

P A R T I



ESSENTIALS OF
NEGOTIATION

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NEGOTIATION

The Mind and the Heart



In 1998, the National Basketball Association (NBA) owners initiated a 202-day lockout of players, resulting in a loss of about \$1 billion for owners and about half a billion dollars in foregone salaries for basketball players. Fans were frustrated and disenchanted, and supporters and advertisers lost millions.

In 1999, the members of the World Trade Organization met in Seattle, Washington to lower trade barriers. The members of the organization could not even agree on an agenda and the meeting was an utter failure.

During 1999, Belinda Clark handled about 200 job offers for nursing assistants, research scientists, and a number of other employees. All but about 10 of these candidates took the initial offer without attempting to negotiate for something extra or more. Clark was delighted, but puzzled. The job applicants apparently did not realize that the offers Clark made were just starting points. She says, laughing, “I don’t say anything if they don’t.” (Clark 1999, 88)

These examples suggest that negotiating is not easy. This is a problem, considering that people negotiate in their personal and business relationships, within organizations, between companies, across industries, and among nations. Furthermore, negotiations occur between two people and, in other cases—such as the World Trade Organization—hundreds of people. The variety of negotiation contexts presents special challenges for managers, who are required to demonstrate competencies in all of these contexts. This book is designed to improve managers’ and executives’ negotiation skills across a wide variety of situations.

The working definition of **negotiation** used in this book is “an interpersonal decision-making process by which two or more people agree how to allocate scarce resources.” By this definition, it is difficult to imagine how people can get through a single day without negotiating.

NEGOTIATION AS A CORE MANAGEMENT COMPETENCY

Effective negotiation skills are increasingly important for executives, leaders, and managers in the business world. There are five key reasons for this.

DYNAMIC NATURE OF BUSINESS

Mobility and flexibility are the dictates of the new world of work. The dynamic, changing nature of business means that people must negotiate and renegotiate their existence in organizations throughout the duration of their careers. The advent of decentralized business structures and the absence of hierarchical decision making provide opportunities for managers, but they also pose some daunting challenges. For example, most people do not stay in the same job that they take upon graduating from college or receiving their MBA degree; furthermore, most people will not have the same job as their predecessor. These realities mean that people must continually create possibilities, integrate their interests with others, and recognize that there will be competition both within companies and between companies (see Sidebar 1–1). Managers must be in a near-constant mode of negotiating opportunities.

SIDEBAR 1–1. NEW BUSINESSES AND CAREERS

According to *Business Week* (Alderman, 1999), it is the “era of the employee,” with the tightest labor market in 29 years. This means that employees are in a one-up position, and employers need to keep them happy. For example, Doug Ross, the owner of Evolution Film & Tape Inc., a television production company in North Hollywood, California, lets his employees create their own hours, dress as they please, and bring their children to work—all in order to stay competitive. Employees and companies are in positions to negotiate all kinds of things, such as opportunities for training, flex time, family leave, health insurance, and other benefits. Another example: The California-based Cheesecake Factory, Inc., pays salaries 20 percent above market rates. It also gives stock options to all its general managers, as well as new BMW 323s. This sounds expensive, but Cheesecake Factory says it has actually saved money, losing only two general managers in the last two years in an industry where a 38 percent turnover is the average (Conlin, Coy, Palmer, and Saveri 1999).

According to Linda Greene, associate vice-chancellor for academic affairs at the University of Wisconsin—Madison, “Many important events essential to professional success and professional satisfaction happen every day in the workplace and they are not always announced in advance” (Kalk 2000, 1E). In truth, negotiation comes into play when people participate in important meetings, get new assignments, head a team, participate in a reorganization process, and set priorities for their work unit (Kalk 2000). Ideally, negotiation should be second nature, but often, it is not.

