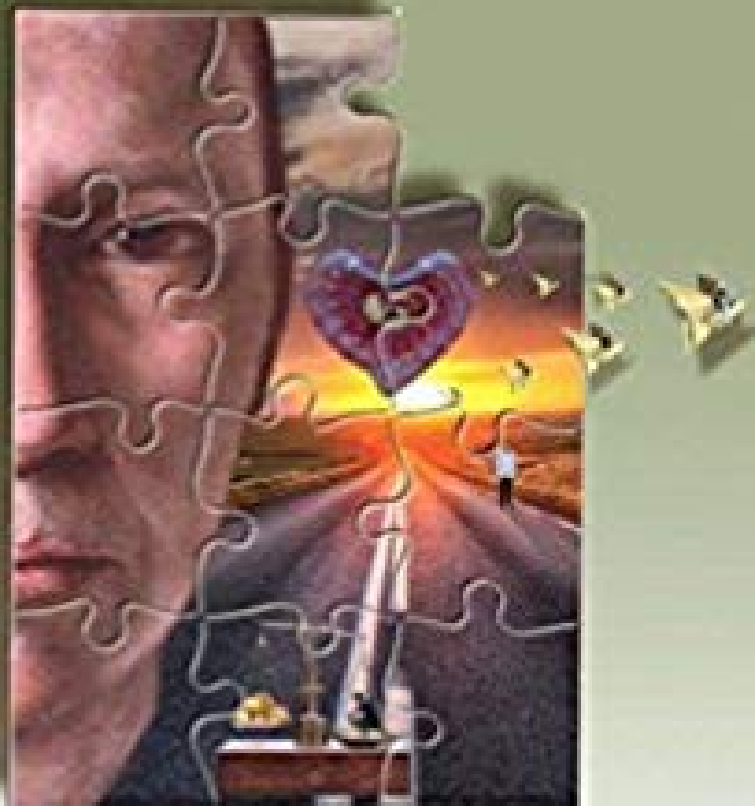


The Mind and Heart of the Negotiator

SIXTH EDITION



LEIGH L. THOMPSON

Sixth Edition

THE MIND AND HEART OF THE NEGOTIATOR

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Kellogg School of Management

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*To the loves of my life:
Bob, Sam, Ray, and Anna*

BRIEF CONTENTS

PART I Essentials of Negotiation 23

- Chapter 1* Negotiation: The Mind and The Heart 23
- Chapter 2* Preparation: What to Do Before Negotiation 34
- Chapter 3* Distributive Negotiation: Slicing the Pie 60
- Chapter 4* Win-Win Negotiation: Expanding the Pie 91

PART II Advanced Negotiation Skills 113

- Chapter 5* Developing a Negotiating Style 113
- Chapter 6* Establishing Trust and Building a Relationship 144
- Chapter 7* Power, Gender, and Ethics 171
- Chapter 8* Creativity and Problem Solving in Negotiations 195

PART III Applications and Special Scenarios 230

- Chapter 9* Multiple Parties, Coalitions, and Teams 230
- Chapter 10* Cross-Cultural Negotiation 267
- Chapter 11* Social Dilemmas 300
- Chapter 12* Negotiating Via Information Technology 330

APPENDICES

- Appendix 1* Are You a Rational Person? Check Yourself 350
- Appendix 2* Nonverbal Communication and Lie Detection 371
- Appendix 3* Third-Party Intervention 382
- Appendix 4* Negotiating a Job Offer 391

CONTENTS

Preface 17

About the Author 21

Part I Essentials of Negotiation 23

Chapter 1 NEGOTIATION: THE MIND AND THE HEART 23

Negotiation: Definition and Scope 24

Negotiation as a Core Management Competency 25

Dynamic Nature of Business 25

Interdependence 25

Economic Forces 26

Information Technology 26

Globalization 26

Most People are Ineffective Negotiators 27

Negotiation Traps 27

Why People are Ineffective Negotiators 28

Egocentrism 28

Confirmation Bias 28

Satisficing 29

Self-Reinforcing Incompetence 29

Debunking Negotiation Myths 30

Myth 1: Negotiations are Fixed-Sum 30

Myth 2: You Need to be either Tough or Soft 30

Myth 3: Good Negotiators are Born 30

Myth 4: Life Experience is a Great Teacher 31

Myth 5: Good Negotiators Take Risks 31

Myth 6: Good Negotiators Rely on Intuition 31

Learning Objectives 32

The Mind and Heart 33

Chapter 2 PREPARATION: WHAT TO DO BEFORE NEGOTIATION 34

Self-Assessment 35

What Do I Want? 35

What Is My Alternative to Reaching Agreement
in This Situation? 37

Determine Your Reservation Point	38
Be Aware of Focal Points	38
Beware of Sunk Costs	38
Do Not Confuse Your Target Point with Your Reservation Point	41
Identify the Issues in the Negotiation	41
Identify the Alternatives for Each Issue	41
Identify Equivalent Multi-Issue Proposals	41
Assess Your Risk Propensity	42
Endowment Effects	45
Am I Going to Regret This?	46
Violations of the Sure Thing Principle	46
Do I Have an Appropriate Level of Confidence?	47
<i>Other Assessment</i>	<i>48</i>
Who Are the Other Parties?	48
Are the Parties Monolithic?	48
Counterparties' Interests and Position	48
Counterparties' BATNAs	49
<i>Situation Assessment</i>	<i>49</i>
Is the Negotiation One Shot, Long Term, or Repetitive?	49
Do the Negotiations Involve Scarce Resources, Ideologies, or Both?	49
Is the Negotiation One of Necessity or Opportunity?	50
Is the Negotiation a Transaction or Dispute?	51
Are Linkage Effects Present?	51
Is Agreement Required?	52
Is it Legal to Negotiate?	52
Is Ratification Required?	53
Are Time Constraints or Other Time-Related Costs Involved?	53
Are Contracts Official or Unofficial?	55
Where Do the Negotiations Take Place?	56
Are Negotiations Public or Private?	56
Is Third-Party Intervention a Possibility?	57
What Conventions Guide the Process of Negotiation (Such as Who Makes the First Offer)?	57
Do Negotiations Involve More Than One Offer?	57

