



Season 1, Episode 2, The Negotiation, June 29, 2021

John Mozeliak: As I think back to ... to that night, there's that ... that moment of euphoria to win a world championship. That's something that when you work in the game of baseball, that's what you're trying to achieve. I kind of always explain to people that, you know, the experience of winning a World Series is just a very fleeting moment in time. It's ... as much as you want to embrace it, as much as you want to enjoy it. Unfortunately, in this business, there's always more work to be done.

Mike Shannon (archival): He's at the track! He has it! And the Cardinals are world champions for 2011!

Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum, and this is *On Principle*.

John Mozeliak: My name is John Mozeliak. I am the president of baseball operations for the St. Louis Cardinals, and I've been with the organization going on my 26th season.

Kurt Greenbaum: In his role with the 11-time world champion Cardinals, John Mozeliak knows a little something about winning baseball games. But on August 28, 2011, the team was 10-and-a-half games out of first place. Nobody would have picked them for the playoffs, much less World Series champions.

Yet on October 28, after a series of incredible, even cinematic twists and turns, the Redbirds did what seemed impossible exactly two months earlier. Now, as a devoted Cardinals fan, I remember that season very well, and I would just love to tell you that story. But this is *On Principle*, a podcast devoted to telling stories about the pivotal decisions business leaders make and how they make them.

In this episode, John Mozeliak is the business leader. And sitting on the other side of the negotiating table that year was Albert Pujols. In his first 10 seasons with the Cardinals, the first baseman's towering ability on the field and at the plate had taken him from rookie to legend. Baseball fans know what ended up happening after Albert's 11th season. Cardinals fans certainly know. The Los Angeles Angels signed him to a 10-year contract reportedly worth 240 million dollars.

But when Albert began that 11th season in 2011, Cardinals fans only knew he would be a free agent when the season ended. We only knew that Pujols would command a high price on the open market. And when newly crowned champion Albert Pujols

walked off the field in October 2011, we all hoped he'd still be wearing a Cardinals jersey the following spring.

So, the season ends with the Cardinals winning the World Series. It's a huge moment, but was there also this thought lingering in the back of your mind immediately that we're going to have to bring this back now? We're going to have to try to work this out?

John Mozeliak: I remember trying to enjoy the evening that night, but in the back of my mind, I knew Tony La Russa was going to announce he was retiring that morning, the next morning. And then I knew we would be entering into maybe the most difficult negotiation to date for this franchise and ... and for me personally. The face of our franchise was becoming a free agent. And so, needless to say, there was a lot of stress and anxiety leading into the next few days.

Kurt Greenbaum: What would you say to characterize exactly what Pujols meant to the team?

John Mozeliak: Well, I think if you look back at the time that ... from when he made it to the big leagues to ... to his final year with us in 2011, it was somewhat of a historic run. 2004, we won 105 games, got swept by Boston in the World Series; 2005, we were a game short of making it to the World Series; 2006, we won the World Series and then subsequently had a few more postseason runs after that and, of course, culminating in a world championship in 11.

But he was probably one of the top three or four players on earth during that time. When we talk about "face of franchise," you know, there's ... there's sort of a name that we always hear if you're a Cardinal fan and that's Stan Musial. And then, all of a sudden, Albert was being talked in those ... those ... that the same type of sentence, in that same type of discussion. And that is what I talk about as being sort of meaningful from a legacy standpoint.

And when you're negotiating these types of deals, a lot of times you're hoping that there is some value for recognizing what legacy means. And from a player standpoint, they might say, "Well, that's why you should pay more so that legacy continues." And then from a team standpoint, you might say, like, "Perhaps you're willing to take less so the legacy is sustained."

Kurt Greenbaum: Is there any sort of template for how negotiating a player's contract works, or is it, is every one a snowflake? Every one's different?

John Mozeliak: I would say that that they all have their own DNA. Every negotiation has a different story. You can't use the phrase like a cookie-cutter deal every time. And of course, when I think back to ... to how we were thinking through the ... the Albert situation, of course, I was going to be monumental for this franchise.

And, you know, ultimately, it became, you know, a headline deal for another franchise. So, the difficulties to sort of navigate that at the time were ... were very tricky. But we knew that going in. I mean, that was no surprise. And so, when I think back to from the time we won the World Series to ... to the ... the next few months as they unfolded, they went as expected. But perhaps you could argue the outcome was unexpected.

Kurt Greenbaum: When you go into this process, do you know already what your outside limit is? I mean, in a negotiation, you kind of have to know when you have to ... when you can walk away. But are there circumstances or events that can create more flexibility or more constraint as you go through the process?

