



SIXTH EDITION

Essentials of

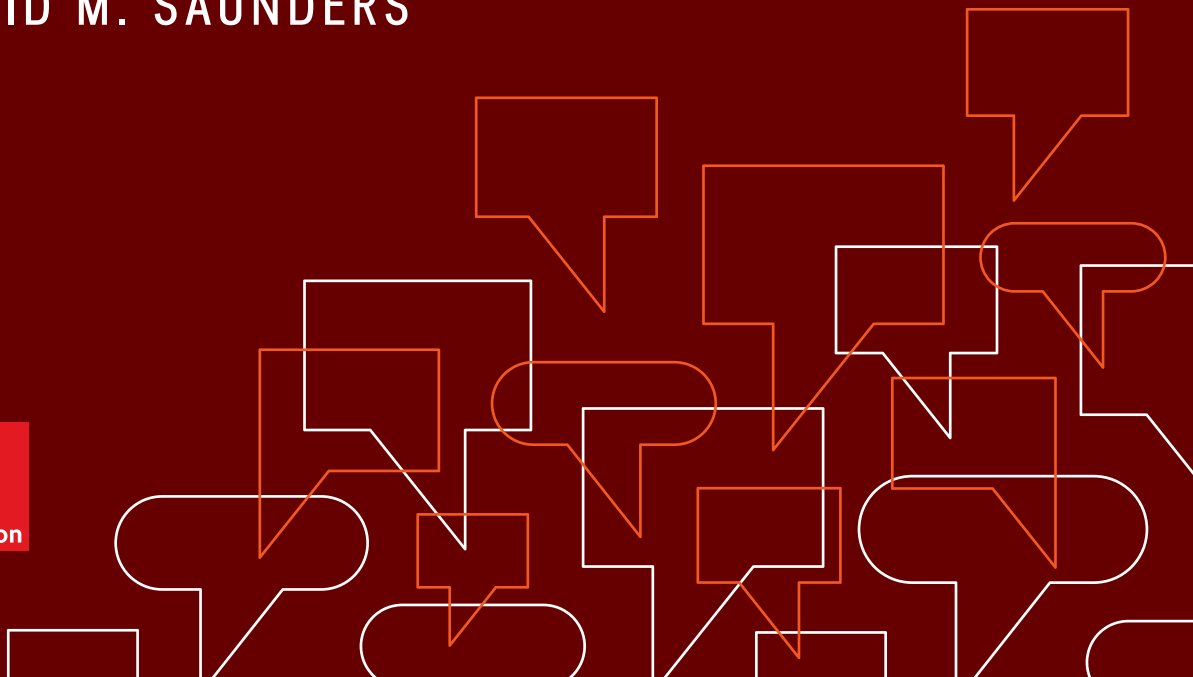
NEGOTIATION

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Essentials of Negotiation

Sixth edition

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ESSENTIALS OF NEGOTIATION: SIXTH EDITION

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Dedication

We dedicate this book to all negotiation, mediation, and dispute resolution professionals who try to make the world a more peaceful and prosperous place.

And to John W. Minton (1946–2007): friend, colleague, and co-author.

About the Authors

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Welcome to the sixth edition of *Essentials of Negotiation!* Again, this book represents our response to many faculty who wanted a brief version of the longer text. *Negotiation* (Seventh Edition). The objective of this shorter version is to provide the reader with the core concepts of negotiation in a more succinct presentation. Many faculty requested such a book for use in shorter academic course, executive education programs, or as a companion to other resource materials. It is suitable for courses in negotiation, labor relations, conflict management, human resource management, and the like.

Overview of This Book

The organization of this volume generally follows the more complete Seventh Edition of *Negotiation*. The fundamental difference between this and the Seventh Edition text is that this book contains only 12 chapters, while the complete Seventh Edition contains 20 chapters. The first four chapters have only been minimally shortened for this volume, because we believe that the content is essential to any negotiation course. (The shortening process includes editing out some of the more research-oriented references and descriptions, deleting many of the boxes and sidebars, and occasionally some secondary sections.) Similarly, the last chapter is reproduced in full. The other seven chapters from *Negotiation*, have been included, but shortened by 25–50 percent each.

For the instructor who is not familiar with *Essentials* (the first five editions) or *Negotiation* (Seventh or earlier editions), a brief overview is in order. The first five chapters introduce the reader to “Negotiation Fundamentals.” The first chapter introduces the field of negotiation and conflict management, describes the basic problem of interdependence with other people, and briefly explores the challenges of managing that interdependence. Chapters 2 and 3 then present the two core strategic approaches to negotiation: the basic dynamics of competitive (win-lose) bargaining (Chapter 2) and the basic dynamics of integrative (win-win) negotiation (Chapter 3). Chapter 4 describes the fundamental prework that negotiators must do to get ready for a negotiation: selecting the strategy, framing the issues, defining negotiation objectives, and planning the steps one will pursue to achieve those objectives. In Chapter 5, we examine the ethical standards and criteria that surround negotiation. The effective negotiator must recognize when ethical questions are relevant and what factors must be considered to address them effectively.

The next three chapters describe the fundamental psychological subprocesses of negotiation: perception, cognition, and emotion; communication; and power. In Chapter 6, we review the basic processes of perception, cognition, and emotion in negotiation, we specifically examine common cognitive and judgment biases made by negotiators, and how emotion can affect negotiations. In Chapter 7, we examine communication dynamics. We look at the ways that negotiators communicate their interests, positions and goals, and how this information is communicated to the other. Chapter 8 focuses on power. We look at the capabilities negotiators can muster power to pressure the other side, so as to change his or her perspective or give in to our arguments.