Do Negotiators Communicate Explicitly or Tacitly? 58

Is There a Power Differential Between Parties? 58

Is Precedent Important? 58

Conclusion 58

Chapter 3 DISTRIBUTIVE NEGOTIATION: SLICING THE PIE 60

The Bargaining Zone 61

Bargaining Surplus 62

Negotiator's Surplus 63

Pie-Slicing Strategies 63

Strategy 1: Assess Your BATNA and Improve It 65

Strategy 2: Determine Your Reservation Point, but do not reveal It 65

Strategy 3: Research the Other Party's BATNA and Estimate Their Reservation Point 66

Strategy 4: Set High Aspirations (Be Realistic but Optimistic) 66

Strategy 5: Make the First Offer (If You Are Prepared) 68

Strategy 6: Immediately Reanchor if the Other Party Opens First 69

Strategy 7: Plan Your Concessions 70

Strategy 8: Support Your Offer with Facts 71

Strategy 9: Appeal to Norms of Fairness 71

Strategy 10: Do Not Fall for the "Even Split" Ploy 72

The Most Commonly Asked Questions 72

Should I Reveal My Reservation Point? 72

Should I Lie About My Reservation Point? 72

Should I Try to Manipulate the Counterparty's Reservation Point? 74

Should I Make a "Final Offer" or Commit to a Position? 74

Saving Face 75

The Power of Fairness 76

Multiple Methods of Fair Division 76

Situation-Specific Rules of Fairness 76

Social Comparison 78

The Equity Principle 80

Restoring Equity 81

Procedural Justice 82

- Fairness in Relationships 84
- Egocentrism 84
- Wise Pie Slicing* 88
 - Consistency 88
 - Simplicity 89
 - Effectiveness 89
 - Justifiability 89
 - Consensus 89
 - Generalizability 89
 - Satisfaction 89
- Conclusion* 90

Chapter 4 WIN-WIN NEGOTIATION: EXPANDING THE PIE 91

- What Is Win-Win Negotiation?* 92
- Telltale Signs of Win-Win Potential* 92
 - Does the Negotiation Contain More Than One Issue? 92
 - Can Other Issues Be Brought In? 93
 - Can Side Deals Be Made? 93
 - Do Parties Have Different Preferences Across Negotiation Issues? 93
- Most Common Pie-Expanding Errors* 94
 - False Conflict 94
 - Fixed-Pie Perception 95
- Most Commonly Used Win-Win Strategies* 96
 - Commitment to Reaching a Win-Win Deal 96
 - Compromise 96
 - Focusing on a Long-Term Relationship 96
 - Adopting a Cooperative Orientation 96
 - Taking Extra Time to Negotiate 97
- Effective Pie-Expanding Strategies* 97
 - Perspective Taking 97
 - Ask Questions About Interests and Priorities 98
 - Reveal Information About Your Interests and Priorities 100
 - Unbundle the Issues 101
 - Logrolling and Value-Added Trade-Offs 103
 - Make Package Deals, Not Single-Issue Offers 103
 - Make Multiple Offers of Equivalent Value Simultaneously 104

Structure Contingency Contracts by Capitalizing on Differences	107
Presettlement Settlements (PreSS)	109
Search for Postsettlement Settlements	110
<i>A Strategic Framework for Reaching Integrative Agreements</i>	110
Resource Assessment	110
Assessment of Differences	111
Offers and Trade-Offs	111
Acceptance/Rejection Decision	112
Prolonging Negotiation and Renegotiation	112
<i>Conclusion</i>	112

Part II Advanced Negotiation Skills 113

Chapter 5 DEVELOPING A NEGOTIATING STYLE 113

<i>Motivational Orientation</i>	115
Assessing Your Motivational Style	115
Strategic Issues Concerning Motivational Style	118
<i>Interests, Rights, and Power Model of Disputing</i>	122
Assessing Your Approach	124
Strategic Issues Concerning Approaches	127
<i>Emotions and Emotional Knowledge</i>	134
Genuine Versus Strategic Emotion	134
Negative Emotion	135
Positive Emotion	139
Emotional Intelligence and Negotiated Outcomes	140
Strategic Advice for Dealing with Emotions at the Table	141
<i>Conclusion</i>	143

Chapter 6 ESTABLISHING TRUST AND BUILDING A RELATIONSHIP 144

<i>The People Side of Win-Win</i>	144
<i>Trust as the Bedrock of Relationships</i>	146
Three Types of Trust in Relationships	147
Building Trust: Rational and Deliberate Mechanisms	149
Building Trust: Psychological Strategies	152
What Leads to Mistrust?	156
Repairing Broken Trust	157

Reputation 161
Relationships in Negotiation 162
 Negotiating with Friends 163
 Negotiating with Businesspeople 166
 When in Business with Friends and Family 168
Conclusion 170

Chapter 7 POWER, GENDER, AND ETHICS 171

Power 172
 The Power of Alternatives 172
 Power Triggers in Negotiation 174
 Symmetric and Asymmetric Power Relationships 174
 The Effect of Using Power on Powerful People 174
 The Effects of Power on Those with Less Power 175
 Status 176
Gender 177
 Gender and Negotiation Outcomes 177
 Initiating Negotiations 178
 Leveling the Playing Field 179
 Evaluations of Negotiators 181
 Gender and Race Discrimination in Negotiation 181
 Gender and Third-Party Dispute Resolution 182
Ethics 182
 Ethics and Lying 183
 Other Questionable Negotiation Strategies 185
 Sins of Omission and Commission 188
 Costs of Lying 188
 Under What Conditions Do People Engage in Deception? 190
 Responding to Unethical Behavior 193
Conclusion 194

Chapter 8 CREATIVITY AND PROBLEM SOLVING IN NEGOTIATIONS 195

Creativity in Negotiation 195
 Test Your Own Creativity 196
What Is Your Mental Model of Negotiation? 196
 Haggling 196
 Cost-Benefit Analysis 201
 Game Playing 201

Partnership	201
Problem Solving	202
<i>Creative Negotiation Agreements</i>	<i>202</i>
Fractionating Single-Issue Negotiations into Multiple Issues	202
Finding Differences: Looking for Patterns in Offers	202
Expanding the Pie	203
Bridging	203
Cost Cutting	204
Nonspecific Compensation	204
Structuring Contingencies	205
<i>Threats to Effective Problem Solving and Creativity</i>	<i>207</i>
The Inert Knowledge Problem	208
Availability Heuristic	211
Representativeness	211
Anchoring and Adjustment	212
Unwarranted Causation	213
Belief Perseverance	213
Illusory Correlation	213
Just World	214
Hindsight Bias	214
Functional Fixedness	215
Set Effect	215
Selective Attention	215
Overconfidence	216
The Limits of Short-Term Memory	217
<i>Techniques for Enhancing Creative Negotiation Agreements</i>	<i>217</i>
Negotiating Skills Training	217
Bilateral or Unilateral Training	218
Feedback	218
Learning Versus Performance Goals	219
Analogical Training	220
Counterfactual Reflection	221
Incubation	221
Rational Problem-Solving Model	222
Brainstorming	223
Deductive Reasoning	223
Inductive Reasoning	225
<i>Conclusion</i>	<i>225</i>

