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Negotiation Basics

N*egotiation* is the process by which people with conflicting goals try to reach agreement about how they are going to work together in the future. Negotiators are *interdependent*: what one side wants affects what the other side can have and vice versa. Because negotiation involves conflicting goals and interdependence, it takes some skills to be an effective negotiator. Those skills are put to the test when negotiating across cultures, because people in different cultures use negotiation strategy differently. One of the purposes of this book is to help you improve your negotiation skills. Another is to get you prepared to negotiate with people who do not share your cultural background, people who you cannot assume will think about the process of negotiation in the same way you do.

To be prepared to negotiate globally requires planning. If you are already an experienced negotiator, having closed deals, resolved disputes, and even taken a negotiation course or workshop, many ideas in this chapter should be familiar. Nevertheless, be sure to read it, because it will also likely take you beyond the things you already know. For example, after laying out various contexts in which negotiation skills are useful, it introduces five building blocks of strategic analysis and a template for a negotiation planning document that both novice and expert negotiators

find extremely useful for organizing those building blocks into a strategic analysis. The chapter also explains how to use two important negotiation concepts—BATNA and interests—to evaluate how good your agreement is.

If you are going to be negotiating globally—or have already and were not satisfied with the result—Chapter Two will introduce you to the multiple ways that culture affects negotiations. It includes a relatively new tripartite way of categorizing cultures: dignity cultures (generally North American and European), face cultures (generally Asian), and honor cultures (generally Middle Eastern, North African and Latin American). The chapter describes how each type of culture tends to affect negotiation strategy.

As you can see by the table of contents, subsequent chapters will turn to strategies—the goal-directed behaviors that people use to negotiate agreements—as they apply in the various contexts identified in Chapter One, as well as to the strategic challenges when negotiating globally and with government across the table. The book ends with a discussion of just how long cultural differences are going to matter in a world where global business and global politics are carried out in English.

We begin by considering all the contexts in which people have conflicting goals and use negotiations to try to reach agreements about how they are going to work together in the future.

Contexts for Negotiation

Negotiation is not limited to buying and selling—deal-making negotiations. People negotiate to resolve disputes, and to reach decisions in teams and other multiparty environments. The following paragraphs briefly consider these contexts for negotiation.

Deal Making

Deal-making negotiations are usually categorized as distributive or integrative.

Distributive Deal Making

People throughout the world negotiate deals the same way: the buyer makes a low offer, the seller a high offer, and they trade

offers and counteroffers until they reach an agreement or decide to walk away. After viewing the terracotta warriors in Xian, China, a friend and I visited the Muslim market or souk. A small brass incense burner caught my eye. I asked the shopkeeper the price and offered him half the amount he named. He came down and I came up. When he didn't counter, I started to walk out of his shop, but he followed me, making a concession. I then suggested we split the difference between my second and his third price, and he agreed.

In Xian the shopkeeper and I were engaged in what is called *distributive* negotiation, meaning negotiating over a single issue, in this case price: how much I would pay and how much he would get for the small incense burner. In making distributive deals, parties assume a *fixed pie* or fixed amount of resources and negotiate about how to split the resources (cut up the pie, *claim value*, distribute resources). The shopkeeper in the souk started high, I countered low, and we made reciprocal concessions until we reached an agreement that, to each of us, was better than no deal at all.

Integrative Deal Making

Although dividing resources is an important part of negotiating, there is a lot more to negotiation strategy than “start high if selling, counter low if buying.” In reading the next example, about my negotiating for pumpkins with a woman at a roadside stand, consider how and why we moved away from distributive negotiation. When my daughters were in grade school in a small village in the south of France, the teacher asked my husband and me to plan a Halloween party. My job was to buy the pumpkins for the thirty-two children to carve. I looked everywhere for pumpkins and could not find any. Finally, my husband heard of a roadside stand with pumpkins! I immediately drove over to buy pumpkins. I did not negotiate the price, because I had no other source of pumpkins; I also knew it's not customary in outdoor French food markets to negotiate prices. But when I told the seller that I wanted to buy all her stock, she shook her head no. What to do? My alternative to buying was terrible. Offer her more money? Try sympathy? Tell her why I wanted all her pumpkins? Instead, I asked her why she wouldn't sell me all her

pumpkins. She said if she sold all her pumpkins to me, she would have no seeds to plant the next year. “Chere Madame,” said I, “if I bring you all the seeds November 1, will you sell me all your pumpkins?” She said yes, each child got a pumpkin to carve, and a picture of the children and Mme. Petit’s pumpkins, as I later learned her name was, graced the front page of the local newspaper.