The next two chapters examine the social contexts in which these negotiations occur, and which also therefore influence how they evolve. In Chapter 9, we examine how the negotiation process changes when the parties have an established relationship with each other, and how the type of relationship affects the negotiation process. We also examine the key roles played by trust, justice and negotiator reputation in shaping negotiations. In Chapter 10, we look at multiparty negotiations, when multiple individuals must work together as a group, team or task force to solve a complex problem or make a decision.

In Chapter 11, we attempt to clarify how international and cross-cultural differences can shape the diverse ways that parties approach negotiations.

Finally, in Chapter 12, we present a new concluding chapter, summarizing the book's content and offering ten "best practices" principles for all negotiators.

Comparison of This Book to the Fifth Edition of *Essentials*

- All of this book has been revised and updated. The authors reviewed every chapter, utilizing extensive feedback from faculty who have used the book in previous editions. The content in some of the chapters has been reorganized to present the material more effectively.
- The Ethics chapter was moved into the "fundamentals" section as Chapter 5.
- We have further improved the graphics format and page layout of the book to make it visually more interesting and readable.
- We have added learning objectives to the beginning of each chapter.
- The new structure of this book will be paralleled by a major revision to our readings and classroom activities book, *Negotiation: Readings, Exercises, and Cases*, Seventh Edition, edited by Roy Lewicki, Bruce Barry, and David Saunders to appear in 2015. This text and reader can be used together or separately. We encourage instructors to contact their local McGraw-Hill/Irwin representative for an examination copy (or call 800-634-3963, or visit the Web site at www.mhhe.com).
- Instructional resources, including a test bank, chapter outlines, PowerPoint slides, and extensive assistance on ways that new instructors can improve their teaching of negotiation skills, are available to accompany this volume. Instructors should contact their McGraw-Hill/Irwin representative.

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- *Web Links*: Offers additional links for more information on negotiation.

Support Materials

Instructional resources—including a test bank, chapter outlines, PowerPoint slides, and extensive resource materials on teaching negotiation skills for new instructors—are available to accompany this volume on the text-specific website, www.mhhe.com/lewickinegotiation



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Instructors should also note that the authors and McGraw-Hill have partnered with *ExpertNegotiator.com*. *ExpertNegotiator* is a set of online tools that serve both student and instructor. Students are provided with a structured negotiation preparation template, keyed to the terminology used in the Lewicki et al. texts, to more thoroughly prepare for negotiation simulations. Instructors can use the software as a course management system to pair students for role-plays (including all role-plays in the companion volume, *Negotiation Readings, Exercises, and Cases, 7th Edition*), collect and distribute role information, and provide students with feedback on their negotiation plans. Students access the software by purchasing it as a package price with any of the Lewicki et al. texts. For more information, contact the local McGraw-Hill Education representative, and explore the power of the software at www.ExpertNegotiator.com.

Appreciation

Once again, this book could not have been completed without the assistance of numerous people. We especially thank

- Many of our colleagues in the negotiation and dispute resolution field, whose research efforts have made the growth of this field possible and who have given us helpful feedback about earlier editions to improve the content of this edition.
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- Our families, who continue to provide us with the time, inspiration, and opportunities for continued learning about effective negotiation and the personal support required to sustain this project.

Roy J. Lewicki

Bruce Barry

David M. Saunders

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The Nature of Negotiation

Objectives

1. Understand the definition of *negotiation*, the key elements of a negotiation process, and the distinct types of negotiation.
 2. Explore how people use negotiation to manage different situations of interdependence—that is, that they depend on each other for achieving their goals.
 3. Consider how negotiation fits within the broader perspective of processes for managing conflict.
 4. Gain an overview of the organization of this book and the content of its chapters.
-

“That’s it! I’ve had it! This car is dead!” screamed Chang Yang, pounding on the steering wheel and kicking the door shut on his 10-year-old Toysun sedan. The car had refused to start again, and Chang was going to be late for class (again)! Chang wasn’t doing well in that management class, and he couldn’t afford to miss any more classes. Recognizing that it was finally time to do something about the car, which had been having numerous mechanical problems for the last three months, Chang decided he would trade the Toysun in for another used car, one that would hopefully get him through graduation. After classes that day, he got a ride to the nearby shopping area, where there were several repair garages and used car lots. He knew almost nothing about cars, and didn’t think he needed to—all he needed was reliable transportation to get him through the next 18 months.

A major international airline company is close to bankruptcy. The fear of terrorism, a number of new “budget-fare” airlines, and rising costs for fuel have all put the airline under massive economic pressure. The company seeks \$800 million in wage and benefit cuts from the pilots’ union, the third round of cuts in two years, in order to head off the bankruptcy. Rebuffed by the chief union negotiator for the pilots, the company seeks to go directly to the officers of the Air Line Pilots Association—the international union—to discuss the cuts. If the pilots do not agree to concessions, it is unlikely that other unions—flight attendants, mechanics, and so on—will agree, and bankruptcy will be inevitable.

