

Negotiation and Competitive Decision Making

Before You Leave Class Today!

- **Pick Up**
 - *Confidential Information for*
SALT HARBOR: Brims versus
Easterly
- **Identify**
 - your negotiating partner

Next Class

- **DEBRIEF**
 - Street Streaker & Alpert-Raiffa Experiment
- **NEGOTIATE**
 - Salt Harbor
 - In class matchups

Course Objective

Improve your ability to achieve your negotiating objectives in a responsible fashion.

Today's Themes

- HOW WE LEARN
- PREPARATION
- SPLIT THE PIE!
 - Distributive Bargaining Principles
- COGNITIVE BIASES
 - Anchoring affects negotiation outcomes
 - A first controlled feedback experiment

**Negotiation is a Core
Competency!**

Avoid Negotiation Sand Traps

Leigh Thompson Ch 1 page 5

- **Leaving money on the table**
 - “Lose – Lose” Both parties could do better
- **Settling for too little *or* paying too much**
 - The “Winner’s Curse”=>You achieve agreement but give up too large a portion of the bargaining pie
- **Walking away from the table**
 - You reject terms that are demonstrably better than any other option available
- **Settling for terms that are worse than the alternative**
 - “Agreement bias” or you agree to agree even when other alternatives are better

How We Will Learn

- **Practice**
- **Calibrated Feedback and Results Analysis**
 - **To avoid self-reinforcing ineffectiveness**
- **Outcome Based Evaluation**
- **Seeing how others See You!**

Barriers to Effective Negotiation

Thompson Ch. 1 Pages 6-7

- **Egocentrism**

- Self congratulatory views: In Lake Woebegone, all children are above the town average in intelligence

- **Confirmation Bias**

- Tendency to see what you want to see when appraising your own performance

Barriers =>Self Reinforcing Incompetence

“We tend to be blissfully unaware of our own incompetence!”

Mergers and Acquisitions

- “CEOs develop overconfidence ”
- “They overly attribute their influence when deals are successful”
- “This leads to MORE deals that are unsuccessful”
- “The problem persists even when promised significant financial rewards for accurate appraisal of one’s own performance”

Thompson Page 7 cites Billet et al MGT SCIENCE (2008)

Myths

- **All negotiations are fixed sum**
- **Good Negotiators are born**
- **You need to be either tough or soft**
- **Experience is a great teacher**

- **Good negotiators take risks:** (*translation*)
 - Good negotiators *make threats* in a disciplined and organized fashion
 - Good negotiators know how to balance risks and rewards
- **Good negotiators rely on intuition:**
 - Usually not! Behavior is often influenced by arbitrary and irrelevant aspects of a setting
 - Good negotiators are self-aware
 - They can articulate the rules that guide them and police against being fleeced

- **Our focus** => *skill building and learning by doing*
- **Doing** negotiations in different substantive contexts *sharpens our ability* to recognize untested assumptions, alternative explanations
- **Increases our sensitivity** to what works, what doesn't work and why.

Negotiation in a Nutshell!

- **PARTIES**

- **Who** are the real parties to a negotiation?

- **BATNAS**

- What will negotiators do if they don't reach an agreement?

- **INTERESTS**

- What are the parties basic needs and priorities?

From "Negotiation Analysis: An Introduction" by Michael Wheeler HBS 9-801-156

- **VALUES**

- How can value be created and who is likely to get it?

- **BARRIERS**

- What are obstacles to agreement and maximization of value and how can they be overcome?

- **POWER**

- What levers of power does each negotiator possess and how should they be deployed?

- **ETHICS**

- What is the right thing to do?

From “Negotiation Analysis: An Introduction” by Michael Wheeler HBS 9-801-156

TOPICS

I. **Distributive Bargaining—Split the Pie!**

- Street Streaker
- Salt Harbor

II. **Competitive Gaming**

- Oil Price Negotiation— Iterative Prisoners' Dilemma

III. **Fair Division**

- The Rothman Family Art Collection
- *Calculating the Efficient Frontier*

IV. **Contingent Contracts**

- Jessie Jumpshot

V. **Mixed Motive—Integrative Bargaining**

- Nelson Contracting
- Alphexo vs. Betonn (negotiating an IT venture)
- Winemaster.com (sale of an online wine enterprise)
- CP Hong Kong vs. MegaMarket USA (email or text-message negotiation)

VI **Balanced Concerns Negotiations**

- Stakes of Engagement
- Aerospace Investments

VI. **Many Party Negotiations**

- Teams: Eureka vs Flagship Renegotiate
- Welsh Water Mgt-Union Negotiation

SCORING & GRADING

Scoring

	<u>Winemaster</u>	<u>HomeBase</u>
<i>Outcomes => Net Gain:</i>	<i>\$750 K</i>	<i>\$1,200 K</i>