Part III Applications and Special Scenarios 230

**Chapter 9 MULTIPLE PARTIES, COALITIONS,
AND TEAMS 230**

Analyzing Multiparty Negotiations 231

Multiparty Negotiations 233

Key Challenges of Multiparty Negotiations 233

Strategies for Successful Multiparty Negotiations 237

Coalitions 239

Key Challenges of Coalitions 239

Strategies for Maximizing Coalitional Effectiveness 244

Principal-Agent Negotiations 245

Disadvantages of Agents 246

Strategies for Working Effectively with Agents 248

Constituent Relationships 250

Challenges for Constituent Relationships 250

Strategies for Improving Constituent Relationships 253

Team Negotiation 253

Challenges That Face Negotiating Teams 255

Strategies for Improving Team Negotiations 256

Intergroup Negotiation 258

Challenges of Intergroup Negotiations 258

Strategies for Optimizing Intergroup Negotiations 260

Conclusion 264

Chapter 10 CROSS-CULTURAL NEGOTIATION 267

Learning About Cultures 268

Culture as an Iceberg 268

Cultural Values and Negotiation Norms 269

Individualism versus Collectivism 269

Egalitarianism versus Hierarchy 280

Direct versus Indirect Communications 283

Key Challenges of Intercultural Negotiation 286

Expanding the Pie 286

Dividing the Pie 287

Sacred Values and Taboo Trade-Offs 287

Biased Punctuation of Conflict 289

Ethnocentrism 290

Affiliation Bias 291

Faulty Perceptions of Conciliation and Coercion 292

Naïve Realism 292

Predictors of Success in Intercultural Interactions 293

Advice for Cross-Cultural Negotiations 294

Anticipate Differences in Strategy and Tactics That
May Cause Misunderstandings 294

Cultural Perspective Taking 294

Recognize That the Other Party May Not Share Your
View of What Constitutes Power 295

Avoid Attribution Errors 295

Find Out How to Show Respect in the Other Culture 296

Find Out How Time is Perceived in the Other Culture 297

Know Your Options for Change 297

Conclusion 299

Chapter 11 SOCIAL DILEMMAS 300

Social Dilemmas in Business 302

The Prisoner's Dilemma 302

Cooperation and Defection as Unilateral Choices 303

Rational Analysis 304

Psychological Analysis of Why Tit-for-Tat Is Effective 306

Ultimatum Dilemma 311

Dictator Game 312

Trust Game 313

Binding versus Nonbinding Contracts 313

Social Networks and Reputations 314

Relationship Threat 314

Self-Blame and Regret 314

Restoring Broken Trust 315

Volunteer Dilemma 315

Multiparty Dilemmas 316

The Tragedy of the Commons 316

Types of Social Dilemmas 317

How to Build Cooperation in Social Dilemmas 319

How to Encourage Cooperation in Social Dilemmas

When Parties Should Not Collude 325

Escalation of Commitment 325

Avoiding the Escalation of Commitment in Negotiations 328

Conclusion 329

Chapter 12 NEGOTIATING VIA INFORMATION TECHNOLOGY 330

Place-Time Model of Social Interaction 331

Face-to-Face Communication 331

Same Time, Different Place 334

Different Time, Same Place 335

Different Place, Different Time 336

Information Technology and Its Effects on Social Behavior 340

Trust 340

Deception 340

Status and Power: The “Weak Get Strong” Effect 340

Social Networks 342

Risk Taking 343

Rapport and Social Norms 343

Paranoia 344

Intergenerational Negotiation 344

Strategies for Enhancing Technology-Mediated Negotiations 347

Initial Face-to-Face Experience 347

One-Day Videoconference/Teleconference 348

Schmoozing 348

Humor 349

Conclusion 349

Appendix 1 ARE YOU A RATIONAL PERSON? CHECK YOURSELF 350

Why Is It Important to Be Rational? 350

Individual Decision Making 350

Riskless Choice 351

Decision Making Under Uncertainty 353

Risky Choice 353

Summing Up: Individual Decision Making 365

Game Theoretic Rationality 365

Nash Bargaining Theory 366

Appendix 2 NONVERBAL COMMUNICATION AND LIE DETECTION 371

What Are We Looking for in Nonverbal Communication? 371

Are Women More “Nonverbally Gifted” Than Men? 372

Dominance 373

Personal Charisma 374

<i>Detecting Deception</i>	375
Direct Methods	377
Indirect Methods	377
How Motivation and Temptation Affect Lying and Deception	379
Deception Success	380

Appendix 3 THIRD-PARTY INTERVENTION 382

<i>Common Third-Party Roles</i>	382
Mediation	382
Arbitration	383
Mediation-Arbitration	384
Arbitration-Mediation	384
<i>Key Choice Points in Third-Party Intervention</i>	384
Outcome versus Process Control	385
Formal versus Informal	385
Invited versus Uninvited	385
Interpersonal versus Intergroup	385
Content versus Process Orientation	385
Facilitation, Formulation, or Manipulation	385
Disputant Preferences	386
Mediators and Gender	386
<i>Challenges Facing Third Parties</i>	386
Meeting Disputants' Expectations	387
Increasing the Likelihood That Parties Reach an Agreement if a Positive Bargaining Zone Exists	387
Promoting a Pareto-Efficient Outcome	387
Promoting Outcomes That Are Perceived as Fair in the Eyes of Disputants	387
Improving the Relationship Between Parties	388
Empowering Parties in the Negotiation Process	388
Debiasing Negotiators	388
Maintaining Neutrality	389
<i>Enhancing the Effectiveness of Third-Party Intervention</i>	390
Accept Your Share of Responsibility	390
Test Your Own Position	390
Role-Play a Third Party in Your Own Dispute	390
Training in Win-Win Negotiation	390