Janet and Jocelyn are roommates. They share a one-bedroom apartment in a big city where they are both working. Janet, an accountant, has a solid job with a good company, but she has decided that it is time to go back to school to get her MBA. She has enrolled in Big City University’s evening MBA program and is now taking classes. Jocelyn works for an advertising company and is on the fast track. Her job not only requires a lot of travel,

but also requires a lot of time socializing with clients. The problem is that when Janet is not in evening class, she needs the apartment to read and study and has to have quiet to get her work done. However, when Jocelyn is at the apartment, she talks a lot on the phone, brings friends home for dinner, and is either getting ready to go out for the evening or coming back in very late (and noisily!). Janet has had enough of this disruption and is about to confront Jocelyn.

A country's government is in a financial crisis, created by a good old-fashioned "smackdown" between the newly re-elected president and the legislature. The president insists that taxes must be raised to pay for ongoing government services, particularly the taxes of the richest 1 to 2 percent of the taxpayers. In contrast, a majority of the elected legislature, whose political party favors the wealthy, insists that the president cut government spending instead! Moreover, a group of the legislators have taken a public "pledge" to not agree to *any* tax increases and fear losing their jobs in the next election if they give in on their pledge. If the crisis is not resolved in a few days, a financial doomsday is predicted.

Ashley Johnson is one of the most qualified recruits this year from a top-25 ranked business school. She is delighted to have secured a second interview with a major consumer goods company, which has invited her to its headquarters city and put her up in a four-star hotel that is world-renowned for its quality facilities and service. After getting in late the night before due to flight delays, she wakes at 6:45 a.m. to get ready for a 7:30 a.m. breakfast meeting with the senior company recruiter. She steps in the shower, grabs the water control knob to turn it, and the knob falls off in her hand! There is no water in the shower at all; apparently, repairmen started a repair job on the shower, turned all the water off somewhere, and left the job unfinished. Ashley panics at the thought of how she is going to deal with this crisis and look good for her breakfast meeting in 45 minutes.

Do these incidents look and sound familiar? These are all examples of negotiation—negotiations that are about to happen, are in the process of happening, or have happened in the past and created consequences for the present. And they all serve as examples of the problems, issues, and dynamics that we will address throughout this book.

People negotiate all the time. Friends negotiate to decide where to have dinner. Children negotiate to decide which television program to watch. Businesses negotiate to purchase materials and sell their products. Lawyers negotiate to settle legal claims before they go to court. The police negotiate with terrorists to free hostages. Nations negotiate to open their borders to free trade. Negotiation is not a process reserved only for the skilled diplomat, top salesperson, or ardent advocate for an organized lobby; it is something that everyone does, almost daily. Although the stakes are not usually as dramatic as peace accords or large corporate mergers, everyone negotiates; sometimes people negotiate for major things like a new job, other times for relatively minor things like who will take out the garbage.

Negotiations occur for several reasons: (1) to agree on how to share or divide a limited resource, such as land, or money, or time; (2) to create something new that neither party could do on his or her own; or (3) to resolve a problem or dispute between the parties. Sometimes people fail to negotiate because they do not recognize that they are in a negotiation situation. By choosing options other than negotiation, they may fail to achieve their goals, get what they need, or manage their problems as smoothly as they might like to. People may also recognize the need for negotiation but do poorly because they misunderstand

the process and do not have good negotiating skills. After reading this book, we hope you will be thoroughly prepared to recognize negotiation situations; understand how negotiation works; know how to plan, implement, and complete successful negotiations; and, most importantly, be able to maximize your results.

A Few Words about Our Style and Approach

Before we begin to dissect the complex social process known as negotiation, we need to say several things about how we will approach this subject. First we will briefly define negotiation. Negotiation is “a form of decision making in which two or more parties talk with one another in an effort to resolve their opposing interests.”¹ Moreover, we will be careful about how we use terminology in this book. For most people, *bargaining* and *negotiation* mean the same thing; however, we will be quite distinctive in the way we use the two words. We will use the term *bargaining* to describe the competitive, win–lose situations such as haggling over the price of that item that happens at a yard sale, flea market, or used car lot; we will use the term *negotiation* to refer to win–win situations such as those that occur when parties are trying to find a mutually acceptable solution to a complex conflict.

Second, many people assume that the “heart of negotiation” is the give-and-take process used to reach an agreement. While that give-and-take process is extremely important, negotiation is a very complex social process; many of the most important factors that shape a negotiation result do not occur during the negotiation; they occur *before* the parties start to negotiate, or shape the context *around* the negotiation. In the first few chapters of the book, we will examine why people negotiate, the nature of negotiation as a tool for managing conflict, and the primary give-and-take processes by which people try to reach agreement. In the remaining chapters, we examine the many ways that differences in the substantive issues, the people involved, the processes they follow, and the context in which negotiation occurs enrich the complexity of the dynamics of negotiation. We will return to a more complete overview of the book at the end of this chapter.

Third, our insights into negotiation are drawn from three sources. The first is our personal experience as negotiators ourselves and the rich number of negotiations that occur every day in our own lives and in the lives of people around the world. The second source is the media—television, radio, newspaper, magazine, and Internet—that report on actual negotiations every day. We will use quotes and examples from the media to highlight key points, insights, and applications throughout the book. Finally, the third source is the wealth of social science research that has been conducted on numerous aspects of negotiation. This research has been conducted for almost 60 years in the fields of economics, psychology, political science, communication, labor relations, law, sociology, and anthropology. Each discipline approaches negotiation differently. Like the parable of the blind men who are attempting to describe the elephant by touching and feeling different parts of the animal, each social science discipline has its own theory and methods for studying outputs of negotiation, and each tends to emphasize some parts and ignore others. Thus, the same negotiation events and outcome may be examined simultaneously from several different perspectives.² When standing alone, each perspective is clear but limited; combined, we begin to understand the rich and complex dynamics of this amazing animal.