Mme. Petit and I engaged in *integrative* deal making. We refocused the negotiation from the single issue of how many pumpkins I could purchase at her price by identifying the multiple issues of pumpkin seeds and pumpkin rind that turned out to be the real issues in our negotiation. In our agreement, Mme. Petit got the seeds, which were more important to her than to me, and I got the rind, which was more important to me than to her.

Integrative negotiation occurs when negotiators *expand the pie*—actually create *value* in negotiations. They typically do so either by breaking a single issue into multiple issues or by adding issues. In either case, when one issue is more important to one party—the seeds to Mme. Petit—and another issue is more important to the other party—the rind to me—the parties can negotiate a trade-off that meets both parties’ goals.

There are many opportunities for negotiators to *create value* if they have the motivation and the *strategy* to get information about *priorities* (what is more and less important to the other party) and *interests* (what is motivating the other party’s positions) and use that information to make trade-offs that create value.

Conflict Management and Dispute Resolution

No culture is immune to conflict—the perception of opposing interests, with respect to resources, goals, or even procedures. Disputes arise when conflict turns into a claim that one party makes but an opposing party rejects. People everywhere negotiate to resolve disputes. How they do so, however, often depends on whether it is culturally appropriate to confront other people directly or indirectly. Here are two examples in which negotiation took a path it might not have taken had both parties been American.

An American entrepreneur had a contract to sell bicycles to a German buyer. The American was having the bikes manufactured in China. When the first shipment was ready, the entrepreneur went to the Chinese plant, inspected the bicycles, rode a few, and realized there was a problem. The bikes rattled. Knowing that rattling bikes would not be acceptable to the German buyer, he asked the Chinese manager about the rattle. “Is this rattle normal?” “Do all the bikes rattle?” “Will the German buyer think there is something wrong with the bikes if they rattle?” The bikes were shipped to Germany on time, and the German buyer never mentioned anything about rattling bicycles.

In U.S. culture the normal approach to the problem of the rattling bicycles would be to tell the plant manager that rattling bicycles were unacceptable, and that the rattles had to be fixed before the bikes were shipped. In China, such direct confrontation would be extremely rude and would cause the plant manager much loss of face and possible reactance. Knowing this, the American entrepreneur used indirect confrontation. He made it clear to the Chinese manager that the rattling bicycles needed to be fixed, but he did so indirectly. He did not tell the Chinese manager what to do, he respected the Chinese manager by assuming he would recognize and resolve the problem, which the Chinese manager did.

Third parties may also become involved in dispute resolution in more or less direct ways depending on culture. For example, an American manager was working in China for a U.S.-Chinese joint venture. When he did not receive the information he expected to find in a report, he asked his counterpart, a Chinese woman who was apparently responsible for the report, for a meeting to discuss his needs. She politely put him off. A day later he was called into her manager’s office and told there was no problem with the report: it had the information it always had and could not be changed. From the U.S. manager’s perspective, his Chinese counterpart’s behavior—refusing to meet with him, getting her superior involved, stimulating a reprimand from the superior—was inappropriate. He had wanted to talk to her directly about his interests; he thought she had turned the situation into a power play that he lost. But her perspective was different: she knew that she did not have the authority to change the report.

She did not want to jeopardize her relationship with her American counterpart by rejecting his claim for data directly. Instead, she involved her superior to deliver the rejection.

In the United States, culture dispute resolution negotiations tend to be direct verbal interactions between principals. There is a tolerance for conflict and an expectation that managers are supposed to be able to resolve conflicts with counterparts without involving higher-ups. But in many cultures, the expectations are just the opposite. Managing conflict *is* the boss's responsibility. Involving a third party early in the dispute resolution process, especially a third party with the status and authority to impose an outcome, expedites dispute resolution and allows conflicting parties to save face, since neither has to back down to the other.

Multiparty Negotiation and Team Decision Making

Negotiation strategy is particularly relevant to reaching agreement in teams when members have different goals, there are multiple issues to be decided, and there is not a simple majority of team members who agree on all the issues. Multicultural teams have another obstacle to overcome, as culture affects how people go about decision making. The following example illustrates many of the challenges associated with being a member of a multicultural team. A UN peacekeeping task force consisting of army officers from Russia, Germany, Turkey, and the United States was charged with preparing for the exhumation of a mass grave in Bosnia. "Everyone kind of viewed the Turks as a second-class military. The Germans and the Russians didn't really hit it off too well. And we [Americans] were viewed with kind of different levels of trust or skepticism by everybody else."¹ The task force leader, a Russian major, realized that the task force had to find a way to work together. So he separated the task into four subtasks and then assigned a multicultural team of one Russian, one U.S., one Turkish, and one German officer to each subtask. Each day four Russians, four Americans, four Turks, and four Germans would drive from their respective camps to a central meeting place, split up to work in their assigned subgroups, and then regroup at the end of the day to drive back to their respective camps. Inevitably the talk on the way home was, How did it go today? And surprisingly, everyone began to recognize the value of the Turkish team

