

## Course Learning Outcomes for Unit VII

Upon completion of this unit, students should be able to:

6. Outline the decision-analysis approach to negotiations.
  - 6.1 Explain the use of decision-analysis tools in negotiations.
  - 6.2 Summarize the concept of BATNA in negotiations.
  - 6.3 Identify negotiator cognition issues in negotiations.
  
7. Discuss the methods for improving managerial decision-making.
  - 7.1 Explain how a company could improve negotiations in future situations.
  
8. Summarize best practices for managerial decision-making.
  - 8.1 Use best practices in negotiations to make recommendations for a company.

Course/Unit Learning Outcomes	Learning Activity
6.1	Unit Lesson Chapter 10 Unit VII Case Study
6.2	Unit Lesson Chapter 10 Unit VII Case Study
6.3	Unit Lesson Chapter 11 Unit VII Case Study
7.1	Unit Lesson Chapter 11 Unit VII Case Study
8.1	Unit Lesson Chapter 11 Unit VII Case Study

## Reading Assignment

**Chapter 10:** Making Rational Decisions in Negotiations

**Chapter 11:** Negotiator Cognition

## Unit Lesson

### Decision Analysis in Negotiations

One area of business where decision analysis is essential is negotiation. *Negotiation* is a form of joint decision-making where two or more parties get together to reach a mutually satisfactory agreement. It can involve contracts that outline the terms of exchange or can be focused on resolving a dispute. In business, negotiations take place in many settings and for many reasons. For example, customers and suppliers negotiate over things, such as price and delivery times; division heads negotiate with the corporate office over budgets; and project managers and line managers reach agreements on the assignment of available staff resources.

Negotiations typically involve an exchange of offers or ideas intended to bring the issue incrementally toward a resolution. Decision analysis plays an important role in shaping what each side offers and is willing to accept. As a starting point, a negotiator must know the goal or what is trying to be achieved. Alternatives must be identified and assessed so their expected value is known. Criteria must be listed and prioritized so that alternatives can be evaluated in terms of what is most important. All of this work is done up front and prior to the start of negotiations. Once discussions are underway, new proposals are analyzed to determine whether they are acceptable. Decision analysis takes place many times during a negotiation. Decision analysis is vitally important at the outset in preparation for what is to come. It helps not only determine the series of offers one is willing to make, but decision analysis can also help anticipate the reaction of the other party. The term *focal negotiator* is used to describe the person who gets the parties to stay focused on the quality of outcomes and not buried in the details (Bazerman & Moore, 2013).

### **BATNA (Best Alternative to a Negotiated Agreement)**

The goal of negotiation is to make both parties better off than they would have been without reaching an agreement. That is not possible when one side believes that having no deal is better than accepting one that leaves them worse than they would be without it. It is not simply a matter of the costs outweighing the



benefits, although this is a part of it. Rather, the existence of a better option becomes the bar to reaching a joint solution. This option is known as the *best alternative to a negotiated agreement*, which is often referred to as *BATNA* (Bazerman & Moore, 2013). In a negotiation, your BATNA represents plan B if you are unable to get an acceptable deal. If you value a proposal as higher than your BATNA, that proposal would be acceptable. If, on the other hand, an offer is worth less than your BATNA, you would refuse it. The more valuable your BATNA, the more power you have in the negotiations because there is a narrower range of acceptable outcomes.

To achieve the best outcome of negotiations, it is important to know your BATNA.  
(Rahalski, 2016)

Alternatively, a weak BATNA leaves little bargaining power because you are more likely to accept a bad deal than no deal at all. For instance, imagine you are stranded with a flat tire on the way to a concert that starts in an hour. You

do not have a spare, and the towing company charges \$300 to replace the tire within 30 minutes or \$150 within 3 hours. You can either pay the higher fee to have your tire changed quickly, miss the concert, or find alternative transportation and leave your car behind while risking a ticket for illegal parking. Depending on how you weigh those last two choices, you will decide whether to pay the towing company the higher fee to change the tire quickly. If missing the concert were worth more than \$300 to you, you would pay the price. If not, you would accept the 3-hour delay or spend time finding a cheaper alternative.

