

Teaching Negotiation

How We Will Learn

- **Practice:** in a variety of settings
- **Feedback:** Share experiences
- **Analysis:** Mathematical and Descriptive
- **Outcome Based Evaluation:** Your grade depends on your performance!

- Our focus is on *skill building and learning by doing*
- We all can benefit from practice by *doing* negotiations in different substantive contexts
- Practice sharpens our ability to recognize untested assumptions, alternative explanations
- It increases our sensitivity to what works, what doesn't work and why.

Scoring

(# in class = 100)

Games vs. All Others (Two roles - A & B)

- 1) Write down your A-strategy
- 2) Your A-strategy pitted against 50 B-role strategies

<u>B Player</u>	<u>Your Score</u>
1	63
2	61
⋮	⋮
50	81

Your average score = 67

A Player overall mean = 73

A Player overall std. dev. = 4

- 3) Your Z-score as an A-player:

$$= \frac{67 - 73}{4} = -1.5$$

(# in class = 100)

Games vs. Specific Player (Labor vs. Management - 50 Pairs)

- 1) You = Labor, "Henry" = Mgmt.
- 2) You score 710 points, "Henry" score 36 points.
- 3) Compare your score with 49 other Labor scores:

<u>Other Labor Player</u>	<u>Score</u>
1	670
2	745
⋮	⋮
49	640

Other Labor Player mean = 680

Other Labor Player std. dev. = 40

- 4) Your Z-score = $\frac{710 - 680}{40} = .75$

Why Negotiation is Difficult

Leigh Thompson Chapter 1

- **Cognitive Hard Wiring:**
 - We are programmed to simplify information
 - Our need for closure blinds us to consideration of alternatives
 - We make faulty, simplifying assumptions
- **Need for confirmatory feedback**
 - inhibits learning optimally from experience
- **Intuition**
 - Doesn't lead to a general framework for effective negotiation

Myths

- **Good Negotiators are born:**
 - Wrong! They are self-made
 - Buying a car is NOT a broad negotiation experience builder
- **Experience is a great teacher:**
 - While confidence improves with experience, unaided experience doesn't provide good feedback
 - We remember successes, forget failures

- **Good negotiators take risks:** (*translation*)
 - Good negotiators *make threats* in a disciplined and organized fashion
 - Good negotiators know how to evaluate a decision situation and choose a best course of action
- **Good negotiators rely on intuition:**
 - Many do use ‘gut feeling’
 - In reality, *behavior is often influenced by arbitrary and irrelevant aspects of a setting*
 - Good negotiators are *self-aware*
 - *They can articulate the rules that guide them and police against being fleeced*

“Distinguishing Best and Strategic Practices”

Keith Allred (2000)

- Moves to claim value tend to block moves aimed at creating value
- Claiming is competitive and assertive
- The downside of pursuing a cooperative strategy aimed creating value is that it often exposes you to exploitation

Best versus Strategic Practices

- **BEST PRACTICES:**
 - Those that work well irrespective of what your negotiating counterparts do
- **STRATEGIC PRACTICES:**
 - Practices that work well in particular situations with some counterpart responses and poorly in other situations with other responses

- *Within a formal game-theoretic framework, **equilibrium strategies** are often, but not always “Best Practice”*
 - Stud Poker bluffing strategies
- Prisoners’ Dilemma games are an example of cases where equilibrium strategy choice may not be a “Best Practice”
 - Dominance leads to poor outcomes for both parties
 - Holdup!

