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Blue Papers



The Art of Negotiation

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Whether you are choosing a breakfast cereal, asking your son to take out the rubbish, buying a car or making an offer on a new home, negotiation is an important part of everyday life. The ability to negotiate—to deal or bargain with others - is also an absolute necessity in the world of business.

Skilled negotiators are valuable to every organisation whatever the business or industry sector. Likewise, a lack of negotiation skills or poor negotiation practices within a firm can cost the business in numerous ways: collaborative partnerships, purchasing, recruitment and cash flow; while individual professionals stand to lose out in terms of promotion or a pay rise.



To many, negotiating in business comes naturally and appears to be mere common sense. The truth is, however, successful negotiation requires practice and preparation and the will power to harness emotion and ignore basic instinct. It's not for the faint hearted, but when done well, it can be exhilarating and empowering for everyone involved. Essentially, there's a reason negotiation is referred to as an art form.

We'll explore this art form in all its glory in this Blue Paper. Read on to learn more about the theory and basic psychology behind negotiation, as well as how to research and develop a strategy for negotiation to close the next big (or small) business deal.

The theory of negotiation¹

Some say negotiation can be defined as all interactions between two or more points of view and others define it simply as bargaining. Some say it consists of open, honest communication based on mutual respect and trust while others take a more cut-throat approach. They're all right - negotiation takes many forms. What's more, there are many different environments in which negotiation occurs: The board room, the kitchen table, in your own head.

Luckily, negotiation theorists offer several different concepts to help us sort out and understand the different kinds of negotiation and its process. One of the most basic of these concepts relating to negotiation is the symbolism found in a delicious pie. The pie represents whatever it is we're all fighting for - money, power, the remote control - and usually negotiations are all about slicing that pie, with everyone involved fighting for the biggest slice they can get.

¹ McGrath, Jane. "HowStuffWorks "How Negotiation Works"" Howstuffworks "Business & Money" Web. 01 Dec. 2010. <<http://money.howstuffworks.com/personal-finance/budgeting/negotiation.htm>>.

Using this symbolism, we can think of negotiation as either distributive or integrative.

Distributive negotiations are those that consist of a fixed-sized pie over which people fight. One party's wins are the other's losses. This is sometimes referred to as zero-sum negotiating.

Integrative negotiations are those that consist of a pie with the magical (and scrumptious!) ability to expand. This happens when parties think of new things that one side can offer the other and then claim parts for themselves. One of the most common forms of integrative negotiations happens in salary negotiations where employers offer extra holiday time or expanded benefits (such as gym membership or childcare vouchers) in lieu of higher pay.

To understand the theory of negotiation it is important to look at both the formula for most negotiations and the core concerns required of at least one party in order for negotiations to take place.

The negotiation formula

In the business world, most negotiations follow three basic steps:

- 1. Recognising a need:** Someone wants something that someone else can give them. Each party involved explores the possibility of the most advantageous exchange for themselves.
- 2. Stating claims:** At this point, each party explains why they deserve what they are asking for, often citing mutual benefit for those involved.
- 3. Conceding points:** Counter offers, lowering and raising prices and compromise make up the final aspect of the negotiation formula. At this point, a deal is made or both parties walk away from the table.

By being aware of these three basic steps, you and your organisation are in the best position to spot an opportunity for negotiation or set out to create one. Within each basic step there are many more tactics to consider, but we will get to those in a moment.

Core concerns of negotiation²

² Goodman, Brenda. "The Art of Negotiation." *Psychology Today*. 16 Jan. 2007. Web. 1 Dec. 2010. <<http://www.psychologytoday.com/articles/200701/the-art-negotiation>>.



According to Daniel L. Shapiro, associate director of the Harvard Negotiation Project, there are five core concerns that are important to avoiding disputes that may arise during a negotiation process:

1. Autonomy or a person's freedom to make decisions for himself.
2. Appreciation or having actions acknowledged.
3. Affiliation or being treated as a colleague.
4. Status or feeling that others respect one's standing.
5. Having roles and activities that are fulfilling.

If you ignore one or more of these needs conflict is likely to arise, if you respect them your negotiations are likely to be more successful for both parties..

Getting emotional

Theories are based on scientific inference. Yet, to fully understand the theory of negotiation we must also take a look at the more qualitative aspects of the negotiation process; primarily, the role of emotion in negotiation.