We draw from all these research traditions in our approach to negotiation. When we need to acknowledge the authors of a major theory or set of research findings, we will use the standard social science research process of citing their work in the text by the author's name and the date of publication of their work; complete references for that work can be found in the bibliography at the end of the book. When we have multiple sources to cite, or anecdotal side comments to make, that information will appear in an endnote at the end of each chapter.

We began this chapter with several examples of negotiations—future, present, and past. To further develop the reader's understanding of the foundations of negotiation, we will develop a story about a husband and wife—Joe and Sue Carter—and a not-so-atypical day in their lives. In this day, they face the challenges of many major and minor negotiations. We will then use that story to highlight three important themes:

1. The definition of negotiation and the basic characteristics of negotiation situations.
2. An understanding of *interdependence*, the relationship between people and groups that most often leads them to need to negotiate.
3. The definition and exploration of the dynamics of conflict and conflict management processes, which will serve as a backdrop for different ways that people approach and manage negotiations.

Joe and Sue Carter

The day started early, as usual. Over breakfast, Sue Carter raised the question of where she and her husband, Joe, would go for their summer vacation. She wanted to sign up for a tour of Southeast Asia being sponsored by her college's alumni association. However, two weeks on a guided tour with a lot of other people he barely knew was not what Joe had in mind. He needed to get away from people, crowds, and schedules, and he wanted to charter a sailboat and cruise the New England coast. The Carters had not argued (yet), but it was clear they had a real problem here. Some of their friends handled problems like this by taking separate vacations. With both of them working full-time, though, Joe and Sue did agree that they would take their vacation together.

Moreover, they were still not sure whether their teenage children—Tracy and Ted—would go with them. Tracy really wanted to go to a gymnastics camp, and Ted wanted to stay home and do yard work in the neighborhood so he could get in shape for the football team and buy a motor scooter with his earnings. Joe and Sue couldn't afford summer camp and a major vacation, let alone deal with the problem of who would keep an eye on the children while they were away. And Sue was already "on the record" as being opposed to the motor scooter, for obvious safety reasons.

As Joe drove to work, he thought about the vacation problem. What bothered Joe most was that there did not seem to be a good way to manage the conflict productively. With some family conflicts, they could compromise but, given what each wanted this time, a simple compromise didn't seem obvious. At other times they would flip a coin or take turns—that might work for choosing a restaurant (Joe and Ted like steak houses, Sue and Tracy prefer Chinese), but it seemed unwise in this case because of how much money was involved and how important vacation time was to them. In addition, flipping a coin might

make someone feel like a loser, an argument could start, and in the end nobody would really feel satisfied.

Walking through the parking lot, Joe met his company's purchasing manager, Ed Laine. Joe was the head of the engineering design group for MicroWatt, a manufacturer of small electric motors. Ed reminded Joe that they had to settle a problem created by the engineers in Joe's department: the engineers were contacting vendors directly rather than going through MicroWatt's purchasing department. Joe knew that purchasing wanted all contacts with a vendor to go through them, but he also knew that his engineers badly needed technical information for design purposes and that waiting for the information to come through the purchasing department slowed things considerably. Ed Laine was aware of Joe's views about this problem, and Joe thought the two of them could probably find some way to resolve it if they really sat down to work on it. Joe and Ed were also both aware that upper management expected middle managers to settle differences among themselves; if this problem "went upstairs" to senior management, it would make both of them look bad.

Shortly after reaching his desk, Joe received a telephone call from an automobile salesman with whom he had been talking about a new car. The salesman asked whether Sue wanted to test-drive it. Joe wasn't quite sure that Sue would go along with his choice; Joe had picked out a sporty luxury import, and he expected Sue to say it was too expensive and not very fuel efficient. Joe was pleased with the latest offer the salesman had made on the price but thought he might still get a few more concessions out of him, so he introduced Sue's likely reluctance about the purchase, hoping that the resistance would put pressure on the salesman to lower the price and make the deal "unbeatable."

As soon as Joe hung up the phone, it rang again. It was Sue, calling to vent her frustration to Joe over some of the procedures at the local bank where she worked as a senior loan officer. Sue was frustrated working for an old "family-run" bank that was not very automated, heavily bureaucratic, and slow to respond to customer needs. Competitor banks were approving certain types of loans within three hours while Sue's bank still took a week. Sue had just lost landing two big new loans because of the bank's slowness and bureaucratic procedures—and the loss of the salary bonus that landing a big loan would bring. But whenever she tried to discuss the situation with the bank's senior management, she was met with resistance and a lecture on the importance of the bank's "traditional values."

Most of Joe's afternoon was taken up by the annual MicroWatt budget planning meeting. Joe hated these meetings. The people from the finance department came in and arbitrarily cut everyone's figures by 30 percent, and then all the managers had to argue endlessly to try to get some of their new-project money reinstated. Joe had learned to work with a lot of people, some of whom he did not like very much, but these people from finance were the most arrogant and arbitrary number crunchers imaginable. He could not understand why the top brass did not see how much harm these people were doing to the engineering group's research and development efforts. Joe considered himself a reasonable guy, but the way these people acted made him feel like he had to draw the line and fight it out for as long as it took.