Appendix 4 NEGOTIATING A JOB OFFER 391

Preparation 391

Step 1: Determine What You Really Want 391

Step 2: Do Your Homework 391

Step 3: Determine Your BATNA and Your
Aspiration Point 393

Step 4: Research the Employer's BATNA 393

Step 5: Determine the Issue Mix 393

Step 6: Prepare Several Scenarios 393

Step 7: Consider Getting a "Coach" 393

In Vivo: During the Negotiation Itself 394

Think About the Best Way to Position and Present
Your Opening Offer 394

Assume the Offer Is Negotiable 394

Put the Focus On How You Can Solve Problems, Not Make
Demands 395

Don't Reveal Your BATNA or Your Reservation Point 396

Rehearse and Practice 397

Imagine You Are Negotiating on Behalf of Someone
Else (Not Just Yourself) 397

Comparables and Benchmarks 397

Post-Offer: You Have the Offer, Now What? 398

Think Before Posting Anything on Social Media 398

Do Not Immediately Agree to the Offer 398

Get the Offer in Writing 398

Be Enthusiastic and Gracious 398

Assess the Interviewer's Power to Negotiate
with You 398

State Exactly What Needs to Be Done for You to Agree 398

Do Not Negotiate If You Are Not or Could Not
Be Interested 399

Exploding Offers 399

Do Not Try to Create a Bidding War 399

Know When to Stop Pushing 399

Use a Rational Strategy for Choosing Among Job Offers 400

Name Index 401

Subject Index 418

PREFACE

This book is dedicated to negotiators who want to improve their ability to negotiate—whether in multimillion-dollar business deals or personal interactions. It is possible for most people to dramatically improve their ability to negotiate. You can improve your economic outcomes and feel better about yourself and the people with whom you deal. The book integrates theory, scientific research, and practical examples. New to this edition are special sections on gender, ethics, emotions, intergenerational negotiations, and job negotiations. The book contains hundreds of real examples from business, politics, and personal life spanning the globe to illustrate effective, as well as ineffective, negotiation skills.

Here is what you can expect when you read this book:

- ***Illustrative case studies.*** Each chapter opens with a case study of an actual negotiation, drawn from business, government, world affairs, community, and personal life. New to this edition are more than 100 updated examples from the business world, many involving international issues.
- ***Skills-based approach.*** Each chapter provides practical takeaway points for the manager and the executive. A good example is Chapter 4 on integrative negotiation. A series of hands-on principles that have been proven to increase the value of negotiated deals is provided.
- ***Self-insight.*** Most chapters contain several self-assessments, quizzes, and examples that readers can use to examine their negotiation attitudes and behaviors. For example, Chapter 5 gives negotiators an opportunity to assess their “instinctive” bargaining style and provides suggestions for how to further develop their bargaining repertoire. In Chapter 7, negotiators can examine their ethical principles in negotiation. Moreover, Chapter 10 provides a deep look at cultural differences in negotiation so that the negotiator can better understand his or her own cultural style and that of others.
- ***Advanced bargaining skills.*** The second and third sections of the book deal with complex yet commonly occurring negotiating situations, such as negotiating with people of different generations, different genders, agents, mediation and arbitration, negotiating via e-mail and conference calls, negotiating with competitor companies, and of course, negotiating cross-culturally. These sections have been revised in this edition.
- ***Scientific Research.*** New to this edition are the groundbreaking results of more than 120 new scientific articles on negotiation.

I benefit greatly from the advice, comments, and critiques given to me by my students and colleagues, and I hope their advice keeps coming so that I am able to improve upon the book even further. The research and ideas in this book come from an invaluable set of scholars in the fields of social psychology, organizational behavior, sociology, negotiation, and cognitive psychology. My research, thinking, and writing have been inspired in important ways by the following people: Wendi Adair, Cameron Anderson, Evan Apfelbaum, Linda Babcock, Chris

Note: Every effort has been made to provide accurate and current Internet information in this book. However, the Internet and information posted on it are constantly changing, so it is inevitable that some of the Internet addresses listed in this textbook will change.

Bauman, Max Bazerman, Kristin Behfar, Terry Boles, Jeanne Brett, Susan Brodt, Karen Cates, Hoon-Seok Choi, Taya Cohen, Susan Crotty, Jeanne Egmon, Hal Ersner-Hershfield, Gary Fine, Craig Fox, Adam Galinsky, Wendi Gardner, Dedre Gentner, Robert Gibbons, Kevin Gibson, James Gillespie, Rich Gonzalez, Deborah Gruenfeld, Erika Hall, Reid Hastie, Andy Hoffman, Elizabeth Howard, Peter Kim, Shirli Kopelman, Rod Kramer, Laura Kray, Terri Kurtzburg, Geoffrey Leonardelli, John Levine, Allan Lind, George Loewenstein, Jeff Loewenstein, Brian Lucas, Deepak Malhotra, Beta Mannix, Kathleen McGinn, Vicki Medvec, Tanya Menon, Dave Messick, Terry Mitchell, Don Moore, Michael Morris, Keith Murnighan, Janice Nadler, Maggie Neale, Kathy Phillips, Robin Pinkley, Ashleigh Rosette, Nancy Rothbard, Catherine Shea, Ned Smith, Marwan Sinaceur, Harris Sondak, Roderick Swaab, Tom Tyler, Leaf Van Boven, Kimberly Wade-Benzoni, Laurie Weingart, Judith White, and Elizabeth Ruth Wilson. Throughout the text of *The Mind and Heart of the Negotiator*, I use the pronoun “we” because so much of my thinking has been influenced and shaped by this set of eminent scholars.

The revision of this book would not have been possible without the dedication, organization, and editorial skills of Larissa Tripp, Ellen Hampton, Joel Erickson, and Lee Sol Jee, who created the layout, organized hundreds of drafts, mastered the figures, and researched many case studies for this book.

In this book, I talk about the “power of the situation” and how strongly the environment shapes our behavior. The Kellogg School of Management is one of the most supportive, dynamic environments I have ever had the pleasure to be a part of. In particular, Dean Sally Blount strongly supports research and intellectual leadership as well as pedagogical leadership. I am particularly indebted to my wonderful visionary colleague, Jeanne Brett, who created the Dispute Resolution Research Center (DRRC) at Kellogg in 1986, and to the Hewlett Foundation for their generous support of the DRRC.

This book is very much a team effort of the people I have mentioned here, whose talents are diverse, broad, and extraordinarily impressive. I am deeply indebted to my colleagues and my students, and I feel grateful that they have touched my life and this book.

