

Bargaining and Negotiation

Bargaining and negotiation skills are important skills for success in your personal and professional life, since there is no shortage of disputes. There may be disputes between and amongst families, friends, individuals, groups, firms, communities, and nations. Disputes and conflicts may be good. They may be interesting, may lead to progress, and they may provide incentives. However, it is necessary to have some mechanism for solving disputes. Institutions that can settle disputes include traditions, regulations, and courts. More decentralized methods of settling disputes include markets and negotiations. Honing your negotiating and bargaining skills improves the chances that disputes will be settled in your favor.

Negotiating is both a science and an art. The science of negotiation requires systematic analysis to be prepared. Do your homework. Know yourself and your opponent. Know what you want, what your reservation price is, and what are the consequences of no deal. Try to determine these same things for your opponent. Quantitative information relating to the negotiation usually helps, so collect as much information as you can in advance. Often there are asymmetries in bargaining situations. Different players may have different endowments, different time related costs, different number of negotiators, differences in needs, differences in determination or aggressiveness, and differences in amount of information. Try to know what the asymmetries are and use them to your advantage, if they are in your favor. Otherwise, try to conceal and compensate for them, if they are not.

The art of negotiating requires the interpersonal skills to convince and be convinced, knowing when and how to use bargaining ploys. If your opponent is of another cultural background, it is important to know their culture, goals, personal style, body language, and speech. Make use of the fact that others need to feel part of the inner circle. Don't criticize or reject an opponent's position out of hand. Accentuate the positive; try to eliminate the negative. Try to use your opponent's objections to support your case. If they object that your price is too high, you can counter with the observation that the price is high because the quality is high. Make your points in a non-threatening manner. This can be in the form of a question or phrased as a request for advice. If your opponent offers you too low a price. You might ask, "The price you are offering is below my costs for the item. If you were me, would you accept such an offer?" Put silence and patience to work for you. Act confident and wait. Sometimes the other side may reveal information or make a concession. If the other side uses silence, keep still and wait or stray from issue. If your opponent throws a tantrum, just listen. Simulated role playing before a negotiation can help you prepare a strategy.

There are various negotiation styles that can be employed. You can start with an unreasonable offer and make concessions or you can make a reasonable offer and hold firm. You can have a cooperative - win-win attitude, or you can have a competitive - cut throat one. You can attempt to move your opponent by tempting them with a carrot or threatening them with a stick. With the former you might be trying to get your opponent to like you, whereas with the latter, you might be trying to get your opponent to fear you. Your tone can be pleasant and cooperative, aggressive and shrill, or detached.

We can think of a negotiation as a game. Different negotiations will be structured differently, and how the games are structured will determine the kinds of strategies that work best. Are the parties monolithic or not? That is, are you negotiating with a single fairly uniform and, perhaps, rigid entity, or a diverse group with different people, personalities and goals? A monolithic entity could be one person or a small close knit group with similar goals and strategies. Even if you have a single opponent, it is good to remember that no individual or group

is totally monolithic and that any one can change his or her mind. Also remember that just because it's policy doesn't mean that it can't be changed.

How you proceed may depend on whether the game is repetitive or not. Particularly, if the game is repetitive and you want further dealings, you want to make sure your opponent feels good about the current agreement. You may make a concession in a current deal for the goodwill effect in future negotiations. Dishonesty may help your short run position, but it hurts your reputation in the long run. At the end of the negotiation don't gloat over how well you have done. Make it easy for your opponent to save face, if they back down. If this is a regular negotiation, change your style from one time to the next to be less predictable.

Sometimes a negotiation is linked to other negotiations. In this case, you need to consider the effect of your position on all of the negotiations. Or, maybe, you can attach a concession in one negotiation to something else that the other side really wants in another negotiation. Sometimes you can broaden the domain of negotiations and provide something, originally outside the negotiation, that your opponent wants for a concession which you may also want.

The number of issues can change the style of negotiation. In simple negotiations, it is often best to ask for what you want. It is better not to negotiate on the phone unless you initiate the negotiation. In two party negotiations with many issues, you should rank goals in order of importance. If you get bogged down on one issue, move on to another. When there are both quantitative and qualitative outcomes, use utility theory as best you can to rank outcomes.