INTERDEPENDENCE

The increasing interdependence of people within organizations, both laterally and hierarchically, implies that people need to know how to integrate their interests and work together across business units and functional areas. This not only occurs within companies, as people from different departments and units integrate their knowledge to create a product or service, but it also occurs between people from different companies, as is the case with strategic alliances. The increasing degree of specialization

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and expertise in the business world implies that people are more and more dependent on others to supply the components for a complete service or product. It is unwise to assume that others have similar incentive structures, so managers need to know how to promote their own interests while simultaneously creating joint value for their organizations. This requires negotiation.

COMPETITION

Business is increasingly competitive. In today's economy, a few large firms are emerging as dominant players in the biggest markets. These industry leaders often enjoy vast economies of scale and earn tremendous profits. The losers are often left with little in the way of a market, let alone a marketable product (Frank and Cook 1995). This means that companies must be experts in the vast fields of competition. Managers not only need to function as advocates for their products and services, but they must also recognize the competition that is inevitable between companies and, in some cases, between units within a given company. Understanding how to navigate this competitive environment is essential for successful negotiation.

INFORMATION AGE

The information age also provides special opportunities and challenges for the manager as negotiator. Computer technology, for example, extends a company's obligations and capacity to add value to its customers. This must be accomplished in a way that also benefits the company. Further, with ever-improving technology making it possible to communicate with people anywhere in the world, managers need to be able to negotiate at a moment's notice. Thus, the ability to determine relevant information from irrelevant information is critical for successful negotiation in the information-overload age.

DIVERSITY

Increasing diversity means that managers need to develop negotiation skills that can be successfully employed with people of different nationalities, backgrounds, and styles of communication. Thus, negotiators who have developed a bargaining style that works only within a narrow subset of the business world will suffer unless they can broaden their negotiation skills to effectively work with different people across functional units, industries, and cultures (Bazerman and Neale 1992). It is a challenge to develop a negotiation skill set generalizable enough to be used across different contexts, groups, and continents, but specialized enough to provide meaningful behavioral strategies in any given situation. This book provides the manager with such skills.

MOST PEOPLE ARE INEFFECTIVE NEGOTIATORS

Because negotiation is so important for personal and business success, it is rather surprising that most people do not negotiate very well—judging from their performance in realistic business negotiation simulations (for reviews, see Neale and Bazerman 1991; Thompson and Hrebec 1996; Thompson 1990a). For example, in a recent investigation

of senior-level executives from major companies across the world, 95 percent reached suboptimal outcomes in a realistic business simulation; in practical terms, they “left money on the table.” They are not alone. A voluminous body of evidence indicates that people consistently leave money on the table, walk away from profitable deals, and in some cases, settle for something worse than they could otherwise obtain by pursuing a different course of action.

THE MAJOR SINS OF NEGOTIATION

There are four major shortcomings in negotiation we have observed and documented in our research. They are:

1. **Leaving money on the table** (also known as “lose-lose” negotiation) occurs when negotiators fail to recognize and exploit win-win potential.
2. **Settling for too little** (also known as “the winner’s curse”) occurs when negotiators make too-large concessions, resulting in a too-small share of the bargaining pie.
3. **Walking away from the table** occurs when negotiators reject terms offered by the other party that are demonstrably better than any other option available to them. (Sometimes this is traceable to hubris or overweening pride; other times, it results from gross miscalculation.)
4. **Settling for terms that are worse than your alternative** (also known as the “agreement bias”) occurs when negotiators feel obligated to reach agreement even when the settlement terms are not as good as their other alternatives.

This book teaches you how to avoid these errors, create value in negotiation, get your share of the bargaining pie, reach agreement when it is profitable to do so, and quickly recognize when agreement is not a viable option in a negotiation.

WHY ARE PEOPLE INEFFECTIVE NEGOTIATORS?

The dramatic instances of lose-lose outcomes, the winner’s curse, walking away from the table, and the agreement bias raise the question of why people are not more effective at the bargaining table if negotiation is indeed critical for business success. The reason is not due to a lack of motivation or lack of intelligence on the part of negotiators. Many of the managers who fall victim to the major sins of negotiation do so for three primary causes: absence of feedback, satisficing, and self-reinforcement.