Humans while rational animals, are also highly emotional. Interests in most negotiations almost always involve more than the terms on the table. Between the lines, you'll find that people's motivations can include anger, desire to maintain honour, do good or save face. Shapiro's core concerns demonstrate this well.

While some experts argue that emotion should be left out of negotiations, it's just not always possible. Instead, other experts, like Shapiro, argue that emotions can be leveraged so that each party involved can leave discussions feeling respected and successful in arguments. In summary, tapping into the emotions of what you and the other person feel in a negotiation is actually essential to getting what you want.³



Honouring the core concerns, paying attention to non-verbal cues like body language and being careful to explain outbursts of anger or joy in the midst of negotiations are all key to keeping emotions in check.

³ Korn, Melissa. "This Time With Feeling!" *FastCompany.com*. 19 Dec. 2007. Web. 01 Dec. 2010. <<http://www.fastcompany.com/magazine/99/things-leaders-do.html>>.

The gender gap

Just as emotions play a role in negotiation, so too does gender.

In the 2006 U.S. Open Tennis Grand Slam tournament, a new instant-replay system offered players the opportunity to challenge the line calls of referees. The challenges of players - regardless of gender - were upheld about one-third of the time. However, the men challenged 73 calls, while women challenged only 28 calls.⁴

"You might be able to come up with all manner of rationalisations for why this occurred, including the fact that it's just a game of tennis" said Alicia Morga, entrepreneur and blogger for FastCompany.com. "But the reality is that women shy away from challenging/ negotiation."⁵

Off the court, this holds true, too.

By a factor of 2.5, more women than men feel a "great deal of apprehension" about negotiation, reports economist Linda Babcock of Carnegie Mellon. Women go to great length to avoid the bargaining process - paying almost £1,000 more to avoid negotiating the price of a car or losing £250,000 over the course of their careers for failing to negotiate their salary as firmly as a man might.⁶

In order to be successful in negotiations, women and those who work with them need to understand how gender roles affect the process and how they can overcome any apprehension in order to come away feeling respected and valued.

Babcock urges women to do three things in order to get what they want:

- **Commit** - Babcock comments that half the battle is deciding to negotiate in the first place. She says that 20% of adult women say they never negotiate at all. You'll never know what could be if you don't ask!
- **Practice** - Try to consciously negotiate more on a day to day basis to build skill and confidence. Barter at the market, practice with a significant other—take every chance you get to practice. Children are a great place



⁴ Morga, Alicia. "When to Negotiate." *FastCompany.com*. 29 Oct. 2010. Web. 01 Dec. 2010. <<http://www.fastcompany.com/1698898/when-to-negotiate>>.

⁵ Morga, Alicia. "When to Negotiate." *FastCompany.com*. 29 Oct. 2010. Web. 01 Dec. 2010. <<http://www.fastcompany.com/1698898/when-to-negotiate>>.

⁶ Goodman, Brenda. "The Art of Negotiation." *Psychology Today*. 16 Jan. 2007. Web. 1 Dec. 2010. <<http://www.psychologytoday.com/articles/200701/the-art-negotiation>>.

to start – instead of saying No immediately, negotiate something in return to their request.

- **Get to “no”** - Babcock says that if you never hear “no” when you negotiate, you haven’t asked for enough. Don’t be afraid of “no.”

The road to negotiation

Now that we have a little background about the basics of negotiating, let’s get into the nitty-gritty: A plan to approach your next negotiation.

Do your research

Perhaps the most important part of the negotiation process is preparation. Start by discovering basic background information on the person you will be negotiating with - their job title, professional background and personal interests. Know what their limits in power or decision making may be - do they even have the authority to seal the deal you’re proposing? Speak to their current or former colleagues to get a feeling of their negotiation style and history.

Then, expand your research to cover basic background information of their business - history, culture, key staff and investors, and products and services they offer.

Once basic research is conducted, negotiation expert and speaker, John Patrick Dolan, suggests preparing for negotiations by responding to the following five questions⁷:

1. What is it that they want?

The other side wants something from you, even if it was you who approached them in the first instance. If this wasn’t true, you wouldn’t be about to have a conversation with them. In most cases, their wants will be apparent. But if you don’t know what they want, don’t be afraid to ask.

