In Practice

The Eight Big Negotiation Mistakes that Entrepreneurs Make

Samuel Dinnar and Lawrence Susskind

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Entrepreneurship typically entails a series of interactions between founders, partners, potential partners, investors, and others at various stages of the entrepreneurial process – from the "seed" stage when the business is just an idea to the "exit" stage when the entrepreneur sells or departs. We have scrutinized the full range of entrepreneurial negotiations seeking to identify the most common negotiation mistakes that entrepreneurs make, and in this article we describe eight of them. We discuss how they can learn to prevent these mistakes – especially through proper preparation – and which strategies they can deploy to overcome the mistakes they do make.

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10.1111/nejo.12244

Key words: negotiation, entrepreneurs, company founders, negotiation mistakes, mutual gains

Introduction

The great majority of start-up businesses fail, and most of the entrepreneurs who succeed have, at some point, made mistakes and "bounced back" from them. Many entrepreneurs fumble key interactions because they don't know how to handle the negotiation challenges that almost always arise. Some mistakenly believe that deals are entirely about money, when, in fact, they involve much more than that.

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The job of entrepreneurs is to transform ideas into new products or services for which there is a market. Along the way, they must convince others to share their vision, and, even in the face of skepticism, assemble supporters to move their ideas forward. In addition, they must interact with numerous potential partners, adjusting their vision in response to new information and partners' input, and produce a business plan. They must "pitch" their plans to potential investors and customers (i.e., persuade them of their plans' value and potential) – sometimes offering shared control or ownership in exchange for the money or support they need. With or without external funding, they must find ways of pursuing their (changing) vision while satisfying their founding team and a growing circle of stakeholders.

Entrepreneurs pride themselves on creating disruption and driving innovation. At each stage of every entrepreneurial effort, and sometimes even within a single stage, circumstances can shift quickly – and unexpectedly. Planning is critical to any entrepreneurial effort, but so is the ability to improvise or adapt. What we have found in our research is that entrepreneurs who pay close attention to what's happening around them, while simultaneously keeping a clear map or plan in mind, achieve the best results.

Our research suggests that the single biggest threat to entrepreneurial success is an inability to effectively manage the negotiations that arise at key interactions in the evolution of a start-up. We've interviewed a series of entrepreneurs who have overcome serious setbacks.[1] We have also combed through the published literature looking for evidence that helps explain their long-term success.

In his book *Innovation and Entrepreneurship* (1985), Peter Drucker analyzed the challenges and opportunities that start-up innovators face. In *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* (2011), Eric Ries summarized the lessons of lean manufacturing and reported that it is possible to use rapid scientific experimentation to shorten product development cycles. In *Disciplined Entrepreneurship: 24 Steps to a Successful Startup* (2013), Bill Aulet mapped a road to entrepreneurial success via the development of an innovative product. These and other authors have suggested that the key obstacles to entrepreneurial success arise from barriers to innovation. Based on our findings, however, we have developed the view that the failure to effectively manage negotiation challenges is equally important.

Entrepreneurial negotiations are unique in several ways. Emotions, relationships, complexity, and uncertainty are central. Emotion and ego can come into play when investors want – and need – control over various aspects of a new enterprise, while inventors are loath to give up control. Successful entrepreneurs must overcome the blindness that emotional reactions can create. They must find ways to ensure that their ego doesn't get the better of them. When someone invests in a venture, the main asset that he or she is buying is a "share" of the people involved (their ideas, their expertise, their work). When the parties shake hands, they commit to a relationship, often for an extended period. A proud inventor may find it difficult to give up sufficient control to make a partnership worthwhile to an investor, while investors may fail to appreciate – and express sufficient appreciation for – what an entrepreneur has already accomplished.

Many new ventures revolve around innovation. Consequently, because of the product's or service's newness or technical sophistication, people may find it difficult to understand what the entrepreneur is proposing. Effective entrepreneurs must learn to make something new and intricate understandable to someone who doesn't have the same technical expertise that they do. Thus, complexity can impede progress on working out a deal.

In founding and managing a start-up, entrepreneurs must also cope with uncertainty. Many things can suddenly undermine a deal, including changes in market conditions, the rise of strong competitors, changes in regulations, and competition from more lucrative investment options. It is difficult to attend to all such contingencies when negotiating the terms of a deal, especially if the entrepreneur and her counterpart have different tolerances for risk. In entrepreneurial negotiation, emotion, technical complexity, and uncertainty are all heightened and create unique negotiation challenges for entrepreneurs.