ABSENCE OF RELEVANT AND DIAGNOSTIC FEEDBACK

Most people have little opportunity to learn how to negotiate effectively. The problem is not lack of experience but a shortage of timely and accurate feedback. Even those people who have daily experiences in negotiation receive very little feedback on their negotiating effectiveness. The absence of feedback results in two human biases that further prevent negotiators from optimally benefiting from experience. The first problem is the **confirmation bias**, or the tendency for people to see what they want to see when appraising their own performance. The confirmation bias leads people to

selectively seek information that confirms what they believe is true. Whereas the confirmation bias may seem perfectly harmless, it results in a myopic view of reality and can hinder learning. A second problem associated with the absence of relevant and diagnostic feedback is **egocentrism**, which is the tendency for people to view their experiences in a way that is flattering or fulfilling for themselves. This may increase a manager's self-esteem; however, in the long run, it does a disservice to managers by preventing them from learning effectively. For example, it was egocentrism and the corresponding inability to recognize her own shortcomings that lead to the removal of Jill Barad as chairperson/CEO of toy maker Mattel Inc. (Byrne and Grover 2000). According to analysts, Barad never assumed responsibility for earnings surprises or adverse announcements. Instead, she blamed her subordinates and sacked them.

SATISFICING

The second reason why people often fall short in negotiation is due to the human tendency to satisfice (Simon 1955). **Satisficing** is the opposite of *optimizing*: In a negotiation situation, as we will argue later in this book, it is important to optimize one's strategies by setting high aspirations and attempting to achieve as much as possible; in contrast, when people satisfice, they settle for something less than they could otherwise have. Over the long run, satisficing (or the acceptance of mediocrity) can do one's self and one's company a disservice because there is a variety of effective negotiation strategies and skills that can be cheaply employed to result in dramatic increases in profit (we will discuss these strategies in detail in the next three chapters).

SELF-REINFORCEMENT

The final reason why people perform poorly in negotiation is due to a principle known as **self-reinforcement**, which is the reluctance to try something new or change certain behaviors. It works like this: People are reluctant to change their behavior and experiment with new courses of action because of the risks associated with experimentation. In short, the fear of losing keeps people from experimenting with change. Negotiators instead rationalize their behavior in a self-perpetuating fashion. The fear of making mistakes may result in a manager's inability to improve his or her negotiation skills. In this book, we remove the risk of experimentation by providing several exercises and clear demonstrations of how changing one's behavior can lead to better results in negotiation.

DEBUNKING NEGOTIATION MYTHS

Before we start on our journey toward developing a more effective negotiation strategy, we need to dispel several faulty assumptions and myths about negotiation. These myths hamper people's ability to learn effective negotiation skills and, in some cases, reinforce poor negotiation skills. In the following section, we expose the four most prevalent myths about negotiation behavior.

MYTH 1: GOOD NEGOTIATORS ARE BORN

A pervasive belief is that good negotiation skills are something that people are born with, not something that can be readily learned. This is false because most excellent

negotiators are self-made. In fact, there are very few naturally gifted negotiators. We tend to hear their stories, but we must remember that their stories are *selective*, meaning that it is always possible for someone to have a lucky day or a fortunate experience. This myth is often perpetuated by the tendency of people to judge negotiation skills by their car-dealership experiences. Whereas purchasing a car is certainly an important and common type of negotiation, it is not the best context by which to judge your negotiation skills. The most important negotiations are those that we engage in every day with our colleagues, supervisors, co-workers, and business associates. These relationships provide a much better index of one's effectiveness in negotiation. In short, effective negotiation requires practice and feedback. The problem is that most of us do not get an opportunity to develop effective negotiation skills in a disciplined fashion; rather, most of us learn by doing. As the second myth reveals, experience is helpful, but not sufficient.

MYTH 2: EXPERIENCE IS A GREAT TEACHER

We have all met that person at the cocktail party or on the airplane who boasts about his or her great negotiation feats and how he or she learned on the job (Bazerman and Neale 1992). It is only partly true that experience can improve negotiation skills; in fact, naïve experience is largely ineffective in improving negotiation skills (Thompson and DeHarpport 1994). There are three strikes against natural experience as an effective teacher. First, in the absence of feedback, it is nearly impossible to improve performance. For example, can you imagine trying to learn mathematics without ever doing homework or taking tests? Without diagnostic feedback, it is very difficult to learn from experience.