OVERVIEW

This book is divided into three major sections. The first section deals with the essentials of negotiation—the key principles and groundwork for effective negotiation. Chapter 2 leads the manager through effective preparation strategies for negotiation. Chapter 3 discusses distributive negotiation skills, or how to optimally allocate resources in ways that are favorable to one’s self—a process called “slicing the pie.” Chapter 4 is the integral chapter of the book; it focuses on “win-win” negotiation or, more formally, integrative negotiation. This creative part of negotiation involves expanding the pie of resources in ways that provide more gains to go around.

The second section of the book deals with advanced and expert negotiation skills. Chapter 5 focuses on assessing and developing your negotiation style. This chapter invites readers to honestly appraise their own negotiation style in terms of three dimensions: motivational orientation, disputing style, and emotional expression. The negotiator can accurately assess his or her own style and its limitations and learn to assess the styles adopted by other negotiators. Chapter 6 focuses on establishing trust and building relationships. This chapter examines business and personal relationships and how trust is developed, broken, and repaired. Chapter 7 discusses power, gender, and ethics in negotiation. This chapter looks at the topic of persuasion and influence as it occurs across the bargaining table and also deals with the important issues of gender and

ethics in negotiation. In Chapter 8, the focus is on problem solving and creativity. This chapter provides strategies for learning how to think out of the box and provides techniques for using creativity and imagination in negotiation.

The third section deals with special scenarios in negotiation. Chapter 9 examines the complexities of negotiating with multiple parties, such as conflicting incentives, coalitions, voting rules, and how to leverage one's own bargaining position when negotiating with multiple parties. Chapter 10 focuses on cross-cultural negotiation, which addresses the key cultural values and negotiation norms across a variety of nationalities, along with some advice for cross-cultural negotiations. Chapter 11 deals with dilemmas, or situations in which negotiators make choices in a mixed-motive context, where cooperation involves building trust with the other party and competition involves an attempt to increase one's own share of resources. This chapter examines the nature of social dilemmas and how to negotiate successfully within various types of dilemmas. Chapter 12 focuses on information technology and its impact on negotiation and uses a place-time model of social interaction to examine the challenges and opportunities of negotiation as it occurs in this technological age. It includes a section on intergenerational negotiation and e-negotiations.

Four appendices provide a variety of additional material: Appendix 1 invites readers to examine the rationality of their negotiation beliefs and preferences; Appendix 2 provides a short course on lie detection and nonverbal communication; Appendix 3 reviews the essentials of third-party intervention; and Appendix 4 provides tips and a checklist for negotiating a job offer.

FACULTY RESOURCES

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Reviewers

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1

Part I: Essentials of Negotiation

NEGOTIATION: THE MIND AND THE HEART

In July 2012, after a successful contract renegotiation with Gazprom, its longtime partner, E.ON announced an earnings boost of \$1.25 billion. Gazprom is a Russian gas export monopoly and E.ON is a German utility firm, and the Russian firm's largest European Union customer. The new long-term natural gas supply contract was signed against a backdrop of lengthy and complex negotiations in which E.ON wanted Gazprom to agree to lower gas prices and revisions in pricing.

E.ON had been pushing for new gas prices as it had been selling gas at a loss for quite some time. This was mainly because the prices at which E.ON bought gas from Gazprom were linked to the price of oil, which was much higher than the retail price of gas. E.ON was also suffering due to reduced gas demand from its customers. At one point, negotiations between the two companies were not going well and had reached a stalemate. At that time, E.ON decided to begin arbitration proceedings—an independent arbitrator was nominated by the two parties to review the case and issue an arbitration award. Although E.ON had kept the option of continuing talks with Gazprom open at that time, it was a clear sign of how difficult it was for the two companies to reach a solution in the prolonged contract dispute, with billions at stake for both.

The 2012 settlement brought legal proceedings and the lengthy arbitration process to an end and meant that E.ON and Gazprom could expect more stability for a longer time. Gazprom agreed to lower gas prices, but was successful in safeguarding its pricing model. It expected that increased competitiveness of its gas prices would lead to higher sales volumes. On the other hand, for E.ON, the lower gas prices applied retroactively from the fourth quarter of 2010. This translated into significant benefits for Germany's largest gas supplier.¹

Whereas most of us are not involved in billion-dollar deals, one thing that business scholars and businesspeople are in complete agreement on is that everyone negotiates nearly every day. *Getting to Yes* begins by stating, “Like it or not, you are a negotiator.... Everyone negotiates something every day.”² Similarly, Lax and Sebenius, in *The Manager as Negotiator*, state that “Negotiating is a way of life for managers... when managers deal with their superiors, boards of directors, even

¹ *RIA Novosti* (2012, July 3). Gazprom Signs Corrective Gas Price Contract with E.ON. en.ria.ru; Reuters (2011, August 1). E.ON Ruhrgas seeks arbitration in row with Gazprom.uk.reuters.com; Andresen, Tino and Anna Shiryayevskaya (2012, July 3). EON Raises Profit Forecast After Gazprom Gas Price Deal. bloomberg.com.

² Fisher, R., & Ury, W. (1981). *Getting to yes* (p. xviii). Boston: Houghton Mifflin.

legislators.”³ G. Richard Shell, who wrote *Bargaining for Advantage*, asserts, “All of us negotiate many times a day.”⁴ Herb Cohen, author of *You Can Negotiate Anything*, dramatically suggests that “your world is a giant negotiation table.” One business article on negotiation warns, “However much you think negotiation is part of your life, you’re underestimating.”⁵

Negotiation is your key communication and influence tool inside and outside the company. Anytime you cannot achieve your objectives (whether an acquisition or a dinner date) without the cooperation of others, you are negotiating. We provide dramatic (and disturbing) evidence in this chapter that most people do not live up to their negotiating potential. The good news is that you can do something about it.