In negotiations with many parties and many issues, the process maybe chaotic without some structure. If the negotiations are repetitive, you can devise rules and procedures for proceeding. It is sometimes useful to conduct coalition analysis, noting the positions and preferences of different coalitions. This might allow you to take advantage of differences and linkages. In complex negotiations, specify exactly what is agreed to at the end and write it down. Documentation should avoid any misunderstandings. Furthermore, in any negotiation, complex or otherwise, undocumented agreements can be fragile. Even if both parties are sincere, later external pressure may cause one or both parties to later try to change the terms in their favor. At the end of the negotiation, also consider whether there might still be joint gains to be made. Ask if there is a better outcome for both sides.

The timing of the negotiation can be crucial. The parties may have different time constraints and different time-related costs. It can be to your advantage, if you know your opponents time constraints. There is usually an advantage to one who can wait. Often, if you wait long enough, the other side may vaguely propose what you want. If an opponent has invested a lot of time, they are more likely to close a deal.

Group norms and negotiating conventions influence how to proceed. You have to decide how to open the negotiation. Can you trust your adversary? Most negotiations are iterative with several offers and counter offers made during the course of the negotiation. It is good to know the customary number of iterations and to have a reservation price for each iteration. The logistics of the negotiation may need to be decided. Who does the negotiating, and what is their role? Do you need to hire a professional to participate, or conduct the negotiation yourself? Where and when will the negotiation take place? Sometimes a boisterous tavern is better than a sedate restaurant. If the negotiation is international, you may need to choose the language of the negotiation. If you have a choice, choose you own language. Whether the negotiations are public or private may make a difference, as well.

In any negotiation, you have the outcome you would like, which is your aspiration, and you have a reservation price, which is the least favorable outcome you would accept before you would walk away from the negotiation. Your aspirations can change but your reservation price shouldn't change unless you have new information or the situation changes your opportunity cost.

Sometimes when parties can't agree, there may be a need for third party intervention. Such interveners can bring parties together, establish ambiance for negotiations, communicate appropriate information, help parties clarify values, develop appropriate reservation prices, deflate unreasonable claims, loosen commitments, seek joint gains, keep negotiations going, and articulate rationale for agreement. There are four common types of interveners. A facilitator is a person who brings parties together for a negotiation. A rules manipulator is a person who provides the rules for the negotiation. For example, your mother was a rules manipulator when she set up the following rule for dividing a small pie between two siblings. "One cuts the pie and the other chooses the first piece." A mediator is a person who helps in the negotiation, while an arbitrator helps in the decision. Mediators don't dictate solutions, but arbitrators do. However, arbitrators do try to get agreement, since, if disputes are not settled amicably, often the agreements may be inefficient. That is, there may be other solutions where both sides are better off.

1. patience of Job
2. sincerity and bulldog characteristics of the English
3. wit of the Irish
4. physical endurance of marathon runner
5. field dodging ability of halfback
6. guile of Machiavelli
7. personality probing skills of a good psychiatrist
8. confidence retaining skills of a mute
9. the hide of a rhinoceros
10. wisdom of Solomon
11. demonstrated integrity and honesty
12. knowledge of and belief in the bargaining process
13. faith in volunteerism
14. belief in human values and potentials
15. ability to assess human weaknesses and strengths
16. hard nosed ability to analyze what is available instead of what is desirable
17. sufficient drive and ego qualified by a willingness to be self effacing"

Source: Simkin (1971).

Box 10.2 Qualities of a Successful Negotiator

Distributive games are ones where the negotiation is over how payments are distributed between the players. Negotiating over the purchase of an item is the classic distributive game. In distributive games, if one or both sides are too greedy, a bargain may not be made. A person's reservation price is his opportunity cost. If you do not meet or exceed the other side's reservation price, he will walk away. However, sometimes parties walk away strategically hoping you will make a better offer. In other cases, when you have not met their reservation price, they may walk away for good.

In distributive negotiations, an unreasonable offer with concessions tends to work better than a reasonable offer with no concessions. It is also better to get your opponent to make the first offer. This tends to be good advice in most types of negotiation. Caution is advised in choosing your opening offer. If you are too conservative, you may give away too much. If you are too extreme, you may insult your opponent and she may walk away. If your opponent makes an extreme first offer, either break off, or quickly counter. Remember that the point midway between the bids often becomes a focal point. The pattern of concessions usually gets smaller as parties approach their aspirations or their reservation price. The smaller the zone of agreement in distributive, as in other games, the longer it takes to come to an agreement.

