

# LINKAGE LAB 2016: NEGOTIATIONS

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# What is Negotiation?

- The process where two or more parties decide what each will give and take in the context of their relationship
- Negotiation occurs through a process of mutual influence that eventually yields an agreed upon course of action



# Defining Characteristics

- Belief that conflicting interests exist
- Communication between parties is possible
- Intermediate solutions/compromises are possible
- Offers and proposals don't determine outcomes until accepted by both parties
- Parties have incomplete knowledge about each other's interests
- Parties seek to maximize their utility

# Session Objectives

- Experience the negotiation process
- Improve your ability to prepare for a negotiation and to negotiate effectively
- Develop confidence in negotiations
- Understand the nature of negotiations and gain a broader intellectual understanding of the central concepts in negotiation



# Know Your Negotiation Style

- Knowing your own style as negotiator is critical to being comfortable in the negotiation process
  - What are your instincts and intuitions?
- Your negotiation style represents your predispositions in a negotiation
  - These predispositions are subject to change with experience, but they do capture tendencies you presently have
- Take 10 minutes to complete and score the negotiation style survey

# Know Your Negotiation Style

- The true test of your bargaining style is your emotional reaction to using different strategies
  - Which ones give you genuine satisfaction?
  - Which ones cause you anxiety and frustration?
- The 5 styles are:
  - Accommodation
  - Compromise
  - Avoidance
  - Collaboration
  - Competition

# Accommodation

- Negotiators high in accommodation:
  - Derive satisfaction from solving people's problems
  - Good relationship builders who are sensitive to others' emotions
  - May be vulnerable when negotiating with someone who is competitive
    - May create integrative value, but fail to claim it
- Negotiators low in accommodation:
  - Tend to believe their views are the "right" views
  - May be seen as stubborn or unreasonable
  - Can be disruptive in a group negotiation setting

# Compromise

- Negotiators high in compromise:
  - Motivated to “close the gap” in a negotiation
  - May rush the negotiation process
  - May be satisfied with the first fair standard that allows for a compromise to occur
- Negotiators low in compromise:
  - Negotiate with eye on principle
  - Take issue with seemingly innocuous trade-offs because of implications for precedent

# Avoidance

- Negotiators high in avoidance:
  - Motivated to minimize or dodge conflict
  - Prefer to negotiate via email, agents
  - May not want to sit at the negotiation table
  - Can be bottleneck for information flow
- Negotiators low in avoidance:
  - Enjoy candid, assertive negotiation
    - Litigators, labor-management
  - May be seen as confrontational and as “troublemakers” in bureaucratic settings

# Collaboration

- Negotiators high in collaboration:
  - Enjoy solving problems in negotiation settings
  - Good at finding integrative potential
  - May turn simple negotiations into a needlessly complex ordeal
  - May fail to claim value on distributive issues
- Negotiators low in collaboration:
  - Don't view negotiations as opportunities for creativity – may miss trade-offs, etc.
  - May have difficulty thinking on the fly

# Competition

- Negotiators high in competition:
  - Enjoy “winning” negotiations
  - May excel at single-issue negotiations
  - May miss creative trade-offs
  - Emphasis on “winning” may sacrifice relationships
- Negotiators low in competition:
  - See the negotiation dance as a way to build trusting relationships
  - May be seen as push overs and may be steamrolled in distributive negotiations

# Is There an Ideal Style?

- No. It all depends on the person and the context:
  - Relationship-based sales or consulting – high accommodation and compromise may be ideal
  - Attorneys – high competition (when cases go to trial) and high collaboration (for creative out-of-court settlements) may make for particularly effective lawyers
  - Professional diplomats – may benefit from high levels of avoidance

# Why Do Styles Matter?

- Your own negotiation style may affect how you see other negotiators
- You may end up assuming other people are like you
  - So when a cooperative person negotiates with a competitive person confusion may ensue
- Don't make assumptions
  - Research the other side
    - What your negotiation counterpart's reputation?
  - Negotiate a few small items before the main event to figure out their style

# Negotiations Basics

- Before beginning a negotiation, you must know the following:
  - BATNA
  - Reservation Value
  - Target Value



# BATNA

- BATNA: Best Alternative To a Negotiated Agreement
- Without a clear understanding of your BATNA, you will not know when to accept a deal or walk away
  - The ability to walk away represents your single greatest source of power in a negotiation
- To determine your BATNA:
  1. Identify all of the plausible alternatives you might pursue if you are unable to reach an agreement with the other party
  2. Estimate the value associated with each alternative
  3. Select the best alternative (this is your BATNA)



# Reservation Value

- Reservation value is your bottom line
  - Point at which you are indifferent to whether you achieve a negotiated deal or walk away
  - Below it, you prefer no deal
  - Based on your BATNA (+/- things that make you want to do the deal)
    - e.g., opportunity costs, transaction costs, switching costs, ego, preferences



