

## Introduction to Negotiation

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## Course Objectives

Using various scenarios from theories to learn:

- Negotiation types and strategies,
- Negotiation planning and preparation.
- Value creation and co-creation
- Cultural dimension

## Course Aims

- At the end of the course, you will:
  - Be able to identify different negotiation settings and recognize which the choice of strategy.
  - Gain a broad understanding of the central concepts in "win-win" negotiation.
  - Develop tools for negotiation preparation; e.g. self-evaluation in adjust to self-change, interpersonal communication, perception, conflict management, cultural awareness.

## Course Content

- Negotiation theories and types
  - Distributive negotiation
  - Integrative negotiation
- Negotiation planning and strategies
- Negotiation in cross-cultural context

## Assessments

1. Group participation (30%)
  - Planning and discussion
  - Team coordination
2. Individual participation (30%)
  - Attentiveness in course
  - Feedback from exercises
3. Learning journal (40%)
  - 1-2 pages per negotiation role play exercise
  - Deadline: **May 15<sup>th</sup> (Monday)**
  - Email: [c.chen@ieseg.fr](mailto:c.chen@ieseg.fr)

## Reading recommendation:

- Baber & Fletcher-Chen, **Practical Business Negotiation**, Rutledge.



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## Introduction

What is negotiation?

## What is negotiation?

- Definitions of negotiation among different authors involve such "ingredient terms" as: 'process', 'individuals', 'groups', 'organisations', 'different cultures', 'joint decision making', 'joint agreement', 'creating lasting values', etc.
- That tells negotiation is a complex phenomenon, and the role of negotiator in contributing effectively in the process is essential.

## Why Negotiation?

- Because we are interested in exchanging things
  - Resolve an issue (problem-solving), and
  - resolve conflicts among members of their own group or between members of their society and that of others.
  - Divide a specific resource

## Negotiation Variables

- There are plenty of things to negotiate inside "a deal".
- We call these things 'variables'.
  - Price is the most often cited variable
- There are numerous others:
  - Discounts and allowances
  - Delivery date
  - Quality
  - Order timing and frequency, etc

## Negotiation stance

1. I WIN, YOU WIN
2. I WIN, YOU LOSE
3. I LOSE, YOU WIN
4. I LOSE, YOU LOSE

## Distributive Bargaining

Session 1

### Negotiating on one dimension

1. Positions and interests are opposed:
  - Buyer wants to pay less
  - Seller wants to receive more
2. Hard bargaining: gaining as much as possible at the expense of the other party
  - "Win-lose" or 50/50 deals
3. A fixed-sum game: no room for value creation

### Key concepts

- **Walk-Away Point (WAP):** our absolute minimum / maximum, the amount beyond which we will not go, our red line or "bottom line"
- **Reservation Value (RV):** the point at which you start considering walking away
- **Aspiration Value (AV):** our objective (to be distinguished from our dream value)
- **Zone of Possible Agreement (ZOPA)**



### Distributive negotiation concepts

- Opening bid (ambitious but credible)
  - Anchoring (starting price)
    - Do you open or wait for the other side?
  - Reservation price (worst but acceptable deal)
  - Bargaining zone (narrow or wide bargaining zone)
- BATNA: Was there any?
- Attention fixation
  - Goal: Aim for the target
  - Taboo: debating over the reservation point

### Distributive negotiation strategies

- Openings: straight to the \$ or socialising?
- Concessions: what did you compromise?
- Threats: what threats did you receive?
  - Walk away?
- Relationship process
  - How do you feel this negotiation?
  - Cooperative or Antagonistic?
    - What values have you created?

### Tactics for Distributive Negotiation

#### Setting your AV / RV / WAP

- In setting your objectives:
  - How "greedy" did your group want to be?
    - With a number that is favourable to you, but creditable to both parties.
- You will sign an agreement if better than your RV / You will not if less satisfactory than your WAP. What do you do if in-between?
  - Different interests to weight and compare
- It can be a highly subjective game

### Anchoring

- A difficult exercise, with two questions:
  - Who speaks first?
  - Where to anchor?
    - If I ask too much, I may break the negotiation (destroy the ZOPA)
    - If I ask for too little...