*Understand the **interests** of your negotiating counterpart(s)*

- Interests are self-evident in formal zero-sum and non-zero sum games
- Interests of your negotiating counterparts are NOT self-evident in multiple issue negotiations where each party possesses private information
 - In particular, information about your counterparts' BATNA's are often revealed only through the dynamics of negotiation

Distributive Bargaining

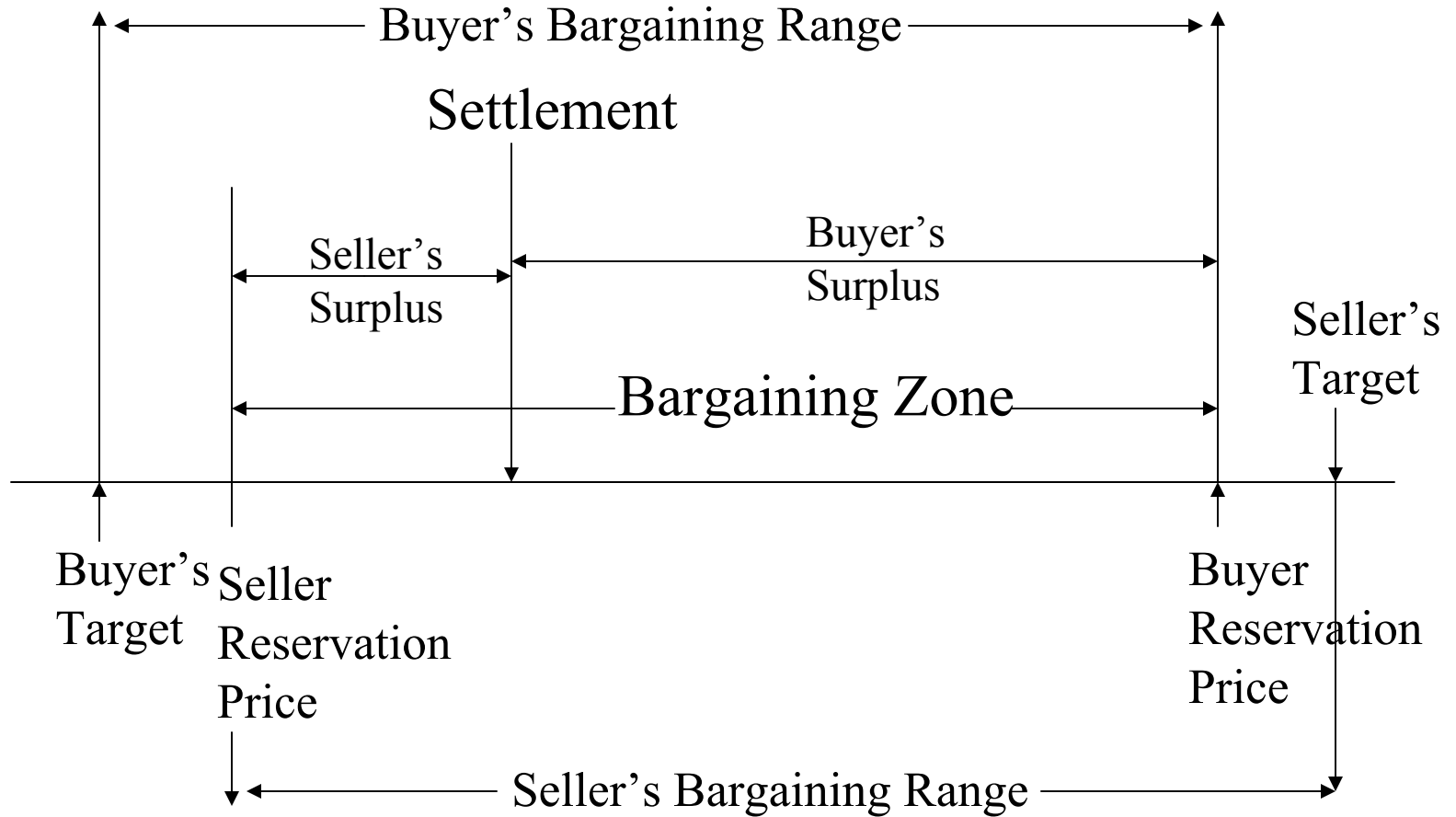
Principles and Key Ideas

Distributive Bargaining Principles

- **Target Point**
 - Your preferred settlement, taking into account limits imposed by the interests of your counterpart
 - Your target is likely to change as negotiations unfold
- **BATNA or Reservation Point**
 - *Walk away point* at which you are indifferent between settlement and walking away