Knowing one's BATNA when starting a negotiation is key to achieving success. Without it, one cannot know when it is better to walk away. For example, say you receive a job offer and must decide whether to accept it after the employer makes his or her final salary offer. If you were currently employed, your BATNA would be to just keep your existing job. Better still, if you had offers from more than one employer, one of those may be a more suitable alternative. If, however, you were unemployed, then you would not be better off declining the job, even if you were not fully satisfied with the offer.

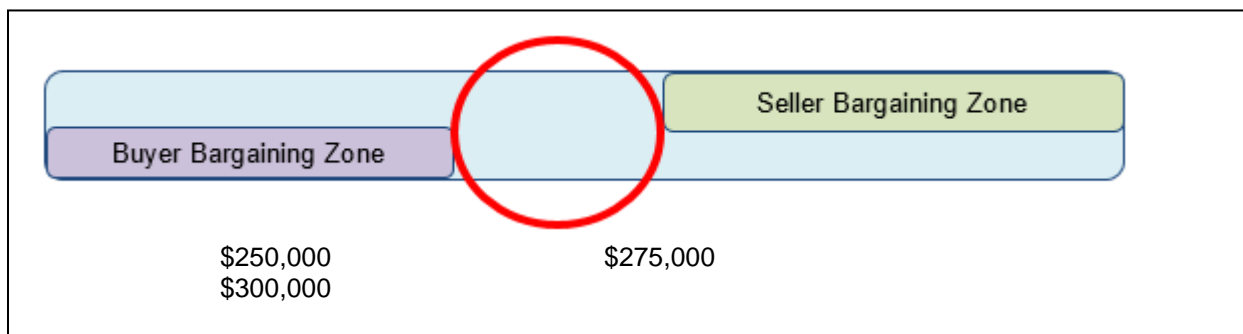
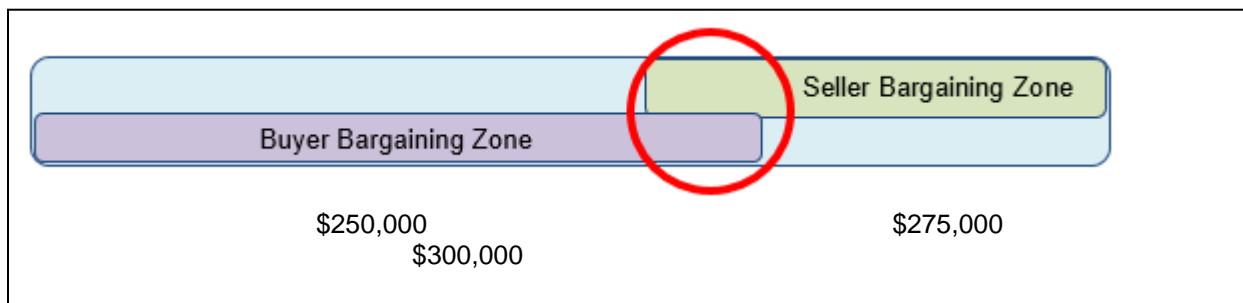
Determining a BATNA is a type of decision analysis. It starts with listing all of the alternatives available if no agreement is reached. There may be several or only one. Then, each alternative must be evaluated to determine its costs and benefits. The alternative with the highest expected value is the one that is most attractive and, therefore, becomes the BATNA. It is also an advantage to identify and evaluate the BATNA of the party with whom you are negotiating. The better you understand the alternatives they have to reaching a deal, the clearer a sense you have of what to offer in order to maximize the likelihood of an acceptable agreement. Often, understanding someone else's BATNA is challenging because of the lack of information. Moreover, without knowing that person's preferences, it is difficult to determine what they would find acceptable.

