

# Dynamics of negotiations: failed ge-honeywell merger deal



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Conceptually, the purpose of every negotiation is to reach an agreement and realize the desired outcome, through efficient and amicable resolutions. The simple principle is to separate the parties from the issue, and focus on their interests rather than positions. But in reality, the process is not always so—especially in multiparty negotiations, which involves multiple parties with varying interests and differences. The objective of this essay therefore, is to critically analyze the complex nature of multiparty negotiations; with specific reference to a failed GE-Honeywell merger deal. The ultimate aim is to highlight the dynamics of the negotiations from standpoint of the parties' interests and positions in the overall outcome.

**Keywords: multiparty negotiations, desired outcome, interests & positions, failed merger.**

## **1. Introduction**

Multiparty negotiation is defined in this context, as interactions involving multiple parties with varying interests and differences. Multiparty negotiation can be a complex and messy process, often with non-obvious outcomes. A number of elements make multiparty interactions significantly more complex and awkward than two-party negotiations. A notable difference is the variety of decision rules that might occur. For instance, in a two-party arrangement, failure of both parties to reach agreement leads to impasse; whereas, in multiparty negotiations, different decision rules could apply.

In this article, analysis is focused on interests, differences and positions of all the parties involved in negotiating the (2001-2005), proposed business merger between General Electric Company and Honeywell International Inc. The rationale is to examine the interplay between the parties, in terms of

strategies and tactics adopted during negotiations; degree of awareness of the parties' BATNA and extent to which they employed competitive or cooperative strategies. The report also attempts to identify framing/anchoring techniques in the negotiations, and equally consider the role of trust, reputation and expertise in the overall decision/outcome of the negotiations.

## **2. Main Parties Involved**

' The bid by General Electric (GE) to take over Honeywell International Inc. in 2001 was set to become the biggest merger in industrial history, when the European Commission barred it from taking place'<sup>1</sup>. This transatlantic negotiations for a business merger involved strategic parties such as: GE Manufacturing Company, GE Capital Services, United States Department of Justice, the US Military, European Commission and the European Court of First Instance (CFI). Notable among individual personalities who also participated actively and played tactical roles in the negotiations are: European competition commissioner- Mario Monti and the GE Spokesperson- Jonathan Todd.

## **3. Institutional and Historical Context**

In 2001, one of the biggest companies in the world, General Electric- American giant manufacturer of aircraft engines; was attracted by Honeywell International's aerospace businesses<sup>1</sup>-avionics technology, which fit in perfectly with GE's business interests; creating remarkable synergies for these two American companies. GE Manufacturing Company was responsible for operational aspect, while all financial obligations for the merger were the responsibility of GE Capital Services-the financial arm of General Electric. The <https://assignbuster.com/dynamics-of-negotiations-failed-ge-honeywell-merger-deal/>

United States Department of Justice as a critical party in the negotiations, had earlier passed the merger, on condition that ' GE divest itself of Honeywell's military helicopter unit, to protect the US military'1. However, approval from European Commission was not easy to obtain and the deal fell through.

#### **4. Interests/Positions of the Parties**

According to GE-Honeywell, their interest in the merger was to capitalize on core business competencies and create synergies. Other expressed reasons included, increasing market power and sharing infrastructure. The US-Department of Justice was happy with the proposed-merger and consented to it. However, it took cognizance of the concerns of US-Military over the security of their military helicopters; whose manufacture/servicing was vested with Honeywell. In view of this, the Department agreed with all other terms of the negotiations, but recommended that ' GE divest itself of Honeywell's military helicopter unit; to protect the US military'1.

Conversely, the European Commission-EC was unhappy with the deal and prohibited its emergence. Their interest was to protect European markets from ' perceived monopoly'. EC argued that a merger between GE and Honeywell ' would create too powerful an entity that would adversely affect the competitive position in the aerospace industry'1. They maintained that the merger would give the two companies ' huge combined market share in the common markets in which they operated'1. This, they observed would ' harm competitors as well as customers, by creating a near monopoly situation'1.