John Mozeliak: I think the answer, if you're looking at it, you know, honestly, is, yes, there can be some things that ... that ... that maybe move ... that you might not have been anticipating or preparing for. The way to sort of think about it is ... is like anytime you're going into these types of negotiations, you should have already defined what you think is your maximum or where your "walk number" might be because the worst thing you can start doing in these types of negotiations is keep moving the goal line to where it's benefiting you to get a deal done, but yet it's in a way going to create some level of paralysis down the road. And so, you have to be very disciplined not to fall into that trap, because obviously we're not talking about, you know, a small number here or a rounding error. We're talking about multimillions of dollars annually that really are going to affect what you can and cannot do in future deals.

Historically, when a player was making 20% of your overall payroll, you weren't going to have success on the field. You might have a highly paid or highly compensated player, but it didn't translate into world championships. And so, when you're thinking about, like payroll allocation, you also have to ... have that in the back of your mind if you're not anticipating massive payroll growth.

And then, you go down the path of ... of doing a deal like this, it can be ... it can create a lot of paralysis moving forward. And so, that was sort of my guiding principle when we were ... we're talking through these dollars and trying to see if we could find a solution. You know, ultimately, both Bill and I realize there's a certain threshold we can go to. And if we can get there, get a deal done there, that's great. But if we can't, then we'll just redeploy these resources somewhere else. And that's always a ... a tough thing to do when you're dealing with an iconic player and one that at the time — with no doubt — was the face of our franchise.

Kurt Greenbaum: Albert Pujols, obviously, is a ... is a man. He's not a car, he's not a house. And I guess I want to understand, how this is similar to and how this is different from negotiating with a car dealer, right? You're trying to get the best price and they're trying to get that ... the ... the ... the best price that they can give. The thing that you're negotiating about in a car deal can't be motivated or demotivated by

the deal terms. But the car isn't going to perform better if I pay 45,000 instead of 40,000, right?

John Mozeliak: Exactly, exactly. Like, I've actually talked through the ... the car example before with other people. The ... the car example isn't very good in this particular case, because as we both know, like, usually when you go purchase a car, there's some limit of how much you have to pay. And there's ... there's only so much the dealership's going to come down. There's only so many rebates — and I did the “air quotes” as I was talking — that you're actually going to receive.

So, those are almost sort of like fixed negotiations. Whereas when you're in a ... a free agent negotiation with a ... with a player, that's a little different because your value is what someone's willing to pay. Think about that. It's ... it's ... if I value you at a dollar, but yet someone else looks at you and they're willing to give you a hundred, then clearly, we're not thinking about the valuing process the same way. However, you then get to decide, do you want my dollar, or would you rather his hundred?

And that's what makes Major League Baseball free agency so unique. I do think the industry as a whole has gotten much smarter about how we think about valuing players. But this is going back 10 years ago and ... and so not every team had the same type of modeling or sophistication on how you think about performance relative to the dollar. And so at that point, it's really the eyes of the beholder.

So, in essence, as he's entering this free agent market, I would imagine he was seeing a lot of exciting things coming his way. Again, one of the top players on earth at the time — and when someone says that, I mean, think about that. On earth. Not just in the game of baseball. Not just in the state of Missouri. On earth. And all of a sudden, a lot of people are going to show interest in you. And ... and so, I think that becomes the complicated part of this. And no matter how disciplined you are, how rational you are, or how you want to try to defend something, it becomes very difficult in a pure negotiation if you're not willing to deviate from that discipline. Because in the end, you'll probably be the bridesmaid a lot more than getting deals done.

Kurt Greenbaum: Do you think the process of the negotiation itself can affect a player's performance?

John Mozeliak: I do, I do. I think ... I joke with players today. I'm like, “Do you really like free agency?” I mean, because a lot of them will tell you like the experience is not that great. Again, it's ... you're putting yourself out there in an open market and you're saying, “What do you guys think I'm worth?” And that can be ... you know ...

Kurt Greenbaum: ... that can be very humbling, can't it?

John Mozeliak: Exactly! I mean, it might be something, like that's what you're striving for, that's what you want. But there's other people that would rather bird in hand and, you know, sign a contract to stay and not be forced to have to go through that.

Kurt Greenbaum: Right. What you've talked about are very sort of soft, not very tangible aspects of how what can be brought into a negotiation like this. What is the data that you're using? Are there ... are you looking at his stats? Are you ... you're obviously looking at your budget, but what else are you looking for?

John Mozeliak: So, on a ... on a performance standpoint. Even back then, we ... we had a model that was predictive of performance. And so, you ... what you do with that model is then you ... you ... you then translate it into dollars. So, based on X performance, it's worth Y in dollars. And so, we can ... we could run that out and it's ... it's using an aging curve to help build that. And so, what you're hoping for is that the modeling based on past performance is very predictable in future performance.

