

Negotiations

Prof. Christopher Balding

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Class Objectives

This class will both teach you negotiation skills and techniques as well as give you practical experience in negotiating with others and within a team. The lectures will be drawn from the best texts and research but you must use that as a path to *practice* your negotiation skills in class to become a better negotiator

Basic Information

- My office is in the main faculty office
- My email address is:

Christopher.balding@fuv.edu.vn

- I have office hours Monday and Wednesday in the mornings
- If you wish to meet with me, I would suggest making an appointment

Primary Reading Material

- There are two primary books we will be reading
 - *Getting to Yes: Negotiating Agreement Without Giving In* by Roger Fisher, William Ury, and Bruce Patton
 - *Thinking Strategically: The Competitive Edge in Business Politics and Everyday Life* by Avinash Dixit and Barry Nalebuff

Secondary Course Material

- Negotiation case studies that are ordered and I will be uploaded to the course website
- Negotiation simulations that we will read and simulate in class

Course Focus

This is a participation class. We will be learning about and then practicing negotiation skills. This is absolutely **NOT** a class you will receive a good grade in if you expect to sit in the back, take notes, write a paper, and take a test. You ***must*** participate in this class.

Class Structure and Participation

- Class lectures will be held every class but will be designed to facilitate the weekly simulation.
- The objective is that some of the themes and techniques you see will be tried out in the weekly negotiation simulations
- Weekly team presentations

Class Structure and Participation cont.

- Class lectures will draw from the readings, themes, and material introduced in class. Students *must* be prepared to participate, discuss material, and offer their own insights
- This is especially true during simulations when students will be expected to execute some of the things they have learned

Homework

- There will not be much homework.
- It will consist of a few small assignments throughout the module
- They will be designed to help you prepare to negotiate and think through the concepts
- Most importantly: you need to come to class prepared and ready to participate.

Three Teaching Theories

- Students should learn from each other and learn by leading as much as they learn from the professor
- I am going to surprise you with some things because in negotiations and business you cannot anticipate everything
- You do not improve your negotiation skills simply by reading about it in a book. You become a better negotiator by negotiating.

Simulations

- A primary focus of this class is negotiation simulations that place students in different but real negotiation situations
- Students will be required to try and reach a negotiated settlement with their counterparts in individual and team settings
- You will be graded on your participation in negotiation simulations

Scheduling

- Class will typically be structured with three sessions and two 10 minute breaks in the middle as the schedule is for almost 4 hours
- We will have a lecture/student presentation, break, negotiation simulation, break, closing discussion
- We will adhere pretty strictly to the 10 minutes so if people are back, you can wander around but we need to be back on time

A Little About Me

- I was a professor at the HSBC Business School of Peking University Graduate School in China for 9 years before moving to Vietnam
- My research area covers a variety of topics from finance to economics and law to health
- I have appeared on, written for, been cited, work for, or am quoted by Bloomberg, the BBC, CNBC, Financial Times, Foreign Policy, Wall Street Journal, and many others
- I blog at Baldingsworld.com and you can follow me on Twitter @BaldingsWorld

Intro Questions

What are some of the skills needed to be a good negotiator?

Intro Questions

What exactly is a negotiation?

Intro Questions

Will you negotiate differently with a woman/man?
Will you negotiate differently with someone from a
different country? With someone from your own
company? A superior or a subordinate?

Intro Questions

Is there a time to yell at someone to obtain a desired outcome? Is there a time to strategically lose to obtain a desired outcome?

Intro Questions

Is it acceptable to lie in a negotiation?

Intro Questions

What do you think you can learn in this class?

What do you hope to achieve?

How Do We Negotiate and What is Negotiation?

The Case of the Broken Coffee Maker

My first month in China, being a strong coffee drinker and *not* a tea drinker, I purchased a nice (somewhat expensive) coffee maker for my home. It worked wonderfully for 3 months and then broke. I returned it to the store and they fixed it and returned it one week later.

The Case of the Broken Coffee Maker cont.

However, three months later, the coffee maker broke again. The store said they would fix it in a week. One week later they said it wasn't ready and that I should come back in a week. One week later they said it wasn't ready and that I should come back in a week. One week later they said it wasn't ready and that I should come back in a week. This went on for two months.

