Negotiations

14 August 2020

Christopher Balding

Value Negotiation: How to Finally Get the Win-win Right

…value creation transforms available resources into options that better satisfy the parties' interests. Value is not created out of thin air, but rather from the resources negotiators bring to the table.

Value creation is an option-generation process to increase the perceived or real value of the negotiation. This increased value results from manipulation of resources into options that better satisfy the parties' interests.

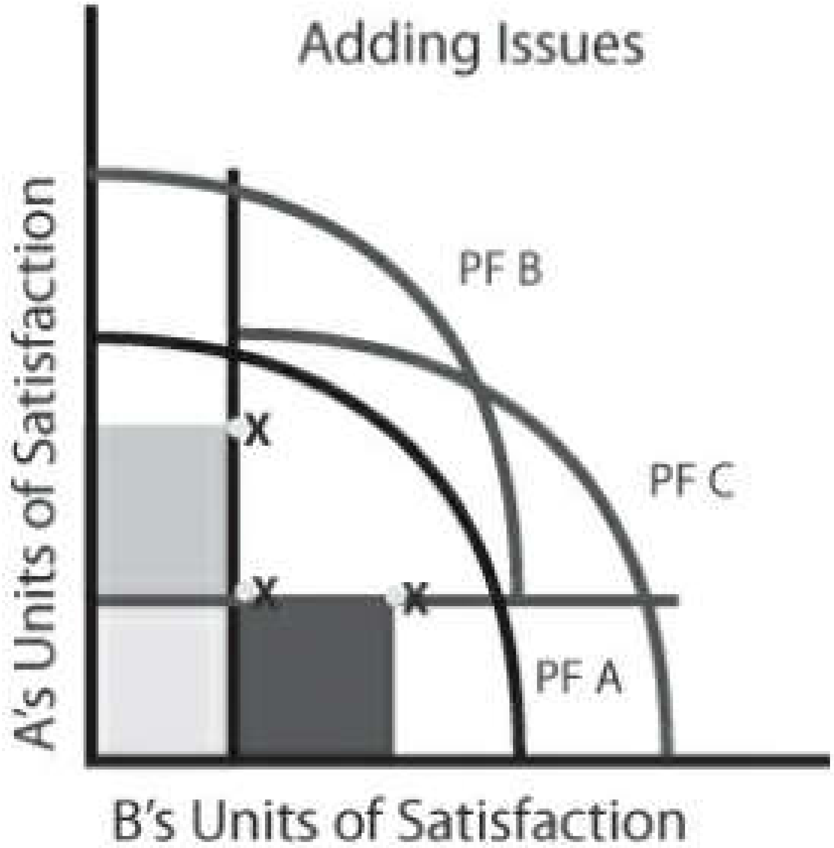

Figure 11.1. Many issues = Pareto frontier expansion

Value discovery’s goal is to surface interests to maximize the value potential of a negotiation. Value creation’s goal is to generate options to transform that potential into reality. The value-creation effort seeks to increase the value potential (interests) plus the value availability (options).

To achieve the goal of choosing the best option, we first have to create many options. That in turn requires the surfacing of many interests. Interest categorization builds a detailed map of what value means to the parties. This map allows us to tailor our option generation to efficiently use resources and accurately satisfy interests.

How Do We Build Win-Win Scenarios?

- Economies of scale or scope – If the parties share similar skills and resources, they can join forces or resources to increase volume.
- Dovetailing – Combine different skills and resources to create something neither could do alone
- Expand the pie – Adding skills or resources by the negotiators or third parties.

How do you share the risk and reward determines value creation

Many of these interests originate from different forecasts of uncertain events. As a result, the parties cannot agree on what the future holds. Instead of fighting over the unknown, contingent options manage uncertainty through conditional scenarios.

Sequencing to build value momentum prioritizes issues with higher value-creation potential. Next, we check which issues provide a veil of ignorance over others. Then, we organize them from a loss to a gain frame.

We tentatively close each issue until all are negotiated and closed as a package. Until then, commitments are open for Pareto improvements, i.e., improving it for at least one party *without* making anyone else worse off. The fundamental condition to reopen a tentative commitment is its value-creation intention.

Internal Enemies of Value Creation

- Power distance is an internal value-creation enemy because it has negotiators view one another as obstacles to value
- Trading between negotiations is an internal value-creation enemy because it uses concessions to try to build relationships and value.
- Information asymmetry is an internal value-creation enemy because it generates assumptions that create a false sense of certainty.

External Enemies of Value Creation

- Resource constraints are an external value-creation enemy because it limits the number of options we can implement.
- Artificial limits are an external value-creation enemy as they reduce the number of options we can generate or implement.
- A narrow scope is an external value-creation enemy because it limits the number of options we can generate, commit to or implement.

Value claiming happens when the parties negotiate how much of the existing or created value they will take…value claiming happens when an option increases value to one party at the other's expense. It is also called the "distributive phase"

The reservation price is a negotiator's indifference price or walk-away point. If offered, it makes us equally likely to close the deal or walk away.

The opening offer is the first specific option a party offers, normally with numbers, to the other…Anchoring happens when a negotiator shares a number and the other cannot correctly discount away from it. The anchoring power comes from how we, human beings, imperfectly make decisions.

What Are Decision Making Biases?

- Framing: highlights or subdues a particular message to change its meaning.
- Sunk costs are costs that once incurred, cannot be recovered. They have us believe that additional investment will save our previous poor one.
- Overconfidence, like an exaggerated optimism, has us overestimate our abilities (or theirs) to deliver on unrealistic or overly risky tasks.
- Availability bias makes recent, emotional or extreme information play a bigger role in our memory than other equally valid but less vivid data.
- Knowledge curse has us assume that the meaning in our heads is the same as theirs. It misleads us into assuming we understood them and reduces our learning.

Judgement Frameworks

- Reciprocation is the sense of obligation to pay back someone who did something for us.
- Social proof has people believe that something something is good or important just because of the number of people who adopt or pay attention to it.
- Consistency is an inherent desire of human beings for things to come together and make sense.
- Liking causes us to be more persuaded by the people we like as if it were the same as trust.
- Authority leads people to be persuaded based on someone's stature.
- Scarcity creates the fear of resource limitations and a sense of urgency.

…we use two very simple definitions of fairness for negotiation: an outcome is fair if negotiators believe they got the value they deserved and a process is fair if negotiators believe they were properly involved and the right steps to distribute value were taken.

Legitimacy is the basis for any argument made to persuade the other side that an option is more acceptable or less acceptable.

Legitimacy and Value

- Prepare many focal points and standards.
- Prioritize legitimacy for options
- Frame value claiming as a joint pursuit for legitimacy.
- Transparently share own reasoning
- Diagnose their legitimacy.
- Be open to persuasion and show it.
- Do not yield to power, only to legitimacy.