



# Distributive vs. Integrative Bargaining & Cognitive Biases in Negotiation

**Dr. Caneel K. Joyce**

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## Agenda

**Slicing the Pie (Distributive / Win-Lose)**

**Texoil Exercise & *Debrief***

**Expanding the Pie (Integrative / Win-Win)**

**Principled Negotiation**

**Cognitive Biases in Negotiation**

## Slicing the Pie

- Continuing from yesterday...
- How do you get the biggest piece?



## Best practices (overview)

1. Aims: Best Deal vs Agreement
2. First offers
3. Standards & fairness
4. Concessions
5. Revealing, withholding, and lying

### 3. Using standards

- Always justify your offer(s) with objective facts and “standards”
- Your rationale is important to your counterpart!
  - Ego
  - Accountability to others
  - Estimating your positions (RP, BATNA)
- Introduce principles to remove destructive emotions and create dialogue

### The Power of Fairness

- Focus on **your counterpart's** interests/positions
  - People seek equity in their relationships with others
  - When people sense inequity, they will attempt to restore it
- Interactional fairness
  - Is the interpersonal relationship respectful?
  - Is the information clear and honest? (simple feels honest)
- Procedural fairness: Many fair ways to slice the pie
  - Equality
  - Equity
  - Needs-based
- Egocentrism taints judgments of fairness
  - Selective encoding and memory, informational asymmetry

## Research the criteria in advance

### Fair standards

Should be

- Legitimate and practical
- independent of each side's will

Could be based on:

- market value
- precedent
- scientific judgment
- professional standards
- tradition
- reciprocity (each side offers something), etc.

### Fair procedures

One person cuts, the other one chooses

- Each side gets equal opportunity

Remember the value of voice

Other options:

- Taking turns
- Drawing lots/flipping a coin
- Letting someone else decide  
- expert, mediator

## 4. Concessions

- Need some cushion (Target price versus reservation price)
- Make the first concession
  - Why?
  - Norm of reciprocity
  - Positive feelings

## Concession Patterns

Strategically plan the timing and magnitude of your concessions

- 1.Tough:** Few and small concessions throughout
- 2.Soft:** Big at first, then tapering down
- 3.Better late than never:** Low and slow at first, then ramping up

*Material from this slide based on 2010 lecture by Marta Coelho*

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## The Tough Concession Pattern

Few and small concessions throughout

- Higher probability of stalemate
- But if agreement is reached, the negotiator's surplus usually high
- Best when aim is for “Best Deal”
  - Precedent, reputation, low relationship concern
  - Can hurt joint gain, negotiation process, reputation

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## The Soft Concession Pattern

Big and generous at first, tapering down

- Low probability of stalemate
  - But risk making unnecessary concessions on the wrong points too early
- Possible ding to reputation
- Best when aim is for “Agreement”
  - No precedent being set, no reputation concerns, high relationship concern

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## The Better Late than Never Concession Pattern

Low and slow at first, waiting until late in the negotiation to concede

- If too late, can lead to failure/stalemate
- Tends to elicit greater concessions from others
- Can damage relationship and reputation

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## Concession conclusions

- Best pattern is reciprocity
- Use a tough pattern but don't act 'tough'
- Focus on using concessions to gain **information** about counterpart's interests
- Remember, concessions elicit **reciprocity**

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**Texoil Exercise & Debrief**

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## How did your preparation go last night?

1. Purpose
2. Interests & Priorities
3. BATNAs
4. Options & Issues
5. Standards
6. Proposals
7. Intentions

Negotiation Planning Document		
Negotiation & Role:		
Partner's Name(s) & Roles		
STATED PURPOSE What is this negotiation supposed to be about?		
INTERESTS: (Think broadly, then prioritize. Compare your priorities to find tradeoffs/concessions.)		
Mine:	Theirs:	
BATNAs: (State in words and in terms of points, dollars, or the appropriate metric)		
Mine:	Theirs:	
OPTIONS & ISSUES (Brainstorm ways to expand the pie or find a mutually attractive agreement)		
STANDARDS (equity, need, fairness, market rates, industry benchmarks, historical data, assumptions...)		
PROPOSALS (Think in terms of multi-issue packages)		
Aspire to (=Target Point)	Content with	Live with (=Reservation Point)
INTENTION FOR THIS NEGOTIATION (tactics/strategies you want to try, goals, focus areas)		

## Texoil: Rules of the Game

- Do not make up facts outside of your confidential instructions
- Use the information you do have creatively
- If you have not finished within 1 hour, stop
- When time is up give your completed Texoil Outcomes Sheet to Alex.
  - Then go to break.