2. What is important to the other side?

Perhaps you’re an estate agent negotiating the price of a property with an interested couple. They want the house, yes, but what’s really important to them? Is it the location? Perhaps it’s the schools or proximity to public transport? Once you discover your counterpart’s needs, you can use those points to negotiate for things that are important or advantageous to you.



⁷ Dolan, John Patrick. "How to Prepare for Any Negotiation Session." *Connections Magazine*. Web. 6 Dec. 2010. <<http://www.connectionsmagazine.com/papers/5/02.pdf>>.

3. Why are they willing to negotiate?

This relates to the first question, in that a willingness to participate in a negotiation automatically signals some degree of flexibility or need. But it's this question that gets to the root of negotiation motivation. When you understand why your opponent is willing to negotiate, you can use it to your advantage.

4. What does the other side bring to the situation?

Does the other side really have what you want? Can they afford your demands? Does the person you're negotiating with have the power to be negotiating on behalf of their company? If they don't have what you want or aren't in a position to give it to you, the negotiation process is pointless.

5. What resources do they have?

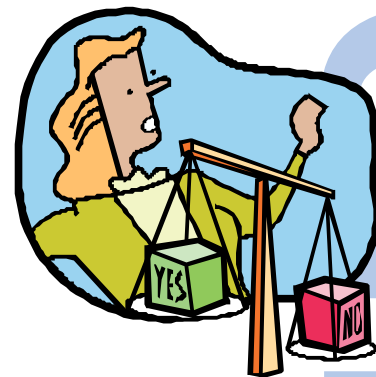
Just as you have other options, your counterparts are likely to have alternatives as well. Find out how badly they need this deal. Are they desperate? Or do they possess a catalogue of other options? A customer, for example, usually has plenty of choices when negotiating the sale of a product or service. They can just shop somewhere else if you don't provide what they want on their terms. But sometimes, you'll find that you are the only source for the item your counterparts want.

When research is done thoroughly, you are primed to make a reasonable and appealing offer, you may be able to anticipate a response or a counter-offer and it becomes nearly impossible for the other party to bluff. Preparation allows you to hold the cards.

Establish a BATNA

We know what you're thinking: What on earth is a BATNA? Well, it is the research you need to conduct on yourself or your company before entering into negotiations with anyone. It is the "Best Alternative to Negotiated Agreement" (BATNA). This is essentially exploring your options if the deal falls through.

Knowing your BATNA is essential to making smart decisions during negotiation because you can't make a wise choice when you don't know what your choices are. Basically, if the proposed agreement is better than your BATNA, then you should accept it. If the agreement is not better, keep negotiating.⁸



⁸ McGrath, Jane. "HowStuffWorks "How Negotiation Works"" Howstuffworks "Business & Money" Web. 01 Dec. 2010. <<http://money.howstuffworks.com/personal-finance/budgeting/negotiation.htm>>.

Closely related to the BATNA is the reservation price or the walk-away price - the price that represents the worst terms you'd be willing to accept for a deal. This should also be researched and established before going into negotiations.

Once you or your business has established these factors and numbers, compare and contrast them with potential factors and numbers you encountered while researching the other party in order to consider what experts call the "zone of possible agreement" or, ZOPA.

This is the range at which two opposing parties can possibly agree. In other words, it's the difference between the seller's reservation price - the lowest price he'll accept - and the buyer's reservation price - the highest price she'll pay. You might figure out that the two reservation prices don't overlap at all, meaning that no ZOPA exists and negotiation will be impossible.⁹

Pinpoint a strategy

After research comes strategy development. As we mentioned earlier, there are many strategies that can be explored in negotiation. Strategy development depends upon what it is that is being negotiated and the relationship that you have with the other party or parties involved. Additionally, it involves consideration of two key negotiation tactics: anchoring and framing.

Anchoring - Make the first offer and know that the first offer is the most important and the benchmark by which all subsequent offers will be judged and compared. This requires being proactive, seeking out opportunities through thought leadership and relationship development.

Framing - Come prepared with a rationale as to why the other party should negotiate and negotiate on your terms. This is where all that research will pay off.

Together these tactics, repeated throughout the process will likely position you or your company for a winning strategy.