# Target Value

- Target value is your aspiration or goal
  - Your ideal or most preferred outcome (if you got this outcome you would be thrilled)
  - When negotiating, this value should be the one that you focus on
    - Work toward hitting your target value, not merely beating your reservation value
  - Target values should be ambitious, yet realistic



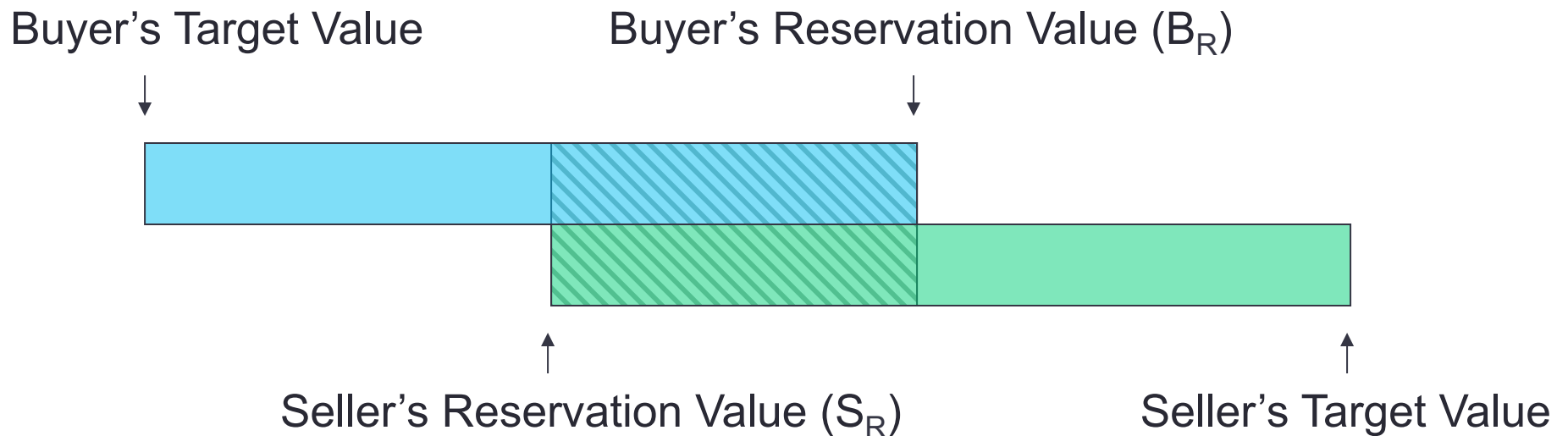
# Rules for Negotiation Exercises

- Never show your role materials to your counterpart
- You can tell your counterpart anything you want, except...
  - You cannot change the basic structure of the case
    - e.g., you cannot say that your dad just bought the company and he will fire your counterpart if he/she doesn't give you a good deal
  - Please don't lie about the facts in the case
- Wait until we discuss as a class to debrief each other

# Knight-Excalibur

- 5-10 minutes to prepare
  - Determine your BATNA, reservation value, and target value
- 20 minutes to negotiate
  - Excaliburs find a Knight and vice versa
  - Negotiate with someone who *isn't* your best friend
- Once you come to a deal, please report your results
  - <http://tinyurl.com/KnightExcalibur>
  - Either you or the person you negotiated with fills this out, but NOT the both of you
- Class Debrief in 30 minutes

# The Zone of Possible Agreement



- The ZOPA is the space between the buyer's reservation value ( $B_R$ ) and the seller's reservation value ( $S_R$ )
  - Positive bargaining zone:  $B_R > S_R$
  - Negative bargaining zone:  $B_R < S_R$