members, whose experience in earthquake relief was more relevant to the task than any of the other officers' experience. The subgroups still had to negotiate with each other to coordinate the execution of their different subtasks, but the multicultural structure of the subgroups transformed that negotiation from being one army's way versus another to a cooperative effort that respected expertise.

Negotiation strategy is particularly relevant to decision making that requires the collaboration of multiple parties with conflicting interests. When team members, like those in the UN task force, also have different cultural backgrounds, they need to be prepared to confront not just conflicts of interests—what the decision should be—but also procedural conflict—how to go about decision making. Chapter Five focuses on using negotiation strategy to make decisions in teams, particularly multicultural teams.

Social Dilemmas

Our world is beset by commons problems, or *social dilemmas*—interdependent situations in which incentives lead individuals to take from the common pool of resources, but the more individuals take, the more rapidly the resource disappears. The dilemma is how to balance self-interests and common interests to cooperate to maintain the resource. The label “commons problems” comes from a 1968 *Science* article written by ecologist Garrett Hardin in which he explained this dilemma by referring to farmers sharing common grassland.² But social dilemmas are age-old problems, for example, as discussed by Thucydides:

[T]hey devote a very small fraction of time to the consideration of any public object, most of it to the prosecution of their own objects. Meanwhile each fancies that no harm will come to his neglect, that it is the business of somebody else to look after this or that for him; and so, by the same notion being entertained by all separately, the common cause imperceptibly decays.³

and Aristotle:

That all persons call the same thing mine in the sense in which each does so may be a fine thing, but it is impracticable; or if the words are taken in the other sense, such a unity in no way

conduces to harmony. And there is another objection to the proposal. For that which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual. For besides other considerations, everybody is more inclined to neglect the duty which he expects another to fulfill; as in families many attendants are often less useful than a few.⁴

The most challenging contemporary commons problems are associated with global warming and overharvesting of shared resources, for example fisheries and forests. As we shall see in Chapter Six, in today's business world price fixing and cyberattacks can be framed as commons problems.

Negotiation strategy doesn't solve social dilemmas, but the strategy we will learn to use in resolving disputes also applies to social dilemmas, in which takers need to be turned into sharers. In Chapter Six we'll look at a variety of types of social dilemmas and ways to use negotiation skills to generate cooperation in these innately competitive situations.

Negotiations Between Governments and Foreign Direct Investors

Governments seek foreign direct investment (FDI) to develop natural resources and access technology. They seek FDI for job creation and the economic development that governments hope will be a by-product. Investors seek access to resources, markets, and low-cost labor. These clearly differentiated interests mean there is good potential to create value in negotiations between governments and foreign direct investors. However, when we address these negotiations in Chapter Seven, we find that integrating the profit-making goals of global companies with the developmental goals of government economic policymakers is a major negotiation challenge. Chapter Seven begins by identifying and contrasting the interests of foreign direct investors with the interests of governments. It then covers the challenges of actually trying to make FDI work, including protecting legal rights when the rule of law is weak, dealing with corruption and coming face-to-face with one's own ethical standards, navigating complex layers

of government bureaucracy, protecting the safety of one's own people, and avoiding entanglement with human rights abuses.

From Contexts to Planning

Regardless of whether they are negotiating deals, resolving disputes, or making multiparty decisions, negotiators are more likely to fulfill their goals if they develop a strategic plan. The next section of this chapter introduces five building blocks of a negotiation strategy: parties; issues; positions, interests, and priorities; power (BATNAs and reservation prices); and targets. It then shows how to use the "Negotiation Planning Document" to organize the information generated from analyzing these five building blocks into an overall strategic plan.

If the negotiation jargon that follows is new to you, be easy on yourself about trying to learn it all at once. There will be definitions, there's a glossary in the back of the book, and there should be enough repetition that you will soon get comfortable with all these useful terms.

Five Building Blocks of a Negotiation Strategy

Analyzing each of the five building blocks of negotiation strategy will generate the information that you need to be prepared to negotiate.