In the evening, Sue and Joe attended a meeting of their town's Conservation Commission, which, among other things, was charged with protecting the town's streams, wetlands, and nature preserves. Sue is a member of the Conservation Commission, and Sue and Joe both strongly believe in sound environmental protection and management. This evening's

case involved a request by a real estate development firm to drain a swampy area and move a small creek into an underground pipe in order to build a new regional shopping mall. All projections showed that the new shopping mall would attract jobs and revenue to the area and considerably increase the town's tax treasury. The new mall would keep more business in the community and discourage people from driving 15 miles to the current mall, but opponents—a coalition of local conservationists and businessmen—were concerned that the new mall would significantly hurt the downtown business district and do major harm to the natural wetland and its wildlife. The debate raged for three hours, and finally, the commission agreed to continue the hearings the following week.

As Joe and Sue drove home from the council meeting, they discussed the things they had been involved in that day. Each privately reflected that life is kind of strange—sometimes things go very smoothly and other times things seem much too complicated. As they went to sleep later, they each thought about how they might have approached certain situations differently during the day and were thankful they had a relationship where they could discuss things openly with each other. But they still didn't know what they were going to do about that vacation . . . or that motor scooter.

Characteristics of a Negotiation Situation

The Joe and Sue Carter story highlights the variety of situations that can be handled by negotiation. Any of us might encounter one or more of these situations over the course of a few days or weeks. As we defined earlier, *negotiation* is a process by which two or more parties attempt to resolve their opposing interests. Thus, as we will point out later on this chapter, negotiation is one of several mechanisms by which people can resolve conflicts. Negotiation situations have fundamentally the same characteristics, whether they are peace negotiations between countries at war, business negotiations between buyer and seller or labor and management, or an angry guest trying to figure out how to get a hot shower before a critical interview. Those who have written extensively about negotiation argue that there are several characteristics common to all negotiation situations:³

1. There are two or more parties—that is, two or more individuals, groups, or organizations. Although people can “negotiate” with themselves—as when someone debates in their head whether to spend a Saturday afternoon studying, playing tennis, or going to the football game—we consider negotiation as a process *between* individuals, within groups, and between groups.⁴ In the Carter story, Joe negotiates with his wife, the purchasing manager, and the auto salesman, and Sue negotiates with her husband, the senior management at the bank, and the Conservation Commission, among others. Both still face an upcoming negotiation with the children about the vacation . . . and that motor scooter.
2. There is a conflict of needs and desires between two or more parties—that is, what one wants is not necessarily what the other one wants—and the parties must search for a way to resolve the conflict. Joe and Sue face negotiations over vacations, management of their children, budgets, automobiles, company procedures, and community practices for issuing building permits and preserving natural resources, among others.

There are times when you should avoid negotiating. In these situations, stand your ground and you'll come out ahead.

When you'd lose the farm:

If you're in a situation where you could lose everything, choose other options rather than negotiate.

When you're sold out:

When you're running at capacity, don't deal. Raise your prices instead.

When the demands are unethical:

Don't negotiate if your counterpart asks for something you cannot support because it's illegal, unethical, or morally inappropriate—for example, either paying or accepting a bribe. When your character or your reputation is compromised, you lose in the long run.

When you don't care:

If you have no stake in the outcome, don't negotiate. You have everything to lose and nothing to gain.

When you don't have time:

When you're pressed for time, you may choose not to negotiate. If the time pressure works against you, you'll make mistakes, you give in too quickly, and you may fail to consider the implications of your concessions. When under the gun, you'll settle for less than you could otherwise get.

When they act in bad faith:

Stop the negotiation when your counterpart shows signs of acting in bad faith. If you can't trust their negotiating, you can't trust their agreement. In this case, negotiation is of little or no value. Stick to your guns and cover your position, or discredit them.

When waiting would improve your position:

Perhaps you'll have a new technology available soon. Maybe your financial situation will improve. Another opportunity may present itself. If the odds are good that you'll gain ground with a delay, wait.

When you're not prepared:

If you don't prepare, you'll think of all your best questions, responses, and concessions on the way home. Gathering your reconnaissance and rehearsing the negotiation will pay off handsomely. If you're not ready, just say "no."

*Source: J. Conrad Levinson, Mark S. A. Smith, Orvel Ray Wilson, *Guerrilla Negotiating: Unconventional Weapons and Tactics to Get What You Want* (New York: John Wiley & Sons, Inc., 1999), pp. 22–23.*

3. The parties negotiate by *choice!* That is, they negotiate because they think they can get a better deal by negotiating than by simply accepting what the other side will voluntarily give them or let them have. Negotiation is largely a voluntary process. We negotiate because we think we can improve our outcome or result, compared with not negotiating or simply accepting what the other side offers. It is a strategy pursued by choice; seldom are we required to negotiate. There are times to negotiate and times not to negotiate (see Box 1.1 for examples of when we should not negotiate). Our experience is that most individuals in Western culture *do not negotiate enough*—that is, we assume a price or situation is nonnegotiable and don't even bother to ask or to make a counteroffer!

“For those of you who need to haggle over the price of your sandwich, we will gladly raise the price so we can give you a discount!”

