SOLUTIONS

SOLUTIONS MANUAL FOR MIND AND HEART OF THE NEGOTIATOR 7TH EDITION THOMPSON

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7TH EDITION
CHAPTER 2

Preparation: What to Do before Negotiation

OVERVIEW

This chapter is best discussed after students have prepared for and completed their first negotiation of the course (I suggest a simple, distributive negotiation in a multi-week course). Much class/lecture time should be spent on the concepts of the BATNA and reservation price. If the instructor is using a group or team-based approach, student groups can engage in a 15-minute discussion of the factors that were critical for preparation. The instructor can compile a master list of each group’s ideas. This list can be compared with Exhibit 2-2 at the end of the chapter. For a homework assignment, students can be asked to use the preparation tips in preparing for a real, out-of-class negotiation.

LECTURE OUTLINE

I. PREPARATION LAYS THE GROUNDWORK
   A. The 80-20 rule applies to negotiation:
      1. About 80% of your effort should go toward preparation, 20% should be the actual work involved in the negotiation
   B. Negotiators who have fixed-pie perceptions usually adopt one of three mindsets when preparing for negotiation:
      1. They resign themselves to capitulating to the other side (aka soft bargaining)
      2. They prepare themselves for attack (aka hard bargaining)
      3. They compromise in an attempt to reach a midpoint between their opposing demands
         a) The fixed-pie perception is almost always wrong; thus, choosing between capitulation, attack, and compromise is not an effective approach to negotiation
   C. A more accurate model of negotiation is to approach it as a mixed-motive decision-making enterprise which involves both cooperation and competition
   D. Effective negotiation preparation encompasses these general skills:
      1. Self-assessment
      2. Perspective-taking
      3. Situational awareness
   E. There are several advantages for having a framework for negotiation:
1. Saves the negotiator time
2. Assures the negotiator that relevant information will be considered
3. Consistent use of a framework allows colleagues to communicate clearly with one another and develop a shared mental model

**F. According to the Organizational Model of Negotiation, organizations should consider four things:**
1. How individuals interact at the negotiation table
2. Linkages—how different negotiations impact one another
3. Infrastructure—how companies can best organize their negotiation functions
4. Capability—how negotiation can be a competitive advantage

**II. SELF-ASSESSMENT**

**A. The most important questions a negotiator needs to ask himself or herself at the outset of a negotiation are:**
1. What do I want?
2. What are my alternatives?

**B. Targets and Aspirations**
1. In any negotiation scenario, a negotiator needs to determine what would constitute an ideal outcome—also known as a target or aspiration point
2. Three major problems when identifying a target point:
   a) Under-aspiring negotiator (winner’s curse)
   b) Over-aspiring or positional negotiator
   c) Grass-is-greener negotiator (reactive devaluation)

**C. BATNA**
1. **Best Alternative To a Negotiated Agreement (BATNA)**
   a) Negotiators should be willing to accept any set of terms superior to their BATNA and reject outcomes that are worse than their BATNA
2. BATNAs and reality
   a) A BATNA is not something that a negotiator wishes for; rather it is determined by objective reality
3. BATNAs are time-sensitive
   a) Negotiators should constantly attempt to improve their BATNAs so they constantly have a viable set of alternatives if current options come at too high a price or have to be eliminated
4. Do not let the other party manipulate your BATNA
   a) The counterparty has an incentive to minimize the quality of your BATNA and will be motivated to provide negative information vis-à-vis your BATNA

**D. Reservation Point**
1. Reservation point is a quantification of a negotiator’s BATNA
2. A negotiator’s reservation point has the most direct influence on his or her final outcome
3. Failure to assess reservation points can lead to two unfortunate outcomes:
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4. To avoid both of these errors, we suggest that the negotiator follow the steps outlined in EXHIBIT 2-1

E. Focal Points
   1. Focal points are salient numbers, figures, or values that appear to be valid but have no basis in fact

F. Sunk Costs
   1. Sunk costs are monies that you have invested that is, for all practical purposes, irrecoverable.

G. Target Point versus Reservation Point
   1. It is imperative to distinguish your target point from your reservation point.