## **5. Strategies and Tactics Adopted**

All the parties involved in this negotiation failed to invent options for mutual gain. While GE-Honeywell was more of contending and unwilling to concede to any of the demands; the EC on their part appeared to have had bottom-line in the negotiations, as they never considered other options outside their interests. They all exhibited clear case of high-concern for self and low-concern for others. For instance, The EC demanded that 'substantial chunks (amounting to about \$ 7 billion) be divested by the two companies, and restrictions be imposed on the operations of the highly profitable GE Capital Services'<sup>1</sup>. The demands GE said were far more than what it was ready to concede. The American companies and the regulatory authorities resorted to threats and slow/low commitment tactics; while the EC stood on take-it-or-leave-it option.

## **6. Awareness of BATNA and Use of Competitive/Cooperative Strategy**

It is obvious that the flexibility of Best Alternative To a Negotiated Agreement-BATNA, which was supposed to show all the parties what alternatives to negotiated agreements would be, and equally serve as standard against which agreements be measured; was neglected in favor of predetermined bottom-line. GE and its allies for example, recognized court litigation as their only BATNA, while EC predetermined a ban without further options.

As it were with many multiparty negotiations, the differences in interests/positions of the transatlantic regulatory authorities; gave rise to competitiveness instead of cooperative strategy, which was unfortunately not resolved. Having used much of delay tactics, their inability to cooperate

and explore other options to resolve their differences caused the deal fell through.

### **7. Use of Framing and Anchoring Techniques**

Anchoring and Framing are two psychological techniques that negotiators use to influence the negotiation process and its final outcome. While frames give alternative descriptions that help negotiators make sense of complex information and focus on the main issue; Anchors as ‘bobby traps’ are set by negotiators to win their opponents, by defining the mental parameters within which the process operates. These two techniques featured prominently in this negotiation.

For example, the EC being fully aware of its predetermined bottom-line set anchors for GE, by making outrageous demand for huge divestment of \$ 7 Billion and other heavy sanctions it knew GE will be unwilling to concede. These high claims indeed misled GE. The US Department of Justice also used Framing technique to quickly self-guard US Military, by recommending a divestment from its helicopter arm from the merger. The Department focused on the main issue and disregarded any other feature outside the frame of the main issue. Also, the resorted name-calling by the merging companies and their allies on EC as being ‘dubious and anti-American business’; was part of their anchoring to provoke favorable decision and skew the final outcome.

### **8. Role of Trust/Reputation/Expertise and the Non-obvious Solution**

It is glaring that reputation/expertise of the merging companies remained the focal issue upon which the negotiating authorities based their

arguments-of which many commentators knew would not produce an obvious solution. GE has a reputation of being arguably, the richest and best aircraft engines manufacturer in the world; and Honeywell was rated world's number one in manufacture of aircraft avionics. The estimated capital worth of their merger was about \$42 Billion<sup>2</sup>, which indeed played an intimidating role in the negotiation.

Lack of trust became a critical factor that determined the final outcome of the negotiations. While EC questioned the integrity of the merger, and viewed it as a plot by the American companies to create monopoly and harm competitors/customers; the American companies and their supporters described EC's position as 'anti- American business attitude'<sup>2</sup>. This undercurrent of tension/distrust ran so deep across the ranks that some called it 'transatlantic trade war'<sup>2</sup>. With grandstanding positions by the parties from onset, many opined individuals/groups pointed earlier that there was possibility of non-obvious solution, which indeed became the final outcome

## **9. Lessons Learnt and Conclusions**

The important lesson learnt here, which is in total agreement with the concept of negotiation, as can be deduced from above examples is that making multi-party negotiations work successfully is a complicated and complex process. As can be inferred from above analysis, the negotiation fell through because of varying interests, parties' differences and lack of trust.

Strategically, the merger made good business sense, but contrasting positions hindered its realization hence, a failed merger. This special-type

multiparty negotiations, marked the first time in negotiation history that transatlantic regulatory authorities differed significantly in their decisions.

Conclusively, it is worth noting here that meticulous consultations with effective use of individual BATNAs, Framing and Cooperative strategies during the interactions; would likely have paved the way for successful negotiations that would be of mutual (win-win) benefits.