The sole purpose of this book is to improve your ability to negotiate. We do this through an integration of scientific studies of negotiation and real business cases. And in case you are wondering, it is not all common sense. Science drives the best practices covered in this book. We focus on business negotiations, and understanding business negotiations helps people to be more effective negotiators in their personal lives.⁶

In this book, we focus on three major negotiation skills: creating value, claiming value, and building trust. By the end of this book, you will have a mindset or mental model that will allow you to know what to do and say in virtually every negotiation situation. You can prepare effectively for negotiations and enjoy the peace of mind that comes from having a game plan. Things may not always go according to plan but your mental model will allow you to perform effectively and, most important, to learn from your experiences. Indeed, people who view negotiation as a challenge are more successful in reaching high-quality deals than people who view negotiation as threatening.⁷ Moreover, people who believe that negotiation ability is changeable with experience and practice are more likely to discover win-win agreements than people who believe that negotiation skills are not teachable.⁸

NEGOTIATION: DEFINITION AND SCOPE

Negotiation is an interpersonal decision-making process necessary whenever we cannot achieve our objectives single-handedly. Negotiations include not only one-on-one business meetings but also multiparty, multicompany, and multinational relationships. Some negotiations involve bargaining over a few dollars; other negotiations involve billions of dollars, such as Kellogg’s acquisition of the Pringles brand from Proctor and Gamble for \$2.7 billion. Some negotiations are conducted in less than a few minutes; others linger on for years, such as Hertz’s five-year courtship with rival Dollar Thrifty for an ultimate price of \$2.5 billion.⁹ People negotiate in their

³ Lax, D. A., & Sebenius, J. K. (1986). *The manager as negotiator* (p. 6). New York: Free Press.

⁴ Shell, G. R. (1999). *Bargaining for advantage: Negotiation strategies for reasonable people* (p. 76). New York: Viking.

⁵ Walker, R. (2003, August). Take it or leave it: The only guide to negotiating you will ever need. *Inc.*, 25(8) 75–82.

⁶ Gentner, D., Loewenstein, J., & Thompson, L. (2003). Learning and transfer: A general role for analogical encoding. *Journal of Educational Psychology*, 95(2), 393–408.

⁷ O’Connor, K. M., Arnold, J. A., & Maurizio, A. M. (2010). The prospect of negotiating: Stress, cognitive appraisal and performance. *Journal of Experimental Social Psychology*, 46(5), 729–735.

⁸ Wong, E. M., Haselhaun, M. P., & Kray, L. J. (2012). Improving the future by considering the past: The impact of upward counterfactual reflection and implicit beliefs on negotiation performance. *Journal of Experimental Social Psychology*, 48(1), 403–406.

⁹ Applegate, E., & Mider, Z. (2013, December). The year in M&A deals. *Businessweek*, pp. 64–65.

personal life with people whom they love and enjoy a long-term relationship (e.g., spouses, children, neighbors, and family), as well as in their business life, and with people with whom they might not have an established relationship.

NEGOTIATION AS A CORE MANAGEMENT COMPETENCY

Negotiation skills are increasingly important for managers. Key reasons for the importance of negotiation skills include the dynamic nature of business, interdependence, economic forces, information technology, and globalization.

Dynamic Nature of Business

Most people do not stay in the same job that they take upon graduating from college or receiving their MBA degree. The average person stays at a job for 4.4 years, and 91% of millennials expect to stay at their jobs less than three years, averaging 15–20 jobs over the course of their professional lives.¹⁰ The dynamic, changing nature of business means that people must renegotiate their existence in organizations throughout their careers. The advent of decentralized business structures and the absence of hierarchical decision making provide opportunities for managers, but they also pose some daunting challenges. People must continually create possibilities, integrate their interests with others, and recognize the inevitability of competition both within and between companies. Managers must be in a near-constant mode of negotiating opportunities. Negotiation comes into play when people participate in important meetings, get new assignments, lead a team, participate in a reorganization process, and set priorities for their work unit. Negotiation should be second nature to the business manager, but often it is not.

Interdependence

The increasing interdependence of people within organizations, both laterally and hierarchically, implies that people need to know how to integrate their interests and work across business units and functional areas. For example, when Lafayette Park, a historical park in San Francisco, was scheduled for a renovation, many negotiations erupted between the numerous interest groups. The residents were concerned with the aesthetics of the park, the noise level during construction, as well as lack of use during the three-year revamp. The Recreation and Parks Commission wanted to provide new and interesting elements to the playground as well as keep the project on budget and on time, and the historical society wanted to preserve the park's natural history. All the interest groups convened for facilitated meetings with breakout sessions to address and negotiate the different needs of each group. Some of the needs expressed were related to keeping the playground in a naturalistic theme, while also providing benches along the hilltop clearing to enjoy the view of the bay, and not trimming or removing too many trees.¹¹

The increasing degree of specialization and expertise held by businesspeople indicates that people are more and more dependent on others. However, other people do not always have

¹⁰ Meister, J. (2012, August 4). Job hopping is the new normal for millennials: Three ways to prevent a human resource nightmare. *Forbes*. forbes.com.

¹¹ King, J. (2013, June 5). Lafayette park revamp spurs heap of ideas. *San Francisco Chronicle*. sfchronicle.com.

similar incentive structures, so managers must know how to promote their own interests while simultaneously creating joint value for their organizations. This balance of cooperation and competition requires negotiation.

Economic Forces

In March 2014, approximately 10.5 million people in the United States were unemployed.¹² That was down from 15.3 million unemployed in November of 2009, the highest number of unemployed Americans since the Bureau of Labor Statistics began tracking the nation's unemployment in 1948.¹³ Economic pressures and forces such as these mean that negotiators need to know how to operate in uncertain and ambiguous environments. Focusing on minimizing losses may loom larger than focusing on profits.

Information Technology

Information technology also provides special opportunities and challenges for negotiators. Information technology has created a culture of 24/7 availability. With technology that makes it possible to communicate with people anywhere in the world, managers are expected to negotiate at a moment's notice. Computer technology, for example, extends a company's obligations and capacity to add value to its customers. Because customers expect companies to be accessible to them 24/7, businesses have rethought how to respond quickly. For instance, when Scott Stratten, President of UnMarketing.com, tweeted about his disappointing experience with a Delta flight attendant, the company responded with a polite apology within 16 minutes. Stratten was so impressed by Delta's customer service responsiveness through Twitter that he immediately booked another flight with Delta the following week. Delta uses the 24/7 availability to their advantage and employs 12 people to manage the company's Twitter account.¹⁴ Conversely, people who are not online feel the pressure to perform when they finally do log back on. For example, Arianna Huffington, founder of The Huffington Post, promised her daughter that during her college tour she would not check her smartphone. Huffington kept her promise, not turning on her smartphone during the tour, but while her daughter slept in the hotel room that night, she admitted staying up all night answering e-mails and making sure she didn't miss anything from the few hours she took off.¹⁵

Globalization

Most managers must effectively cross cultural boundaries to do their jobs. Setting aside obvious language and currency issues, globalization presents challenges in terms of different norms of communication. Chip Starnes, cofounder of Specialty Medical Supplies, learned a harrowing lesson in cultural fit when he showed up at his factory near Beijing, China to deliver severance payments for 30 workers laid off when Starnes moved a company division to Mumbai, India. The remaining 100 employees, convinced the entire factory would be closed, demanded severance

¹² United States Department of Labor, Bureau of Labor Statistics. (2014, April). *The Employment Situation*. bls.gov/news.