### Why is it important?

- A strong psychological effect:
  - 1<sup>st</sup> amount on the table will frame the rest of the discussion, even unconsciously
    - A strong link between anchor and result
  - Level 1: Be aware of the framing effect and do not let it influence you beyond a certain point
  - Level 2: Use it to influence the other party

### How to escape the dilemma?

- Anchor first
  - You have enough information
  - You want to frame bargaining to your advantage
  - Unless you have very bad information about the other side
  - When you have very bad information about the other side (poor preparation)
    - favourable to the other side

### Anchoring and concessions

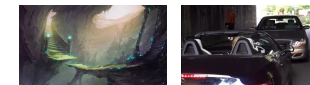
- Don't let them anchor you: if they speak first, reflect on the meaning of their offer
  - To anchor or to be anchored, this is the question!
- Watch for the pattern of concessions:
  - Decreasing / stable / random

- Making concession
  - Don't initiate it unless it's necessary.
  - Make larger concessions early in the negotiation.
  - Smaller ones later to signal you are reaching your RP.
  - Don't make two concession in a row
    - creating doubt about your actual RP.

### Hard-bargaining tactics

- Know them and be prepared to counter them
- Some examples:
  - "Take it or leave it" or other ultimatums
  - Deception (phony facts) vs. partial disclosure
  - Extreme demands followed by small concessions / "salami"
  - Refusal to negotiate
  - Good cop – Bad Cop
  - Lock-in tactics, cherry on the cake, etc.

### Be aware: "impasses" & "threats"



- Aware of threat:
  - If you won't .... I will ... (e.g., walk away).
  - When to use it?
  - When NOT to use it?

## Threats

- Use it **ONLY** when it can be used strategically to further a party's negotiation goals
  - E.g., urgency matter to the goal, reliance,
    - Firm A owns the production capability on Firm B's mobile chips. B has to buy from A.
    - In a foreign country, currency exchanges with local vendors
- Threats provides relevant RP information
- Threats → BATNA or WAP

## False commitment and threats

- Some threats can be false verbal commitment
  - This is the lowest I can do... (even if you are not at the impasse)
    - e.g., bank mortgage
- If you continue reducing/increasing the point after you have made such a statement/threat
  - Jeopardize credibility,
  - Threats mean no information value for the future.

## Summary: Distributive Negotiation

- Positional or hard-bargaining negotiation.
  - haggling, no previous interactive relationship and no intention for future relationship, e.g. for once or twice encounters with the specific person/agency/company.
- Condition: a finite amount of the value being distributed/divided among the people involved.
- I Win-You Lose outcome
  - One person's gain results in another person's loss.
- Adopt an extreme and fixed position: commonly employ a combination of trick, trap, bluffing, and brinkmanship to give in as little as possible.

## Integrative Negotiation

Session 2

## Positions

- Parties enter negotiations because their positions are irreconcilable
- Negotiating over positions means parties need to compromise (yield / step back)
  - Difficult / Frustrating / Framed as a loss
- Sometimes, the ZOPA does not even exist: it needs to be constructed

## A key question: WHY!

To go from stated positions...

« This is what I want »

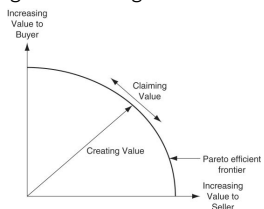
... to the underlying interests...

« This is why I need it »

Because as stated positions are most often incompatible...

... Interests are sometimes compatible!

### Creating vs. Claiming Value



### Interests

- Parties' motivations, needs, values, concerns...
- What lies behind positions
- The answer to the question "why?"
- Characteristics of interests:
  - Positions are irreconcilable, interests may be compatible
  - Few ways to respond to a position, more ways to fulfill interests

### From positions to interests

- The "mutual gains method" (Fisher & Ury)
- Moving the discussion from an opposition of positions to a dialogue over interests
- Two main kinds of interests:
  - Substance
  - Relationship

### From distributive to integrative bargaining

- Distributive: a cursor to set on 1 dimension – what one wins, the other loses (fixed pie)
- Integrative: expanding the ZOPA by exploring multiple issues, finding a deal that satisfies the interests of both parties
  - It implies winning with the other party, rather than against them (non-fixed pie)

