Negotiation

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Negotiation

negotiation is a process by which two or more parties make decisions and do not have identical preferences
Negotiation Is Work

• Economic Game Theory suggests that outcomes are determined by game structure
• Yet negotiators fail to find mutually-desirable agreements, settle for less, agree when no agreement should be acceptable, etc.
• The work of negotiation is to identify possible agreements, estimate the desirability of outcomes to all parties, understand the other parties, communicate and persuade
Negotiation Exercise

- Recruiter and job candidate negotiate the offer, consisting of salary, signing bonus, vacation days, and location
- Each has “interests” or things they value
- If you cannot reach agreement, the deal is off
- Pair off with a neighbor, read your role individually, THINK about your interests and goals, and negotiate
- You may NOT show the other person your pay-off schedule
- Good luck!!
Negotiation Strategies

- Distributive
  - Conflicting goals, fixed pie ("zero-sum game"), task is to claim value and maximize personal gains

- Integrative
  - Shared goals, expandable pie ("win-win"), task is to create value, maximize joint gains

- Mixed-Motive
  - Both expanding the pie -- meeting needs of all or most parties as much as possible -- while claiming your share
A Distributive Issue

I want to hire for $84K or less; my limit is $85K
“I offer $82K”

I want $88K or more; at least $87K
“I ask for $90K”

Gap between A [Recruiter] & B [Candidate]

Negative Contract Zone
I want to hire for $84K or less; my limit is $88K

“I offer $82K”

I want $88K or more; at least $86K

“I ask for $90K”

A’s Opening Offer

A’s Target Point

B’s Resistance Point

A’s Resistance Point

B’s Resistance Point

B’s Target Point

B’s Opening Offer

Positive Contract Zone

Resistance Points?

• Resistance Points may arise from alternative offers: Best Alternative to a Negotiated Agreement (BATNA)
• In this case, each negotiator was given a BATNA: was there a + contract zone?
• Resistance Points arise from other comparisons
• Resistance Points may shift during negotiation if negotiators lack information or confidence
How to “Claim” Value
(Distributive Bargaining)

• Know your BATNA and improve it
• Consider the other side’s BATNA (as well as their perception of their BATNA) and how it might be influenced
• Use standards of legitimacy
• Draw on your sources of power
  – But be careful not to force to hard/far!
  – DON’T state a BATNA you are not prepared to use if necessary
Distributive Tactics

- Develop target and resistance positions in advance
- Overstate opening positions (be “tough”)
- Commit to these positions early and publicly
- Channel communications through a spokesperson
- Give as little as possible for what you get
- Use coercive forms of power
- Mobilize support from constituents against the other party
- Divide and conquer the other side; protect against the same on your side
- An agreement reluctantly accepted is a sign of success
Integrative Bargaining

Pareto Frontier: where one party cannot be better off without the other being worse off

Creating Value

Claiming Value

Shaded Region Represents All Mutually Acceptable Agreements
Increasing the Pie

• Salary in this exercise was a purely distributive issue, but signing bonus and vacation were different
• The recruiter cared more about vacation days and the candidate about bonus
• A 2% signing bonus and 30 days vacation is 3200 TOTAL points; a 10% signing bonus and 10 vacation days is 8000 points
• BOTH negotiators can be better off if they identify and trade these opportunities, raising total available points from -1600 to 3200
• We set the BATNA’s at 3200. Why?
Integrative Tactics

- Focus on Interests, Not Positions
- Build Trust & Share Information
- Search for Joint Gains (inquiry, make multiple simultaneous offers, etc.)
- Brainstorming multiple options, sub-committee explorations of problems, open communications
- Use objective criteria to evaluate options
- Look for options to “expand the pie”
Reframing

• We often think automatically of negotiation as zero-sum and this prevents expanding the pie
• In a Prisoner’s Dilemma game, students were told either that they were playing the “Wall Street Game” or the “Community Game”
• This dramatically affected the amount of cooperation and the joint gains
• The effect was much stronger than dorm advisors’ nomination of students as cooperators vs. competitors/defectors
Creating AND Claiming Value

• How much to trust the other party?
  – How much do we and they value the relationship?
  – Is this a one-time negotiation or a long-term relationship?
  – Are there reputational consequences or self-enforcing contract features that increase trust?
  – Trust but verify?

• Hold secret information to gain power or disclose information to build trust?
  – What to disclose and when?
Lessons

- Lesson 1: Listening for interests is an active process of asking for more information and clarification.
- Lesson 2: Reframing (expand the pie, expand the issues, change the timeframe) is a valuable tool/skill/tactic—try it out!
- Lesson 3: Prepare, Prepare, Prepare
- Lesson 4: Always ask, can we do better?