4. When we negotiate, we expect a “give-and-take” process that is fundamental to our understanding of the word “negotiation.” We expect that both sides will modify or move away from their opening statements, requests, or demands. Although both parties may at first argue strenuously for what they want—each pushing the other side to move first—ultimately both sides will modify their opening position in order to reach an agreement. This movement may be toward the “middle” of their positions, called a compromise. However, truly creative negotiations may not require compromise; instead the parties may invent a solution that meets the objectives of *all* parties. Of course, if the parties do NOT consider it a negotiation, then they don’t necessarily expect to modify their position and engage in this give-and-take (see Box 1.2).
5. The parties prefer to negotiate and search for agreement rather than to fight openly, have one side dominate and the other capitulate, permanently break off contact, or take their dispute to a higher authority to resolve it. Negotiation occurs when the parties prefer to invent their own solution for resolving the conflict, when there is no fixed or established set of rules or procedures for how to resolve the conflict, or when they choose to bypass those rules. Organizations and systems invent policies and procedures for addressing and managing those procedures. Equipment rental services have a policy for what they should charge if a rental is kept too long. Normally, people just pay the fine. They might be able to negotiate a fee reduction, however, if they have a good excuse for why the equipment is being returned late. Similarly, attorneys negotiate or plea-bargain for their clients who would rather be assured of a negotiated settlement than take their chances with a judge and jury in the courtroom. Similarly, the courts may prefer to negotiate as well to clear the case off the docket, save money and assure some payment of a fine rather than risk having the defendant set free on some legal technicality. In the Carter story, Joe pursues negotiation, rather than letting his wife decide where to spend the vacation; pressures the salesman to reduce the price of the car, rather than paying the quoted price; and argues with the finance group about the impact of the budget cuts, rather than simply accepting them without question. Sue uses negotiation to try to change the bank’s loan review procedures, rather than accepting the status quo, and she works to change the shopping mall site plan to make both conservationists and businesses happy, rather than letting others decide it or watch it go to court. But what about that motor scooter . . . ?
6. Successful negotiation involves the management of *tangibles* (e.g., the price or the terms of agreement) and *also* the resolution of *intangibles*. Intangible factors are the underlying psychological motivations that may directly or indirectly influence the parties during a negotiation. Some examples of intangibles are (a) the need to “win,” beat the other party, or avoid losing to the other party; (b) the need to look “good,” “competent,” or “tough” to the people you represent; (c) the need to defend

When the Urge to Win Overwhelms Rational Decision Making

BOX

1.3

There are times when the urge to win overwhelms logic. Authors Malhotra, Ku, and Murnighan offer the example of a takeover battle between Johnson & Johnson (J&J) and Boston Scientific to buy Guidant, a medical device maker. Even though Guidant was in the middle of recalling 23,000 pacemakers and telling another 27,000 patients who had pacemakers already implanted to “consult their doctors,” the bidding war between the two buyers lead to a final price of \$27.2 billion, \$1.8 billion more than J&J’s initial bid. After the recall, Guidant shares went from \$23 to \$17 a share. *Fortune* magazine later called the acquisition “arguably the second worst ever,” only surpassed by AOL’s infamous purchase of Time Warner.

What fuels these competitive dynamics that lead to bad decisions? The authors identify several key factors:

- *Rivalry.* When parties are intensely competitive with one another, they are willing to suspend rational decision making.
- *Time pressure.* An artificial deadline, or time pressures such as those in an auction, can

push people into quick (and often erroneous) decision making.

- *The spotlight.* If audiences are watching and evaluating the actor, he is more likely to stick to his guns and escalate his investment just to look strong and tough to the audience.
- *The presence of attorneys.* The authors indicate that attorneys, who are more oriented toward “winning” and “losing” in legal battles, may pressure their clients toward winning when options for settlement may clearly be present. This perspective may be complicated by the way the attorneys are paid for their services.

The authors offer several important suggestions to reduce or eliminate the negative impact of these competitive pressures, in order to make more sound and reasoned decisions.

Source: Deepak K. Malhotra, Gillian Ku, and J. Keith Murnighan, “When Winning is Everything,” *Harvard Business Review* 86, no. 5, May 2008, pp. 78–86.

an important principle or precedent in a negotiation; and (d) the need to appear “fair,” or “honorable” or to protect one’s reputation; or (e) the need to maintain a good relationship with the other party after the negotiation is over, primarily by maintaining trust and reducing uncertainty.⁵ Intangibles are often rooted in personal values and emotions. Intangible factors can have an enormous influence on negotiation processes and outcomes; it is almost impossible to ignore intangibles because they affect our judgment about what is fair, or right, or appropriate in the resolution of the tangibles. For example, Joe may not want to make Ed Laine angry about the purchasing problem because he needs Ed’s support in the upcoming budget negotiations, but Joe also doesn’t want to look weak to his department’s engineers, who expect him to support them. Thus, for Joe, the important intangibles are preserving his relationship with Ed Laine and looking strong and “tough” to his engineers.

Intangibles become a major problem in negotiation when negotiators fail to understand how they are affecting decision making or when they dominate negotiations on the tangibles. For example, see Box 1.3 about the problems that the urge to win can create for negotiators.

Interdependence

One of the key characteristics of a negotiation situation is that the parties need each other in order to achieve their preferred objectives or outcomes. That is, either they *must* coordinate with each other to achieve their own objectives, or they *choose* to work together because the possible outcome is better than they can achieve by working on their own. When the parties depend on each other to achieve their own preferred outcome, they are *interdependent*.

