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IMPROVING THE PRACTICE OF MANAGEMENT

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By Leigh Thompson and Geoffrey J. Leonardelli

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Why negotiation is the most popular business school course

Just as negotiating has become an ongoing process, so too has learning new negotiating techniques. "Improving your negotiation skills," write the co-authors of this article, "is a long journey that involves constant reflection, awareness, and openness to feedback." In the article, a valuable and extremely useful primer for negotiators, they describe and outline the preparation, value-claiming and value-creating strategies that are the foundation of any successful negotiation.

By Leigh Thompson and Geoffrey J. Leonardelli

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There are more courses on negotiation offered at many business schools today than there are courses on any other subject beyond the core requirements. The same statistic applies to non-degree and executive courses. Why? The answer, we think, represents a confluence of several key factors involving ivory-tower scholars and business people, theory and application, and research and business. In a positive sense, we could say that a "perfect storm" has been created for negotiation theory and practice: the electricity and thunder of progress can

be seen and heard clearly and loudly.

As we all know, the foundation of nearly any business school thinking begins with the rational expectations model and profit maximization. Negotiation, in this sense, acts as a Chinese finger trap for students: most people go into negotiations hell-bent on looking after their own interests, only to find that the other party, lo and behold, is doing exactly the same thing. The unfortunate result is mutual escalation of conflict. The solution, however, is not to approach negotiation as a purely co-operative enterprise and give up everything to the other side. The solution is to recognize negotiation for what it is - a mixed-motive enterprise that simultaneously tests a negotiator's ability to co-operate and compete.

In this article, we accomplish three goals. First, we describe three ways of evaluating success in negotiated outcomes. Second, we provide analysis of the most common traps that prevent negotiators from achieving successful negotiated outcomes. Finally, and probably most important, we provide a three-step strategic plan that negotiators can use to achieve successful negotiated outcomes. We'll be perfectly candid about our approach: it is theory-based and driven by empirical research. We have a particular disdain for post-hoc armchair theorizing; rather, this work is based on analytic thought and on carefully collected data that support the advice we will be dispensing. And, this controlled and constructive work will have the ameliorative effect of improving performance at the bargaining table. To be quite frank, it is the students in our negotiation classes that have had the biggest effect on our research programs. Their relentless drive to improve

their performance has us and an entire field of negotiation scholars focusing on cutting-edge questions that enter new terrain, that spark new issues and innovative techniques.

Evaluating negotiation outcomes: The pyramid of success

We conceive negotiator success at three levels of the negotiation. At its simplest, success refers to identifying when negotiators *should* reach agreement. Negotiators succeed by agreeing to outcomes that are better than their alternatives and walking away from outcomes that are worse than these alternatives. Thus, at the first level of success, negotiators are capable of identifying when "mutual settlement" is possible. Second, most negotiators have heard the expression "win-win." Few, however, know what it really means. It does not mean that both parties make equal concessions, nor does it mean compromise. Far from it. The expression actually derives from John Nash's bargaining theory, which states that the final outcome of a negotiation should be one in which no negotiator can improve his or her outcome without hurting that of the other party. Take the classic fable of the two sisters, quarrelling over a single orange. The sisters, who focus too much on cooperating with one another, cooperatively agree to cut the orange in half - a compromise agreement. One sister uses the juice and throws the rind away; the other sister uses the rind and throws the juice away, and then they realize - too late - that both sisters would have been far better off by giving all

the juice to one sister and all the rind to the other sister. Thus, the second level identifies "win-win" agreements, which are described as outcomes that improve upon mutual settlement by identifying ways that both parties receive better outcomes than by simply compromising on the issues at hand. The third level identifies "Pareto-optimal" outcomes, which refer to outcomes where the best possible negotiated outcome for both parties has been achieved. That is, it refers to the best win-win outcome possible; once achieved, any additional gain for one party will hurt the other party. The typical negotiator sees success at the third level as an idealistic rather than realistic goal, one worth striving for, but difficult to attain. Rather, success is best attained through levels one and two, by identifying whether a mutual settlement is possible and by identifying win-win agreements that meet the interests of both parties better than compromise does. In *The Mind and Heart of the Negotiator* (2005), Thompson places these three "levels" of success in negotiations into a pyramid of success (see Figure 1).