Entrepreneurs' Negotiation Mistakes

In our book, *Entrepreneurial Negotiation: Understanding and Managing the Relationships That Determine Your Entrepreneurial Success* (Dinnar and Susskind 2018), we identify the eight most common negotiation mistakes that entrepreneurs make in addressing the heightened emotion, uncertainty, complexity and relationship- building intensity of entrepreneurial negotiation. Some of these mistakes have been described by other researchers in different negotiating contexts. Our interviews with entrepreneurs have helped us understand how and why these errors occur in this particular environment.

Entrepreneurs Are Self-Centered

Because entrepreneurs are so focused on their own interests (and, perhaps, they should be), they often fail to take account of the needs and priorities of others, including their partners. They fail to investigate their counterpart's underlying interests, overreacting to initial demands, which may have been offered for tactical reasons or as a way of disguising real interests. They attribute unrealistic or bad intentions to the other side.

As Francesca Gino described in her book *Sidetracked* (2013), many factors – even some that are simple or irrelevant – can have profound consequences on decisions and behavior because egocentric biases tend to contribute to what people think is important or fair. Because they are too focused on their own desires and fears, entrepreneurs can be blind to cues that could lead to good outcomes for both sides. Many entrepreneurs are assertive negotiators, and that's fine. They are knowledgeable and persuasive in making their own case, but they are often not good listeners. And many fail to understand the pressures facing their negotiating partners.

Entrepreneurs Are Overly Optimistic and Overconfident

Entrepreneurship involves dealing with risk and uncertainty, and obviously the technical, engineering, and scientific aspects of innovation create significant uncertainty, as do the business risks associated with disruption – modifying markets and trying to reshape customer behavior. The regulatory landscape and economic ups and downs create additional uncertainty. Nevertheless, many entrepreneurs remain supremely confident in their predictions. To make matters worse, having overcome long odds in the past, entrepreneurs may feel they were right to take risks all along, and are emboldened to do so again. They believe strongly they will be successful – despite well-known statistics regarding failure rates – and fail to incorporate appropriate contingencies into the agreements they sign. In addition, as Lawrence Susskind has pointed out in his book *Good For You, Great For Me* (2014), entrepreneurs and others with high tolerance for risk fail to take account of the possibilities that agreements will break down or people will act unreliably. Consequently, they sometimes sign agreements that do not include adequate dispute resolution provisions.

Entrepreneurs Need to Win – Now

Whether they negotiate with a win–lose mindset or not, the primary objective of many entrepreneurs is to win. In negotiation, winning is conventionally defined as reaching an agreement that is better than every no-agreement alternative. But, with self-driven entrepreneurs, we have found that many are even more concerned about besting their counterpart, rather than just winning – even if that leaves them with a poor outcome.

In addition, they often treat negotiations as one-off interactions, disregarding the possibility that future deals with the same parties might be more valuable to them than the present deal. Experiments conducted by, Jared Curhan, Hillary Anger Elfenbein, and Noah Eisenkraft (2010) suggested that the positive feelings produced in one negotiation can result in better outcomes in a subsequent negotiation with the same person. Entrepreneurs often fail to consider the lasting impact their immediate actions may have on trust, reputation, future negotiations, and long-term relationships. In addition, they can fail to pay sufficient attention to the coalitional or back-table dynamics that explain why their offers are being rejected.

Entrepreneurs Are Too Quick to Compromise

An entrepreneur may feel that some issues are not candidates for compromise and may, in anger, even walk away, prepared to live with only a bad BATNA (best alternative to a negotiated agreement). But many other issues on which entrepreneurs may find themselves simply compromising are, in fact, candidates for bargaining.

Entrepreneurs are “doers.” They try to get things done while operating under serious time pressures and are constantly multi-tasking. They often feel compelled to decide quickly and “move on.” In the interests of time, however, they sometimes accept simple compromises that leave potential joint gains unclaimed. They may even believe that a good outcome is one that leaves both parties equally miserable. Such negotiators get “fixated” on a narrow set of low expectations.

As Hal Movius explained in his book *Resolve* (2017), this can be especially true when the stakes are high. As soon as a solution emerges that is somewhere in the zone that works for both sides, they stop, unwilling to "rock the boat." This leads them to underinvest in value creation. Instead of searching for even more advantageous trades, they settle for the quick solution, which enables them to move on to technical discussions with which they are much more comfortable. Sometime it is their aversion to conflict that can drive them to less advantageous compromises.