## Reservation Value

Another important factor in making a decision as a part of a negotiation is knowing when to walk away. Your bottom line during a negotiation, or the lowest value deal you are willing to accept, is known as the *reservation value*; it is also sometimes referred to as the *reservation price*. Another way of looking at it is determining the least favorable deal you are willing to accept. To a buyer, it is the most he or she is willing to pay for something. To a seller, it is the lowest he or she is willing to accept. For instance, the reservation value in negotiating the price for a house you are selling may be how much you originally paid for it. Because you want to make back at least what you put into the investment, you would not say yes to an offer of anything less. Setting the reservation value may also be the result of data collection and analysis. For example, when buying a car, you might look at car app websites, such as TrueCar, CarMax, or Kelley Blue Book, to see what price is offered in the market. Based on what you learn, you can know the best available price when you visit each dealer.

Remember, the most important question to ask in negotiations is why? Knowing the interests of the other parties is the key to solid negotiations but also knowing how important each issue is to the other side helps in providing alternative solutions in the negotiations. To get these answers, you have to ask why these issues are important to the other party. Knowing the answers to the why question gives you the ammunition you need to trade unimportant issues for truly important issues, and to make the best agreements.

In negotiations, each party has a range in mind that they are willing to accept in a negotiation. This is called a *bargaining zone*. Each party has a reservation point at which going below it (or above it depending on the party) means no deal will be reached. The area between the reservation points for each party is called a *positive bargaining zone* if they overlap. If they do not overlap, the area is called the *negative bargaining zone*. When there is a positive bargaining zone in negotiations, it makes it possible, even probable, to reach an agreement. However, no resolution can occur in negotiations with negative bargaining zones (Bazerman & Moore, 2013). A good negotiation skill is to be able to determine the other party's reservation point and bargain to get a resolution that is barely acceptable to the other party.



If there are differences between the parties in negotiations, try not to see it as a problem but as an opportunity. These differences become opportunities for alternative solutions. To create value, you need to be able to identify what you care about and what the other party cares about, and then you will be equipped to create solutions that add value to both of you. By doing so, you just increased the size of the pie that you have to divide. The more differences there are between parties, the more chances for enhancing the outcome.

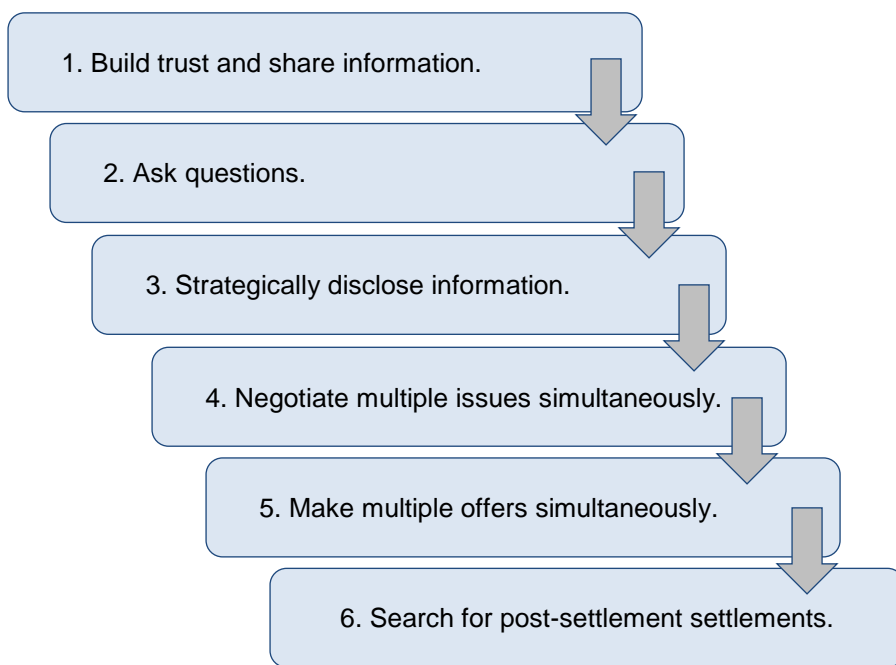
of the negotiations. Remember that a good negotiator does not recognize differences as obstacles but, rather, as opportunities to have richer negotiations.