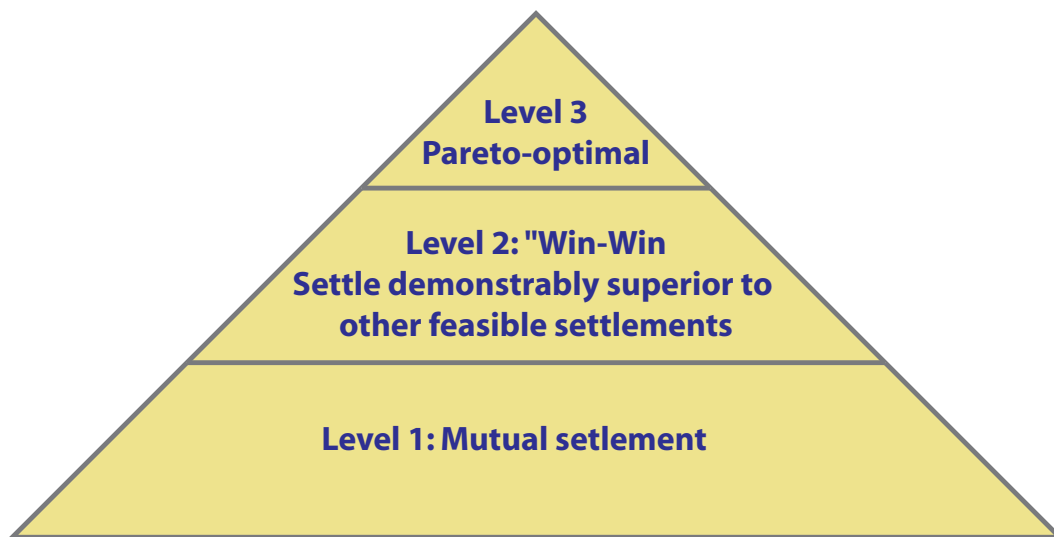


Figure 1

Most common negotiator pitfalls: The table of traps

Success at these levels is prevented by four traps

or shortcomings that can befall even the most seasoned and confident of negotiators. These traps occur at the first two levels of success. Note that in Table 1 we have cleaved the world of negotiators into those who are too soft and those who are too tough. Soft and hard negotiators are both at risk for traps at the first level of success, where they risk failing to identify whether a mutual settlement is possible. The likely consequence of a soft negotiator

negotiators make an offer that is immediately accepted by the other party. MBA students have recounted times when their demands regarding a job offer were immediately accepted, leaving them to wonder whether they could have asked for more. Thus, while the soft negotiator in this sense achieves settlement, he thinks he must have offered way too much to the other party (or asked for way too little). What about the too-tough negotiator? The too-

tough negotiator often lands upon "lose-lose" outcomes. Lose-lose outcomes are outcomes in which both parties are worse off than they otherwise might have been. We've found that upwards of 20% of negotiators reach lose-lose outcomes. The reason why lose-lose agreements are such a problem is that negotiators are usually

(blissfully) unaware that they have left money on the table.

Table 1: The Table of Traps

	Probability of agreement: Agreement decision	Value of agreement: Quality of Outcome
Soft bargaining style	Agreement bias (i.e., agreeing to deals that are worse than their alternative)	Winner's curse (i.e., failing to claim outcomes for themselves)
Hard bargaining style	Hubris (i.e., walking away from deals that are better than their alternative)	Lose-lose outcome (i.e., failing to create outcomes that benefit both parties)

is to reach an agreement *at any cost*. We define the "agreement bias" as the tendency for negotiators to reach agreements no matter what the circumstances might be. In this sense, negotiators take the "Getting to Yes" (Fisher and Ury, 1981) advice too far and settle for nearly anything, in the name of reaching settlement. By contrast, the too-tough negotiator will often fail to reach an agreement when it would be much wiser to reach a deal. This situation results in a phenomenon we call "bargaining hubris," or walking away from the table when it would be far better to reach agreement. As a case in point, Lemuel Boulware, the former CEO of General Electric, believed strongly in making one's first offer one's final offer. However, the strategy - which came to be known as "boulwarism" - backfired terribly.

Traps may befall soft and hard negotiators at the second level of success too, affecting the quality of the agreement and win-win outcomes. The "winner's curse" refers to the regrettable outcome when

Three steps for negotiating optimally: The path to improvement

A booming body of scholarly research has taken on each of these threats to optimal negotiation behaviour and has converged on a set of key principles. These key principles nicely apply to nearly any negotiation, whether it is an international high-finance deal or a chump-change haggle. The three key steps on the road to win-win outcomes include preparation, value-claiming strategies and value-creating strategies.