Most relationships between parties may be characterized in one of three ways: independent, dependent, or interdependent. *Independent* parties are able to meet their own needs without the help and assistance of others; they can be relatively detached, indifferent, and uninvolved with others. *Dependent* parties must rely on others for what they need; because they need the help, benevolence, or cooperation of the other, the dependent party must accept and accommodate to that provider's whims and idiosyncrasies. For example, if an employee is totally dependent on an employer for a job and salary, the employee will have to either do the job as instructed and accept the pay offered, or go without that job. *Interdependent* parties, however, are characterized by interlocking goals—the parties need each other in order to accomplish their objectives, and hence have the potential to influence each other. For instance, in a project management team, no single person could complete a complex project alone; the time limit is usually too short, and no individual has all the skills or knowledge to complete it. For the group to accomplish its goals, each person needs to rely on the other project team members to contribute their time, knowledge, and resources and to synchronize their efforts. Note that having interdependent goals does not mean that everyone wants or needs exactly the same thing. Different project team members may need different things, but they must work together for each to accomplish their goals. This mix of convergent and conflicting goals characterizes many interdependent relationships. (See Box 1.4 for a perspective on interdependence and the importance of intangibles from a famous agent who represents professional athletes in their negotiated contracts.)

Types of Interdependence Affect Outcomes

The interdependence of people's goals, and the *structure* of the situation in which they are going to negotiate, strongly shapes negotiation processes and outcomes. When the goals of two or more people are interconnected so that only one can achieve the goal—such as running a race in which there will be only one winner—this is a competitive situation, also known as a *zero-sum* or *distributive* situation, in which “individuals are so linked together that there is a negative correlation between their goal attainments.”⁶ Zero-sum or distributive situations are also present when parties are attempting to divide a limited or scarce resource, such as a pot of money, a fixed block of time, and the like. To the degree that one person achieves his or her goal, the other's goal attainment is blocked. In contrast, when parties' goals are linked so that one person's goal achievement helps others to achieve their goals, it is a *mutual-gains* situation, also known as a *non-zero-sum* or *integrative* situation, where there is a positive correlation between the goal attainments of both parties. If one person is a great music composer and the other is a great writer of lyrics, they can create a wonderful Broadway musical hit together. The music and words may be good separately,

“I have been representing athletes for almost a quarter century, longer than some of them have been alive. During the course of that time, I have developed deep relationships—friendships and partnerships—with many of the executives with whom I do business. We have done dozens of deals with one another over the years. There has been contention and struggle. There have been misunderstandings at times. But in the end, not unlike a marriage, we have stayed together, moved forward, and grown. That kind of shared relationship over time results in a foundation of trust and respect that is immeasurably valuable.

But that kind of trust must be earned. I understood this when I did my first deal 23 years ago. A basic premise of my entire career has been the knowledge that I will be working with the same people again and again. That means that I am always thinking about the deal I am making right now but also about a given player’s future deals. It means I see the other party as a potential partner, not as a foe to be vanquished.

If it were not for the team owners, I would not have a profession. If they did not feel that they could operate at a profit, we would not have an industry. I may believe that a player deserves every penny he is paid, but that is only half the equation. The other half depends upon whether the owner believes he can profit by making that payment.

These are not showdowns. In the end they are collaborations. We each have an interest in the success and health of the other. I need and want professional sports to survive and thrive. The various leagues need a steady supply of quality players who are quality people. Each side has something to offer the other. Each side depends on the other.

In any industry in which repeat business is done with the same parties, there is always a balance between pushing the limit on any particular negotiation and making sure the other party—and your relationship with him—survives intact.

This is not to suggest that you subordinate your interests to his. But sometimes it is in your best long-term interest to leave something on the table, especially if the other party has made an error that works to your advantage.

No one likes being taken advantage of. We are all human beings. We all have the potential to make a mistake. No matter how much each side stresses preparation, there is no way to consider every factor in a negotiation. There may be times during the process where one party realizes he has made an error in calculation or in interpretation and may ask that that point be revised. There may be times where terms have been agreed to but the other party then sees a mistake and asks you to let him off the hook. You don’t have to do it. You could stick him on that point. But you need to ask yourself, Is it worth it? Is what I have to gain here worth what I will lose in terms of this person’s willingness to work with me in the future? In most cases, the long-term relationship is much more valuable than the short-term gain. Sometimes the other party may make a mistake and not know it. There are times when the GM or owner I am dealing with makes a major error in his calculations or commits a major oversight, and I can easily take advantage of that and just nail him.

But I don’t. He shows me his jugular, and instead of slashing it, I pull back. I might even point out his error. Because if I do crush him, he will eventually realize it. And although I might make a killing on that particular deal, I will also have killed our relationship and, very likely, any possibility of future agreements. Or it might be that the person’s mistake costs him his job, in which case someone else might take his place—who is much rougher to deal with and is intent on paying me back for taking his predecessor to the cleaners.”

Source: Leigh Steinberg, *Winning with Integrity* (New York: Random House, 1998), pp. 217–18.

but fantastic together. To the degree that one person achieves his or her goal, the other's goals are not necessarily blocked, and may in fact be significantly enhanced. The strategy and tactics that accompany each type of situation are discussed further in the upcoming section, Value Claiming and Value Creation, and in Chapters 2 and 3.