Overall Class Statistics

<i>Average Net Gain:</i>	<i>\$650 K</i>	<i>\$1,100 K</i>
<i>Standard Deviation of</i>		
<i>Net Gain:</i>	<i>\$1,200 K</i>	<i>\$1,600 K</i>

Z-Scores

$$Z_{\text{Winemaster}} = \frac{(\$750 - \$650)}{\$1200} = .083$$

$$Z_{\text{Homebase}} = .0625$$

Preparation Survey

- A “Best Effort” response will receive a +0.25 Z-score increment

Subjective Valuation Survey

- You will be asked to express your opinions about your negotiation counterpart
- You will receive +0.25 Z-score points for completing the survey
- We will summarize responses and feed the summary back to each of you at the course end

How Well Do You Think You Did?

COUNTS OF ANNOUNCED VS ACTUAL

		Actual Percentile				
		0-25th	26-50th	51-75th	76-100th	
Announced Percentile	0-25	2	0	1	3	6
	26-50	1	1	1	0	3
	51-75	1	2	5	2	10
	75-100	3	4	0	2	9
		7	7	7	7	28

Negotiation Dance Records

- Record the sequence of offers made by you and counter-offers made by your counterpart:
 - Amstore versus Nelson
 - Stakes of Engagement
 - Aerospace Investment
- Enter record using the online survey
- You will receive +0.25 Z-score points for entry

The Fog of Negotiation

- Your negotiation dance records will help us decipher why multiple issue negotiation trajectories vary wildly....even when negotiator role information is held fixed

Distributive Bargaining

Principles and Key Ideas

Outcome

- Who received which tangible goods?
- Net Gains
 - Yours
 - Your Negotiating Counterpart's
- “See-Saw” or “Tug of War” outcome

Key Power Source

- **BATNA =**
Best Alternative to No Agreement

Other Sources of Power in Negotiation

- **Authority**
 - Chain of Command
 - Moral
- **Relational**
 - Friends, Family, Tribe
- **Ability to Reward**
- **Ability to Punish**
- **Knowledge**

Distributive Bargaining Principles

- **Target Point=>What do I want?**
 - Your preferred settlement, taking into account limits imposed by the interests of your counterpart

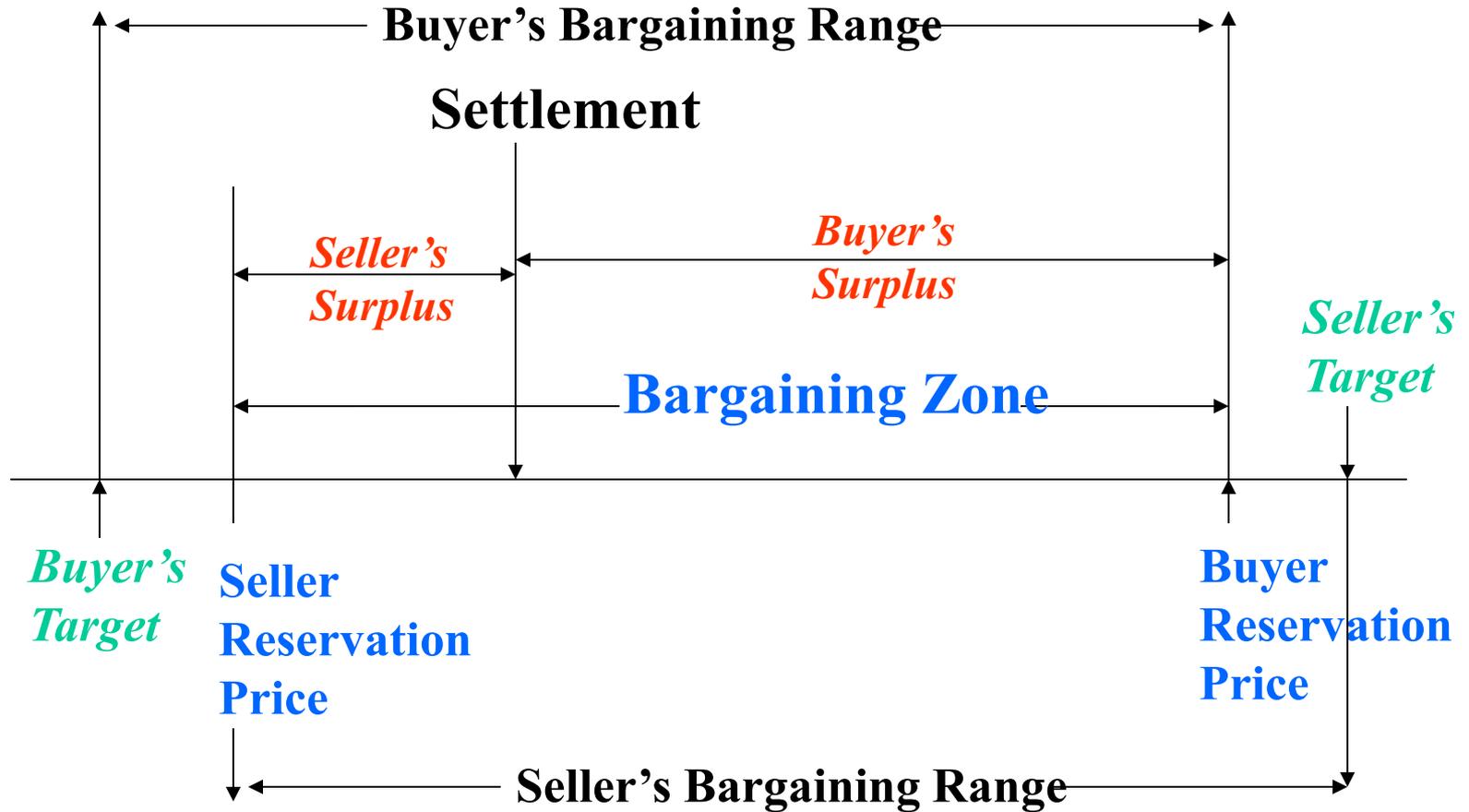
BEST ALTERNATIVE to NO AGREEMENT = BATNA