¹³ United States Department of Labor, Bureau of Labor Statistics. (2011). *Employment status of the civilian population by sex and age*. bls.gov.

¹⁴ Trejos, N. (April 14, 2012). Delta Airlines tweets the most. *USA Today*. usatoday.com; Stratten, S. (2012, July 9). How Delta's tweet saved the brand day. *UnMarketing*. unmarketing.com

¹⁵ Huffington, A. (2013, March 14). Arianna Huffington on burning out at work. *Businessweek*. businessweek.com

and barricaded Starnes inside the plant for six days. Cases of managers being held captive by dissatisfied workers, while police look the other way, is not a rare circumstance in China, a cultural fact that Starnes certainly learned. After accepting the workers' demands—giving 97 workers two months' salary and compensation and rehiring the previously laid-off workers on new contracts—Starnes was released and declared that he had no plans to ever come back though the factory would remain open.¹⁶ Managers need to develop negotiation skills that can be successfully employed with people of different nationalities, backgrounds, and personalities. Consequently, negotiators who have developed a bargaining style that works only within a narrow subset of the business world will suffer unless they broaden their negotiation skills to effectively work with different people across functional units, industries, and cultures.¹⁷ It is a challenge to develop negotiation skills general enough to be used across different contexts, groups, and continents but specialized enough to provide meaningful behavioral strategies in a given situation.

MOST PEOPLE ARE INEFFECTIVE NEGOTIATORS

On the question of whether people are effective negotiators, managers and scholars often disagree. Many people regard themselves to be effective negotiators. However, these same people believe most of their colleagues are distinctly ineffective at the negotiation table. Most people often fall extremely short of their potential at the negotiation table, judging from their performance in realistic business negotiation simulations.¹⁸ Numerous business executives describe their negotiations as win-win only to discover that they left hundreds of thousands of dollars on the table. Fewer than 4% of managers reach win-win outcomes when put to the test,¹⁹ and the incidence of outright lose-lose outcomes is 20%.²⁰ Even on issues on which negotiators are in perfect agreement, they fail to realize it 50% of the time.²¹ Moreover, we make the point several times throughout this book that effective negotiation is not just about money—it is equally about relationships and trust.

NEGOTIATION TRAPS

In our research, we have observed and documented four major shortcomings in negotiation:

1. ***Leaving money on the table*** (also known as “lose-lose” negotiation) occurs when negotiators fail to recognize and capitalize on their win-win potential.
2. ***Settling for too little*** (also known as “the winner’s curse”) occurs when negotiators make too-large concessions, resulting in a too-small share of the bargaining pie.

¹⁶ MacLeod, C. (2013, June 27). U.S. exec Chip Starnes freed from China factory. *USA Today*. usatoday.com; American boss hostage arrives back to US. (2013, June 28). *Associated Press*. ap.org.

¹⁷ Bazerman, M. H., & Neale, M. A. (1992). *Negotiating rationally*. New York: Free Press.

¹⁸ Neale, M. A., & Bazerman, M. H. (1991). *Cognition and rationality in negotiation*. New York: Free Press; Thompson, L., & Hrebec, D. (1996). Lose-lose agreements in interdependent decision making. *Psychological Bulletin*, 120(3), 396–409; Loewenstein, J., Thompson, L., & Gentner, D. (2003). Analogical learning in negotiation teams: Comparing cases promotes learning and transfer. *Academy of Management Learning and Education*, 2(2), 119–127.

¹⁹ Nadler, J., Thompson, L., & van Boven, L. (2003). Learning negotiation skills: Four models of knowledge creation and transfer. *Management Science*, 49(4), 529–540.

²⁰ Thompson & Hrebec, “Lose-lose agreements in interdependent decision making.”

²¹ Thompson & Hrebec, “Lose-lose agreements in interdependent decision making.”

3. ***Walking away from the table*** occurs when negotiators reject terms offered by the other party that are demonstrably better than any other option available to them. (Sometimes this shortcoming is traceable to hubris or pride; other times it results from gross miscalculation.)
4. ***Settling for terms that are worse than your best alternative*** (also known as the “agreement bias”) occurs when negotiators feel obligated to reach agreement even when the settlement terms are not as good as their other alternatives.

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

WHY PEOPLE ARE INEFFECTIVE NEGOTIATORS

The dramatic instances of lose-lose outcomes, the winner’s curse, walking away from the table, and the agreement bias raise the question of why people are not more effective at the bargaining table. Because negotiation is so important for personal and business success, it is rather surprising that most people do not negotiate very well. Stated starkly, it just does not make sense that people would be so poor at a skill that is so important for their personal and business life. The reason is not due to a lack of motivation or intelligence on the part of negotiators. The problem is rooted in four fundamental biases: egocentrism, confirmatory information processing, satisficing, and self-reinforcing incompetence.

Egocentrism

Egocentrism is the tendency for people to view their experiences in a way that is flattering or fulfilling for them. Two-thirds of MBA students rank their decision-making abilities as above average.²² In one investigation, people who were self-absorbed in terms of reflecting upon their own values were more likely to exhibit decision-making biases, such as the confirmation bias. In contrast, people who had taken time to focus on values that were not important to them were more likely to focus on valid threats and assess correlations more accurately in data.²³ As an example, the National Safety Council estimates that 24% of all crashes on the highway involve cell phone use—either dialing, talking, or texting. Yet, drivers overestimate their own abilities to multitask.²⁴

Confirmation Bias

Confirmation bias is the tendency of people to see what they want to see when appraising their own performance. The confirmation bias leads people to selectively seek information that confirms what they believe is true. Whereas the confirmation bias may seem perfectly harmless, it results in a myopic view of reality and can hinder learning. Three weeks into the 2010 BP Deepwater Horizon oil disaster, former BP chief executive, Tony Hayward downplayed the looming environmental disaster despite mounting evidence to the contrary. Hayward claimed the

²² Diekmann, K., & Galinsky, A. (2006). Overconfident, underprepared: Why you may not be ready to negotiate. *Negotiation*, 7, 6–9.