What happens from time to time, even the best models can't predict the volatility because we deal with a human and not a tire. When you say a tire will likely last for 100,000 miles before you have to get a new one, that's been proven, tested. For us, we don't have that. We have to make the investment based on past performance and hoping that everything stays well for the player, that we will get that consistent performance.

But that's where the volatility lies. And, you know, I think we've all done a much better job of understanding the aging curve and how that works with performance. But I mean, there are outliers. There are players that even at 38, 39, 40 are still performing at a high level. But as you use the phrase — sort of these softer elements or softer variables in this negotiation — I don't really look at them as soft because there's not too many times you're having a conversation in a negotiation where you're talking about legacy. It happens. It's very rare. So, it's ... it's like ...

Kurt Greenbaum: That's a good point. I see what you mean.

John Mozeliak: And so, it's an ... it's an oddity in terms of ... of how to quantify it. But simply put, we were rounding up because of that to help get us to the finish line. But I don't think we were willing to ... to go so far out of the box — well, obviously, we weren't, or the outcome of this story would be different — but both ... both Bill and I, you know, understood the importance of what he meant to the organization. But there was only so far we could go.

Kurt Greenbaum: Now, at this point, I need to mention something that came up as we were producing this episode.

ESPN broadcaster: Huge, huge, huge. And breaking news from Jeff Passan. Albert Pujols will be released today by the Los Angeles Angels.

Kurt Greenbaum: That report from ESPN Sports Center was stunning. And we weren't even halfway through the final year of Albert's contract when it happened. But the fact of the matter was this. Every baseball fan knew it. Albert's performance with the Angels was nowhere near what it was with the Cardinals. Still, the news was stunning. And it was stunning because of how unceremoniously the Angels ended things with a player everyone knows is headed for baseball's Hall of Fame. You know, objectively, the Cardinals lost that negotiation with Albert Pujols, because the Los Angeles Angels prevailed, but did you lose that negotiation?

John Mozeliak: I don't think I look at it quite that binary, like, you know, black, white, yes, no. I think ... no, we did not get Albert to re-sign with the Cardinals, but we were able to redeploy and reinvest in the team, and we were able to continue to have team success.

Kurt Greenbaum: Redeploy. Reinvest. Those are pragmatic words. And that pragmatism was the thread that ran through my conversation with John as he described the negotiation. But as you've also heard, legacy is a prominent thread as well. Yes, certainly there's the legacy created by one of the greatest players in the game. But John also talked about the team legacy. He described the Cardinals as a generational team, a team as I mentioned, with 11 World Series championships, a team with 19 National League Championships, a team that over the decades has been associated with some of the most recognizable names in baseball — names like Hornsby, McGee, Gibson, Flood, Brock, Schoendienst, Herzog and, of course, Musial. Through the 1920s and 30s and 40s and subsequent decades — those were the years the St. Louis Cardinals were creating their legacy and laying down their history. As John told me, his responsibility is to be a steward of it.

Hillary Anger Effenbein: Legacy matters because it matters, right, because you want to be able to say we have our next Stan Musial. But the legacy also matters because the fan base cares about it and that translates into dollars. And if you have some good financial modeling over, well, how many dollars does that translate into? How many more jerseys are we selling? How many more seats are we filling? How many more beers are we selling?

Kurt Greenbaum: Hillary Anger Effenbein is WashU Olin's John K. Wallace Jr. and Ellen A. Wallace Distinguished Professor of Organizational Behavior. And I really wanted to talk to her about this because negotiation is one of her specialties. In fact, she teaches negotiation classes at the business school, and I've had a chance to learn myself by participating in some of the exercises she put students through. As a scholar, she's published dozens of research papers, and she's presented her work all over the world.

Hillary Anger Elfenbein: And if you have some sense of ... of where Albert Pujols fits into all of that, then you can come up with a net present value and put that in your ... you put that in your calculations. That sounds really crass in a way, compared to the ... the beauty of the word *legacy*. But at some level, you have to take the notion of a legacy and toss that into your calculations.

Kurt Greenbaum: How does this translate in an industry that isn't maybe quite as sexy as baseball? What's an example of this sort of high-stakes negotiation?

Hillary Anger Elfenbein: One negotiation that's very high stakes for the individuals involved would be residential housing. Some people approach buying a house in a very logical manner. They look at as many houses as they can bear to. They make a list, they put in offers. And if people don't budge, they move on to the next house. But for a lot of people, housing is ... is this ... this art of finding love. And when ... and ... and you see people who fall in love with one house, one particular house, and they'll overpay for it. There ... there's this intangible value that they place on it, and all you need is one other person who like ... who loves that house, too. And now somebody is going to be ... somebody is going to have the winner's curse. Somebody's going to overpay.