### Texoil Groups and Roles

First Name	Last Name	Group ID	Role
Warda	Tazi	1	TEXOIL
Raluca	Boroianu-Omura	1	Station Owner
Jane	Pade	2	TEXOIL
Alain	Siebert	2	Station Owner
Omar	Awad	3	TEXOIL
Jamiu	Eniola	3	Station Owner
Miguel	Linares	4	TEXOIL
Parag	Sharma	4	Station Owner
Felipe	Kudless	5	TEXOIL
Jan	Hann	5	Station Owner
Isabel	Manrique	6	TEXOIL
Aly	Popat	6	Station Owner
Tania	Rodriguez	7	TEXOIL
Rodrigo	Scholtbach	7	Station Owner
Marianne	Rasmussen	8	TEXOIL
Guido	Hagemann	8	Station Owner
Mohammed	Mebjar	9	TEXOIL
Aart	Vollenhoven	9	Station Owner
Nicholas	Gould	10	TEXOIL
Michael	Pearson	10	Station Owner
Mondlane	Morte	11	TEXOIL
Marie	Osnes	11	Station Owner
Dennis	Woudsma	12	TEXOIL
Hana	Yoshimoto	12	Station Owner
Ankit	Khurana	13	TEXOIL
Arpine	Korekyan	13	Station Owner
Moritz	Guettinger	14	TEXOIL
Kirsten	Pansegrow	14	TEXOIL
Ademola	Oladimeji	14	Station Owner



# Texoil

1 hour

# **Break**

30 mins

# **Negotiation Journals**

5 mins individual  
10 mins peer feedback  
5 mins individual

## Did you get a deal?

- Many different ways to resolve a negotiation
- Impasse common if:
  - emotions escalate, rigid demands, polarization & unproductive conflict
  - Set target too high

## How good was your agreement?

- Value claiming:
  - Texoil pays <500k cash, gives job/other items
  - NOT Texoil gives it all away

## How the class did

## Back to Basics

- BATNA's
- Bottom lines
- How many people had a package as BL?
- If rely on position, then negative bargaining zone



## How did you create agreement?

- The only way to avoid impasse was to use the information creatively to literally create a positive bargaining zone

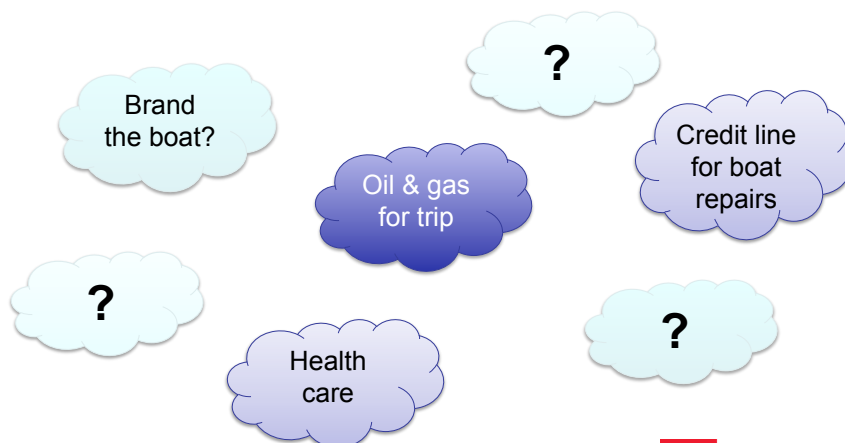
## One Creative Way to Create Value

- Promise station owners job worth \$75k
  - Texoil rep is ops director
  - Use operations, not acquisitions budget
- Requires sharing info
  - Texoil's long term strategy
  - Station owner's plans

## Brainstorming Rules

- Brainstorm first alone, then together
- Rules of the game:
  - Reserve judgement
  - Build on each other's ideas, freewheel
  - Encourage wild ideas
  - Go for quantity

## Other creative ideas



## Revealing Information

- What information did you reveal?
- Did revealing make you feel vulnerable?
- What kind of information provides a basis for creating value?
  - Not info about bottom line
  - But info about interests and priorities
- Was trust established? How?
  - Generally, trust results from the process of reciprocal information sharing, and proposals that are responsive to information shared.

