

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

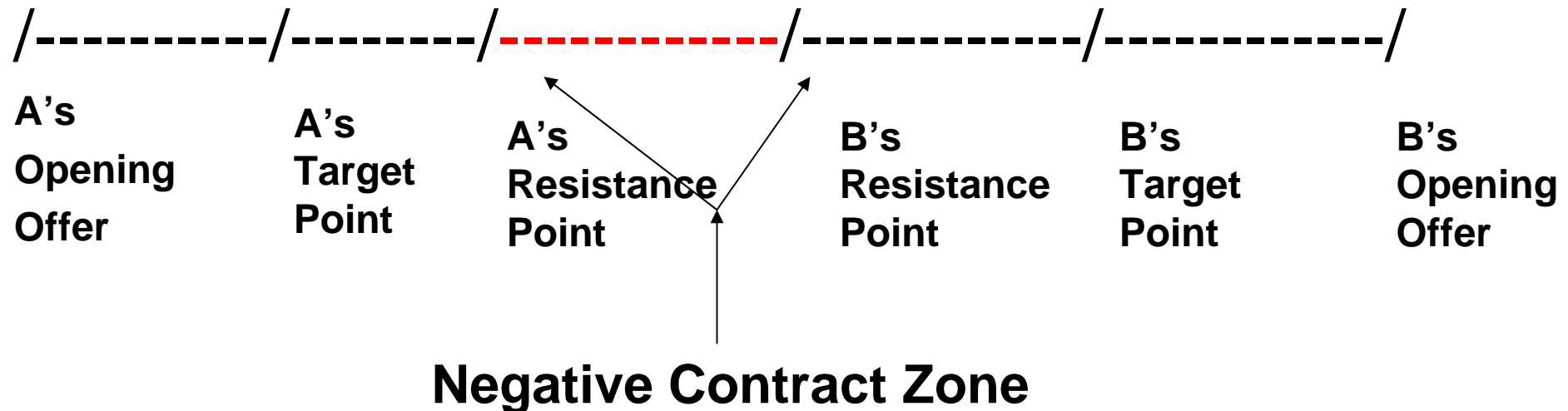
A Distributive Issue

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”



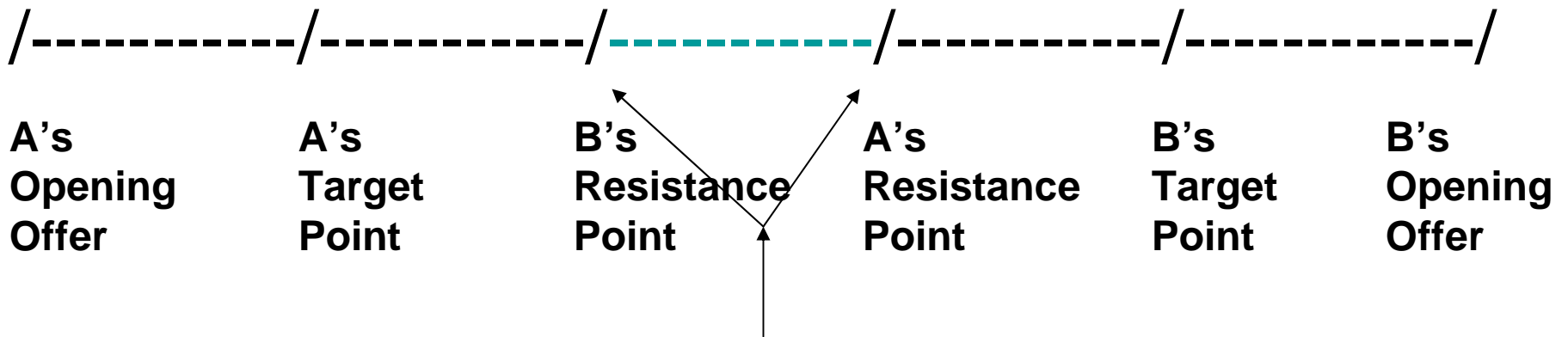
Gap between A [Recruiter] & B [Candidate]

I want to hire for \$84K or less;
my limit is \$88K

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

“I offer \$82K”

“I ask for \$90K”



Positive Contract Zone

**A [Recruiter] & B [Candidate] Resistance
Points Overlap**

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

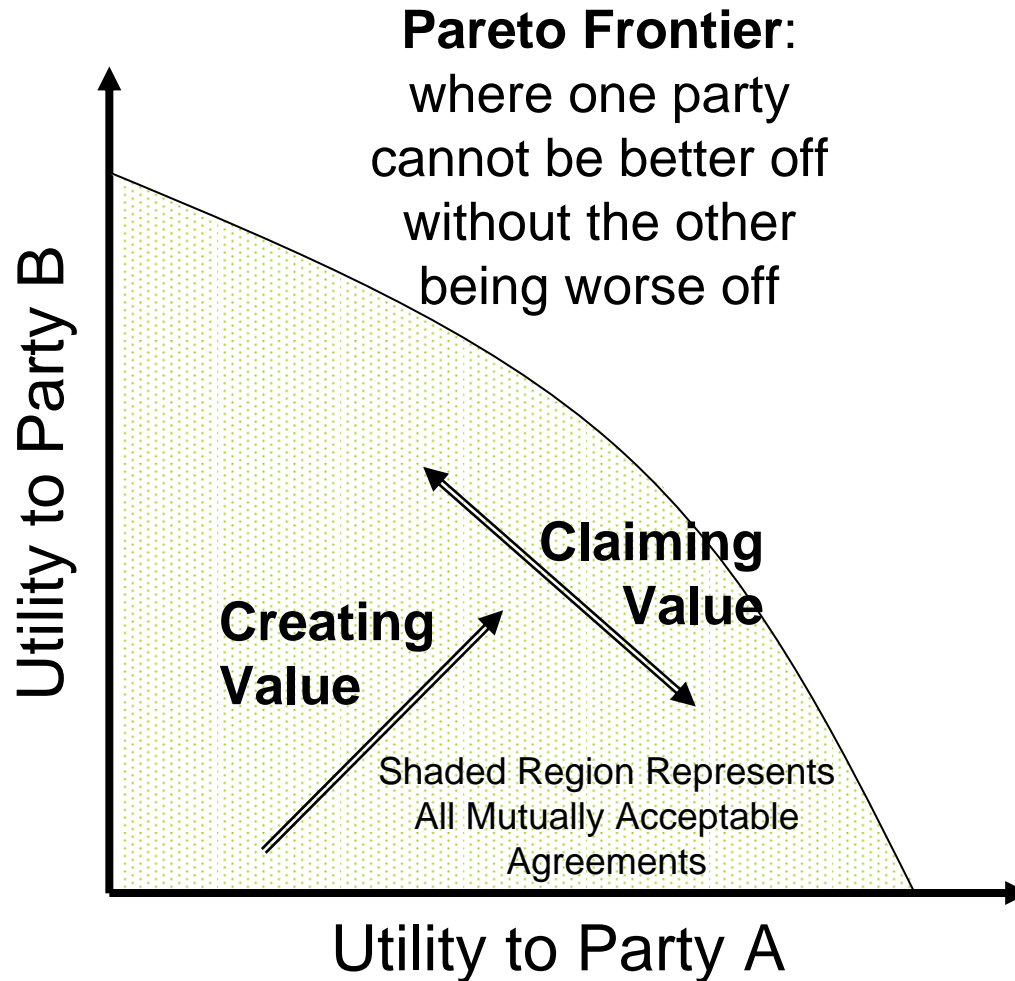
How to “Claim” Value (Distributive Bargaining)

- 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 too 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



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?**