

SINGA Negotiation

Confidential Information for HIRING MANAGER

You are Singa's Hiring Manager, and are about to develop and extend an offer to the top candidate for one of the four Lead Negotiator positions that Singa has recently created.

Singa Industrial Acquisitions (SIA) is a privately held company based in Singapore. It also has offices in Melbourne, Mumbai, and Tokyo. SIA acquires companies in need of operational turnaround. Its management teams works with those companies to grow their businesses, forge partnerships, and streamline operations.

SIA typically holds these companies for five to seven years and then sells them to larger corporations or other ventures. The firm itself has been highly successful over the past decade, largely due to its disciplined strategy in acquiring companies and its expertise at enabling them to fulfill their potential.

SIA's leadership team is made up of talented business analysts, operational specialists, and financial experts. Because of the importance of deal-making (both acquisitions and divestments) to its success, SIA is creating a new Director-level position: Lead Negotiator. It is in the process of recruiting one such person for each of its four offices.

In recent years, SIA recruited a highly capable team of analysts and deal-makers. They are responsible for sourcing potential deals and conducting diligence. What's needed now is a point person to help formulate overall negotiation strategy and coordinate the negotiations themselves. That responsibility will span the whole business cycle from exploring opportunities, negotiating possible deals, closing some of them, and much later, arranging for the eventual sale of those investments.

SIA is highly selective and prides itself on having the discipline to walk away from possible deals if the terms and conditions ultimately do not meet its investment criteria. But it also recognizes the value of the kind of creativity that sometimes can transform apparent deadlocks into mutually beneficial agreements. That discipline and creativity are likewise important to the negotiations that arise when acquiring or selling companies. Skill at building internal consensus within SIA teams is naturally important, as well. M&A experience is not required for this position. Negotiation expertise is.

SIA has already interviewed several highly qualified candidates to be Lead Negotiators. One in particular visited the home office in Singapore and had lengthy interviews with the leadership team, including heads of the three other regional offices. Everyone agrees that the candidate would be a valuable addition to the company. Likewise it is

clear that the candidate is very interested in joining SIA. All that depends, of course, on reaching an employment agreement that is satisfactory to both sides.

During the visit, the parties jointly outlined the key elements of such an agreement. They include compensation—salary—of course, but possibly some equity in the company, as well. Also on the list of items to be settled are which office the person will work from and whether the person can work from home some of the time.

SIA has told the candidate to expect a formal offer shortly. It is understood that at least some of the terms—perhaps all of them—will be negotiated further. There clearly will have to be some give and take in that process. Likewise, it's understood that each side has a legitimate interest in advancing its own priorities.

While the parties here are hopeful that agreement can be reached, do not take that for granted.

You've worked at Singa since its founding and have won the confidence of your top management team. So, you have the authority to craft an offer, and to negotiate directly with the candidate. You don't need anyone else to sign off on the terms if you stay within the pre-approved boundaries, as described below. Although your colleagues are excited about this candidate, they will respect your judgment if you decide that his or her demands are unworkable.

Your immediate task is to formulate the initial offer although you do expect the candidate to seek some concessions. You anticipate that you too may have to make some concessions while negotiating an agreement satisfactory to both sides. Do keep in mind, though, that this offer will set a precedent for future negotiations, especially with the candidates who will fill three similar positions in Singa. Thus, the impact of any concessions you offer the first candidate may well be amplified in future.

The components of the offer must include:

- Salary
- Stock options in Singa
- Location
- Flexibility to work from home

Your goal is to secure the best deal for your company while being reasonable enough to land the best candidate for the job. You hope this is the beginning of a long relationship with the candidate and want to start off on good terms with him or her. It is highly unlikely that you will reach a deal that gives you your top preference for all the four issues; some compromise will be necessary. Please don't add any other issues to the mix; you already have lots of ground to cover.

Here are the broad range of options that Singa's leadership team has authorized:

Salary

Singa's salary scale for director-level appointments ranges from \$80,000 to \$130,000. While you would prefer to start the candidate at the lower end of that scale, you don't want him or her to feel undervalued. Singa usually pays the equivalent of the dollar salary in local currency, and makes a cost of living adjustment based on the city in which the employee works.

Equity

Part of the compensation will be in the form of salary and the rest in Singa stock options, so the negotiation involves working out the split between them. Senior Singa executives are granted more stock options as they advance regardless of what they received initially. However, Singa is privately held, so there is no market for its shares -- yet. The shares will be worth something at some point, but how much and when all depends on three factors:

1. If, and when, the company lists or is sold.
2. If Singa continues to grow profitably, as it has in recent years.
3. If you work for the company for three years at least, so the equity rights fully vest. If you leave sooner, you forfeit those rights.

Singa's leadership believes that employees at director-level, and higher, should have a stake in the company. You are therefore willing to offer a certain amount of equity no matter what the salary. Beyond that minimum, however, you will have to consider the financial cost to the company of granting more equity. In other words, Singa likes to offer new hires at senior levels a small amount of stock options when they join, and awards additional options based on performance. Here are the equity options you can offer the candidate:

- No stock options initially.
- Stock options worth \$100,000 if the company lists or is sold today.
- Stock options worth \$200,000 if the company lists or is sold today.
- Stock options worth \$300,000 if the company lists or is sold today.

Location

Singa, whose headquarters is in Singapore, could post the candidate to any of the following locations:

- Melbourne
- Mumbai

- Singapore
- Tokyo

In addition to the candidate's personal considerations, each location has professional implications:

- Melbourne, Singa's newest and smallest office, employs only a handful of investment professionals. It accounts for 5% of Singa's deals by volume, and less than 5% of profits. Due to the operation's small size, the candidate would have the fewest opportunities for mentorship there. You have strong hesitations about placing the candidate in Melbourne, and would do so only if the candidate insisted that not doing so would be a deal breaker.
- Mumbai is Singa's fastest-growing office. From 5% of the company's deals three years ago, that office now generates over 20% of the volume as well as 20% of profits. Mumbai, Singa's leadership believes, has the most potential for growth over the next five years. However, there has been some turnover, so the current team has worked together for a shorter period. You believe that Mumbai is an essential market, so you would be delighted to place the candidate in the Mumbai office.
- Singapore is home to Singa's senior-most executives. In the past, the Singapore office has accounted for roughly 50% of the company's deals, and 40% of profits, although profitability has fallen recently due to the local market getting saturated. Still, the deal flow is greatest in Singapore, so the candidate would likely have the greatest number of opportunities in Singapore. You would be happy to place the candidate in the Singapore office.
- Tokyo, Singa's second-biggest office, generates the company's most profitable deals. Although it accounts for only 25% of deals, Tokyo generates more than 35% of Singa's profits because of an extremely cost-effective local team and a culture of mentoring people. Placing the candidate in the Tokyo office is possible, but a well-regarded internal candidate has also expressed interest in transitioning to the new role. You are hesitant to place the candidate in Tokyo, but are willing to consider it.

Flexibility (to work remotely)

As a rule, Singa prefers that employees spend as much time in the office as possible. It has made concessions for highly promising candidates in the past, but this is not an issue that the company believes should be easily conceded. The company's preferences are:

- Come to work every day.
- Work any two days in a month from home, if desired.

- Work one day a week, say Friday, from home, if essential.
- Work any one week every month from home. This option is usually appealing for candidates who relocate away from family, and want to spend some time with them.