H. Negotiation Issues
   1. Single-issue negotiations are purely fixed-sum
   2. By identifying other issues, negotiators can expand a single-issue negotiation into segments and thus create integrative potential

I. Issue Alternatives
   1. Once a negotiator has identified the issues to be negotiated, it is a good idea to identify several alternatives for each issue

J. Multi-Issue Proposals
   1. Determining a variety of different combinations of the issues that all achieve the same target point
   2. Identifying packages of offers does not make you appear to be a positional negotiator

K. Risk and Uncertainty
   1. Risk aversion
   2. Reference points define what people consider gains or losses
   3. Three sources of risk in negotiation:
      a) Strategic risk—refers to the riskiness of the tactics used at the bargaining table
      b) BATNA risk
      c) Contractual risk

L. Endowment effects
   1. Reference points
      a) Negotiators’ reference points may lead buyers and sellers to have different valuations for objects

M. Buyer’s Remorse and Seller’s Regret
   1. Counterfactual thinking—thinking about what might have been but did not occur

N. Negotiator Confidence
   1. Overconfidence effect—refers to unwarranted levels of confidence in people’s judgment of their abilities and the likelihood of positive events while underestimating the likelihood of negative events
III. PERSPECTIVE-TAKING

A. A key threat to the ability of negotiators to take the perspective of the counterparty is egocentrism or the tendency to focus on one’s own interests and priorities

B. Counterparty
   1. Hidden table

C. Are the parties monolithic?
   1. Monolithic refers to whether parties on the same side of the table are in agreement with one another concerning their interests in the negotiation

D. Counterparties’ interests and positions
   1. A negotiator should do as much research as possible to determine the counterparty’s interests in the negotiation

E. Counterparties’ BATNAs

IV. SITUATIONAL AWARENESS

A. One-shot versus long-term
B. Transactions versus disputes
C. Linkage effects
D. False versus sincere negotiations
E. Is it legal to negotiate?
F. Ratification
G. Time constraints
   1. Time pressure and deadlines
   2. Time-related costs
   3. Time horizon
H. Formal versus handshake agreement
I. Onsite versus offsite meetings
J. Public versus private
K. Scripted versus unscripted
L. Single versus multiple offers

V. CHAPTER CAPSTONE

A. Effective preparation is a strategic advantage at the bargaining table
B. Three general areas of preparation—self-assessment, perspective-taking, and situational awareness
C. Summary preparation worksheet should be used before negotiation (see EXHIBIT 2-2)
KEY TERMS

BATNA  Acronym for a negotiator’s Best Alternative To a Negotiated Agreement.

contractual risk  The risk associated with the willingness of the other party to honor its side of an agreement

counterfactual thinking  The act of thinking about how things might have turned out differently

dispute  A negotiation takes place because a claim has been made by one party and has been rejected by the other party

false negotiation  When a person negotiates without any intention of reaching agreement

final deadline  A fixed point in time that ends the negotiations

fixed-pie perception  The belief that the counterparty’s interests are directly and completely opposed to one’s own

focal point  Salient number, figure, or value in a negotiation that appears to be valid but is actually arbitrary and/or has no basis in fact

hidden table  The negotiations that take place behind the scenes between a principal and his or her constituents

linkage effects  A phenomenon that refers to the fact that some negotiations will affect other negotiations; i.e., resolutions in one situation will have implications for a future situation

monolithic party  A member of a group that acts as a single unit; i.e., there is no divergence within the group

one-shot negotiation  A transaction between parties that only occurs once and no future ramifications accrue to either party

overconfidence effect  Refers to unwarranted levels of confidence in people’s judgment of their abilities, the likelihood of positive events, and underestimates the likelihood of negative events

party  A participant in negotiation. Parties can be individuals, groups, organizations, communities, or nations

positional negotiator  A person who determines a set of terms desired in a negotiation, presents those terms, and refuses to budge on any dimension of any issue

ratification  Approval of a contract by a body or group not necessarily present at the negotiation table

reactive devaluation  The tendency for people to devalue an option previously considered to be more attractive, merely as a consequence of it being offered by the counterparty (also known as the grass-is-greener effect)

reference point  What a person considers to be a gain or loss
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reservation point  The point at which a negotiator is indifferent between reaching a settlement and walking away from the bargaining table

risk aversion  Preference for a sure thing rather than a gamble that has an equal or greater expected value

strategic risk  The relative risk levels of the tactics that negotiators use at the bargaining table

sunk costs  Money invested that cannot be recovered

target or target point  The ideal or upper limit of what a negotiator expects to get out of a negotiation. Also called the aspiration or aspiration point

transactional negotiations  Occur when parties come together to exchange resources

time horizon  The amount of time between the negotiation and the consequences, or realization, of negotiated agreements

underaspiring negotiation  A negotiator who sets their target point too low

winner’s curse  A situation in which a negotiator makes an offer or requests something that is immediately accepted by the opponent

SUGGESTED EXERCISES AND OTHER MATERIALS

1. EXERCISE: The Biopharm-Seltek Negotiation
   by Leonard Greenhalgh

   Biopharm-Seltek is a distributive negotiation over the sale of a manufacturing facility that produces genetically engineered compounds. Negotiators are given information about the costs of their alternatives, but have to determine aspirations, reservation prices, and opening offers themselves. There are no teaching notes; however, the teaching notes associated with Coffee Contract (see suggested cases for Chapter 3) can easily be adapted for this exercise. Preparation: 10 min. Negotiation: 20 min. Available from the Dispute Resolution Research Center at the Kellogg School of Management, Northwestern University; www.new.negotiationexercises.com