Parties

Who are the parties? When analyzing who the parties are, a good rule is to identify the parties whose goals in conflict make it a negotiation situation. Sometimes those parties will be at the table representing themselves. But sometimes, as in the example that follows, those at the table will be agents with only limited authority to share information and make commitments.

A manager on a team representing a U.S. company describes negotiating a lease agreement with representatives of a Saudi Arabian company as follows:

The negotiation on the Saudi side was carried out by "messengers." These were often rather high-level managers,

with significant Western culture experience, who nevertheless were not making any decisions themselves but shuttling between negotiation sessions and their bosses. Prior to a negotiation meeting, the Saudi side always wanted a list of questions and points that we wanted to cover, and they would get back to us, preapproving some questions [presumably those for which approval came from the principals] and indicating others were not approved. We were pretty sure the information provided to the Saudi “bosses” was being filtered by the messengers, and we couldn’t always tell the spin they would put on information.⁵

Often when negotiations are complex, involving different types of expertise or political points of view, teams of negotiators represent each party at the table. In these situations, members of the team representing a single party to the negotiation may have quite different and conflicting goals. For example, in 2010 when Google was negotiating with the Chinese government to renew its license for its local Chinese domain name, google.cn, there were factions with different goals within each party. On the Google side there were the visionaries who believed that Google had compromised its “don’t be evil” values in 2006 when Google agreed to Chinese government censorship of searches in return for the google.cn domain name. But Google was also represented by professional managers who saw Google’s mission as creating shareholder value. On the Chinese side in 2010 were the ideologues concerned with protecting the sovereignty and power of the Chinese state and those who were primarily concerned with how free access to the web would support economic development in China.⁶ When the counterpart brings a team to the table, you need to address two issues. First, why are they bringing a team? What expertise or political perspectives are represented by team members? Second, are team members’ goals likely to be in conflict, as in the Google negotiation in China? What are those conflicting goals?

In other negotiations, the goals of the parties at the table may not be the same as the goals of the people who are going to be affected by the negotiated agreement, and who then try to sabotage the agreement. The French branch of an international consulting firm learned to pay attention to who the ultimate clients are when they negotiated a contract to audit the efficiency of several ministries of a North African nation. Contract negotiations went smoothly, but in starting the audit the French

consultants were stymied by the lack of cooperation of people in the ministries being audited, who feared they would lose jobs and power as a result of the audit. Failure to take into account the concerns of parties who are not at the table but will be affected by the agreement is a classic mistake that jeopardizes implementation.

After identifying the parties, you can turn to an analysis of the issues.

Issues

Negotiators usually know what issues are important to them, but sometimes fail to consider what issues are important to the counterpart, or fail to heed the intangible issues, such as reputation in the bicycles example discussed earlier. Here are some strategies for identifying issues prior to the negotiation:

- On your own side of the table, consult with those who will be affected by the negotiated agreement to make a list of issues.
- Have someone take the role of the counterpart to come with a list of issues that are important to the counterpart.
- Ask the counterpart to send over a list of issues; send your list to the counterpart.
- Have a pre-meeting with the counterpart just to discuss issues (and use that meeting as an opportunity to build a relationship).

Of course, some parties may be reluctant to share information about issues, fearing that by identifying important issues they will make themselves vulnerable to exploitation. We will talk in detail in Chapter Three about how to get information sharing going. As a preview, it may be necessary to put a list of issues on the table and ask the other party “what are we missing?” or even make a multiple issue offer designed to get the issues out and under discussion.

Positions, Interests, and Priorities

Negotiators need to know six things about each issue: their own and their counterpart’s *position* on the issue, their own and their counterpart’s *interest* underlying that position, and their own and

their counterpart's *priority* for that issue. A position is what the negotiator wants with respect to the issue. For example, my position in the pumpkin negotiation was to buy all of Mme. Petit's pumpkins. Underlying that position are one or more interests. An interest is the answer to the question, *Why is the negotiator taking that position?* Interests are the needs, concerns, motivations, and goals that underlie positions. The key to uncovering interests is asking *why* and *why not* questions. That worked for me with Mme. Petit: I asked her why she would not sell me all her pumpkins, and she revealed her interest in the seeds. However, such direct questioning might not work with everyone, everywhere in the world. As we will discuss, it depends a lot on communication and trust.

The now classic introduction to negotiations, *Getting to Yes*, urges negotiators to get behind positions to interests.⁷ This is excellent advice because focusing on interests will give you a more flexible goal than focusing on positions. By my focusing on my interests (pumpkins to carve) and Mme. Petit's focusing on hers (seeds to replant), we were able to transform the issue over which we were in conflict—how many pumpkins she would sell me—to an issue over which we had no conflict—when I would deliver the seeds to her.