- **Reason backward to determine BATNA:**
 - Brainstorm alternatives to determine what your *best* alternative to no agreement really is
 - Base it on facts not wishes
 - Do NOT change your BATNA unless the facts change
 - Do NOT allow others to talk you into change
- **Bargaining Zone--the region between parties' reservation points**
 - Positive when parties' reservation points overlap and doesn't exist when there is no overlap

- Agreement is possible when bargaining zones are positive and not possible when there is no reservation point overlap
- **Bargaining Surplus**
 - The amount of overlap produced by reservation points
 - A measure of the *size* of the bargaining zone



Bargaining Zone = Zone of Possible Agreement
or ZOPA

Prepare, Prepare, Prepare!

- **1) Determine your BATNA.**
 - It is your most important source of POWER!
- **2) Improve your BATNA.**
 - It is never as good as we would like
 - A really good BATNA ensures a good chance of a large share of the surplus
 - Search out possible alternatives that may enhance your ‘walk away’ point

- (3) Determine your opening offer before you begin negotiations
- (4) Do the best you can to determine your negotiating counterpart's BATNA:
 - Craft a dialogue that engenders much information exchange
 - In mixed motive negotiations work on creating value before claiming it

THE Big QUESTIONS

- **Reveal your reservation price?**
 - No! Unless it is very, very good. Seldom the case
- **Lie about your reservation price?**
 - No! You can back yourself into a corner and fail to reach agreement
- **Try to convince your counterpart that her BATNA is no good?**
 - Probably Not. Only if you have supportable evidence that it is *really* no good
 - Beware of a Boomerang effect: people often do the opposite of what you want them to do

- **Tough or Soft?**
- You should be *neither*:
 - Too tough may blow the deal
 - Too soft, you give away your bargaining surplus
- **Ideal:**
 - Try to make an offer in the bargaining zone, not outside
 - IF you are certain of your counterpart's BATNA, offer just slightly better

ANCHORING

- People make estimates by starting from an *initial value* and adjusting to provide a final answer.
- Adjustments are typically insufficient

- The initial value is a *psychological anchor*
 - Too high, the estimate tends to be too high
 - Too low, the estimate tends to be too low
- Fact: *adjustment is almost always insufficient*
- Large and systematic departures from accuracy can occur

Alpert-Raiffa Experiment

- Individuals specify 50-50 probability intervals [*inter-quartile ranges*] for a large number of uncertain quantities
- Much *narrower* ranges than 50-50 appear
 - Such interval estimates reflect more certainty than is warranted by available knowledge
 - 36% is a pseudo semi-constant!

- Irrelevant numbers can serve as anchors and influence perception of the bargaining zone:
 - Real estate agents are given a ten page packet of information including a “list price” along with the actual appraised price.
 - 81% of agents said they did not use list price to estimate sales price
 - Nevertheless, manipulating the “list price” by 12% resulted in a significant difference in agents’ estimates of the property’s sales price
 - The average price with a low list price was 15% lower than that for the high list price *anchor*

First Offers as Anchors

- Does making the first offer lead to a better outcome for you?
 - Yes, if you are certain of your counterpart's BATNA
 - Not necessarily if you are uncertain

- 1st offers and 1st counter-offers together are often good predictors of a settlement
 - Suppose A makes a 1st offer and B responds
 - If B focuses on information *inconsistent* with implications of A's first offer, a *first offer effect is diminished*
 - IF B focuses on information *consistent* with implications of A 1st offer, a *first offer effect persists*

Galinsky, A. and T. Mussweiler, "First Offers as Anchors: The Role of Perspective-Taking and Negotiator Focus",
Kellogg School Working Paper #231

- If B shapes a response focused on:
 - A's BATNA or
 - A's Reservation Price or
 - B's target priceA's first offer advantage is reduced.

- If B shapes a response focused on:
 - B's BATNA or
 - A's target priceA's first offer effect persists.