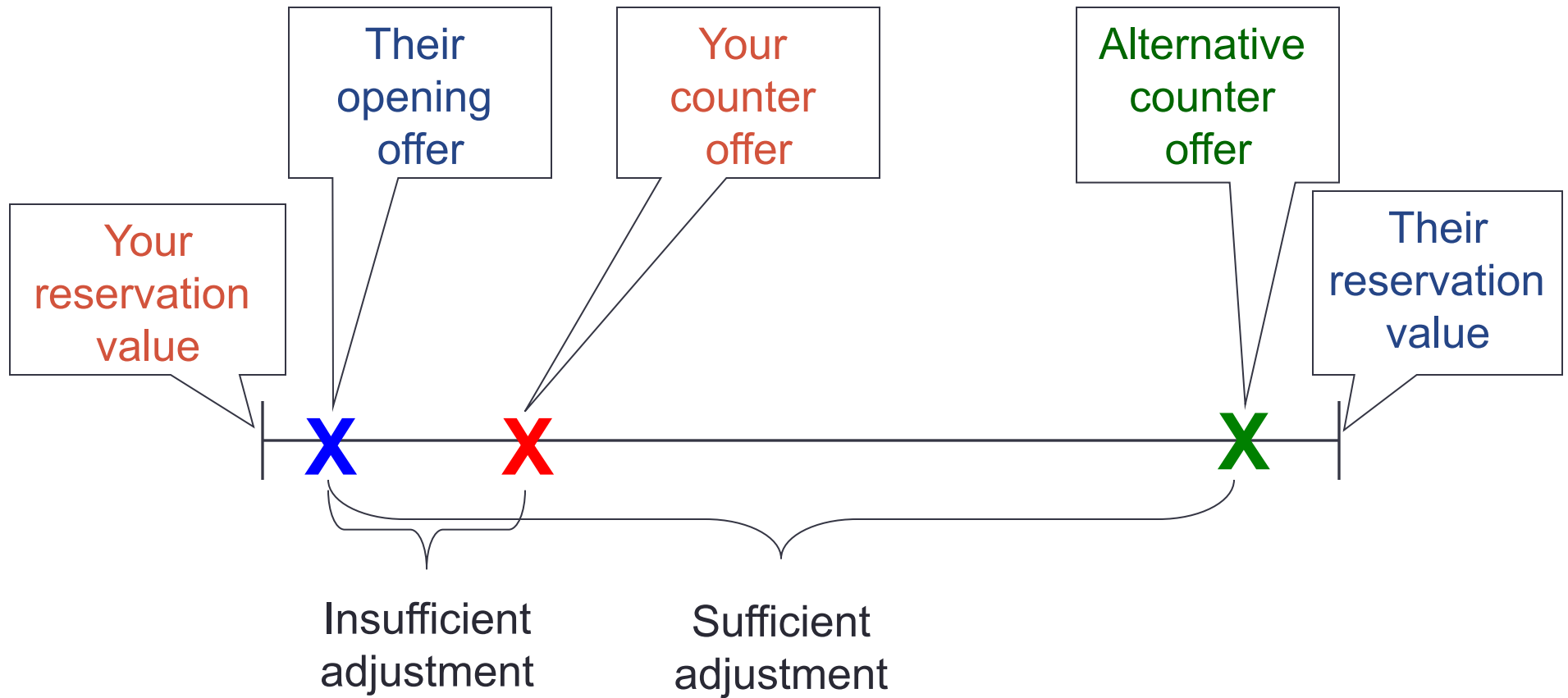
# Diagnose Your Position

- Do everything you can to improve BATNA before you negotiate (and even while you are negotiating)
- Define your reservation and target value on the overall value of the deal rather than for each issue
- Reservation price should never change unless:
  - BATNA - your greatest source of power - changes
  - Goals change
- **Never** reveal your reservation!
  - If the other party knows your reservation point, they can push for a deal that is just barely acceptable to you

# Impact of the First Offer

- Should you make the first offer? **Yes!**
- The psychology of first offers
  - To make estimates, people start from an initial value and adjust from there
    - People usually do not adjust sufficiently
  - High anchors direct attention toward positive attributes
  - Low anchors direct attention toward negative attributes
- Final agreements are more strongly influenced by initial offers than by subsequent concessions
- Your first offer should be as extreme as you can rationalize or explain
  - “As high as you can go without embarrassing yourself in front of a respected third party” - Fisher, Ury, & Patton (1991)
  - Use your target, not BATNA, to guide your first offer
  - Point out reference points that support your offer and position (e.g., past sale price, recent sales)