1. Preparation

The 80-20 rule applies to preparation and negotiation. About 80% of negotiators' efforts should be effective preparation; about 20% is actual

execution. When it comes to preparation, most people focus on the wrong aspects of negotiation. They commit one or more of three mistakes:

- They role-play personalities instead of issues
- They focus too much on their own interest and not those of the other party
- They bolster their commitment rather than their flexibility

Let us explain each.

Issues not personalities. Negotiators believe that role-playing will provide a perfect simulation of the "real thing." They are only partly correct. Role-playing can work very well if negotiators prepare by focusing on the issues and interests of the other side. They usually don't do this. Rather, they focus on the personality of the other side and assume that the issues that they themselves bring to the table are those that the other side is interested in. By considering potential additional issues that the other party may bring to the table, the negotiator identifies a larger landscape over which to negotiate.

Other-focus not self-focus. Most negotiators are too self-absorbed. This self-focus, to the exclusion of thinking in an open-minded fashion about the other side, can trigger the fixed-pie perception, which is the pervasive belief that the other party's interests are completely opposed to one's own interests. In another sense, too much self-absorption can block a negotiator's attention to data and cues from the other party. In an article published in the *Journal of Personality and Social Psychology* (2001), Adam Galinsky and Thomas Mussweiler coached some negotiators to "think about the other party's alternatives." The result was dramatic. These negotiators achieved better outcomes than a group of their peers who did not consider the other party's alternatives. Greater "other-focus" during preparation can give the negotiator leverage during the negotiation.

Bolster flexibility not commitment. Negotiators

often build themselves up for negotiation by committing their resolve. A far better strategy for negotiators is not to simply identify one set of acceptable terms, but rather five or six different packages of outcomes that could all equally satisfy their goals. By creating these multiple equivalent offers, the negotiator considers different ways an agreement can be reached and also signals to the other party that they have some say over the process.

2. Value-claiming strategies

The too-soft negotiator usually is aware of the fact that he or she is too soft and wants to increase his or her ability to garner valued resources--in our words, to claim value. From our work and from the field as a whole, we've been able to put together a list of best practices for claiming value in negotiations (see Table 2, left side). These strategies are optimally suited for the too-soft negotiator, and will help him or her avoid the agreement bias and winner's curse, and thus achieve successful negotiated outcomes.

Identifying and improving your BATNA. Many negotiators walk into negotiation without having identified their BATNA, or their Best Alternative to a Negotiated Agreement (Fisher and Ury, 1981). This single failure can result in a negotiator falling prey to the agreement bias (described earlier) and/or being "anchored" by the other party. A negotiator who identifies his or her BATNA should then take the next step of attempting to improve upon it. The power of a great BATNA is the power to walk away.

Research the other party's BATNA. The most useful information a negotiator can have about the other party is to know what *their* BATNA is. Once their best alternative is known, a negotiator can estimate the direction and size of the bargaining zone. For example, if a toy manufacturer wants to purchase a plant for production and storage, she wants to identify what the seller's best alternative bid is. With the knowledge that the alternative bid is \$13 million, she can bid marginally higher (thereby reducing her costs) and also successfully identify a

mutually beneficial settlement.

Set high aspirations. Even if the other party's BATNA is unknown, negotiators will achieve better outcomes by setting high aspirations. Our toy manufacturer will be more likely to achieve a better outcome when she sets her aspiration at \$13 million rather than at \$16 million, for she is therefore more motivated to strive for the better agreement.

Make the first offer, if you are prepared. Making the first offer anchors the negotiated outcome: negotiators typically agree to outcomes that are

Make bilateral, not unilateral concessions. An even-handed exchange of concessions creates more equitable outcomes. Every time negotiators concede, they should wait for the other party to do so too. Otherwise, the midpoint that the negotiators reach will be biased in favour of the other party's position.

Watch the magnitude of your concessions. It is not enough that concessions be bilateral; each party must also be willing to concede the same amount. If the toy manufacturer gave a \$1-million concession (say, increasing her bid from \$13 to \$14 million),

Table 2: Short list of the top value-claiming and value-creating strategies

Value-Claiming Strategies	Value-Creating Strategies
<ul style="list-style-type: none"> • Improve your BATNA (Best Alternative to the Negotiated Agreement) • Develop a Reservation Point (RP), but do not reveal it • Seek information about the other party's BATNA/RP • Make the first offer, if you are prepared • Immediately re-anchor if the other party makes the first offer • Do not make unilateral concessions; invite bilateral concessions • Monitor the magnitude of your concession 	<ul style="list-style-type: none"> • Ask diagnostic questions • Expand the issues on the table • Reveal information about interests and priorities • Make multiple offers of equivalent value simultaneously • Search for post settlement-settlements • Leverage differences via contingency contracts

relatively close to the first offer's value. To make this technique useful in claiming value, however, negotiators must identify the offer that best represents their aspirations. Making favourable first offers is one way that aspirations produce better outcomes, by anchoring the negotiation around that aspiration.