2. EXERCISE: Coffee Contract
   by Tony Simons and Thomas Tripp

   Coffee Contract is a distributive exercise. It concerns the contract for coffee at the Cornell Hotel School. The exercise provides a good context for teaching fundamental negotiation concepts like bargaining zone, reservation prices, and BATNAs, as well as distributive negotiation tactics, openings, concession making, and threats. Creative students may build in some integrative elements, and even if the students fail to find these creative ideas, the instructor can use them to introduce integrative negotiations. Preparation: 15 min. Negotiation: 30 min. Available from the Dispute Resolution Research Center at the Kellogg School of Management, Northwestern University; www.new.negotiationexercises.com
3. EXERCISE: **Commodities Brokers**
   
   *by Leigh Thompson and Leaf Van Boven*
   
   This is a set of three negotiations between two brokers. It is a multiple-time-period, two-party integrative negotiation between two brokers trading four commodities, in which there is risk involved. Participants are randomly assigned to the role of Broker Jones or Broker Smith in the trading of various quantities and grades of wheat, rice, copper, and crude oil. This is an excellent negotiation exercise for illustrating the impact of risk and uncertainty on behavior and performance over time. **Preparation:** 15 min. **Negotiation:** 30 min. Available from the Dispute Resolution Research Center at the Kellogg School of Management, Northwestern University; www.new.negotiationexercises.com

4. EXERCISE: **Energetics meets Generex**
   
   *by W. Trexler Proffitt, Jr.*
   
   This is a two-party distributive negotiation based on a real California wind energy farm transaction. It is good for illustrating biases including anchoring and availability. There is the option to provide an outside offer during the negotiation that illustrates the power of BATNA. **Preparation:** 10 min. **Negotiation:** 30 min. Available from the Dispute Resolution Research Center at the Kellogg School of Management, Northwestern University; www.new.negotiationexercises.com

5. EXERCISE: **Les Florets**
   
   *by Stephen B. Goldberg*
   
   *Les Florets* is a version of the popular *Texoil* exercise where the sale of a gas station is replaced by the sale of a restaurant. Like *Texoil*, there is no overlapping bargaining zone unless the parties uncover some of each other's interests. **Preparation:** 10 min. **Negotiation:** 45–60 min. Available from the Negotiation & Team Resources Institute at https://www.negotiationandteamresources.com/product/les-florets-en-espanol/

6. EXERCISE: **Sugar Bowl—Integrative**
   
   *by Gaylen D. Paulson*
   
   *Sugar Bowl* is a fun and compact introductory exercise originally designed for use in short negotiation seminars or workshops. The exercise presents a very approachable negotiating context, and one that persons are likely to feel is relevant to their own experiences. The key to the exercise is a relatively generous positive bargaining zone that often leaves both sides initially feeling successful, but later realizing they might have gotten a better distributive outcome (and thereby making them more receptive to course material). In a very short space of time, issues are raised related to aspirations, reservation prices, alternatives, bargaining zones, and tactics for effective value claiming. **Preparation:** 5 min. **Negotiation:** 5–10 min. Available from the Dispute Resolution Research Center at the Kellogg School of Management, Northwestern University; www.new.negotiationexercises.com

7. EXERCISE: **Texoil**
   
   *by Stephen B. Goldberg*
   
   This is a qualitative negotiation over the sale of some property. The case has no overlapping bargaining zone unless the parties uncover some of each other's interests. It is a very good case for teaching about interests, what information should and should not be shared, and creativity in negotiations. **Preparation:** 10 min. **Negotiation:** 45–60 min. Available from the Negotiation & Team Resources Institute at https://www.negotiationandteamresources.com/product/texoil/
Chapter 2
Preparation: What to Do
Before Negotiation
Part One
Negotiations Essentials
The Fixed-Pie Perception (1 of 2)

Most negotiators believe whatever is good for one party must be bad for the counterparty.

People with this fixed-pie perception take one of three mindsets when preparing for a negotiation:

- Resign themselves to capitulating to the counterparty
- Prepare for hard bargaining with the counterparty
- Compromise in an attempt to reach a midpoint between opposing demands
The Fixed-Pie Perception (2 of 2)

It is commonly assumed that concessions are necessary by one or both parties to reach an agreement.

The fixed-pie perception is almost always wrong and often leads to an ineffective approach to negotiations.
A more accurate model of negotiation is to approach it as a mixed-motive decision-making enterprise involving both cooperation and competition.

Effective preparation for a negotiation encompasses three general abilities:

- Self-assessment
- Perspective-taking
- Situational awareness
Self-Assessment: *What Do I Want?*

Identifying your ideal outcome may sound straightforward, but three major problems often arise:

- Underaspiring negotiator (*the Winner’s Curse*)
- Overs aspiring or positional negotiator
- The grass-is-greener negotiator
Self-Assessment: What is My BATNA?