### Negotiation Types

Integrative negotiation



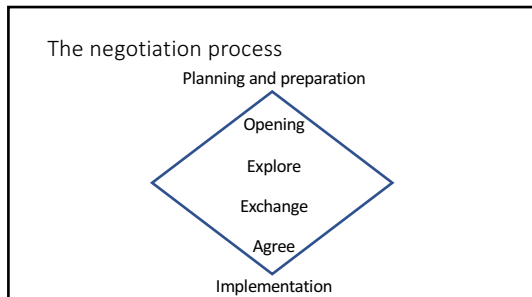
Distributive negotiation



### Summary: Integrative Negotiation

- Interest-based or principled negotiation.
  - Understand the underlying interests/motivation/needs of the involved parties rather than the arbitrary starting positions.
- Condition: to improve the quality and likelihood of negotiated agreement by finding alternatives.
- I Win You Win outcome
  - Involve a higher level of relationship management (trust, satisfaction and commitment) with creative problem-solving for mutual gains.
- Treat as a shared problem rather than a personalized battle. Insist upon adherence to objective, principled criteria as the basis for agreement.





- Think ahead about the process
- What is the purpose of the meeting?
    - Ex: introductory or conclusive meeting?
  - Setting an agenda:
    - Time available
    - Objective of the meeting today / the whole process
  - Process may be negotiated with the other party

- Negotiation as a process I
- Ice breaking – working on the relationship
    - It's not about you: It's about whom you talk to (dating principle)
  - Meta-negotiation: negotiating on how you will negotiate
  - Set up (negotiate) the process
  - Agenda: listing the points to cover during the meeting
    - In an order: what is included and excluded
    - Careful: a high strategic value
    - Do not become prisoner of too strict agendas.

- Negotiation as a process II
- Beyond positions, discuss motivations
    - Initial statements (sometimes a round of muscle showing)
    - Open discussion
  - If impasse:
    - Try to develop jointly approved criteria
    - Discuss alternatives (BATNAs)
  - Brainstorm to create maximum value
  - Work toward an agreement
  - (Organize write-up and formalization phase)
  - Conclude

- Negotiation process summary
- Cooperative or Antagonistic?
    - Consider if you will have to interact with the person in the future (after the deal).
    - Even if there is no deal, should you care about the process? Yes or No?
    - Yes. This is a small world. Reputation spreads. There is always a record to check. i.e., new job application, business associates in the same field; etc.
    - People tend to be more accommodating to those who are likable/approachable.

- Analytical points for involved parties
- Substance
  - Relationship
  - Investment
  - Return
  - Obstacles (e.g., internal resources, institutional influence → this often associates with non-negotiable statement)



### Principles of Strategic Positioning

- **Long-term relationship:** Diagnosing long-term investment to generate the real economic value return.
- **Unique value:** Making a value proposition to differ from competitor's offering, i.e., value creation for business customer's customer. E.g. Amazon service innovation.
- **Customised focus:** Reflecting in a distinctive value to conduct business differently from competitors.
- **Identify value differences:** Compromising some business aspects or opportunities to be unique in other aspects.
- **Multiple propositions:** Fitting both parties to find a distinctive value propositions and enhance the overall business.
- **Commitment:** Building strong reputations. (e.g. Sharp had poor history with Sony, Toshiba)

### Logistics

- May seem insignificant but may be important
  - Where do we meet? Your place? Mine? On neutral grounds?
  - In international talks: what language? Do we have interpreters?
  - Ergonomics of the room / shape of the table
  - Materials (is the projector working?)
  - Transportation
  - Etc.

### Communication Timing I

- Minimize spontaneous (unprepared) negotiations
- Watch for "bad" times to avoid (or finish by)
- Seek an adequate time slot
- Take the time to establish rapport / ice-break
- Establish common goals and understandings

### Communication Timing II

- Know when to be silent (e.g., hit the "pause button")
- Know when to close (fair for both parties)
- Know the effect of a delayed vs. expedient decision
- Be prepared to make a break / adjourn
  - if antagonism can't be defused or
  - more research is required
- Allow sufficient time for advanced review of key material by involved stakeholders

### Talking about interests

- Positions = confrontation
- Interests = shared problem-solving exercise
  - Need to respond to their interests too
  - We may be part of the problem – move from dwelling over the past to talking about the future
- Prerequisite: having a working relationship among the parties

### Identify interests

- How do you identify interests?
  - Ask "Why?", "Why not?" – understanding
  - Each side has multiple interests - complexity
  - Interests of the party vs. interests of the negotiator
- Make a list

My interests	Their interests
A	X
B	Y

### Multidimensional negotiation I:

- Level 1: logrolling: making a concession on issue X to gain something on issue Y
- Some issues are more important for A than for B
- Value is created via differences in preferences