# Anchoring & Adjustment



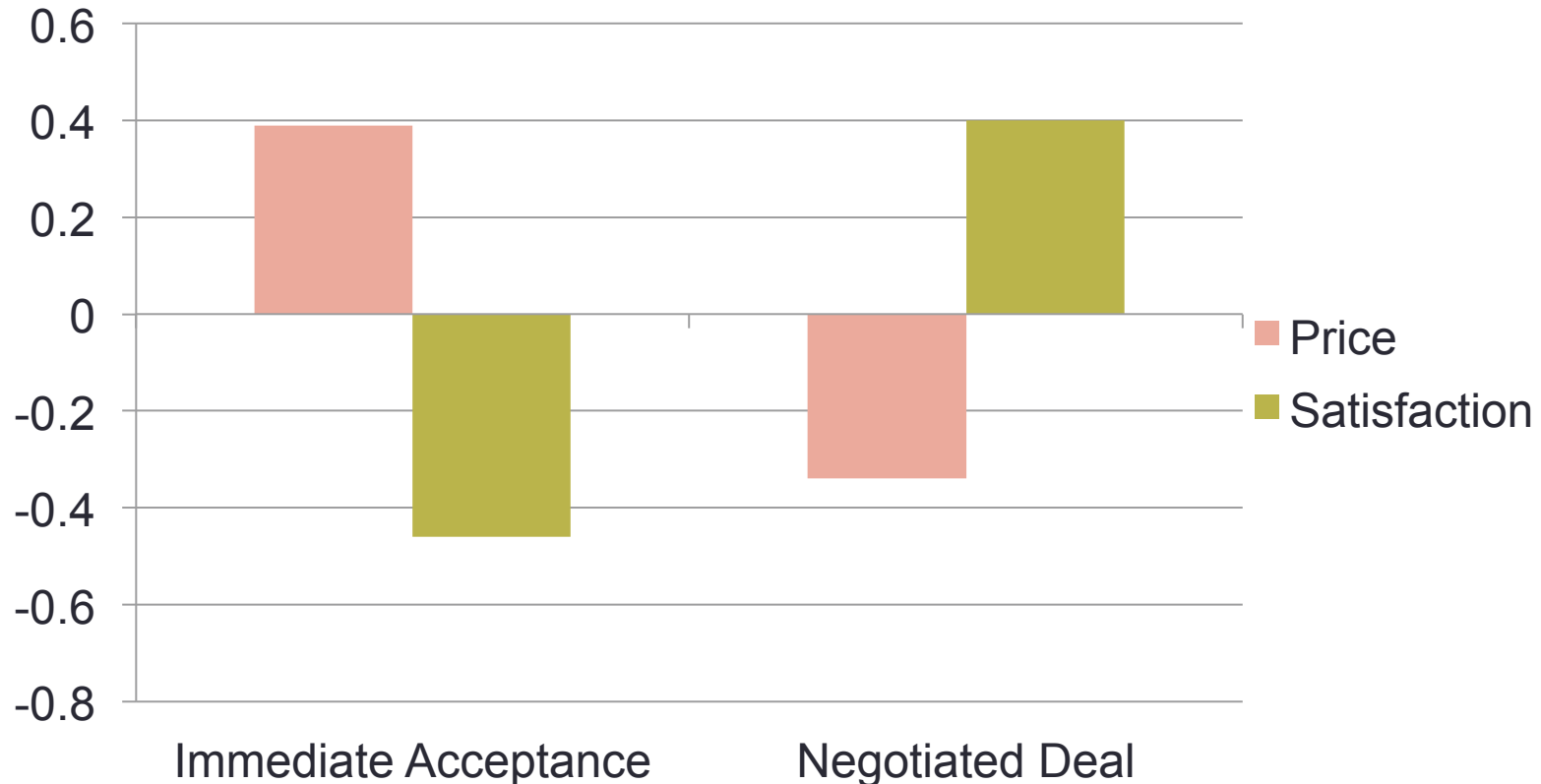
# Aggressive First Offers

- Despite what people think, people don't often walk away when others make aggressive first offers
- In fact, aggressive first offers:
  - Manage your counterpart's impression of your RV/BATNA
  - Focus you on your target value rather than your RV
  - Focus your counterpart on his/her RV rather than his/her target
  - Can influence your counterpart's RV
  - Can help you gather information about your counterpart's true RV
  - May give you room to make concessions
    - Appear cooperative
    - Enhances your counterpart's satisfaction

# Responding to a First Offer

- Don't ask him/her to unpack, explain, or justify it
  - Doing so would just help set the anchor
- Focus on your target value or your opponent's BATNA/reservation value
- Make a counteroffer that would have been your first offer if you had the opportunity to open
  - Must be based on your target value, not what you just heard
  - Write down your offer before being exposed to the other side's offer
- Set your own anchor
  - Talk about your counteroffer as long as you possibly can, just like you would for a first offer
  - Objective standards may help drive your anchor home

# Accepting an Offer



- Never immediately accept an opponent's first offer!
- By asking for concessions you will get a more advantageous outcome AND your partner will be MORE satisfied!

# The Other Side's Satisfaction



- You DO want the other side to be satisfied!
  - Decreases your transaction costs by making it more likely the deal will be implemented
  - Increases your power by giving you a potential alternative in the future
  - Helps your reputation – more people will want to negotiate with you
  - Trade their satisfaction today for concessions tomorrow
    - Use norm of reciprocity to get concessions in the future

# The Negotiator's Toolbox



- Know and strengthen your BATNA
- Explicitly define your RV based on your BATNA
- Define your target value
  - Focus on your strengths; know your weaknesses; be optimistic but realistic
  - If you don't ask for something, you can't get it!
- Research the other party's BATNA/reservation value
- Make the first offer whenever possible or make aggressive counteroffers that are based on your target value (not your counterpart's opening offer)
- Avoid unilateral concessions - seek tradeoffs instead
- Never accept the first offer