The Coffee Maker Negotiation

- What are my negotiating objectives or desired outcomes?
- Given the circular state of negotiations over the broken coffee maker, how should I proceed to try and obtain my stated outcomes or objectives?

Gathering Information

- What information will help me obtain or negotiate an acceptable outcome?
 - Cultural differences
 - Corporate culture
 - Leverage

How do I proceed to negotiate
with the store over the coffee
maker?

The Outcome

- On the advice of a colleague from the HSBC Business School, I walked into the store at the busiest time of day on a Saturday.
- I asked for my repaired coffee machine.
- When they told me to come back in one week, I immediately began yelling as loudly as possible at the sales clerk.
- They gave me a full refund in 2 minutes.

Why did that “negotiating” strategy
work?

Knowing Yourself and Who You Are Negotiating With

- I am in **I**(notroverted) **iN**(tuitive) **T**(hinking) **J**(udging).

Traits include:

- Personal relationships, particularly romantic ones, can be the INTJ's Achilles heel... This happens in part because many INTJs do not readily grasp the social rituals; for instance, they tend to have little patience and less understanding of such things as small talk and flirtation (which most types consider half the fun of a relationship).

Knowing Yourself and Who You Are Negotiating

With cont.

- I am in **I**(notroverted) **iN**(tuitive) **T**(hinking) **J**(udging).

Traits include:

- INTJs are perfectionists, with a seemingly endless capacity for improving upon anything that takes their interest... INTJs apply (often ruthlessly) the criterion "*Does it **work**?*" to everything from their own research efforts to the prevailing social norms. This in turn produces an unusual independence of mind, freeing the INTJ from the constraints of authority, convention, or sentiment for its own sake.

Knowing Yourself and Who You Are Negotiating

With cont.

- I am in **I**(notroverted) **iN**(tuitive) **T**(hinking) **J**(udging).

Traits include:

- Perhaps the most fundamental problem, however, is that *INTJs really want people to make **sense***. This sometimes results in a peculiar naivete', paralleling that of many Fs -- only instead of expecting inexhaustible affection and empathy from a romantic relationship, the INTJ will expect inexhaustible reasonability and directness.

My Strengths and Weaknesses as a Negotiator

- Strongly focused on obtaining a desired outcome, sometimes to a fault. What do I need to get there (will it work)?
- Very analytical and logical in understanding processes, systems, and pathways
- Lacking the relational aspect to build understanding with other parties, especially if they are not as systematically logical

My Negotiation Skills and the Coffee Maker

- I was able to obtain a desired outcome
- I could not analyze the situation alone without assistance. I obtained outside assistance in understanding how to obtain the desired outcome
- The existing relationship or building of a relationship was largely an irrelevant factor

My Counterparts Negotiation Movement

- Did personal psychology factor into the decision made by my counterparts?
- Did my counterpart *not* understand my repeated requests for the coffee maker or did they *not care*?
- Why did yelling prompt them to act and convey the importance I placed on the matter to them while talking and emphasizing its importance did not?

Do You Negotiate?

...people negotiate even when they don't think of themselves as doing so.

Answer

A person negotiates with his spouse about where to go for dinner and with his child about when the lights go out. Negotiation is a basic means of getting what you want from others. It is back-and-forth communication designed to reach an agreement when you and the other side have some interests that are shared and others that are opposed.

What Kind of Negotiator Are You?

People find themselves in a dilemma. They see two ways to negotiate: soft or hard. The soft negotiator wants to avoid personal conflict and so makes concessions readily in order to reach agreement. He wants an amicable resolution; yet he often ends up exploited and feeling bitter. The hard negotiator sees any situation as a contest of wills in which the side that takes the more extreme positions and holds out longer fares better.

What is a Good Agreement?

Any method of negotiation may be fairly judged by three criteria: It should produce a wise agreement if agreement is possible. It should be efficient. And it should improve or at least not damage the relationship between the parties.

What is BATNA?

- BATNA stands for *best alternative to a negotiated agreement*
- What does BATNA mean in practice?

A BATNA Example

It was a classic case of a business partnership gone awry. After building a profitable construction company together over several decades, Larry Stevenson and Jim Shapiro recognized that their differences had become irreconcilable. Stevenson wanted to buy out Shapiro, who was willing to sell for the right price. After months of haggling and legal maneuvering, Stevenson made his final offer: \$8.5 million for Shapiro's shares in the company.