### Multidimensional negotiation II:

- Level 2: we do not have to disagree on all issues
- Certain interests do not oppose
- Certain interests are similar or complementary: when I win, you win (i.e., 1 orange for two people)
- A joint problem-solving exercise

### From interests to agreement

- Interests are multiple
  - Some are compatible, others are not: There always are distributive elements in integrative negotiation
  - Multiplicity of interests → Diversity of solutions
- How to respond to a maximum of interests?
- Brainstorming / Creativity

### How to create mutual gains

- Identify shared interests (ex: negotiate for a deal)
- Align information - Be explicit about previsions
- Play with differences in preferences (time, aversion to risk, etc.)
- **Make their decision easier rather than harder**

### Multiple options: Fostering creativity

- Avoid premature judgment (assumption may not always be necessary)
- Separate inventing from deciding
- Take different points of view / invite other people
- Use MESOs: Multiple Equivalent Simultaneous Offers

### Selection: Deciding

- Rank options in order of satisfaction for you, for them
- Combine alternatives to create value and raise objections
- Compare with your BATNA

### Identify priority to decision-making

- Creating a **matrix to rank / rate** the level of priority
  - Firm values
  - Package of financial gain
  - Package of resources
  - Value of relationship types
  - Personal interests
  - Time execution
  - Impact on stakeholders
    - Vertical (business network)
    - Horizontal (intra-firm involved members)

	rank	rate

### Knowing your interests

- Linking interests, needs, values, concerns, etc.
  - What drives our/their behavior?
  - What underlies a position: why / why not?
- **Relevant Categories of Interests**
  - Some are in line (ex: to resolve the matter once and for all, to protect the relationship)
  - Others are opposed (ex: money)
- Differences in preference (in time / toward risk / in probability assessment)

### The field of possible solutions

- In negotiation, there rarely is only one solution.
- If you arrive at the table with a pre-established outcome, you are not ready to negotiate
  - Instead, define a field of possibilities, with as many variables as possible
- **Look for concrete, multi-variable solutions**
  - That responds to most / all interests
  - That solve all dimensions of the problem
- Be ready to be creative!

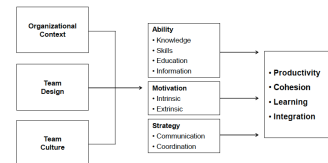
### Be ready to justify your offers

- Offers / deals have a higher value if supported by a legitimate justification
  - Why?
    - It needs to pass the "so what?" test
- Criteria may be a general principle, a market survey, a precedent, a legal rule, the opinion of an expert, etc.

### Teamwork in Negotiation

Negotiation in a business-to-business context is rarely alone

### Integrated Model of Teamwork



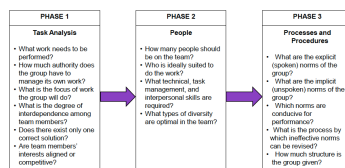
Integrating Mind and Hand: An Integrated Model of Negotiation

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### Successful Team Performance

- Knowledge, skill, and ability
- Motivation and effort
- Coordination strategies

### When Building the Team Internal Dynamics



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### Types of Work That Teams Do

Broad Objective	Dominant Feature	Process Emphasis	Threats
<b>Tactical</b>	Clarity	<ul style="list-style-type: none"> <li>• Directive, highly focused tasks</li> <li>• Role clarity</li> <li>• Well-defined operational standards</li> <li>• Accuracy</li> </ul>	<ul style="list-style-type: none"> <li>• Role ambiguity</li> <li>• Lack of training</li> <li>• Communication barriers</li> </ul>
<b>Problem solving</b>	Trust	<ul style="list-style-type: none"> <li>• Focus on issues</li> <li>• Separate people from problem</li> <li>• Consider facts, not opinions</li> <li>• Conduct thorough investigation</li> <li>• Suspend judgment</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to stick to facts</li> <li>• Fixate on solutions</li> <li>• Succumb to political pressures</li> <li>• Confirmatory information search</li> </ul>
<b>Creative</b>	Autonomy	<ul style="list-style-type: none"> <li>• Explore possibilities and alternatives</li> </ul>	<ul style="list-style-type: none"> <li>• Production blocking</li> <li>• Uneven participation</li> </ul>

Source: Adapted from Lippitt, C. E., & Lippitt, P. H. (1950). *Teamwork: The social psychology of group work*. Berkeley, CA: Sage.  
 Source: *Manuel with Overhead in company*  
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