### Other Negotiation Tools

Contingent contracts are a good way to bet on a negotiation. Lawyers use this tactic all of the time. They are sure they can win, and so they make a contract that says if they do not win, they earn nothing. This is a win-win situation for both parties. The lawyers have to be relatively certain they can win the case, or they do not accept the gamble. The person is happy to be represented by an attorney who thinks he or she can win the case. The lawyer loses nothing if the case is lost but stands to gain considerably if the case is won. The gamble is a good one for both parties because they both stand to gain by the negotiated agreement. Both are better off if the case is won.

A good negotiation is not just about getting a good deal; it is about creating the best deal possible by creating a bigger pool of resources to be divided by all. Even the most selfish negotiators want a bigger piece of the pie, and they can get it by increasing the size of the pie. They can do that by building trust. They need to show cooperating behaviors and not be self-serving in their actions. You cannot just appear to be nice. A good negotiator will build trust by building relationships with their words and actions. The best way to build trust is actually being trustworthy (Bazerman & Moore, 2013).

There are six key steps to unlocking great negotiation tactics that should be mentioned. The first steps rely on trusting the other party, and the need for trust gradually decreases as the steps increase (Bazerman & Moore, 2013). These steps are below.



(Bazerman & Moore, 2013)

Now that we have outlined the decision-analytic approach (which has focused on establishing reservation points, finding out the interests of the other parties, and determining the importance of each of the interests), you should be well prepared to handle negotiations.

Click [here](#) to test your knowledge on the concepts related to rational decision-making in negotiations. Be sure you have reviewed Chapter 10 before taking this quiz.

### Negotiator Cognition

What is *negotiator cognition*? In simple terms, it means the way a person thinks through a negotiation using rational decision-making skills. In this unit, we will study a variety of ways that negotiators make mistakes in cognition and some of the reasons why. The primary reason for negotiations is to come to an acceptable

agreement, which is what the textbook refers to as *Pareto-superior outcomes*. What does that mean? It is an 80/20 principle that implies that only 20% of what you are working on or doing has real meaning and that 80% is meaningless or wasted effort (Dam, 2018).

What that means to a negotiator is that you want to make use of your time, energy, and effort by focusing on the right things (20%) and not the wrong things (80%) to get superior results from your negotiations. In order to focus on the right things (20% rule), this unit will concentrate on six issues that can have negative consequences in negotiator cognition and how to avoid them. The six issues are listed below:

1. the mythical fixed pie,
2. framing,
3. nonrational escalation,
4. overestimating,
5. self-serving biases, and
6. anchoring biases (Bazerman & Moore, 2013).

For each topic, we will illustrate how the decision-making processes of the typical negotiator can be affected and what can be done to counteract these deviations from the prescriptive model of behavior.

**The mythical fixed pie:** In most negotiations, there is not a fixed value of the item being fought for and divided; this concept is called the fixed pie. There can be created value from both sides coming to the table with ideas to enlarge the value of the item being negotiated. In reality, with proper negotiation techniques, the pie can be expanded so both parties each get a bigger piece (Bazerman & Moore, 2013). Remember our discussions about differences being opportunities—not obstacles? This is such a case. We should also not automatically react and devalue any concession made by an adversary in the negotiations because of the mythical fixed pie.

If the other party concedes too soon or too quickly, you may think the concession was not very valuable or not very important to the other party. Remember, there are two (or more) sides in a negotiation, and your job as a focal negotiator is to find out the interests and importance of all the issues of all parties in the negotiations. Make sure you are not thinking of the mythical fixed pie and are focused on expanding the pie for all parties to get more pie to create a win-win negotiation.

**Framing:** In previous units, we talked about how framing can influence our decisions. In this unit, we will focus on how framing can affect negotiations. There is a significant difference when questions are framed or posed in terms of losses versus gains.

Good negotiators use proper framing tactics to present the right framing at the initial meetings during the negotiation process (Bazerman & Moore, 2013). This process means that positive framing allows you to present alternatives in terms that show what the other party has to gain and steers away from negative framing, which focuses on what they have to lose.