A BATNA Example cont.

The company is worth about \$20 million, Shapiro thought to himself. I own 49% of the shares. Heck, I helped build this company. I'm not going to accept anything less than my fair share—\$10 million. I'd rather fight in court than accept \$8.5 million. Shapiro rejected the offer, and each party prepared for a trial. Shapiro's rationale for rejecting Stevenson's offer seemed reasonable enough. Furthermore, Shapiro's lawyers assured him, a court ruling very likely would be in his favor.

A BATNA Example cont.

Yet Shapiro made the wrong choice. He could have figured this out if he had assessed his BATNA—his *best alternative to a negotiated agreement*. A negotiator's BATNA is the course of action he will pursue if the current negotiation results in an impasse. An evaluation of your best alternative to a deal is critical if you are to establish the threshold at which you will reject an offer. Effective negotiators determine their BATNAs before talks begin.

Arriving at Your BATNA

List Your Alternatives: Think about all the alternatives available to you if the current negotiation ends in an impasse. What are your no-deal options?

Evaluate Your Alternatives: Examine each option and calculate the value of pursuing each one.

Arriving at Your BATNA cont.

Establish Your BATNA: Choose a course of action that would have the highest expected value for you. This is your BATNA—the course you should pursue if the current negotiation fails.

Calculate Your Reservation Value: Now that you know your BATNA, calculate your reservation value—the lowest-valued deal you are willing to accept. If the value of the deal proposed to you is lower than your reservation value, you'll be better off rejecting the offer and pursuing your BATNA.

BATNA makes you ask: if I/we can't reach an agreement, what are the other alternatives and how do they compare to what I'm walking away from?

Mr. Shapiro and His BATNA

To assess his BATNA, Shapiro first should have obtained the following information from his lawyers: estimated litigation costs, \$500,000; his likelihood of winning in court, approximately 70%; and the fact that if he won, he would receive \$10 million for his shares, whereas if he lost, he likely would receive only \$3 million.

The First Rule of Strategy: Look Ahead and Reason Back

The general principle for sequential-move games is that each player should figure out the other players' future responses, and use them in calculating his own best current move. Anticipate where your initial decisions will ultimately lead, and use this information to calculate your best choice.

Look Ahead and Reason Back



The Outcome Way Too Often



Thinking Strategically Example #1a

Suppose there is only one step involved. There is an ice-cream pie on the table; one child (Ali) proposes to the other (Baba) how to divide it. If Baba agrees, the division occurs as agreed; if not, the pie melts and neither gets anything

Thinking Strategically Example #1a cont.

Now Ali is in a powerful position: she is able to pose to Baba the stark choice between something and nothing. Even if she proposes to keep 100 percent of the pie for herself and just let Baba lick the knife at the end, the only thing Baba can do is to take that lick or get nothing. Of course Baba may turn down the offer from sheer anger at the unfairness of it. Baba may want to build or maintain a reputation for being a tough bargainer, to help him in future bargains, whether with Ali or with others who come to know of Baba's actions here. ***In practice Ali will have to think about such matters, and offer Baba just enough (perhaps a small slice?) to induce him to accept.***

Now Suppose Baba Hasn't Learned About Volume



Thinking Strategically Example #1b

If there is a second round of negotiations, things come out much better for Baba. Again there is an ice-cream pie on the table but now it takes two rounds of bargaining before the entire pie melts. If Baba turns down Ali's offer, he can come back with a counteroffer, but at that point only half of the pie remains. If Ali turns down Baba's counteroffer, that half also melts and both sides are left with nothing.

Thinking Strategically Example #1b cont.

Now Ali must look ahead to the consequences of her initial offer. She knows that Baba can turn down her offer and come back in the powerful position of making a take-it-or-leave-it offer in splitting the remaining half of the pie. This will give Baba essentially all of that half. Therefore he is not going to accept anything less from Ali's first-round offer. If Ali were to allow this second stage to come to pass, she would get nothing at all. Knowing this, she will open by offering Baba half, that is, just enough to induce acceptance while getting half for herself. They agree immediately to split the pie 50:50.