Kurt Greenbaum: Of course, many of us have had the experience of negotiating the price of a house. Very few of us have had the chance to negotiate a multiyear deal for an asset that's worth hundreds of millions of dollars. And as we've touched on before, in these cases, the asset comes with thoughts and feelings and a sense of pride.

Hillary Anger Elfenbein: The first issue with this negotiation being so different is that it is very hard to know the value of the asset. It's unknown and unknowable. The second part that's really different is that the process of the negotiation itself changes the value of the asset. And by that, I mean that you have somebody who has been motivated or demotivated by the way that their value is communicated to them. And you can think about it in the baseball case that you might say, "Well, everybody at that level of the game is maximally motivated."

But there's something about the team and the crowd and the ... the ... the value of the deal is not set in stone, but in part a function of "Does this person feel valued, feel motivated?" And you see that in ... you see that in our ... our civilian life — that job negotiations are partly a matter of telling people what their value is. Translating the value of a person as they are being communicated to about where they fit in the organization. And this can be ... this can be debilitating when it's done poorly.

So, if you're being communicated with in a way that makes you feel that you're not valued, then it's ... then it actually changes the very act of negotiating, and how you negotiate — in good faith, in bad faith and how ... listening, comfortable process, uncomfortable process — all of these factors come together in helping to determine the actual value of the asset.

Kurt Greenbaum: You know, I think I've heard you say before, the car isn't going to perform better or worse depending on what price you get for it. It doesn't care whether I got it for 40,000 or 45,000 dollars.

Hillary Anger Elfenbein: Exactly. Exactly. A human asset is so different from any other kind of asset in the sense that the human asset has an opinion about how the negotiation took place. Right? The car doesn't care. The ... the horse doesn't care. The ... you know, the ... the boat doesn't care. But ... but Albert Pujols cares about the process by which he is ... he is renewed or not renewed. And — as you mentioned — we'll ... we'll never know what he thought of it because it sounds like he hasn't really shared publicly his opinion of the negotiation process.

But I think for almost any of us who've had the opportunity to negotiate our salaries, we know. And I'll bet — I won't put you on the spot, Kurt — but I bet that anybody who's put on the spot can probably tell you ... can probably replay the play-by ... the blow-by-blow of their last salary negotiation they were in. We remember these things, and it affects you. It affects you, because we have this fundamental, evolutionarily wired sense of fairness.

Kurt Greenbaum: Now, anyone who has been part of a negotiation can probably relate to that sense of fairness that Hillary talks about. It's a sense that affects and influences us as individuals as we participate in the process. The thing we have to keep coming back to in this case, however, is that the negotiation isn't strictly speaking about the individuals. Baseball is a team sport. Individual performance matters, but it matters in the context of the entire team.

Hillary Anger Elfenbein: The asset's value is unknowable, and that's true for any asset to some degree, but just the extreme nature in this case. Where you have somebody who's been playing well, right? And past performance is a predictor of future performance. But it's a fuzzy predictor, right? Because there're injuries, there are, you know, there's just the natural aging of the human body. But then there's also — and I would say maybe underappreciated by some — there's also the element of the team. The ... how that individual fits within the team. And you see that in the end Albert Pujols didn't do as well when he left.

Kurt Greenbaum: Yeah, I mean, he certainly didn't have the same statistics that he did in the first 11 years of his career. Yeah.

Hillary Anger Elfenbein: And I think we'll never know exactly why. But I want to put a hypothesis out there that it wasn't just that he was aging, but that there was some way in which his performance was part of an interpersonal context. His performance was, in part, due to the ... the environment he was in as far as who his coach was, his relationships with ... with the managers, the other players.

So, baseball is — when you're ... when you're batting, it's a completely independent sport. You may not even know where your ... where your teammates are, right? They're back in the dugout chewing on stuff, right? But if you're ... when you are in the field, you have this harmony where you know instinctively where all these other people are and you're ... you're one with them and you have a camaraderie. And it may be that our performance in our jobs is nested in a personal context. And if you take somebody out of that context, they may or may not have a kind of ... of a set-up cost where they go next.

And it reminded me, actually, of ... there's some research on Wall Street equities researchers. And they found that when you looked at stars who were hired away by competing firms, that they actually had a dip in performance when they left. They had a dip. And the attribution is that their ... they had been ... their performance had been part of a well-oiled machine, and the people who took part of that machine with them had no dip in performance. So, the people who said, "Well, you know, you want to hire me. I wanted my whole team to go with me. I want the people who work under me. I want my ... I want some of my peers. I want us all to move together."