- ➔ **NOT a wish**-> Objective Reality determines it!
- ➔ **Real World DYNAMIC**-> a function of market forces, changing environment.
- ➔ **Changes** as available alternatives change

- **Bargaining Zone**--the region between parties' reservation points
 - **Positive** when parties' reservation points overlap
 - **Doesn't exist** when there is no overlap

- **Bargaining Surplus**

- Amount of overlap produced by reservation points
- Measures the *size* of the bargaining zone



**Bargaining Zone = Zone of Possible Agreement
or ZOPA**

The Zirconia ZT Sale

- Marcia walks in with no plan:
 - No counter offer to the Zirconia sticker price
 - No thought about trade-in value of her car
 - No thought about max she will pay for a given bundle of options
 - No thought about extras, prep, insurance fee, etc.
 - No thought about financing options and trade-offs

Prepare, Prepare, Prepare!

- **Determine your BATNA**
- **Improve your BATNA if possible**
- **Think through tactics in advance**

*Understand the **interests** of your negotiating counterpart(s)*

- Self-evident in formal zero-sum and non-zero sum games
- **NOT** self-evident in multiple issue negotiations where each party possesses private information
- Information about BATNA's usually arrives **through the dynamics of negotiation**

ANCHORING

- ❑ People make estimates by starting from an *initial value* and adjusting to provide a final answer.
- ❑ Adjustments are typically insufficient

Calibration

- Prior to each of 84 days the U.S. Weather Bureau announced a 0.60 probability of rain, snow or both
- It rained or snowed (or both) on 49 of these 84 days
- $49/84 = 0.58$, close to 0.60



The Bureau is well calibrated for announced probabilities of 0.60.

- An initial value is a *psychological anchor*
- Large and systematic departures from accuracy can occur
- **Facts:**
 - *Unless carefully trained, individuals tend to be poorly calibrated.*
 - *Adjustment is almost always insufficient.*

In *Global Catastrophic Risks*, eds.
Nick Bostrom and Milan Cirkovic
Eliezer Yudkowsky
Singularity Institute for Artificial Intelligence
Palo Alto, CA

- **“Despite all dangers and temptations, it is better to know about psychological biases than to not know. Otherwise we will walk directly into the whirling helicopter blades of life.”**
- **“But be very careful not to have *too much fun* accusing others of biases. That is the road that leads to becoming a sophisticated arguer - someone who, faced with any discomfoting argument, finds at once a bias in it. The one whom you must watch above all is yourself.”**

Alpert-Raiffa Experiment

A learn by doing controlled
feedback exercise

1. Greater New York City's Metro Area is more populous than LA's. What is the New York CMSA in 10^6 people?
2. What *fraction* of the Earth's surface lies above latitude 66° known as the Circum-Arctic?
3. 100 avid basketball fans were asked, "Does a player have a better chance of making a shot after having just made his last two or three shots than he does after missing his last two or three shots? What *fraction* answered YES?"

