handle the four unique features of entrepreneurial negotiation.

Harvard Business School Professor Howard Stevenson had it right when he said that entrepreneurship is "the pursuit of opportunity beyond resources controlled." That means that no matter what the sector, entrepreneurship requires convincing others—start-up co-founders, angel investors, venture capitalists, employees, and potential business partners —to commit their knowledge, time, reputation, expertise, and money to your idea. You've got to convince them it's in their interest to do what you want, when you want, the way you want. And, you also have to be able to listen and improvise so you can refine, or even overhaul, your ideas in light of others' needs and contributions.

These are learnable skills. Studies and experience show that people can get better at negotiation, no matter what their underlying style or background. Self-confidence has nothing to do with it, either. Empirically, confidence is a terrible predictor of one's negotiation ability. So, if you think you can't negotiate, don't be discouraged. And if you think you're a negotiation genius, don't be so sure.

My new online MIT Professional Education course, Entrepreneurial Negotiation: The MIT Way, is designed to teach dealmaking skills to people working in start-ups or other entrepreneurial settings. It focuses on the unique features of entrepreneurial deal-making: the importance of ego and emotion; technical complexity; uncertainty; and the need to build and maintain relationships. Most simple buy/sell negotiations don't always these factors; most entrepreneurial endeavors do.

My online negotiation course is like no other. It teaches negotiation through the use of role-play simulations developed by the Program on Negotiation at Harvard Law School (which I co-founded, and where I have taught executives and students for many years). These sims allow participants to practice the skills they're learning, and discuss what worked and what they could have done differently. The course also includes video of real people negotiating, and shows me giving them coaching advice using video-recorded highlights of their efforts. The course provides opportunities for students to put their learning into action by writing short (two-page) response papers that other students in the class read and grade using an assigned template.

It is not possible to learn negotiation skills without practicing. And, it is best to practice with someone you can talk to afterwards. So, everyone who registers is urged to have a buddy register with them, so that they can complete four face-to-face practice negotiations. For those who can't co-register with a buddy, we have other ways to help you practice.

The course focuses on the four unique features of entrepreneurial negotiations:

(1) Ego and Emotion

Anyone who invents or creates something tends to become attached to it—maybe even a little protective or defensive about it. After all, they're proud of what they produced—which they understand better than anyone—and have their own ideas about the best way to proceed. They are likely to get upset if someone else even appears to downplay its value. Entrepreneurial negotiations, therefore, almost always involve some degree of defensiveness on the part of the proposer or creator. On the other side, negotiation counterparts, such an investors, tend to have a healthy skepticism about the claims any inventor is making. After all, a large percentage of all new businesses and new ideas fail. Put these two together, and talks are likely to be delicate, perhaps even escalating into increasingly bold claims and deeper skepticism. Such interactions can lead to bruised egos.

Why does this happen? Psychologist Lee Ross at UCLA has identified an important cognitive bias that applies in these situations—reactive devaluation. It causes all of us to automatically question the legitimacy of anything proposed by a negotiating partner. An inventor is inclined to mistrust the statements made by the other side about his or her invention. While investors or business partners almost always start out skeptical about the claims made by an inventor.

There are a number of strategies and techniques that can be used to counteract important emotional and cognitive dynamics like reactive devaluation. Entrepreneurial Negotiation: The MIT Way gives budding entrepreneurs a chance to learn and practice these deal-saving techniques.

(2) Technical Complexity

Many start-ups are built around a technical insight or design. These may involve innovative hardware or software, or a complicated new application of old tools to solve a tricky problem, or capture an untapped market segment. Despite plenty of exceptions, potential investors or business partners rarely have the same specialized expertise as the inventors with whom they are negotiating. That's why investors often rely on experts of their own to test and vet whatever is being proposed. Asymmetries in technical understanding and the involvement of skeptical experts working for the other side can create difficulties.

For example, experts selected by an investor or potential business partner may represent a particular school of thought on a technical matter that causes them to be skeptical of what is being proposed. When this happens, the inventor has to work especially hard to win over the other side's expert. Moreover, even in the face of a great idea, an investor's technical expert might remain skeptical, just to prove his or her worth, reflecting more of a bias than an objective evaluation of whatever is being proposed. In such situations, the entrepreneur will end up negotiating not only with the investor but also, indirectly, with what we call the investor's or partner's "back table."

To negotiate with a back table (even indirectly), entrepreneurs have to find a way to make sure claims about their product or service, based on technical or scientific tests they have done themselves, are convincing. They know the strengths and weaknesses of the tests inside and out. Unfortunately, given typical negotiation dynamics, their results may fail to persuade a back table for the reasons mentioned above. Entrepreneurial Negotiation: The MIT Way teaches "joint fact-finding" – a technique for overcoming this problem.

(3) Uncertainty

Entrepreneurship turns on innovation, and innovation is ripe with uncertainty. The usual argument in favor of something innovative is that no one has ever tried it before. The argument against it is also that no one has ever tried it before. All this uncertainty creates both risk and opportunity. Both are magnified by technical complexity in fast-changing markets and shifting business environments.

Especially at a start-up, reasonable minds can disagree about how to manage uncertainty. Experimentation and creativity help, of course. But in negotiations, investors and entrepreneurs sometimes turn to another tool to resolve their different estimates of what is likely to happen. Instead of trying to negotiate agreements based on whose forecast is more likely to be correct—e.g., how fast the user base will grow, how soon the company will become profitable, when the next round of funding might arrive, how fast the company can scale up its presence or production—the parties can use "contingent agreements." These bridge competing forecasts by spelling out what both sides agree should happen regardless of which scenario is correct. In Entrepreneurial Negotiation: The MIT Way, I examine the best ways of using contingent agreements as a hedge against uncertainty.

(4) Relationships

At the conclusion of many buy-sell negotiations, the parties are glad they never have to see each other again. Entrepreneurial negotiations, on the other hand, often require ongoing relationships. Managers need to keep talking to their board of directors; founders need to talk to venture capitalists more than just once. Once they have worked together for a while, they may part company; until then, though, they are best off behaving as if they will have to continue to work together.

There are several ways negotiators should and should not behave when they anticipate the possibility of long-term interactions with their negotiating partners. First, long-term working relationships hinge on trust, and trust depends on truthfulness. My course explores the differences between the kind of bluffing that's seen as appropriate in many negotiating contexts, and the kind of deceit that sours relationships. Second, when relationships matter, negotiators should avoid win-lose deals that eventually leave one side realizing they didn't get a fair shake. The alternative is a win-win outcome that benefits everyone, at least one that leaves all parties better off than they would be with any other available deal. This is more if both sides commit to creating enough value to go around. Entrepreneurial Negotiation: The MIT Way explains how to create value through win-win trades that build trust and sustain relationships.

The MIT Way

To be a good negotiator, you need more than mere tactics and technique. You need a theory, one that explains why you should do some things and not others. MIT's motto ("Mens et manus") is Latin for mind and hand—theory and practice, why and how. Any good entrepreneurial negotiator must know what to do and how to do it. Without adequate theory, you won't know how to improvise or apply what you know in new situations. Without adequate technique, you won't be able to pull it off. The MIT way is to learn the theory of negotiation (that has developed in academic and business settings over the past several decades) try it out, and then formulate a personal approach to entrepreneurial negotiation that integrates both the why and the how.

Larry Susskind biography and additional articles:
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