Entrepreneurs Work Alone

Entrepreneurs are accustomed to lean operations. They typically assume they can accomplish on their own or with a small team what established competitors, with much larger organizations, may not be able to achieve. Sometimes this is true, but when they overestimate what they can do on their own, they may prepare alone, rather than consulting their "back table," (i.e., the people to whom they must report and whose approval they need), misread unfamiliar signals, take unreasonable stands, or vent emotionally at inopportune times.

Even talented entrepreneurs who have had extensive training make the mistake of thinking that negotiation is an individual endeavor. They fail to embrace negotiation as an organizational task, as Susskind and Movius described in their book *Built To Win: Creating a World Class Negotiating Organization* (2009). Entrepreneurs often fail to recognize that their internal stakeholders have as much on the line as they do – they confuse being responsible, in a heroic sense, with being an effective team leader. Consequently, they often treat negotiation as an individual task, which can lead to internal squabbles that can undermine agreements.

Entrepreneurs Haggle

Haggling is when a buyer and a seller, debating the price of a transaction, operate on the assumption that more for one necessarily means less for the other. This is traditionally called "zero-sum" bargaining because the gains to one side equal the losses to the other. Howard Raiffa, in his book *The Art and Science of Negotiation* (1982), argued that "zero-sum" thinking often leaves both sides worse off than if they had bargained for more joint gains.

Most entrepreneurs believe strongly that their companies and the ideas behind them are unique and especially valuable. Usually, they have been successful in convincing other people of this. Typically, they perceive price as the strongest possible validation of the accuracy of their assumptions, and they use it to measure their success. Many get "tunnel vision," however, assuming that the only thing they're negotiating is price, which can lead them to take a series of aggressive positions along this single dimension, while failing to consider other factors that might create significant value. Haggling can also involve threats that can trigger run away emotional reactions, which can trigger escalation in assumptions, emotions, and rhetoric (Stone, Patton, and Heen 1999).

Entrepreneurs Rely Too Heavily on Their Intuition

Entrepreneurial negotiation involves many moving parts and multiple factors must be considered simultaneously, which can create surprises. But because some of these can be anticipated by paying close attention to the changing environment and the warning signs, Max Bazerman and Michael Watkins referred to them as "predictable surprises" (2008). Because other surprises, of course, cannot be predicted, entrepreneurs must often be like performers: able to cope with unexpected events, to make rapid adjustments, and to improvise (Wheeler 2013).

Just like improvisational performers, entrepreneurs must be prepared to go off script. They learn their lines, but then are required to respond in the moment as the need arises. Many rely on the instincts that made them successful, but are not exactly sure why or how their practices have worked for them. They have not developed a personal theory of practice, and many told us they have not undertaken any negotiation skills training. Entrepreneurs often find new kinds of interactions (or old kinds of negotiations with new people) extremely frustrating: what worked before isn't working this time. When negotiations don't go as expected, many entrepreneurs blame the difficulty on the other side. To make matters worse, these same problems can keep occurring because they don't learn from their mistakes.

Entrepreneurs Deny Their Emotions

Entrepreneurs are human, like the rest of us. Many have a strong sense of what is fair. When they feel they are being mistreated, they fall prey to a slew of cognitive biases that allow emotion and ego to overrule logic. This can be especially problematic for entrepreneurs who tend to deny the relevance of emotions (and ego) to negotiation. While claiming "it is just business," they can overvalue power, leverage, and control and undervalue the more subjective side of business negotiations. They overlook the emotional needs that every person brings to the negotiation table (Fisher and Shapiro 2006), which can cause them to misread what the other side is thinking. They can also fail to realize the self-fulfilling impact their cognitive biases can have on the negotiation (Ross 1988), which can lead them to prepare improperly. When they are at the table, it is as if they have blinders on: they only see and hear what they expect to see and hear.

The Impact of Entrepreneurial Negotiation Mistakes

By interviewing numerous entrepreneurs, we have begun to identify how these eight mistakes play out as entrepreneurs engage with the key players from whom they typically seek support: outsiders, external backers, insiders, and front-liners.

Outsiders

People in this category are those to whom an entrepreneur must make a pitch to get them to buy a product, reduce a price, deliver a product earlier, reduce the scope of work, join the development team as an employee, collaborate as a partner, or invest in a venture. These often involve new relationships, although they can build on previous interactions. In each case, parties are likely to confront information asymmetries, in one or both directions. A potential customer may know little about product specifications or prevailing prices – at the same time the entrepreneur probably knows little about the other side's needs and financial constraints. If the goal is to get the "other side" to change her mind, the entrepreneur is likely to be focused only on persuasion. More likely, however, both sides will need to make adjustments to reach agreement, which requires negotiation – and specifically information-sharing – more than persuasion.