Those people had no dip in performance. And I think they were ... they were ... they had an intuitive understanding that their job performance was part of ... of scaffolding with other people who ... with whom they worked well and whom ... whom they knew. Right? Whom they ... they could depend on implicitly and coordinate with. As I listen to the interview that you had with John, my sense is that they did all the right things. They figured out what is his maximum value to us. And when they couldn't get a deal in that space, they ... they graciously passed. And they didn't let the ... the emotions around the idea of legacy make a sky's-the-limit kind of offer. And that's smart, but that's hard. And that's a ... that's a tough decision. And I don't envy them how it felt when they actually found out that ... that was ... that that was the outcome. But I think they did the right thing.

So, setting a precedent that year that the sky is not the limit. So, the next person, the next person, the next person who are coming up for free agency don't think that, "Well, I need to get as good as ... as good a deal as he did and look how great his deal was." So, sometimes actually you want to reach an impasse and let something go. If the alternative is to set a precedent that puts you in a bad position for the next and the next and the next deal.

Kurt Greenbaum: Is there a way to sort of sum up what the principles are, the underlying principles that come into play as you approach this sort of negotiation? Not specifically Albert, but all of these sorts of negotiations. I mean, it's not about winning at all costs, right? What are those principles?

John Mozeliak: Well, I think the most important thing is, is being disciplined to your process. You can't ignore fans' ... fans' feelings. Like that ... that there's something to be said for like "wisdom of crowds." Right? There's ... there's a time where you want to have the pulse of what your fan base wants, and again, you can't make

every decision solely based on that, you have to have a process, but you can't ignore it either.

We knew our fans were going to be disappointed, and we weren't happy about it. We weren't proud of it. But we understood that this, too, shall pass. And now we need to think about what's next. But, so, what I think about these types of negotiations, it's ... it's ... it's having a process that you believe in, that you trust and that you validate it and that ultimately, it's remaining disciplined to it.

Kurt Greenbaum: How did losing Pujols affect the future of the Cardinals? Can you kind of connect the dots for us about how that rippled forward and the players that it affected down the line?

John Mozeliak: Well, it ... you know, as I think about that question, it had an immediate response that was needed and that ended up being Carlos Beltrán that we ended up signing maybe a week and a half later to a two-year contract. And, you know, obviously it wasn't Albert Pujols, but it did give you a ... another middle-of-the-order-type bat to ... to ... to put in that lineup.

But then it also gave us the flexibility to ... to really ... as I sit here, you know, in 2021, it allowed us to keep Adam Wainwright and Yadier Molina. Because, you know, both of those players were iconic and ... and legacy-type players in their own right. I think when you talk about redeploying, there were certainly, like, smaller decisions and other ways to ... to redeploy the dollars. But from a franchise standpoint, it really allowed us to secure not only a Matt Holliday, who had signed the previous year, but keeping Adam Wainwright and Yadier Molina.

Kurt Greenbaum: Well, I ... I ... I also recall that there were a couple of other big moves that the Cardinals made — Paul Goldschmidt and you mentioned Nolan Arenado a ... a few moments ago.

John Mozeliak: So, when you think back to that date in December, it changed the course of our history.

Kurt Greenbaum: In what way?

John Mozeliak: Because of all the names you just named. Obviously, if that day is different and Albert signs with the Cardinals, Paul Goldschmidt never wears a Cardinals jersey. I have no idea what the likelihood of ... of retaining Adam Wainwright would have been at that time. Yadi's process — I think we would have always found ways to do it, but I don't know that for sure. It just ... it ... it allowed us to do other things that I think probably maybe most importantly in the takeaway here, is it allowed us to remain successful.

Kurt Greenbaum: And that's our episode of *On Principle*. Thanks for joining us and thank you to John Mozeliak and Hillary Anger Elfenbein for taking the time to share

their insights. I want to give credit to ESPN for a breaking news clip about Pujols. Thanks also to the St. Louis Cardinals and Major League Baseball for permission to use a clip from the 2011 World Series.

I still remember it like it was yesterday.

If you have comments or questions about this episode or ideas for future episodes, I'd love to hear from you. Send an email to Olin podcast at W-U-S-T-L dot E-D-U. That's Olin podcast at "woostl" dot E-D-U. Find the show notes for today's episode and on principle podcast dot com. Plus, I'd really appreciate it if you'd point your phone wherever you download fine podcasts and subscribe so you don't miss the next new episode of *On Principle*.

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