Negotiating a Position or an Outcome

When negotiators bargain over positions, they tend to lock themselves into those positions. The more you clarify your position and defend it against attack, the more committed you become to it. The more you try to convince the other side of the impossibility of changing your opening position, the more difficult it becomes to do so.

Outcome or Ego?

Your ego becomes identified* with your position. You now have a new interest in "saving face" — in reconciling future action with past positions — making it less and less likely that any agreement will wisely reconcile the parties' original interests.

Positions Harm Outcomes

As more attention is paid to positions, less attention is devoted to meeting the underlying concerns of the parties. Agreement becomes less likely. Any agreement reached may reflect a mechanical splitting of the difference between final positions rather than a solution carefully crafted to meet the legitimate interests of the parties. The result is frequently an agreement less satisfactory to each side than it could have been.

Negotiating Positions is Inefficient

Bargaining over positions creates incentives that stall settlement. In positional bargaining you try to improve the chance that any settlement reached is favorable to you by starting with an extreme position, by stubbornly holding to it, by deceiving the other party as to your true views, and by making small concessions only as necessary to keep the negotiation going. The same is true for the other side.

Staking Out Positions

Positional bargaining becomes a contest of will. Each negotiator asserts what he will and won't do. The task of jointly devising an acceptable solution tends to become a battle. Each side tries through sheer will power to force the other to change its position.

Negotiating Positions with Many People

Although it is convenient to discuss negotiation in terms of two persons, you and "the other side," in fact, almost every negotiation involves more than two persons. Several different parties may sit at the table, or each side may have constituents, higher-ups, boards of directors, or committees with whom they must deal. The more people involved in a negotiation, the more serious the drawbacks to positional bargaining.

Hard vs. Soft Bargaining

In positional bargaining, a hard game dominates a soft one. If the hard bargainer insists on concessions and makes threats while the soft bargainer yields in order to avoid confrontation and insists on agreement, the negotiating game is biased in favor of the hard player.

The Alternative Disclaimer

I do not believe this is the solution to negotiation problems. I do believe it is a good method to study and use but I believe negotiation strategies must be adaptable.

The Two Stage Game

The game of negotiation takes place at two levels. At one level, negotiation addresses the substance; at another, it focuses— usually implicitly — on the procedure for dealing with the substance. The first negotiation may concern your salary, the terms of a lease, or a price to be paid. The second negotiation concerns how you will negotiate the substantive question: by soft positional bargaining, by hard positional bargaining, or by some other method. This second negotiation is a game about a game — a "meta-game."

The Two Stage Game cont.

This second negotiation by and large escapes notice because it seems to occur without conscious decision. Only when dealing with someone from another country, particularly someone with a markedly different cultural background, are you likely to see the necessity of establishing some accepted process for the substantive negotiations. But whether consciously or not, you are negotiating procedural rules with every move you make, even if those moves appear exclusively concerned with substance.

Describing the Two Stages

What is the objective of the game and what are the rules of the game?

The Second Rule of Strategy: If You Have a Dominant Strategy, Use It

- Do not be concerned about your rival's choice. If you do not have a dominant strategy, but your rival does, then anticipate that he will use it, and choose your best response accordingly.
- One of the most common stumbling blocks is concern over relative benefit rather than absolute benefit

The Second Rule of Strategy: If You Have a Dominant Strategy, Use It

Just as a dominant strategy is uniformly better than every other strategy, a dominated strategy is uniformly worse than some other strategy. Just as you choose your dominant strategy if you have one, and can be sure that your rival will choose his if he has one, you should avoid your dominated strategies if you have any, and can be sure that your rival will avoid his, if he has any.

The Third Rule of Strategy: Eliminate Dominated Strategies One at a Time

If, during the process, any dominant strategies emerge in the smaller games, they should be chosen successively. If this procedure ends in a unique outcome, you have found the prescriptions of action for the players and the outcome of the game. Even if the procedure does not end in a unique outcome, it will reduce the size and the complexity of the game.

Game Theory Looking At Rules #2 and #3: What is the Dominant/Dominated Strategy?

		Defense's Strategies		
		Counter Run	Counter Pass	Blitz
Offense's Strategies	Run	3	7	15
	Pass	9	8	10