Once Mme. Petit and I shared interests, it became clear that seeds were her priority and rind was mine. The integrative agreements that *Getting to Yes* extols, and Mme. Petit and I reached, come from trading off a low-priority issue (for me, seeds) for a high-priority issue (for me, rind). This means that you need to *prioritize*—to rank-order the issues on the basis of your interests. In a multi-issue negotiation, it's unrealistic to expect to get your position on every issue. But you can probably get more on the issues that are more important to you if you are willing to concede on the issues that are less important.

Power: BATNAs and Reservation Prices

A major source of power in a negotiation is what you are going to do if you cannot reach agreement and how good that alternative is.⁸ *Getting to Yes* introduces the acronym *BATNA* to stand for your Best Alternative To a Negotiated Agreement. If your BATNA

is good (and your counterpart knows that it is good), you can demand more and likely receive more from your counterpart. If your BATNA is poor (and your counterpart knows that it is poor), you can still make a high demand, but the counterpart is not likely to offer much more than your alternative.

It is for these reasons that negotiators around the world are very reluctant to reveal their BATNAs to their counterparts, and lying about BATNAs is widespread. When your counterpart knows your BATNA, the counterpart knows you should be willing to settle for something only just slightly better than this best alternative. You can see why negotiators are tempted to lie about their BATNAs. If you lie convincingly about your BATNA, your counterpart should offer more to close the deal.

The problem with lying about alternatives is the reputational implications of getting caught lying. Counterparts who know the markets in which they are negotiating are seldom taken in by lies. Those who find out they have been lied to have long memories and a tendency to retaliate. Reputation once lost is difficult to regain. I was talking to a group of commodity traders recently about lying in negotiations. There is a lot of information available to buyers and sellers in commodity markets. Liars get caught. “We know who the liars are,” they told me. “We tell them, ‘Hey, if you can get it at that price, go right ahead.’” But these commodities dealers also added some good advice. They said, “We’re careful though when the liar calls back an hour later asking for our price again, not to call attention to their lying. At the same time we don’t forget who the liars are. When we move to a new desk we give our successors a list of the liars.”

Negotiators not infrequently have multiple alternatives from which to choose the best. Beginning the BATNA acronym with *best* recognizes that negotiators need to determine which among multiple alternatives is the best alternative. For example, I had several alternatives when negotiating for the incense burner in the souk in Xian, China. I really wanted a souvenir of my trip to Xian, and I liked the idea of the incense burner. I knew I could try another shop in the souk. I had seen similar incense burners in other shops that day. That was my best alternative, but of course I also could have bought something else as a less expensive souvenir, or gone home without any souvenir at all. The shopkeeper’s

best alternative to selling to me was to sell the incense burner at a bigger profit to another tourist. (I noticed the market was not crowded, but thought maybe the tour buses would come in later.) Both of our BATNAs were uncertain, which no doubt encouraged us to reach an agreement.

How do you determine which alternative is best? In general, you need to order your alternatives with respect to the degree to which they meet your interests and priorities.⁹ For example, if your company wants to acquire a new technology, you might buy another company that owns patent rights to that technology, or you might license that technology, or you might develop your own competing technology. The anticipated costs and gains will be different, depending on which option you choose. Analyzing these costs and gains is an essential step in business strategy that precedes negotiation. Once the analysis is done, negotiations can proceed with the counterpart that holds the lowest-cost, highest-gain choice. But this choice is not static. When negotiations with the first choice are not going well, negotiators may threaten or actually break off negotiations and start anew with the second-best option.

How do negotiators know when to turn to the BATNA? This requires the introduction of another negotiation concept: *reservation price* (also called “walk away” or “bottom line”). Your reservation price is the most that you are willing to give or the least you are willing to take to reach a negotiated agreement. To set your reservation price, you must know your BATNA. Your reservation price is a just-noticeable difference from your BATNA. I like to think of reservation price as being inside the negotiation and of BATNA as being outside the negotiation.

Knowing your reservation price gives you discipline in negotiations. You can tell yourself (and others), “If I can’t get this much out of the deal, I’ll walk away to my BATNA.” You know that until you have an offer that meets or exceeds your reservation price, you do not have an offer that you can accept.