²³ Munro, G. D., & Stanbury, J. A. (2009). The dark side of self-affirmation: Confirmation bias and illusory correlation in response to threatening information. *Personality and Social Psychology Bulletin*, 35(9), 1143–1153.

²⁴ Walter, L. (2012, April 13). Distracted driving report claims cell phone use contributes to 24 percent of all crashes. *EHS Today*. ehstoday.com.

spill in Gulf of Mexico was “relatively tiny” compared with the “very big ocean.” Oil continued to leak at a rapid rate for nearly two months until the well was finally capped, and the total amount of oil poured into the Gulf surpassed the 1989 Exxon Valdez disaster as the largest spill in U.S. history.²⁵

Satisficing

A third reason why people often fall short in negotiation is the human tendency to satisfice.²⁶ According to Nobel Laureate Herb Simon, **satisficing** is the opposite of **optimizing**. In a negotiation situation, it is important to optimize one’s strategies by setting high aspirations and attempting to achieve as much as possible; in contrast, when people satisfice, they settle for something less than they could otherwise have. Over the long run, satisficing (or the acceptance of mediocrity) can be detrimental to both individuals and companies, especially when a variety of effective negotiation strategies and skills can be cheaply employed to dramatically increase profit. (We discuss these strategies in detail in the next three chapters.)

Self-Reinforcing Incompetence

To achieve and maintain effectiveness in the business world, people must have insight into their limitations. The same is true for negotiation. However, most people are “blissfully unaware of their own incompetence.”²⁷ Moreover, it creates a cycle in which the lack of skill deprives them of not only the ability to produce correct responses but also the expertise necessary to surmise that they are not producing them. As a case in point, students taking a test were measured in terms of their insight about their own performance.²⁸ The students were grouped into quartiles based on their performance. The lowest-performing quartile greatly overestimated their performance on the test. Even though they were actually in the 12th percentile, they estimated themselves to be in the 60th percentile.²⁹ This example is not an isolated case; people overestimate their percentile ranking relative to others by as much as 40 to 50 points. A study of CEOs’ merger and acquisition decisions revealed that CEOs develop overconfidence through a self-attribution bias when making deals. CEOs overly attribute their influence when deals are successful. This leads CEOs to make more deals that are not successful.³⁰ A better business plan would involve judging each deal on its own merits, rather than simply using the past to justify the present decision. Moreover, the problem cannot be attributed to a lack of incentives. The overestimation pattern even appears after people are promised significant financial rewards for accurate assessments of their performance.³¹

²⁵ Webb, T. (2010, May 14). BP boss admits job on the line over Gulf oil spill. *The Guardian*, p. 1.

²⁶ Simon, H. A. (1955). A behavioral model of rational choice. *Quarterly Journal of Economics*, 69, 99–118.

²⁷ Dunning, D., Johnson, K., Ehrlinger, J., & Kruger, J. (2003). Why people fail to recognize their own incompetence. *Current Directions in Psychological Science*, 12(3), 83–87.

²⁸ Kruger, J., & Dunning, D. (1999). Unskilled and unaware of it: How difficulties in recognizing one’s own incompetence lead to inflated self-assessments. *Journal of Personality and Social Psychology*, 77(6), 1121–1134.

²⁹ Ehrlinger, J., Johnson, K., Banner, M., Dunning, D., & Kruger, J. (2008). Why the unskilled are unaware: Further explorations of (absent) self-insight among the incompetent. *Organizational Behavior and Human Decision Processes*, 105(1), 98–121.

³⁰ Billet, M. T., & Qian, Y. (2008). Are overconfident CEOs born or made? Evidence of self-attribution bias from frequent acquirers. *Management of Science*, 54(6), 1037–1051.

³¹ Ehrlinger, Johnson, Banner, Dunning, & Kruger, “Why the unskilled are unaware.”

Related to the principle of self-reinforcing incompetence is the fact that people are reluctant to change their behavior and experiment with new courses of action because of the risks associated with experimentation. In short, the fear of losing keeps people from experimenting with change. Negotiators instead rationalize their behavior in a self-perpetuating fashion. The fear of making mistakes may result in a manager's inability to improve his or her negotiation skills. In this book, we remove the risk of experimentation by providing several exercises and clear demonstrations of how changing one's behavior can lead to better negotiation outcomes. We invite managers to be active learners in understanding their own values when it comes to negotiation.

DEBUNKING NEGOTIATION MYTHS

When we delve into managers' theories and beliefs about negotiation, we are often startled to find that they operate with faulty beliefs. Before we begin our journey toward developing a more effective negotiation strategy, we need to dispel several faulty assumptions and myths about negotiation. These myths hamper people's ability to learn effective negotiation skills and in some cases, reinforce poor negotiation skills. In this section, we expose six of the most prevalent myths about negotiation behavior.

Myth 1: Negotiations are Fixed-Sum

Probably the most common myth is that most negotiations are fixed-sum, or fixed-pie, in nature, such that whatever is good for one person must ipso facto be bad for the other party. The truth is that most negotiations are not purely fixed-sum; in fact, most negotiations are variable-sum in nature, meaning that if parties work together, they can create more joint value than if they are purely combative. However, effective negotiators also realize that they cannot be purely trusting because any value that is created must ultimately be claimed by someone at the table. Our approach to negotiation is based on Walton and McKersie's conceptualization that negotiation is a mixed-motive enterprise, such that parties have incentives to cooperate as well as compete.³²

Myth 2: You Need to be either Tough or Soft

The fixed-sum myth gives rise to a myopic view of the strategic choices that negotiators have. Most negotiators believe they must choose between behaving in a tough (and sometimes punitive) fashion or being "reasonable" to the point of soft and concessionary. We disagree. The truly effective negotiator is neither tough as nails nor soft as pudding but rather, principled.³³ Effective negotiators follow an "enlightened" view of negotiation and correctly recognize that to achieve their own outcomes they must work effectively with the other party (and hence, cooperate) but must also leverage their own power and strengths.

Myth 3: Good Negotiators are Born

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

³² Walton, R. E., & McKersie, R. B. (1965). *A behavioral theory of labor relations*. New York: McGraw-Hill.

³³ Bazerman & Neale, *Negotiating rationally*; Fisher & Ury, *Getting to yes*.