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## Building negotiation capability in an organisation

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*Companies should view negotiation as a critical capability in building success*

If you were to ask senior corporate managers for the critical factors that contribute to the success of their organisations, chances are they will mention one or more of the following: leadership; innovation; customer mindshare; supply chain management, etc. **Michael Benoliel** of Singapore Management University (SMU) believes an important success factor has been constantly overlooked: negotiation capability.

In a recent working paper titled *“Building Organizational Negotiation Capability”*, Benoliel argues for the need for organisations to invest in developing individual as well organisational negotiation capabilities.

In most organisations, “negotiation is unstructured, improvised, sporadic, not well-recorded, and rarely analysed in the post-deal stage,” says Benoliel, Associate Professor of Organisational Behaviour & Human Resource at SMU. The idea is to develop a negotiation ecosystem – a set of processes and structures that are designed to support negotiators in achieving superior results.

One way of doing this is by creating a negotiation information system where details of each deal that has been negotiated will be recorded: the planning and preparation; with whom the negotiation was done; the issues and interests covered; the outcome etc. Over time, a library of negotiation cases will be accumulated, and these cases will be the basis of “lessons learnt” and for developing best practices in negotiation.

## **Negotiation as a core competency**

Benoliel believes that “building excellent core capabilities begins with a deliberate managerial decision to elevate a particular task to the level of a strategic thrust and allocating to it the necessary resources”. This explains the excellence of Amazon and Wal-Mart in supply chain management, as well as the product and service innovation of Apple and Google.

Benoliel describes a four-stage development model for building negotiation capabilities within an organisation:

**Stage One: Ground Zero** – organisation does not recognise the value of negotiation, and does not invest at all in building negotiation ability within the organization. Thus, training and development in negotiation is not offered;

**Stage Two: Embryonic** – organisation sees negotiation as a somewhat important skill, but only for a select group of employees, typically sales and procurement personnel who get opportunities to develop negotiation skills;

**Stage Three: Growth** – organisation recognises negotiation as an important skill and offers training to employees in many different functions. However, post-training implementation, coaching and mentoring, are limited to a few high performers who have been identified to have high potential;

**State Four: Core Competency** – organisation recognises the value of negotiations capabilities, and allocate significant resources to making it a source of competitive advantage.

At the core competency level, organizations focus on two levels: Individual and organisational. Benoliel wrote in his paper:

*“At the individual level, extensive training in basic and advanced negotiation is offered not just to those who negotiate directly with customers or suppliers, but to all the members of the organisation. The training is designed to develop individuals’ tactical and strategic capability in negotiating and influencing. In addition to building skills via training, further development is offered through mentoring and coaching by internal or external experts in negotiation.”*

However, it is at the organisational level where companies need to focus their attention to build what Benoliel describes as a negotiation ecosystem, which consists of eleven elements. One of them, for example, is building a core negotiating team, something that companies such as Nestle has done well.

For companies that have reached a specific size, having such a team is crucial.

“Let’s take a company that makes shoes and sells shoes for example,” Benoliel explains, “and this organisation has 5,000 stores around the world, then this is a very large organisation. This company will distribute the shoes via shopping malls, and therefore they’ll have to negotiate hundreds and hundreds of commercial leases. Who negotiates those commercial leases? Usually it’s the country manager or the regional manager; they might not be the best people to do this.

“For such an organisation, if you have a few expert negotiators who specialise in commercial real estate and leasing commercial space, they can work with the country managers and add value there.”

The other ten elements of building organisational negotiation capability are:

- Senior Management Support;
- Culture of Negotiation Excellence;
- Reward System;
- Performance-Based Metrics;
- Efficient Negotiation Process;
- Deal Formulation and Implementation;
- Organisational Policies and Procedures;
- Research Unit;
- Information System; and
- Negotiation Portal.

## **Benefits of building negotiation skills**

It will take plenty of work and a change of mindset for companies to make negotiation a core competency, but the benefits are clear and considerable; specifically, avoiding losses in large scale deals. For example, a KPMG study found that 83 percent of mergers and acquisitions failed to unlock value. Benoiel lists a few of them in his paper:

- America Online (AOL) and Time Warner merger: US\$200 billion in shareholder value lost;

- Canadian businessman Robert Campeau overbidding for Federated Department Stores by US\$500 million, leading to his bankruptcy; and

- After the \$5.8 billion acquisition of Rubbermaid, the former CEO of Newell openly admitted that his company had grossly overpaid for the acquisition.

Most executives are not yet fully aware of the significant value of negotiation, says Benoliel, because they are often involved exclusively in strategic negotiations but not in the hundreds and thousands of tactical negotiations at the lower levels of the organization. This limits their awareness of how much more value can be created by building a supportive negotiation ecosystem. He adds, "Rarely will someone say, 'Negotiation creates enormous value.' If an organisation transacts billions of dollars in deals annually, and you improve the negotiation capabilities of employees by only half a percent, you can see how much can be saved."

*For a copy of the working paper contact Dr. Michael Benoliel: [mbenoliel@smu.edu.sg](mailto:mbenoliel@smu.edu.sg)*