Distributive vs. Integrative Bargaining & Cognitive Biases in Negotiation

Dr. Caneel K. Joyce
28 June 2011

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

<table>
<thead>
<tr>
<th>Fair standards</th>
<th>Fair procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Should be</td>
<td>One person cuts, the other one chooses</td>
</tr>
<tr>
<td>• Legitimate and practical</td>
<td>• Each side gets equal opportunity</td>
</tr>
<tr>
<td>• independent of each side’s will</td>
<td></td>
</tr>
<tr>
<td>Could be based on:</td>
<td>Remember the value of voice</td>
</tr>
<tr>
<td>• market value</td>
<td></td>
</tr>
<tr>
<td>• precedent</td>
<td></td>
</tr>
<tr>
<td>• scientific judgment</td>
<td></td>
</tr>
<tr>
<td>• professional standards</td>
<td>Other options:</td>
</tr>
<tr>
<td>• tradition</td>
<td>• Taking turns</td>
</tr>
<tr>
<td>• reciprocity (each side offers something), etc.</td>
<td>• Drawing lots/flipping a coin</td>
</tr>
<tr>
<td></td>
<td>• Letting someone else decide</td>
</tr>
<tr>
<td></td>
<td>- expert, mediator</td>
</tr>
</tbody>
</table>

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

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

Material from this slide based on 2010 lecture by Marta Coelho

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
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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How did your preparation go last night?

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

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**Negotiation Planning Document**

**Purpose & Team**

**Team's Name & Night**

**PENDING PURPOSE** What is this negotiation supposed to be about?

**SMART**

**Advocate**

**BATNAs** Enter as much as you can think of, either as an approximate result.

**Options & Deals** (In order of expected importance to you, subject to renegotiation)

**Standards** 

**Proposals** Enter in order of desire (use package)

**Intention for Negotiation** (States what you want to try, quality, focus areas)

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**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

<table>
<thead>
<tr>
<th>First Name</th>
<th>Last Name</th>
<th>Group ID</th>
<th>Role</th>
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</thead>
<tbody>
<tr>
<td>Warda</td>
<td>Tazi</td>
<td>1</td>
<td>TEXOIL</td>
</tr>
<tr>
<td>Raluca</td>
<td>Boroianu-­‐Omura</td>
<td>1</td>
<td>Station Owner</td>
</tr>
<tr>
<td>Jelle</td>
<td>Pelle</td>
<td>2</td>
<td>TEXOIL</td>
</tr>
<tr>
<td>Alan</td>
<td>Siebert</td>
<td>2</td>
<td>Station Owner</td>
</tr>
<tr>
<td>Omar</td>
<td>Awaid</td>
<td>3</td>
<td>TEXOIL</td>
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<tr>
<td>Jamiya</td>
<td>Eriola</td>
<td>3</td>
<td>Station Owner</td>
</tr>
<tr>
<td>Miguel</td>
<td>Lehane</td>
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<tr>
<td>Parag</td>
<td>Sharma</td>
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<td>Felipe</td>
<td>Kedikios</td>
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<td>Isakel</td>
<td>Manrique</td>
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<tr>
<td>Aly</td>
<td>Popat</td>
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<td>Yama</td>
<td>Rodrigues</td>
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<td>Rodrigo</td>
<td>Scholtbach</td>
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<td>Rasmussen</td>
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<td>Guido</td>
<td>Hagemann</td>
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<td>Mohammed</td>
<td>Melpar</td>
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<td>TEXOIL</td>
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<td>Aart</td>
<td>Vollenhoven</td>
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<tr>
<td>Nicholas</td>
<td>Goodf</td>
<td>10</td>
<td>TEXOIL</td>
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<tr>
<td>Michael</td>
<td>Pearson</td>
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<td>Montfane</td>
<td>Moritz</td>
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<td>Maria</td>
<td>Otayez</td>
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<td>Verret</td>
<td>Woudtima</td>
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<td>Hana</td>
<td>Yoshimoto</td>
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<td>Alpert</td>
<td>Khourami</td>
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<td>TEXOIL</td>
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<td>Arpine</td>
<td>Kreulyan</td>
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<td>Station Owner</td>
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<td>Mortiz</td>
<td>Geuettlinger</td>
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<td>TEXOIL</td>
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<tr>
<td>Kirsten</td>
<td>Pansegrow</td>
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<td>TEXOIL</td>
</tr>
<tr>
<td>Ademola</td>
<td>Oladímaji</td>
<td>14</td>
<td>Station Owner</td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Buyer’s BL</th>
<th>Seller’s BL</th>
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</thead>
<tbody>
<tr>
<td>$500,000</td>
<td>$580,000</td>
</tr>
</tbody>
</table>
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

- Brand the boat?
- Oil & gas for trip
- Credit line for boat repairs
- Health care
- ?
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.”

- 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

Thompson, The Mind and Heart of the Negotiator

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

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

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**Distributive vs. Integrative**

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

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Thompson, The Mind and Heart of the Negotiator
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:

STAGE ONE
Old Fashioned
Old school of bargaining
Adopts tough, hard stance

STAGE TWO
Flower Child
Focused on expanding pie
Forgets to claim resources

STAGE THREE
Enlightened
Claims resources & protects own interests
...WHILE expanding the pie

If they are more powerful, develop your BATNA

<table>
<thead>
<tr>
<th>Develop your BATNA</th>
<th>Consider their BATNA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The better your BATNA, the greater your negotiating power</td>
<td></td>
</tr>
<tr>
<td>1. Brainstorm what you could do if no agreement reached</td>
<td></td>
</tr>
<tr>
<td>2. Improve the more promising ideas and convert into practical alternatives</td>
<td></td>
</tr>
<tr>
<td>• Might require research, etc.</td>
<td></td>
</tr>
<tr>
<td>3. Tentatively select the one that seems best</td>
<td></td>
</tr>
<tr>
<td>If their BATNA is too good to make negotiating worthwhile, think about how to change it</td>
<td></td>
</tr>
<tr>
<td>If both sides have attractive BATNAs, the best outcome might be no agreement</td>
<td></td>
</tr>
<tr>
<td>If your BATNA is better than they think, let them know</td>
<td></td>
</tr>
</tbody>
</table>
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