**Nonrational escalation:** The Vietnam War was a classic example of nonrational escalation of commitment by President Lyndon Johnson. The war, as it was fought under politically motivated rules, was unwinnable. However, once it was started and the president continued to commit resources (troops and firepower), he could not back out because of the vast amount of those resources he had committed over time and the political perception of how it would look on his legacy. The war dragged on for many years with high losses and casualty rates and was finally ended but not as a victory for the president or the United States. This follows the same escalation of commitment to an individual's course of action that we previously covered. Both had inappropriate objectives—beating the other side (Bazerman & Moore, 2013).

Escalation of commitment can also be seen by individuals buying or selling a used boat. If the buyer knows the original price and knows what the price should be now based on depreciation and use, then he or she is likely to make a reasonable offer to get a good deal. The seller knows what he or she paid and what is owed, so he or she has an anchor in mind that influences the selling price to cover what is owed. The sunk cost, which is the price originally paid, was the initial anchor. However, what is now owed has become the new anchor. If the seller does not factor in how long he or she has had the boat and how much wear and tear has been placed on the boat, the seller may not be willing to take a reasonable offer based on the boat's current condition. The seller may be too focused on his or her commitment of funds (what is owed) and how those

can be recovered to make a reasonable counter offer. If the boat, in reality, is not worth what is owed, then the seller (if not over committed) should take the offer and use other funds to pay off the difference between the negotiated price and what is owed. This can lead to no agreement because of escalation of conflict over pricing. It is very helpful to a negotiator to understand the concept of escalation of commitment in negotiations.



Overestimating can lead to a missed opportunity. In the case of salary negotiation, it could mean the loss of a great job prospect.  
(Sorokin, 2008)

**Overestimating:** It is good to know when you should hold out for a better solution, but at some point, it is also good to know when to accept the deal. It can be a devastating error to overestimate the chances that you will get what you want in a negotiation. Negotiators can waste tremendous opportunities by overestimating the value they bring to the negotiating table. When they overestimate their chances of winning and do not give in, they stand a huge chance of losing everything (Bazerman & Moore, 2013). A good solution for not overestimating is to ask for nonbiased opinions from outside sources. They may be able to give you a more unbiased perspective, and that information may help you succeed in that negotiation.

**Self-serving biases:** The tendency for a person to define what is fair in ways that benefits them is referred to as a self-serving bias (Bazerman & Moore, 2013). Many times, this bias is based on available information. This tends to lead one to view arguments that support their position as more valid than the other party's arguments. It distorts one's interpretation of the evidence.

A *social dilemma* is created when the tension between what is good for one party wrestles with what is good for the group as a whole (Bazerman & Moore, 2013). A very good example of this social dilemma is our current political two-party system. There are many arguments on both sides of the political spectrum and solutions abound on many issues, but reaching agreement on the best solution for many of the issues seems to be an insurmountable task.

This self-serving interpretation of fairness by our politicians is a common pattern. One key to combat this bias is to open discussions, present facts, and have honest debate. This will increase cooperation and provide incentive to propose fair and equitable solutions for all parties. However, if the parties involved continue with ambiguity, vagueness, or obscurity, it will drive the discussion toward people justifying what they *want* to do versus what they *should* do. Good negotiators drive the conversation back to the facts and give reasonable alternatives that support those facts and provide fair solutions to all parties.

**Anchoring biases:** We have discussed anchoring in previous units, but in negotiations, it is better to make the first offer to establish an anchor for the remaining discussions and debate. A good negotiator will make an effective first offer that is reasonable to the other party but also is close to their preferred end of the positive bargaining zone (Bazerman & Moore, 2013).

Click [here](#) to test your knowledge on concepts related to negotiator cognition. Be sure you have reviewed Chapter 11 before taking this quiz.

## Summary

This unit has focused on making rational decisions in negotiations and how cognition affects decision-making for negotiations. We have covered decision analysis tools and focused in on BATNA for negotiations, claiming value, and creating value. We then covered negotiator cognition and the six issues that can affect it. In the next and last unit of this course, we will apply all that we have learned to make improvements in our decision-making skills.

## References

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