**Teaching Note**

**Licht aus (Lights out)**

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Overview

Licht aus (“Lights out” in English) is an ethically charged, multi-issue, team-on-team role play with both information asymmetries and goal asymmetries within each team. The founder of a German manufacturing company (Fisher) and financial advisor (Haldermann) negotiate with two partners from a private equity firm (Preiss and Trachtner) regarding the potential acquisition of the company. However, the interests within each team are secretly misaligned: Haldermann has a perverse incentive to withhold key information from Fisher, and Trachtner has a perverse incentive to withhold information from Preiss (see Table 1). The ethical dilemma this creates for Haldermann and Trachtner, and environment of mistrust and conflict that can arise not just between but also within each negotiation team, could derail the deal. The case is based on a true story, with the names of the individuals and companies involved changed.

Suggested Timeline (total of approximately 3 hours and 15 minutes)

* 5-10 minutes to set up the case in class
* 15 minutes to read the role play and plan an individual strategy
* 30 minutes to prepare with teammate (Fischer & Haldermann together, Preiss & Trachtner together)
* 1 hour for the team-on-team negotiation with all 4 parties
* 5 minutes to complete the outcome form\*
* 15 minute break
* 1 hour for the lecture debrief

\*Participants should be told not to read the outcome form until after they have fully completed the team-on-team negotiation, since it contains spoilers for the case.

Take-Aways for the Lecture Debrief

* Teams create and claim more value than solo negotiators, but only if they are well aligned. A poorly misaligned team will underperform a single individual negotiating alone.
* Two common challenges in teams are asymmetric information (different individuals holding unique information that needs to be shared for an optimal group decision) and goal asymmetries (different members of the same team have diverging interests and agendas). To surface unique information, create an environment of psychological safety in which people trust each other and feel comfortable sharing. Engage in an intra-team conversation beforehand to negotiate misaligned interests and present a unified front during the team-on-team negotiation.
* Lying is quite common, especially in negotiations, yet the research shows lies are extremely difficult to detect based on intuition. If 50-50 is random chance in lie detection and 100% is perfect accuracy, human beings are about 55% accurate: slightly better than chance, but not by much. A better guide than your intuitions about whether someone is telling the truth is your counterpart’s reputation and past behavior for trustworthy vs. untrustworthy behavior.
* You do not have to choose between your values and being successful. Research shows that more win-win oriented, cooperative negotiators who avoid deceptive tactics tend to be more successful in the long run. Win-win is a good long-term strategy because it leads to a better reputation and stronger trust relationships, and thus more social and reputational capital.