Setting a reservation price can be challenging. People seldom go into negotiations with absolute certainty about the cost, value, and availability of the BATNA. For example, I was fairly certain I could find a similar incense burner at a nearby shop, but I didn’t know whether or not I could buy it at a lower price than

what the current shopkeeper was offering. Negotiators need to consider all these aspects of the BATNA: cost, value, and availability when setting a reservation price. In general the rule is the greater the uncertainty about the BATNA, the more you should discount its value when you use it as a standard for setting a reservation price.

Here is some advice for setting BATNAs and reservation prices:

- *Understand how what you are planning to negotiate fits into the larger strategic picture.* What's the goal of this negotiation? To enter new markets? To gain access to new technology? How else might the goal be met than by completing this negotiation?
- *Know your BATNA.* You always have a BATNA, even if it is simply staying with your current course of action.
- *If your BATNA is poor, try to improve it.* Generate a better alternative.
- *Use your BATNA to set a reservation price.* Do not change your reservation price unless you receive new, credible information that changes your BATNA. Credible information about your BATNA is not likely to come from the other party. After all, it is in that party's interest for you to think your BATNA is poor.

Targets

Your *target* is what you reasonably think is possible to get in a negotiation. It should be optimistic, but not ridiculous! Having a target will keep you negotiating even after you know that you can agree because you've already received an offer that is better than your reservation price. Having targets helps negotiators fashion agreements that meet their interests. It's very important to set a target—and challenging to do!

The rule for setting targets is to base them on the other party's BATNA. Be a little more generous than your analysis of the counterpart's BATNA, and if he is rational, he will understand that your offer is better than the best he can do elsewhere. Admittedly, in practice it is even harder to evaluate the other party's BATNA

than your own. There are several reasons why. First, you usually lack information about the other party's BATNA. Second, it is difficult to get deeply enough into the other party's mind to know exactly how he evaluates the BATNA. And, third, he may not be rational about the BATNA, and decide that regardless of the value of the BATNA, after negotiating with the likes of you, he does not want to do business with you!

A fallback in setting a target is to find out about *precedents* or *standards of comparison*, what *Getting to Yes* calls *objective standards*.¹⁰ When buying a house you know to find out what other houses in the neighborhood sold for. You also know to find out about the particular house you are interested in: how long it has been on the market; why the sellers are selling. Precedents help you make decisions when BATNAs are unclear or uncertain. When you have a dispute with a supplier, you ask your lawyer how much disputes like yours normally settle for (and how long it will take), and then you evaluate this particular supplier. Is the supplier engaged in other disputes? Are you an important customer? Is reputation at stake? All this information will help you set an optimistic but realistic target.

Here is some advice for setting targets:

- *Know your industry and market.* What are the characteristics of recent negotiations like this one? Get as much information about them as possible.
- *Determine if there is reason to think the environment has changed since the most recent similar negotiation.*
- *Determine what the other party's BATNA is.* The other party is not going to agree to something that is worse than its BATNA.
- *Be optimistic and realistic.*
- *Don't lose sight of your target as soon as you get an offer better than your BATNA.* Keep working toward the target.

Combining Fundamentals

We've just gone through five key building blocks of negotiation strategy: parties; issues; positions, interests, and priorities; power (BATNAs and reservation prices); and targets. Combining the

information each provides is the purpose of what we call the “Negotiation Planning Document.” While its name includes the word *planning*, as we will see, the document will also be useful when evaluating a potential agreement.

The Negotiation Planning Document

The Negotiation Planning Document, illustrated as a template in Exhibit 1.1, is a one-page tool for organizing the information associated with the five building blocks of negotiation strategy. Completing it means you’ve identified the parties; the issues; and your own *and the counterpart’s* positions, interests, and priorities, as well as your BATNA, reservation price, and target. The template models a two-party negotiation, but by adding columns for additional parties, you can adapt the same format for multiparty negotiations. With additional columns you can add in the different perspectives of members of a negotiating team. Even in a two-party negotiation you may want to add columns for the parties who will not be at the table but who have interests in and influence over the negotiation. You can also use the completed planning document to explain your strategic analysis to your boss and get authorization for a reservation price as well as your strategic approach to the negotiation, the theme of Chapter Three.

Completing the counterpart’s column in the planning document is challenging. Trying to do so makes clear what you think you know about the counterpart’s positions, interests, and priorities, and what you don’t know and need to find out. Verifying what you think you know about the counterpart’s positions, interests, and priorities, and finding out the information you don’t know about them, should be your first order of business once negotiations begin.