Immediately re-anchor if the other party makes an extreme offer. First offers anchor the negotiation, and if negotiators are unable to make the first offer, they must immediately re-anchor with their aspirations in mind. Doing so will help to counteract the effect of the first offer's anchor.

but the plant's seller gave a \$500,000 concession, the midpoint they ultimately reach will favour the seller rather than the buyer. Consequently, patrol the other party's concessions for fairness.

3. Value-creating strategies

Of all the aspects of negotiation, value-creating strategies are the most elusive yet the most desired. As we noted before, most negotiators - even those with several years of experience - leave money on the table. It is not enough to simply desire to reach win-win agreements. Negotiators must work for them in a systematic fashion. These strategies are

optimally suited for the too-hard negotiator, and will help him or her avoid hubris and lose-lose negotiations to achieve successful negotiated outcomes. We cover six strategies that have all been proven to lead to joint gain in negotiations (see Table 2).

Ask diagnostic questions. Diagnostic questions are questions that serve two key purposes: first, they elicit information about where the pie can be expanded (i.e., imagine that if one of the sisters had asked the other sister why she wanted the oranges or, even better, whether juice was more or less important than peels). A negotiator who asks the other party about his or her preferences is much more likely to reach a level 3 integrative agreement than if the negotiator simply argues the merits of her position. However, only about 7% of negotiators ask "diagnostic" questions.

Expand the issues on the table. Most negotiations masquerade as fixed-pie situations because people are bargaining about a single issue - usually price. Negotiators who are committed to level 3 integrative agreements brainstorm as many issues as possible so that they can concoct tradeoffs, where they concede on a less important issue to gain ground on a more important one.

Reveal information about interests and priorities. Naïve negotiators make the mistake of withholding all information indiscriminately. In contrast, expert negotiators know what to reveal and what to conceal. Revealing information about interests and priorities does more than expand the pie; it does not put the negotiator at risk for pie-slicing.

Make multiple offers of equivalent value simultaneously. We often tell our students and clients that if they can only choose one pie-expanding strategy, then this one is hands down the most effective for expanding the pie and holding bargaining ground. The negotiator provides two or more packages of offers, where each offer is of equal value to the negotiator proposing them. In this way,

the negotiator appears flexible but does not have to make a concession.

Search for post-settlement settlements. Here, negotiators head back to the bargaining table to see if they can improve upon the existing agreement. It does not mean renegotiating the existing contract; quite the opposite. It means that negotiators should attempt to mutually improve upon a given settlement after committing to it. Two key principles that guide this process: (1) the new settlement must be one that improves both parties' outcomes or improves one party's outcome but does not hurt that of the other party; (2) both parties must agree to it.

Leverage differences via contingency contracts. This pie-expanding strategy turns the idea of common ground completely on its head. The idea is simple: often, people cannot agree about something and so, rather than try to convince the other party, they wager a bet. For example, consider a book author negotiating with a publisher about royalty rate. The author is bargaining for a higher royalty rate, convinced that sales will be high; the publisher is less optimistic. A contingency contract would resolve these differences, where the royalty rate would be determined by future sales of the book. For example, if sales are high as the author expects, the royalty rate will increase; if sales remain low, however, the royalty rate will remain low.

Conclusion

We began this article by arguing that negotiation courses are a boom business. There is perhaps no single other management topic that lends itself as readily to application and, perhaps even more important, the ability to track one's performance. Students in our classes tell us that after taking the course, they have two somewhat paradoxical insights: (1) they realize now that they have been negotiating all of their lives; and (2) they now start to analyze every situation as a negotiation. What the students are telling us is that they realize that most situations are ones in which parties' interest

are not perfectly aligned - i.e., they are "mixed motive" - and that they now have the tools to best plan, execute and analyze such situations.

Our greatest concern in writing this article is that our students and clients, who regularly invest 10-15 weeks of intensive classwork to improve their skills, are going to be incredulous that a short article could do justice to the practice of negotiation. They are right. Improving your negotiation skills is a long journey that involves constant reflection, awareness, and openness to feedback. We believe, however, that this article serves as a short primer for the standard negotiator, one that reviews tried-and-true techniques and offers the opportunity to begin the process of improvement. **■**