Detailed Summary of Information and Goal Asymmetries

Table 1. Issues, Preferences, And Information Asymmetries

(for ranges, individual preferences are underlined)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Issue**  | **Ms. Fischer** | **Ms. Haldermann** | **Ms. Preiss** | **Mr. Trachtner** |
| **Total valuation of company** | Not quantified, relies on Ms. Haldermann’s guidance | Knows the full range of market valuation for both private equity buyer (325-375m) and competitor (350-400m)Can chose to withhold the lower bound information from Ms. Fischer to push for a higher sales price to TCP and thus higher fee from this deal, or no deal with TCP and the opportunity to sell to a competitor | Knows investment committee approved valuation (300-365m)Has high personal valuation (Up to 365m) | Knows investment committee approved valuation (300-365m)Has low personal valuation (Up to 290m)Mr. Trachtner secretly voted against this deal and has tried to sabotage the transactions by putting pressure on the deal team |
| **Contingent Price Component** | Ms. Fischer should be willing to accept higher contingent payment as she is very confident of the business plan Relies on Ms. Haldermann’s guidance | 0-10% Ms. Haldermann may choose to push for a lower contingent payment to reduce the risk on her own fee, not revealing the role of this conflict of interest | 5-15% | 10-25% |
| **Preferred Deal Structure** | Relies on Ms. Haldermann’s guidance | Option A (less risk for seller) | Option B (less risk for buyer)Has struggled to arrange financing ahead of signing | Mr. Trachtner has discovered the availability of financing that makes Option A no more or less risky than Option B. However, he may choose to withhold this information as he does not want the deal to go through |
| **Future Role** | Preferably fully retired, at most2 days a week remote working | Indifferent | Preference: Ideally full time, at least 1 day a week | Wants Ms. Fischer to leave the company |
| **Future CEO** | Involvement in recruiting is very important to her | Indifferent | Indifferent | Prefers Ms. Fischer have no say in choosing the CEO |
| **Re-investment (equity retained by Fischer)** | 0-15%, can go higher if other requests are met | Indifferent  | 10-30% | 0% |
| **Future sale to competitor** | Wants firm commitment from buyer not to sell to competitor in the futureHowever, revealing this preference will most likely decrease price offered by private equity who will interpret this as weakening Ms. Fischer’s BATNA (Best Alternative to a Negotiated Agreement) | Prefers to sell to competitor to achieve higher fee than from a private equity firm like TCP Capital Partners No deal with TCP is a good outcomeMay falsely imply or even directly claim to TCP Capital Partners that there are other interested buyers | Has heard rumors that competing firms are also interested in buying IBS; suspects a strong BATNA on the seller side | Believes selling to competitor is a very promising option and wants to retain this ability  |
| **Extra Fee** | Willing to pay 0.25% extra fee to Haldermann if the negotiation outcome is outstanding | Wants the 0.25% extra fee from Ms. Fischer | Not relevant | Not relevant |
| **Final decision rights** | Ms. Fischer has the final decision right to sell | Can spoil the deal by withholding information from Fischer (lower bound of the company’s value) or pushing for a very high sale price | Ms. Preiss has the final decision right for TCP Capital Partners’ final offer (within investment committee mandate) | Can spoil the deal by withholding information from Preiss (availability of financing that makes Options A and B equally low-risk) or pushing for a very low sale price |

What Happened in Real Life:

* On the day of the final offers, TCP Capital Partners submitted the bid with the highest price. However, they chose Option B and requested four weeks to arrange financing after signing the agreement.
* Ms. Fischer rejected TCP Capital Partners’ bid as she was not willing to take the risk associated with Option B.
* She accepted a bid that was 10% below the price of TCP Capital Partners, but that came with secured financing
* The final bid also included various soft factors that were highly important to Ms. Fischer but had no monetary value.
	+ The private equity firm and Ms. Fischer agreed to together identify the best suitable candidate to replace her as CEO
	+ Ms. Fischer did re-invest (via her established foundation) and stayed with the firm – but with a focus solely on product development after handing over her duties to her successor.
	+ Fischer would work remotely from her vacation home in the Alps
	+ She would likely retire in 3-4 years, with all future payouts from the re-investment going straight to her foundation
	+ While not formally written in the agreement, there was a handshake agreement between the managing partner of the private equity firm and Ms. Fischer not to sell IBS to a competitor in the future and to maintain the brand name
* Consequently, the final bid was not “fee maximizing” for the advising investment bank, but utility-maximizing for the seller.
* Despite the lower-than-hoped-for selling price (and fees), this was a great deal for the investment bank, in particular, as many competitors have been trying to get the mandate to sell the company from Ms. Fischer for many years. This was a further boost for Ms. Haldermann’s already strong reputation.
* Mr. Trachtner worked hard to sabotage the deal throughout. In particular, he put intense pressure on the most junior team members, warning of negative consequences for their careers. The behavior stayed mostly unnoticed by Ms. Preiss, and a direct confrontation between the two partners was avoided. It did, however, have a lasting cultural impact on the firm and has divided a junior team informally into two camps as all parties involved in this deal tried to avoid working with Mr. Trachtner in the future.
* The MBA student case author’s role in this was project manager for this transaction under Ms. Preiss. He had to fight to keep the spirit of his team high, despite the hostility of one of the partners (Trachtner). Trachtner even threatened junior team members at the office Christmas party that supporting the acquisition could be a “career threatening” move.
* Since the acquisition, IBS has continued its very strong growth trajectory. Given its positioning in the home automation space, it was one of the clear winners of the COVID19 pandemic economy and has accelerated growth (as many people spent more time at home and invested more in upgrading their home products)

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