Alternatives Shape Interdependence

We noted at the beginning of this section that parties choose to work together because the possible outcome is better than what may occur if they do not work together. Evaluating interdependence therefore also depends heavily on the desirability of *alternatives* to working together. Roger Fisher, William Ury, and Bruce Patton, in their popular book *Getting to Yes: Negotiating Agreement without Giving In*, stress that “whether you should or should not agree on something in a negotiation depends entirely upon the attractiveness to you of the best available alternative.”⁷ They call this alternative a BATNA (an acronym for best alternative to a negotiated agreement) and suggest that negotiators need to understand their own BATNA and the other party's BATNA. The value of a person's BATNA is always relative to the possible settlements available in the current negotiation. A BATNA may offer independence, dependence, or interdependence with someone else. A student who is a month away from college graduation and has only one job offer at a salary far lower than he hoped has the choice of accepting that job offer or unemployment; there is little chance that he is going to influence the company to pay him much more than their starting offer.⁸ A student who has two offers has a choice between two future interdependent relationships; not only does she have a choice, but she can probably use each job offer to attempt to improve the agreement by playing the employers off against each other (asking employer A to improve its offer over B, etc.). Remember that every possible interdependency has an alternative; negotiators can always say “no” and walk away, although the alternative might not be a very good one. We will further discuss the role and use of BATNAs in Chapters 2, 4, and 8.

Mutual Adjustment

When parties are interdependent, they have to find a way to resolve their differences. Both parties can influence the other's outcomes and decisions, and their own outcomes and decisions can be influenced by the other.⁹ This mutual adjustment continues throughout the negotiation as both parties act to influence the other.¹⁰ It is important to recognize that negotiation is a process that transforms over time, and mutual adjustment is one of the key causes of the changes that occur during a negotiation.¹¹

Let us return to Sue Carter's job in the small community bank. Rather than continuing to have her loans be approved late, which means she loses the loan and doesn't qualify for bonus pay, Sue is thinking about leaving the small bank and taking a job with Intergalactic Bank in the next city. Her prospective manager, Max, thinks Sue is a desirable candidate for the position and is ready to offer her the job. Max and Sue are now attempting to establish Sue's salary. The job advertisement announced the salary as “competitive.” After talking with her husband Joe and looking at statistics on bank loan officers' pay in the state, and considering her past experience as a loan officer, Sue identified a salary below which she will not work (\$70,000) and hopes she might get considerably more. But because Intergalactic

Bank has lots of job applicants and is a very desirable employer in the area, Sue has decided not to state her minimally acceptable salary; she suspects that the bank will pay no more than necessary and that her minimum would be accepted quickly. Moreover, she knows that it would be difficult to raise the level if it should turn out that \$70,000 was considerably below what Max would pay. Sue has thought of stating her ideal salary (\$80,000), but she suspects that Max will view her as either too aggressive or rude for requesting that much. Max might refuse to hire her, or even if they agreed on salary, Max would have formed an impression of Sue as a person with an inflated sense of her own worth and capabilities.

Let's take a closer look at what is happening here. Sue is making her decision about an opening salary request based in part on what bank loan officers are paid in the area, but also very much on how she anticipates Max will react to her negotiating tactics. Sue recognizes that her actions will affect Max. Sue also recognizes that the way Max acts toward her in the future will be influenced by the way her actions affect him now. As a result, Sue is assessing the indirect impact of her behavior on herself. Further, she also knows that Max is probably alert to this and will look upon any statement by Sue as reflecting a preliminary position on salary rather than a final one. To counter this expected view, Sue will try to find some way to state a proposed salary that is higher than her minimum, but lower than her "dream" salary offer. Sue is choosing among opening requests with a thought not only to how they will affect Max but also to how they will lead Max to act toward Sue. Further, if she really thought about it, Sue might imagine that Max believes she will act in this way and makes her decision on the basis of this belief.

The reader may wonder if people really pay attention to all these layers of nuance and complexity or plot in such detail about their negotiation with others. The answer is "NO"! First, because they don't think beyond step 1—deciding what they really want—and second, if they did, they would likely be frozen into inactivity while they tried to puzzle through all the possibilities. However, engaging in this level of thinking can help anticipate the possible ways negotiations might move as the parties move, in some form of mutual adjustment, toward agreement. The effective negotiator needs to understand how people will adjust and readjust, and how the negotiations might twist and turn, based on one's own moves, the others' responses, my own countermoves, etc.

It might seem that the best strategy for successful mutual adjustment to the other is grounded in the assumption that the more information one has about the other person, the better. There is the possibility, however, that too much knowledge only confuses.¹² For example, suppose Sue knows the average salary ranges for clerical, supervisory, and managerial positions for banks in her state and region. Does all this information help Sue determine her actions, or does it only confuse things? In fact, even with all of this additional information, Sue may still not have reached a decision about what salary she should be paid, other than a minimum figure below which she will not go. This state of affairs is typical to many negotiations. Both parties have defined their outer limits for an acceptable settlement (how high or low they are willing to go), but within that range, neither has determined what the preferred number should be. Or they have thought only about a desired salary, but not a minimally acceptable one. The parties need to exchange information, attempt to influence each other, and problem solve. They must work toward a solution that takes into account each person's requirements and, hopefully, optimize the outcomes for both.¹³