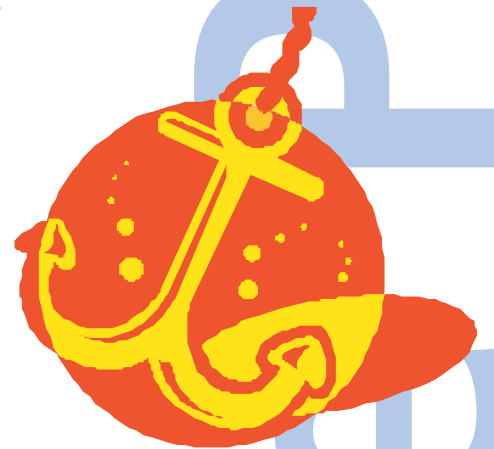
Set the stage¹⁰

Another consideration to the negotiation process is the setting - where are you going to make the request? Should you meet face-to-face, bargain by 'phone or resort to e-mail? The answer, researchers say, is: it depends.¹¹

⁹ McGrath, Jane. "HowStuffWorks "How Negotiation Works"" Howstuffworks "Business & Money" Web. 01 Dec. 2010. <<http://money.howstuffworks.com/personal-finance/budgeting/negotiation.htm>>.

¹⁰ "The Emerging Art of Negotiation — HBS Working Knowledge." HBS Working Knowledge - Faculty Research at Harvard Business School. Web. 01 Dec. 2010. <<http://hbswk.hbs.edu/item/1517.html>>.

¹¹ "The Emerging Art of Negotiation — HBS Working Knowledge." HBS Working Knowledge - Faculty Research



“The technology we use to negotiate affects our definition of the negotiation game and the behaviour deemed appropriate for the interaction,” notes the Harvard Business School’s Annual Review of Psychology.

Generally, face-to-face meetings foster rapport and offer fewer openings for misunderstanding and deceit. These meetings also allow for more accurate interpretation of emotions and body language. If both parties are already familiar with each other however, face-to-face meetings may not be necessary. And if tensions are already high, research then suggests that negotiating by ‘phone may be the best choice, so as to reduce the possibility of pressure tactics.

Alternatively, e-mail is a tricky area. Since e-mail lacks what researchers call social context cues, it allows more “talk time” for all, and this dimension of egalitarianism may make for a more fruitful exchange. There is a downside, though, because e-mail also seems to make people less inhibited in a negotiation scenario. If the negotiation is already tense, this lack of inhibition can make a bad situation worse.



One study found, for example, that among 24 four-person decision making groups interacting via computer, there were 102 instances of rude or impulsive behaviour. Another 24 groups that interacted in person yielded only 12 examples of that nature.

Bottom line: It matters where negotiation takes place, so think it through and choose the best communication tool for your situation.

Perfect the offer

Perhaps contrary to popular belief, the offer in a negotiation is more than a monetary figure. It encompasses all of the elements of a bargain and the contract that will result when an agreement has been reached. Most offers include: The price, a scope of work, identification and quantities of goods or services, delivery schedule, potential performance incentives, and warranties or terms and conditions.

All offers should be presented in writing and approved by your business’s legal team for accuracy and validity.

Seek help if you need to

Some negotiations require a third party to intervene. This person could be a hired

at Harvard Business School. Web. 01 Dec. 2010. <<http://hbswk.hbs.edu/item/1517.html>>.

consultant - an advocate paid to negotiate on your behalf. On the other hand, an impartial mediator can step in to either help the parties understand each other, to make steps toward resolution, or to come up with a solution that all parties would be willing to accept. The parties aren't required to accept this solution, however.¹²

Close the deal

Successful negotiation requires a keen sense of timing, creativity and the ability to sense the next move. Approach negotiation like a game of chess - think ahead and have the endgame in mind as you develop the strategy. Know that you can't win them all, but practice makes perfect.



After the deal is closed, sit back and celebrate your negotiation prowess - congratulations, you did it!

Negotiation is an art form, yes. But unlike many art forms that are inherent only to some, negotiation skills can be taught to anyone willing to learn. As successful negotiation is key to all relationships; harness its power today.

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¹² McGrath, Jane. "HowStuffWorks "How Negotiation Works"" Howstuffworks "Business & Money" Web. 01 Dec. 2010. <<http://money.howstuffworks.com/personal-finance/budgeting/negotiation.htm>>.