**Entrepreneurs: Prepare for Challenging Conversations in Key Negotiation**

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**4 Aspects of challenging conversations – and how to overcome them**

**1. Ego and emotion.**

“Anyone who invents or creates something tends to become attached to it—and maybe even a little protective or defensive about it,” according to Susskind. After nurturing an exciting new idea, entrepreneurs are likely to have strong opinions about how their concepts should be brought to market. And they are likely to react strongly when someone seems to criticize or downplay what they have invented, as any viewer of the television show *Shark Tank* has observed.

Meanwhile, by necessity, investors and others in the business of vetting the next great idea build up a healthy skepticism about the pitches they hear. Fully aware that the majority of new business concepts fail, they scrutinize entrepreneurs’ claims closely for flaws. They may also try to conceal their excitement about a new business to try to get a better deal for themselves.

Not surprisingly, in challenging conversations when a potential partner’s skeptical remarks come up against an entrepreneur’s defensiveness, bruised egos and strong negative emotions often result. *Reactive devaluation*, a common [cognitive bias](https://www.pon.harvard.edu/daily/negotiation-skills-daily/integrative-negotiation-and-negotiating-rationally/) identified by Stanford University professor Lee Ross, lies at the root of this challenge, according to Susskind. Reactive devaluation leads negotiators to automatically question the legitimacy of whatever a counterpart whom they perceive as an adversary proposes.

Negotiators need to overcome the reactive devaluation inspired by runaway egos and emotions. But how? There are numerous solutions to this problem, according to Susskind; one of the most promising is to rely on an intermediary, acceptable to both sides, to initiate or facilitate preliminary negotiation.

Entrepreneurs may initially balk at the idea of allowing someone else to lead their negotiation, even if only at the outset. But an intermediary whom both sides agree on can be invaluable in helping parties sidestep the problem of reactive devaluation. When an intermediary floats proposals and offers, both parties are less likely to immediately discredit or discount them, says Susskind. Involving a mutually acceptable intermediary can reduce the chances that emotions and ego will sidetrack the negotiations.

The idea of enlisting an intermediary or a facilitator to help you explore a potential deal has a long history in Asian business negotiations. An independent financial expert, trusted by both sides, often makes discreet inquiries (with the agreement of both buyer and seller) to determine quickly whether a [*zone of possible agreement*](https://www.pon.harvard.edu/daily/business-negotiations/how-to-find-the-zopa-in-business-negotiations/) (ZOPA) exists, given the interests and expectations of the parties. If a deal is unlikely, both sides can look elsewhere, and no one loses face. Negotiators who have experience crafting long-term business relationships are likely to find this strategy intuitively appealing.

**2. Technical complexity.**

Whether the innovation at stake is a smartphone app or a service requiring a network of complex software, start-ups often are based on a technical insight or design. Unfortunately for the entrepreneur, potential investors and business partners often lack the specialized technical expertise needed to fully grasp the entrepreneur’s concept.

This imbalance in technical knowledge can become the source of more challenging conversations in entrepreneurial negotiations. Because potential investors and partners often hire experts to test entrepreneurs’ products and services, an entrepreneur may be faced with the task of trying to win over the other party’s expert or team of experts. Rather than viewing your ideas objectively, such experts may try to punch holes in them simply to prove their worth and authority to their client. Moreover, even a well-established expert may lack the specialized knowledge needed to assess a new technology’s merits. Consequently, entrepreneurs can find themselves in the frustrating position of not being able to talk directly about the technical merit of their innovation with the person they really want to be educating.

How can you avoid such problems in entrepreneurial negotiations? Susskind recommends a process known as *joint fact-finding*, in which negotiators *jointly* select and hire a team of experts to produce a shared assessment. The experts may interpret the data differently, but at least they are working from the same analysis. By developing assessments or technical analyses jointly, negotiators avoid talking past each other.

Joint fact-finding can be used whenever parties are likely to disagree over technical matters at the heart of a negotiation. Susskind maps out a typical joint fact-finding process in his book *Good for You, Great for Me: Finding the Trading Zone and Winning at Win-Win Negotiation* (PublicAffairs, 2014).

**3. Uncertainty.**

Entrepreneurial negotiations are rife with challenging conversations about how an innovation will perform in the future. “The usual argument in favor of something innovative is that no one has ever tried it before,” says Susskind. “The argument against it is also that no one has ever tried it before.”

This uncertainty can cause entrepreneurs and their potential partners to reach very different predictions regarding how quickly an innovation will generate a user base, turn a profit (if at all), secure a subsequent round of funding, and so on. Disagreements over whose vision of the future is correct can lead parties in an entrepreneurial negotiation to unsatisfying compromise deals or impasse.

A better way? Sidestep such issues through the use of a *contingent contract*, recommends Susskind. When forming a contingent contract or agreement, negotiators agree on one or more “If this happens, then we do this or that” promises aimed at reducing the risk caused by uncertainty.

Suppose that an entrepreneur is highly optimistic that his new product will gross $500,000 in the next year, while the investor believes it will gross a much more modest $200,000 during the same time period. The entrepreneur might agree to accept a small percentage of any profits below the $200,000 mark in return for a bigger cut of profits above $200,000. In this type of contingent contract, each side bets on its predictions, which are enshrined in the final agreement and thus enforceable.

A contingent contract adds a bit more complexity to a deal but can vastly increase the odds of agreement, in addition to managing uncertainty and increasing long-term satisfaction for both sides.

**4. Ongoing relationships.**

As compared with one-off sales negotiations, entrepreneurial negotiations typically bind parties to an ongoing relationship, at least for a while. The need to prepare for an ongoing partnership can leave negotiators feeling torn between engaging in the types of hard-bargaining tactics that are common in the sales world, such as exaggerating claims and making take-it-or-leave-it offers, versus behaving in a more forthright manner that will help to build trust and cement a good working relationship.

When relationship building is a goal, win-win outcomes are important. If both sides need each other until they can find their place in the market, hard-bargaining tactics at the outset of an entrepreneurial negotiation likely will be counterproductive. The key is to remember that investment or partnership negotiations almost always involve multiple issues and that not every issue will be equally important to both sides. Even challenging conversations about how much funding an investor will offer hinges on related issues, such as how much equity or what kinds of rights she will gain in return. Other issues ripe for trading in entrepreneurial negotiations include the investor’s degree of involvement in the project, her risk tolerance, stock purchase agreements, selection of key personnel, and the role of other investors.

The presence of multiple issues allows negotiators to make creative, trust-building trades in which one partner gains more of what he wants on one issue in exchange for giving more of what the other partner wants on another issue. Whether an investor hopes to work closely with a start-up or remain more hands-off, the two sides can improve their deal and launch a strong relationship through such trades.