The second problem is that our memories tend to be selective, meaning that people tend to remember their successes and forget their failures or shortcomings. This is, of course, comforting to our ego, but it does not improve our ability to negotiate.

Finally, experience improves our confidence, but not necessarily our accuracy. People with more experience grow more and more confident, but the accuracy of their judgment and the effectiveness of their behavior does not increase in a commensurate fashion. Overconfidence can be dangerous because it may lead people to take unwise risks.

MYTH 3: GOOD NEGOTIATORS TAKE RISKS

A pervasive myth is that effective negotiation necessitates taking risks and gambles. In negotiation, this may mean saying things like “This is my final offer” or “Take it or leave it” or using threats and bluffs. This is what we call a “tough” style of negotiation. Tough negotiators are rarely effective; however, we tend to be impressed by the tough negotiator. In this book, we teach negotiators how to evaluate risk, how to determine the appropriate time to make a final offer and, more importantly, how to make excellent decisions in the face of the uncertainty of negotiation.

MYTH 4: GOOD NEGOTIATORS RELY ON INTUITION

An interesting exercise is to ask managers, and anyone else who negotiates, to describe their approach to negotiating. Many seasoned negotiators believe that their negotiation style involves a lot of “gut feeling,” intuition, and “in-the-moment” responses. We

believe that this type of intuition does not serve people well. Effective negotiation involves deliberate thought and preparation and is quite systematic. The goal of this book is to help managers effectively prepare for negotiation, become more self-aware of their own strengths and shortcomings, and develop strategies that are **proactive** (i.e., those that anticipate the reactions of their opponent) rather than **reactive** (i.e., those that are dependent upon the actions and reactions of their opponent). Thus, excellent negotiators do not rely on intuition; rather, they are deliberate planners.

LEARNING OBJECTIVES

This book promises three things: First (and most important), reading this book will *improve your ability to successfully negotiate*. You and your company will be richer, and you will experience fewer sleepless nights, because you will have a solid framework and excellent toolbox for successful negotiation. However, in making this promise, we must also issue a warning: Successful negotiation skills do not come through passive learning. Rather, you will need to actively challenge yourself. We can think of no better way of doing this than to supplement this book with classroom experiences in negotiation, where managers can test their negotiation skills, receive timely feedback, and refine their negotiation strategies on a repeated basis.

Second, we provide you with a *general strategy for successful negotiation*. This book explicitly does not support a contextual model of negotiation, which prescribes using different negotiation strategies with different types of people, situations, and industries. Rather, we believe that negotiation skills are transferable across situations. In saying this, we do not mean to imply that all negotiation situations are identical. This is patently false because negotiation situations differ dramatically across cultures and activities. However, there are key negotiation principles that are essential in all of these different contexts. The skills in this book are effective across a wide range of situations, ranging from complex, multiparty, multicultural deals to one-on-one personal exchanges.

Finally, this book offers an *enlightened model of negotiation*. Being a successful negotiator does not depend on your opponent's lack of familiarity with a book like this or a lack of training in negotiation. In fact, it would be ideal for you if your key clients and customers knew about these strategies. This approach follows what we call a *fraternal twin model*, which assumes that the other person you are negotiating with is every bit as motivated, intelligent, and prepared as you are. Thus, the negotiating strategies and techniques outlined in this book do not rely on "outsmarting" or tricking the other party; rather, they teach you to focus on simultaneously expanding the pie of resources and ensuring the resources are allocated in a manner that is favorable to you.

THE MIND AND HEART

Across all of the sections of this book, we focus on the *mind* of the negotiator as it involves the development of deliberate, rational, thoughtful strategies for negotiation. We also focus on the *heart* of the negotiator because it involves emotions, psychology, and the intuitive aspects of negotiation. This book strikes a balance between these two approaches to negotiation situations.