Entrepreneurs can make mistakes when they short-change their exploration of their potential partner's interests or rush to close too quickly (under investing in relationship building) and when they rely too heavily on intuition rather than careful analysis.

External Backers

External backers include the start-up company's investors and, especially, its board of directors, which is the only group with formal authority over the entrepreneur. Board members can fire the founder and change the compensation of every executive. Board approval is typically required for the annual budget as well as for extraordinary expenses. Certain decisions, such as accepting additional financing, require the signatures of all (or most) shareholders.

Some investors and board members may have significant experience, while others may know much less about the business domain than the founder or the top executives. External backers often don't have time to master the fine details.

For the entrepreneur, the power dynamics involved in engaging with external backers evolve over the life of a company. When a company is still at the idea stage, founders control 100 percent of the votes on the board and 100 percent of the shares. They are accustomed to working alone. But this changes, when, in exchange for funding from investors, founders give up full control of voting shares and/or board seats.

As the company grows, the founder may still retain majority control because some investors are loyal to her but eventually the board majority will include professional investors and industry experts whose loyalty and duty are to the company's financial well-being, not to the founder. Such shifting patterns of control are often a source of tension.

The mistakes that entrepreneurs typically make when dealing with external backers can often be blamed on the founder's self-centric view as well as disagreements about the allocation of authority and autonomy. Strong emotions also tend to arise in these situations, often as a by-product of concerns about status and appreciation.

Insiders

Insiders are unique in that they all report to the founder/CEO and are dependent on the founder for their jobs, salaries, bonuses, and performance reviews. At the outset, a founder needs to recruit and manage every employee, often without being able to guarantee them employment security or rewards. Some early recruits end up wearing additional hats by sitting on the board or owning special co-founder shares. Power imbalances inherent to boss–employee relationships can confuse individuals who must work closely with a founder (indeed, many founders refer to their employees as "family" and develop close friendships).

In the initial stages of an entrepreneurial effort, the founder-CEO is usually the sole decision maker and is therefore looked to as both a visionary and authority figure. Later in the life of a company, as a venture grows, employees continue to "look up" to the founder. Some early team members, who were used to working intimately with the founder, may find themselves several layers away in a new organizational structure, subject to different corporate rules and policies.

Chief executives need to continuously "sell" their company's vision and to maintain the trust of those who work for them. Especially in the urgent environment of a start-up, some employees will suppress their emotions, hold back from providing honest feedback to the founder because of the perceived risk associated with speaking up, and allow tensions to escalate past a point of no return.

These workplace relationships often suffer when parties make classic negotiation mistakes, including haggling (going back and forth on salary amount, and neglecting other important factors), taking a self-centered view that disregards the interests of others or fails to adjust to shifting external realities, misusing power, underestimating the importance of emotions, and avoiding difficult but necessary conversations about role clarity and accountability because of the discomfort they can create.

Front-liners

This group includes individuals who represent the company to the outside world. Many front-liners are involved in either selling or buying on behalf of the company. Usually, in the case of sales and business development, employees serve as agents and are compensated at least partially based on their performance.

Other front-liners are not employees, but ad hoc business partners, agents, or contractors who will walk away if their relationship to the founder no longer serves their interests. Entrepreneurs may find themselves conflicted: should they treat front-liners as regular employees and risk losing talented sales people who expect to be rewarded for exceptional achievements? Or should they treat them as short-term cash incentive–motivated individuals, alienating those who do not want to feel as if they are "coin operated"? These tensions must be balanced in a way that creates value for everyone but takes account of people's desire to be treated fairly.

Typical mistakes that occur when dealing with front-liners involve overlooking the difference between their identification as "the company" and their role as representatives (i.e., agents with their own interests). Founders dealing with these tensions can make things worse by being overly self-centered and neglecting to share credit.