Here’s how to read and use the Negotiation Planning Document. There should be a column for each party to the negotiation, including yourself, and a row for every issue. The intersection of row and column makes a box that is further subdivided into three parts. Write the position on the issue in the top part of the box and the interest underlying the position in the bottom part of the box, then put a number indicating the priority of the issue in the space to the left. At the bottom of the planning document are

Exhibit 1.1. Negotiation Planning Document.

<i>Issue</i>		<i>Self</i>		<i>Other</i>	
Key	Position			Position	
	Priority	Interests	Priority	Interests	
Issue 1					
Issue 2					
Issue 3					
Issue 4					
Issue 5					
Issue 6					
Issue 7					
BATNA					
Reservation Price					
Target					

rows for entering BATNAs, reservation prices, and targets. You are really not ready to begin negotiating until at least your column of the planning document is complete. You may not be able to complete the counterpart's column with a lot of confidence, but not being sure about where the counterpart is coming from with respect to positions, interests, priorities, and BATNA is no excuse for leaving the counterpart's column blank. Spend some time

thinking about answering the questions posed by the blank boxes in the counterpart's column. Talk to others about the counterpart's interests and priorities and BATNA. Use informal opportunities to acquire information to fill in those empty boxes. Consider the opening rounds of the negotiation as a time to verify and complete the planning document.

From Planning to Evaluating Agreements

The Negotiation Planning Document also provides quite a bit of the information you need to evaluate offers and potential agreements. Negotiators all over the world want to “win,” and you should, too. At the same time, negotiators are frequently uncertain about when to accept an offer and end the negotiation. They know they shouldn't agree to an offer that is worse than their BATNA, although evidence about the agreement bias in negotiations suggests that some negotiators fall into this trap.¹¹ Having your BATNA and reservation price clear in the planning document can help to minimize agreement bias. But negotiators are frequently not so sure how to decide whether to stop negotiating and accept an offer that is better than their BATNA. The planning document is also helpful in making the decision to accept an offer.

Evaluating Potential Agreements

The Negotiation Planning Document and these four criteria are useful for evaluating potential agreements:

- Is the offer better than my BATNA?
- Does the offer meet my interests?
- Does the offer meet my counterpart's interests?
- What are the transaction costs of continuing to negotiate?
 - How much time and energy have we committed to this negotiation?
 - How much time and energy would be required to continue negotiating?
 - Will continued negotiations improve or hurt the relationship with the counterpart?
 - How likely will continuing negotiations result in an improved agreement?

Evaluating potential agreements against the BATNA in the planning document has three important implications for the negotiators' own outcome or *net value*. (*Net value* refers to the difference between the value to the negotiator of the potential agreement and the value to the negotiator of the BATNA.) First, identifying the BATNA helps negotiators clarify the minimum of what they need in terms of value to say yes to a potential agreement. Second, identifying the other party's BATNA helps negotiators identify how much they can ask for at the negotiation table. (Recall that in setting up the Negotiation Planning Document you can use information about the counterpart's BATNA to set your target.) Third, *thinking net*—considering how much better you are doing than your BATNA—helps negotiators avoid *satisficing*—that is, accepting an outcome just a tiny bit better than the alternative. Thinking net helps negotiators stay motivated to find an outcome that is closer to their target than to their BATNA.

Evaluating potential agreements against the negotiator's own interests as opposed to positions has the important implication of encouraging creative solutions. Note that in the pumpkin example, once Mme. Petit and I got beyond our positions and shared information about our interests, we were able to craft a creative agreement in which both of our interests were met in a way that neither of us had contemplated at the outset of the negotiation.

Evaluating potential agreement against the counterpart's interests not only encourages creativity and settlements, it also increases the potential value for individual negotiators to claim. When negotiators fail to pay attention to their counterparts' interests and fail to use information about their own and the counterparts' interests and priorities to make trade-offs, they leave value on the table that no one gets, with the result that the value they can claim is limited.

Exhibit 1.2 will help you understand this very important point about negotiation strategy: if you do not care about meeting the counterpart's interests, you will hurt your chances of claiming value and meeting your own interests. The graph in Exhibit 1.2 shows some of the results from a negotiation simulation that I have used with managers all over the world. Colleagues and I collect the agreements that managers negotiate as the first

**Exhibit 1.2. Individual and Joint Gains
Within and Across Cultures.**



exercise in executive education workshops. We assign managers to the role of the buyer or the seller, give them confidential information for their role, provide at least an hour to prepare with a same-role counterpart, and then split them up to negotiate one on one with an opposite role counterpart for seventy-five minutes. There are four issues in the negotiation, and all are financial. This makes it easy to score the exercise and to see which negotiators made the trade-offs meeting each other's interests and capturing the entire \$5.03 million in potential *joint gains*. (Joint gains are the sum of the buyer's net value and the seller's net value.) The data in the exhibit are from intracultural negotiations; that is, managers from particular countries were negotiating with their countrymen. The first result to notice in Exhibit 1.2 is that, on average, negotiators from all over the world fail to take full advantage of the maximum potential in the exercise. The best negotiators on average leave about \$1 million of value on the table that neither party gets. (Why they do so is a problem of strategy—the subject of Chapter Three.)