What is my Best Alternative To a Negotiated Agreement in this situation (your BATNA)?

- BATNAs are not wishful, they are factual.
- Your BATNA is time sensitive.
- Do not let the other party manipulate your BATNA.
- Negotiators should be willing to accept any set of terms superior to their BATNA.
Self-Assessment: What is My Reservation Point?

You can determine your reservation point, or the quantification of your BATNA, with respect to other alternatives by the following steps:

• Brainstorm your alternatives.
• Evaluate and order each alternative’s value.
• Attempt to improve your BATNA.
• Determine your reservation price based on facts.
• See Exhibit 2-1.
Self-Assessment: Setting Up the Negotiation

When determining your reservation point, be aware and knowledgeable of the following:

- Be aware of focal points.
- Beware of sunk costs.
- Do not confuse your target point with your reservation point.
- Identify the issues in the negotiation.
- Identify the alternatives for each issue.
- Identify multi-issue proposals of equivalent value.
Self-Assessment: *Risk & Uncertainty*

- Most people are risk-seeking when it comes to losses, and risk-averse when it comes to gains.
- **Reference points** define what people consider to be a gain or a loss.
Self-Assessment: Assess Your Risk Propensity

In any negotiation, negotiators should consider the differential impact of three sources of risk:

• **Strategic risk**: refers to the riskiness of the tactics that negotiators use at the bargaining table.

• **BATNA risk**: given BATNAs of equal expected value, the more risk-averse negotiator will be in a weaker bargaining position.

• **Contractual risk**: refers to the risk associated with the willingness of the other party to honor its terms.
Self-Assessment: *Endowment Effects*

Differences in negotiators’ reference points may lead buyers and sellers to have different valuations for the same object.

- Someone who possesses an object has a reference point that reflects his or her current endowment, or private valuation, of the object.
- The difference between what sellers demand and what buyers are willing to pay is a manifestation of loss-aversion.
Self-Assessment: Buyer’s Remorse & Seller’s Regret

An important component in determining whether a person experiences regret is counterfactual thinking, or “what might have been.”

• In negotiation, immediate acceptance of a first offer by the counterparty often means a better outcome for the proposing negotiator, but the outcome is less satisfying.

• Thinking about what might have been, but did not occur, may be a reference point for the psychological evaluation of actual outcomes.
Self-Assessment: Negotiator Confidence

Often, negotiators’ probability judgments for certain types of events occurring are more optimistic than is warranted.

- The overconfidence effect refers to a negotiator’s unwarranted level of confidence in the judgment of their abilities and the likelihood of positive events.

- This effect also causes people to underestimate the likelihood of negative events.

- When we find ourselves highly confident of a particular outcome, it is important to examine why we feel this way.
Perspective Taking

Once a negotiator has thought about their own BATNA, reservation point, target point, and interests, it is time to identify information about the other negotiating parties:

- Who are the counterparties?
- Are the parties monolithic?
- Identify counterparties’ interests and positions.
- Research the counterparties’ BATNA.
Situational Awareness (1 of 2)

Research related to the details of a negotiation situation is also critical to a successful negotiation outcome.

- Is the negotiation one shot, long term, or repetitive?
- Is the negotiation a transaction or a dispute situation?
- Are linkage effects present?
- Are negotiations false or sincere?
- Is it legal to negotiate?
- Is ratification required?
Situational Awareness (2 of 2)

Additional questions for situation-assessment include:

• Is it legal to negotiate?
• Is ratification required?
• Are there time constraints or time-related costs?
• Are contracts official or unofficial?
• Where will the negotiations take place?
• Are the negotiations public or private?
• Is third-party intervention a possibility?
Situation-Assessment: Time Constraints

All negotiations have time-related costs:

• Two negotiators may face radically different time-related costs, but a deadline for one is a deadline for the other.

• The rate of concessions made by negotiators increases as negotiators approach final deadlines.

• Setting a final deadline on the negotiations can be helpful, especially if the passage of time is particularly costly for the negotiator.
Situational Awareness: Additional Considerations

Additional questions for situation-assessment include:

- Is the negotiation agreement formal or based on an informal handshake agreement?
- Will the negotiation meeting occur onsite or offsite?
- Will the negotiation take place in the public eye or behind closed doors?
- What norms and conventions will dictate how the negotiation process unfolds?
- Will there be a single-option offered or multiple offers to the counterparty?
Chapter Capstone

- Effective preparation is a strategic advantage at the bargaining table.

- Three general areas of preparation are self-assessment, perspective-taking, and situational awareness.

- A negotiator who has adequately researched the counterparty’s BATNA and interests is less likely to be manipulated or confused by the other party.

- Review the summary preparation form (see Exhibit 2-2).
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