## 5. Revealing, withholding, and lying

- Should you **reveal** your BATNA?
  - Only if it's excellent and the bargaining surplus is very small
  - How about your RP?
- Should you **withhold** your TP?
  - How about your interests?
- If pressed, should you ever **lie** about your RP?
  - How about your BATNA?
- **GENERALLY, NO!** You can 'paint yourself into a corner', damage the relationship / your reputation, and in some cases act unethically.

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**Win-Win negotiations are not  
compromises or 50/50 splits**

Win-Win means that “all creative  
opportunities are exploited and no  
resources are left on the table.”

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Thompson

## Two common assumptions lead to sub-optimal outcomes

- **False conflict**
  - Assume interests are not compatible
- **Fixed-pie perception**
  - Assume other party's interests are directly and completely opposed to one's own interests
  - Fail to expand the pie

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## Recognize situations with win-win potential by asking four questions

- Does the negotiation contain **more than one issue**?
- Do parties have **different preferences** across negotiation issues?
- Can **other issues** be brought in?
- Can **side deals** be made?

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## Distributive vs. Integrative

Characteristics	Distributive Bargaining	Integrative Bargaining
Available resources:	Fixed amount of resources to be divided	Variable amount of resources to be divided
Primary MINDSET:	I win, you lose	I win, you win
Primary interests:	Opposed to each other	Convergent with each other
View of relationships:	<u>Short term</u>	<u>Long term</u>

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## Strategies for expanding the pie

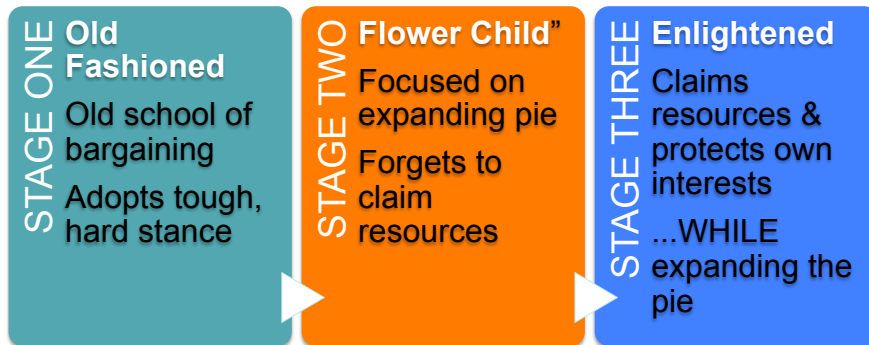
- **Perspective-taking**
- **Ask questions** about interests and priorities
- **Provide information** about your interests and priorities (illusion of transparency)
- **Unbundle** the issues
- Make **package deals**, not single-issue offers
- Make **multiple offers** of equivalent value simultaneously
  - But other party cannot “cherry pick” from various offers

## Strategies that do not expand the pie

- **Commitment** to reaching a win-win deal
  - Often have incorrect idea about what win-win is
- **Compromise**
  - Pertains to slicing the pie, not expanding it
- Focusing on a long-term **relationship**
  - Does not translate directly into win-win
- Adopting a “**cooperative orientation**”
  - Concern for other party must be combined with concern for own interests
- Taking **extra time** to negotiate
  - Quality of outcome does not improve with time

## Do not forget about claiming value!

Three stages in evolution of integrative negotiator:



## If they are more powerful, develop your BATNA

### Develop your BATNA

The better your BATNA, the greater your negotiating power

1. Brainstorm what you could do if no agreement reached
2. Improve the more promising ideas and convert into practical alternatives
  - Might require research, etc.
3. Tentatively select the one that seems best

### Consider their BATNA

If their BATNA is too good to make negotiating worthwhile, think about how to change it

If both sides have attractive BATNAs, the best outcome might be no agreement

If your BATNA is better than they think, let them know

## Key Takeaways

- **Be aware of your misconceptions**
  - false conflict and fixed-pie perception
- **Do your homework**
  - Research objective criteria
  - Break down the issues and establish your RP
  - Prepare multiple-issue offers
- **Protect your own interests**
  - Strengthen your BATNA
  - Claim resources while expanding the pie
- **Aspire to be a principled negotiator**

## Thursday morning

- You will receive Harborco roles tomorrow afternoon from Connson
- We will meet here, then move to breakout rooms shortly after class begins
- Prepare beforehand
  - Prepare your planning document
  - Review your journals and peer feedback and aim to improve upon your performance
  - Set an intention for a new behaviour/strategy to try