To see the point about hurting your own net value because you were not sufficiently concerned about helping the

counterpart maximize his net value, look at the shading in the bar chart of Exhibit 1.2. When joint gains are lower (for example, the results for Chinese or Indian negotiators), both buyers and sellers' net values are lower, but when joint gains are higher (for example, the results for Brazilian or American negotiators), both buyer and seller's net values are higher than those of Chinese and Indian buyers and sellers. The data in Exhibit 1.2 show that it is in negotiators' self-interest to search for agreements that meet their own and their counterparts' interests.

Transaction costs refers to the time, money, and energy that negotiators put into planning and executing a negotiation. High transaction costs can be justified if the result is an agreement that over time actually yields high net value to both parties. Often, however, it is difficult to judge whether, by persisting in a frustrating negotiation that does not seem to be making much progress toward agreement, you will ultimately reach a high net value agreement. There are two analyses to do to help you make the decision to end a negotiation by accepting an offer or declaring an impasse. As discussed earlier, the first analysis is to compare the value of the offer to the value of your BATNA. The second analysis covers a point we have not yet discussed—the nature of your relationship with the other party.

Rationally, if the negotiation is stalled after significant effort and you do not have an offer that is better than your BATNA, you should cut your losses and turn to your BATNA. On the other hand, if progress stalls but your BATNA is poor, it's time to invest significantly more effort in building a relationship and in becoming creative about how to resolve the impasse.

Negotiations are not just about economic outcomes but also about relational outcomes.¹² Some negotiations are about building new relationships, others about extending, managing conflict in, or ending old relationships. Negotiators from some parts of the world assume that if they can negotiate high-joint-gains economic agreements, a trusting relationship will follow. Yet, as we begin to talk about culture and trust in subsequent chapters, it will become clear that negotiators from other cultures assume that economic gains will *follow* from relationships. Leaders of the American private equity group Blackstone and the Brazilian

private equity group Pátria spent more than ten years building a relationship that ultimately culminated in a \$200 million equity investment in Pátria by Blackstone.¹³ Savvy global negotiators patiently engage in building and maintaining relationships and extending networks even when there is no obvious immediate payoff.

Strong relationships between parties to a negotiation have long-term payoffs. Though parties can negotiate contingent contracts or hedge elements of agreements that are predictably unpredictable, the environments in which agreements are reached are often dynamic in unpredictable ways. In the rush to gain access to new consumers, markets get misread. Political, economic, social, and technological environments change. Some negotiated agreements seem to promise high net value but fail to deliver on actual gains, due to factors outside either party's control. Parties that develop a trusting relationship can often accept that environmental shocks are no one's fault and from there proceed to renegotiate. In the absence of a trusting relationship, depending instead on the contract, parties may be unable to renegotiate and end up in court or arbitration or even just selling out to get out of the relationship. This is what BP ultimately did in 2012 to end its involvement in the 50-50 joint venture in the Russian oil and gas industry that was called TNK-BP. The joint venture, formed in 2003 between BP and a group of Russian investors (AAR), was profitable and grew to be Russia's third largest oil company by output, even though it was plagued from the outset by internal governance problems. But the death blow to the TNK-BP was a change in the environment. The Russian government had privatized much of its oil and gas sector in the 1990s, selling to tycoons such as the AAR investors, and seeking technology and know-how from foreign investors such as BP to revitalize an unproductive industry. This policy changed in 2000 as President Putin sought to reestablish government control of the effectively revitalized oil and gas sector, which brings in half of all of Russia's tax revenues and is a major source of international influence. BP sold its stake to the Russian-government-controlled Rosneft in October 2012, and the AAR investors sold their stake also to Rosneft in December 2012.¹⁴

Moving on to Culture

In this opening chapter, we've reviewed the basics of negotiation, focusing on the contexts in which people negotiate, the fundamental elements of negotiation strategy, and how to evaluate negotiated agreements. The rest of the book will put these ideas into action. Doing so is complicated by many factors, including the negotiators' cultural background and the cultural context of the negotiation. Chapter Two addresses how and why culture affects negotiation.

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