What are some of the normative ethics of negotiation? Disputants often fare poorly if they act greedily and deceptively. In many negotiations there are joint gains. Those that often fare best are those who seek to enlarge the pie and then to get a fair share of gains. Others may use less than ethical tactics. The following are a list of dirty tricks to watch for in a negotiation. The limited agenda is when the negotiation is limited in some way to gain an advantage. For example, your opponent may seek to limit the negotiation only to the price and refuse to consider financing, product quality, etc. Bait and switch is where someone offers you something to get you to enter the negotiation and then switches the offer to something less desirable. Delaying tactics are sometimes used to gain concessions, particularly if one party knows the costs of delay is high for the other party. One party may escalate demands, saying they will agree to something, if you make a concession. Once you make the concession they demand more concessions. A zone defense is when new negotiators keep showing up.

You should bargain in good faith. Once you make a concession, you should not retract the offer. The low ball gambit is where an opponent offers a low cost but then adds in extra costs for things you thought were included in the original agreement. The high ball gambit is just the opposite. Your opponent offers to pay a high price, but then keeps wheedling down the price.

The good cop/ bad cop routine has two negotiators switch off. The bad cop acts like an opponent and is very aggressive. The good cop acts as if they are your friends and as if they are trying to get the best deal for you from the bad cop. You maybe subject to verbal and nonverbal attacks or your opponent may try to make you feel guilty. An opponent may make an offer and demand that you take it or leave it. This may truly be their reservation price, or they may merely be bluffing. Here it is good to know your reservation price. If you are buying and the offer truly does not meet your reservation price – leave it. Walk away to see if the offer was a bluff or not. In this case, as in all negotiations, try to have other options or generate a competitive demand for what you have. Your opponent may try to renege on an agreement. To avoid this try to structure the agreement to gain compliance. Documentation, contracts with penalties for noncompliance, such as forfeited escrow accounts, and witnesses, all help to gain compliance.

In a compromise, the goal is to get more than you give up. This leads some to use strategic misrepresentation. They exaggerate the value of what they are giving up and minimize the value of what they are getting. This technique is usually acceptable, if kept in bounds. It is less ethical, if what you are giving up is an issue of no importance to you. If an opponent uses a

dirty trick, bring it into the open, but don't attack them personally. In general, unless you have a good reason, don't trust your opponent.

Raiffa (1982) in a classic book on negotiation suggests that you be open and honest on tradeoffs, look for joint gains, bargain hard on gains, and keep your reservation price secret. For example, say I'd like to get, not I must get. He also adapted the following characteristics of an effective negotiator from Karrass (1968) in order of importance as

- "1. Preparation and planning skill,"
- "2. Knowledge of subject matter being negotiated,"
- "3. Ability to think clearly and rapidly under pressure and uncertainty,"
- "4. Ability to express thoughts verbally,"
- "5. Listening skill,"
- "6. Judgment and general intelligence,"
- "7. Integrity,"
- "8. Ability to persuade others,"
- "9. Patience,"
- "10. Decisiveness,"
- "11. Ability to win respect and confidence of opponent,"
- "12. General problem-solving and analytic skills,"
- "13. Self-control, especially of emotions and their visibility,"
- "14. Insight into others' feelings,"
- "15. Persistence and determination,"
- "16. Ability to perceive and exploit available power to achieve objective,"
- "17. Insight into hidden needs and reactions of own and opponent's organization,"
- "18. Ability to lead and control members of own team or group,"
- "19. Previous negotiating experience,"
- "20. Personal sense of security,"
- "21. Open-mindedness (tolerance of other viewpoints),"
- "22. Competitiveness (desire to compete and win),"
- "23. Skill in communicating and coordinating objectives within own organization,"
- "24. Debating ability (skill in parrying questions and answers across the table),"
- "25. Willingness to risk being disliked,"
- "26. Ability to act out skillfully a variety of negotiating roles or postures,"

- "27. Status or rank in organization,"
- "28. Tolerance to ambiguity and uncertainty,"
- "29. Skill in communicating by signs, gestures, and silence (nonverbal language),"
- "30. Compromising temperament,"
- "31. Attractive personality and sense of humor ,"
- "32. Trusting temperament,"
- "33. Willingness to take somewhat above-average business or career risks,
- "34. Willingness to employ force, threat, bluff to avoid being exploited." Raiffa (1982, p. 120-121)