



riskupdate

GLOBAL

The quarterly independent risk review for banks and financial institutions worldwide

Q2 2017



2017 Economic Predictions

Also in this issue

- Negotiation Risk
- The Threat to Banks
- When They Call You
Who Are You Gonna Call
- Turkey: The Impact of
Fitch's Downgrade to BB+



Negotiation Risk

Rohan Badenhorst (CIMA) is a financial services professional and thought leader specialising in ‘the big picture’, systemic and structural relationships within and among financial organisations. Risk takes many shapes and forms. Being able to navigate the route map and understand the landscape of negotiating transactions, deals or commercial contracts will help us envision the expected outcomes more clearly. In the first of a two part series of articles, Rohan Badenhorst, CGMA, takes us through the various levels of appreciating the nuances and reality of Negotiation Risk

Have you ever experienced the sinking feeling that you have been outfoxed in a negotiation scenario? Of course you have. We all have at some point or another come across someone, somewhere, somehow who was just plain better than ourselves at negotiations. Negotiation certainly is a skill we can learn and nurture our entire lives. At the core of our everyday existence, we have to be negotiators at heart. Negotiations have many facets and layers to them and bearing in mind Pareto’s efficiency and golden rule of the 80 / 20 principle, certainly 80% of us are continually stuck on Level 1. We see five distinct and different levels of negotiation.

Level One – The TRANSACTION-based negotiation

This is the level where at least the majority, if not 80% of individuals find themselves. Effectively people with a transaction based approach don’t really enjoy or relish the cut and thrust of any good negotiation (or negotiation process). Mostly flung into situations where you have to let go of your safety net and comfort blanket in order to get the best ‘deal’ available to the organisation or party you are negotiating for. We call these situations the ‘size of the slice’ negotiations. Effectively the zero sum game negotiations where each party is negotiating in order to extract the largest chunk of an already carved up pie.

Level Two – The RELATIONSHIP-based negotiation

This is the level where we really start differentiating ourselves from the 'crowd'. We believe that only 16% of negotiators find themselves 'comfortable' at this level. Basically these are skills individuals who understand that there actually is a 'pie' out there and that the main focus is on getting a large a slice as possible of this pie. We call them the win-win negotiators.

Level Three – The VALUE-based negotiators

This is where we believe only 2.5% of the really skilled negotiators find themselves on the continuum. Value- based negotiators actually understand and appreciate the fact that the size of the eventual pie has not yet been determined. They seek the 'hidden value' in the negotiation and possession and design the deal in such a fashion that both or all interested parties secure positions that are both advantageous, yet can become even more so via cooperation and collaboration. Quite a powerful place to be.

However, we pause at this point to reflect on the basic premise of the three levels we have explored so far. Astute observers might have noticed that all three levels are based on what we refer to as 'extractive' tactics and strategies. The main tasks of the negotiator is to extract the maximum value from the deal for themselves or their related parties, the organisation or group of individuals they represent.

Moving on to levels four and five requires a complete step change and mental adjustment only around 0.5% [or the rest] can make.

These negotiators are so rare and valuable that to come across the few out there really is a privilege and a special situation to savour. Their rewards and returns are exponential, compared to the 99.5% transaction negotiators.

Level Four – OPPORTUNITY-based negotiators

Opportunity-based negotiators have at their core being a desire to grow and develop markets. Sometimes called 'rain-makers' there is a mistaken perception that these highly skilled negotiators have the ability to move markets or are market makers. That is true to some extent, however they understand that value in any deal is not about an extraction of the value, but more about the creation of value. This is a fundamental mental step change. Eccentrics these characters may even

be, but once you come across an opportunity based negotiator, you know you have begun to meet your match and are dealing with a very special type of negotiator.

Level Five - CRE8(OR)S

Cre8(or)s or rather creative negotiators are so rare that we shall not spend too much time analysing their style and influence on negotiations. Bear in mind that these types really appreciate and rarely actually engage in a negotiation, because they spend so much time designing a deal that most of 'hard' negotiation tactics are delegated to skilled professionals. It is important to understand that these individuals dwell in a completely different 'universe' of negotiations to the rest of the population. This is why only around 0.1% of individuals fall within this category.

Actions

The great opportunity for the vast majority of us mere mortal negotiators dwelling in level 1 is that the only way is up the ladder and that through skills training and practice we can develop the talent necessary to become better negotiators. One of the key ingredients to appreciate is the fact that once you get beyond a transaction based negotiation, and by transaction based negotiation we refer to the 'supermarket' negotiation, because you have to accept the price of the product presented to you, every negotiation has at its core a design element to it. Take some time to think and appreciate the design elements of the negotiation to become a more successful negotiator.

In the next article of this series on Negotiation Risk, we will focus more closely on design elements and risk factors of the relationship and value based negotiation.

The author invites comments via email to
JK@riskrewardlimited.com