



## Don't Let Time Pressure Dictate Your Options

### Proactive negotiators are less likely to be tempted by inferior deals.

Jan had recently accepted a challenging position in a new city. Keen to prove himself as quickly as possible, he didn't hesitate to take on responsibilities at work. As a result, he had little time left to search for a home in a market already short on options. Before he knew it, his two months of company-arranged accommodation were over.

At the very last minute, a former schoolmate offered Jan a sublet close to his office. He gratefully accepted on the spot, even though the rent was kind of high. To Jan's dismay, renovation on the building started right after he moved in. Also, the upstairs neighbour made so much noise at night that Jan could not sleep even though he was exhausted from his long hours. His performance at work started to deteriorate. A couple of weeks into this nightmare, Jan was robbed in front of his apartment building and discovered that the neighbourhood was rife with crime. It took the help of his lawyer and a hefty penalty fee for Jan to get out of the sublease. The experience taught him to think twice before settling for the least bad deal in a rushed situation.

### Companies are not immune to time pressure

Reactive behaviour in critical situations also happens in corporations, as Manuel Hermosilla (Johns Hopkins University) documented in his paper, "**Search-and-Match in a Rush: Investigating Reactive Licensing in the**

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### **Pharmaceutical Industry**".

While pharma companies develop drug candidates in-house, they also frequently engage in compound licensing to hedge or make up for the lack of successful in-house products. In theory, the search process requires firms to proactively invest time and other resources to identify the drug with the best commercial and technical fit and thus, the highest probability of reaching the market.

Hermosilla looked at 673 compound licensing deals signed by major pharma companies active in the United States from 1997 to 2016. Given that only about one in a dozen compounds enter the market, the research analysed how companies behaved when they faced setbacks during the five drug development stages: discovery, phase 1, phase 2, phase 3 and regulatory review.

The study showed that pharma firms do not frequently engage in proactive licensing of biotech compounds. Instead, motivated by compensation concerns, management reactively licenses new drugs after in-house drug development setbacks. While such setbacks weaken share price, a new licensing deal typically triggers a rebound, benefitting the management team whose compensation is directly tied to the share price.

While Hermosilla avoided suggesting that reactive

licensing is “bad business”, he recognised that it “creates significant productivity costs for firms that engage in it”. According to the study data, reactive licensing behaviour increased the odds of a phase 2 compound being abandoned down the line by 13 percent. The probability of achieving a successful technical match for a phase 2 drug dropped by almost half.

Taking a broader view, it is hard to disagree that reactive licensing has an overall negative impact on society. With fewer drugs reaching the market, the successful ones incur higher development costs, which lead to higher medical bills for consumers.

### What do effective negotiators think?

Going back to Jan, his focus on his job hindered his apartment search and he failed to do his due diligence. Similarly, pharma companies engage in reactive licensing to prop up share prices, quite possibly at the expense of value creation and longer-term success. They may be better off creating sustainable value through proactively choosing the best licenses, instead of settling for quick fixes with low-probability returns.

In both examples, a combination of time pressure, desperation, the focus on narrow objectives and a lack of discipline culminate in inferior deal making. In negotiations, reactive behaviour also causes parties to relinquish control of the process. For instance, it inflates their risk perception and shifts their focus from value maximisation to artificial value measures, such as short-term KPIs. Negotiators who want to stay in control must remain focused on their true objectives, avoid early commitment, do their due diligence and proactively tackle the real obstacles to value.

This is not about power, but rather about shaping a process that leads to good decision making. Reactive behaviour can tip the negotiation, allowing your counterparty to control the process. Watch out for the following moves a counterparty could use to force you into reactive mode:

1. Instilling a false sense of urgency.
2. Keeping the process rigid.
3. Manipulating you to skip due diligence.
4. Overvaluing small and unimportant points to make the deal look better than it is.
5. Distracting you from your priorities, risks or unsatisfied interests.
6. Failing to fully answer questions.
7. Resorting to a harsh or inflexible treatment, including threats.

Never let your counterparty or circumstances rush you into signing a deal. In his book *The Power of Persuasion*, Robert Levine gives the following

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advice: “Be patient. Never forget that if it is a good deal today, it is going to be a better deal tomorrow. And there is no such thing as an absolute best deal. You have to decide when you are comfortable.”

Levine recommends that you make sure you can afford the object of your interest (e.g. a car in his story) and that it fits your goals and situation. If not, he adds: “There is absolutely no reason to finish the transaction without sleeping on it. You have a better perspective in the morning.”

Decisions must sometimes be taken quickly. Levine advises to anticipate such decisions through active preparation and mindfulness in everyday situations. It is not easy, but practice will help you become more proactive in critical situations.

Lastly, keep in mind that reactive behaviour is an emotional response to something that happened in the past. Proactive behaviour is, on the other hand, a deliberate step towards a desired goal in the future. Would you rather be stuck in the past or moving towards tomorrow’s success?

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