Avoiding Entrepreneurial Negotiation Mistakes

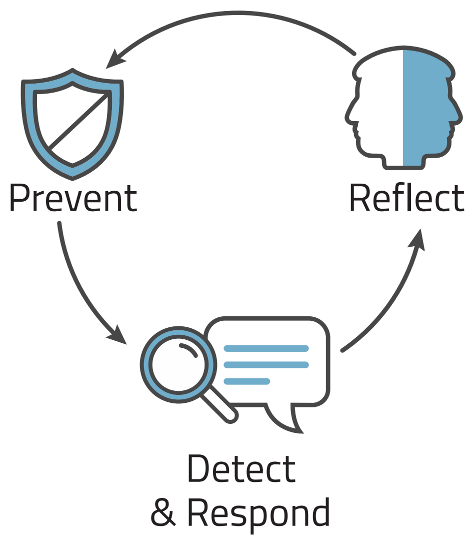
Our interviews and research suggest that successful entrepreneurs manage negotiations in ways that are consistent with their values, priorities, and preferences. They rely on colleagues, advisors, and personal reflection to learn from their failures and mistakes. This requires careful preparation for each negotiation before it begins, paying close attention to face-to-face interactions at the table, finding ways to both create and distribute value, and managing "away from the table" pressures including back table mandates on both sides. Successful entrepreneurs are disciplined about following through deliberately after each negotiation (e.g., by completing action items, tending to relationships, and reflecting on what they learned).

We have separated the measures entrepreneurs should take into four categories: moves that can *prevent* negotiation mistakes, strategies that can *detect* mistakes as they are about to happen, ways to *respond* if they do occur, and techniques for *reflecting* upon past negotiations in order to prepare for the future. If entrepreneurs treat negotiation as one of their most important responsibilities, they will be better able to prevent, detect, and respond appropriately to mistakes that may occur by engaging in what we call the Entrepreneurial Negotiation Loop (Figure One).

Those who are prone to being too self-centered, too trusting, or too optimistic that the other side will be willing to reach agreement have been able to control these tendencies by staying open, being curious about their counterpart's interests, and by adjusting their expectations. Entrepreneurs who tend to be too competitive and impatient have learned to maintain a more open attitude and to be clear about their purpose at each negotiation step to help them avoid becoming overly defensive or triggering unnecessarily aggressive behavior. Entrepreneurs whose habit is to fly "solo" and those who have been blinded by their own cognitive biases have learned that the insights of their colleagues – another "set of eyes and ears" – can broaden their perspective and help them avoid errors. This is especially true of entrepreneurs who tend to haggle and need to be reminded to switch into problem-solving mode, use brainstorming, and keep searching for trades that will create more value.

Although making mid-course corrections is required in entrepreneurial negotiations, these should be more than just intuitive. Successful entrepreneurs use proven strategies and practices to overcome bad habits. Committed mutual gains approaches to negotiation can help even

Figure One
The Entrepreneurial Practice Loop
[Colour figure can be viewed at wileyonlinelibrary.com]



when the person across the table deploys competitive tactics or is uncooperative. Finally, because the entrepreneurs we interviewed told us that emotions played a role in almost every mistake they made, we believe that relying on a negotiation framework that acknowledges the importance of human psychology and working constantly to reduce tensions in the room can increase the chances of success.

Conclusion

Our research has convinced us that emotions (including those related to ego), technical complexity, and uncertainty – all typical of most entrepreneurial negotiations – tend to get in the way of building the relationships that are key to entrepreneurial success. Several of the entrepreneurs we interviewed described how they were able to bounce back from a variety of failures. Their experiences convince us that entrepreneurs should focus on how to avoid the eight mistakes we identified here – self-centeredness; excessive optimism and trust, excessive focus on winning; compromising too quickly; working alone too often; haggling; relying too much on intuition; and denying their emotions.

Entrepreneurs must guard against making these mistakes during interactions with an evolving, but predictable, range of actors: outsiders, external backers, internal leaders, and front-liners. They can prevent and correct these negotiation mistakes by committing to what we call the "negotiation loop": prevent through effective preparation, detect their own mistakes by being more attentive and outward-looking, and respond (rapidly) by acknowledging mistakes as soon as they occur, making adjustments both individually and organizationally. All this requires treating negotiation as a critical entrepreneurial skill and engaging in continuous self-reflection, alone and with others.

NOTES

This article is adapted, with permission, from *Entrepreneurial Negotiation: Understanding and Managing the Relationships that Determine Your Entrepreneurial Success* by Samuel Dinnar and Lawrence Susskind, which is forthcoming from Palgrave Macmillan.

1. These include Joel Berniac, Stephen Boyer, Josh Feast, Barbara Fox, Illai Gescheit, Brian Halligan, Peter Hansen, Petra Krauledat, Dipul Patek, Vinayak Ranade, Alison Taunton-Rigby, Ailis Tweed-Kent, Lydia Villa Komoroff, and Ben Waber. Some excerpts of these video interviews are available at EntrepreneurialNegotiation.com

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