Alpert-Raiffa Experiment

- Individuals are asked to specify 50-50 probability intervals [*inter-quartile ranges*] for a large number of uncertain quantities such as:
 - NYC Metro Area population in millions
 - Circum Arctic as a fraction of Earth's surface
 - Fraction of basketball fans who believe in the “Hot Hand”

Fractiles

- 0.25 Fractile:

- The value $x_{0.25}$ of an uncertain quantity such that *you believe* there is a $\frac{1}{4}$ chance that it is less than or equal to $x_{0.25}$ and a $\frac{3}{4}$ chance that it is greater than $x_{0.25}$

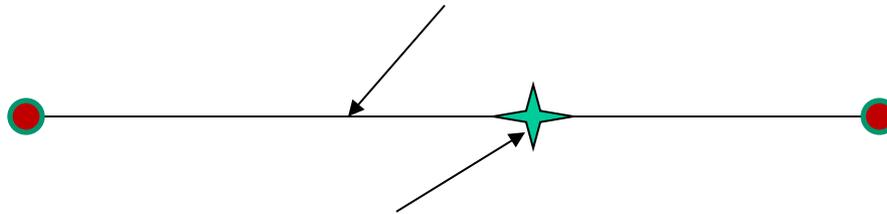
- 0.75 Fractile:

- The value $x_{0.75}$ of an uncertain quantity such that *you believe* there is a $\frac{3}{4}$ chance that it is less than or equal to $x_{0.75}$ and a $\frac{1}{4}$ chance that it is greater than $x_{0.75}$

Announced 50-50 Interval

COUNT

(1)

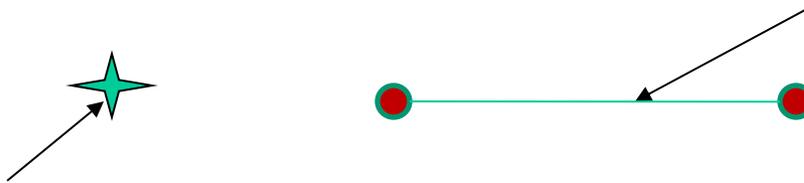


1

True Value

Announced 50-50 Interval

(2)

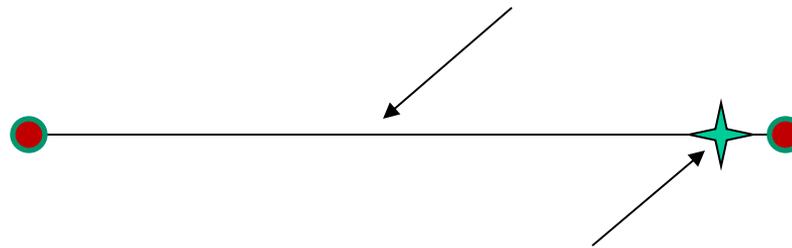


0

True Value

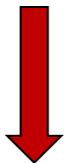
Announced 50-50 Interval

(3)



1

True Value



Outcomes

- **Much *narrower* ranges than 50-50 appear**
 - Such interval estimates reflect more certainty than is warranted by available knowledge
- **36% is a pseudo semi-constant!**

- Irrelevant numbers can serve as *anchors* and influence perception of the bargaining zone:
 - Reader Example: 81% of residential real estate agents in the survey said they did not use list price to estimate sales price
 - Nevertheless, a “list price” manipulated by 12% and shown to agents resulted in significant differences in their estimates of the property’s sales price
 - The average price with a **low list price was 15% lower than that for the high list price**

First Offers as Anchors

- Does making the first offer lead to a better outcome for you?
- *Translation:* “Does anchoring work?”

Hint: Think interactively!

Subjective Values In Negotiation

- **Affective** = Feelings and opinions about:
 - The Objective Outcome
 - The Process
 - “Myself”
 - My Negotiating Counterpart
 - Fairness
 - Empathy
 - Her outcome

Negotiating Sale of the Street Streaker

Some Big Questions!

- **Reveal your reservation price?**
 - No! Unless it is very,very good. Seldom the case
- **Lie about your reservation price?**
 - No! You can back yourself into a corner and fail to reach agreement
- **Try to convince your counterpart that her BATNA is no good?**
 - Probably Not. Only if you have supportable evidence that it is *really* no good
 - Beware of a Boomerang effect: people often do the opposite of what you want them to do

- **Tough or Soft?**
- You should be *neither*:
 - Too tough may blow the deal
 - Too soft, you give away your bargaining surplus
- **Ideal:**
 - Try to make an offer in the bargaining zone, not outside
 - IF you are certain of your counterpart's BATNA, offer just slightly better

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15.067 Competitive Decision-Making and Negotiation
Spring 2011

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