The Power of Alternatives or the Limits to Negotiation

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People faced with upcoming negotiations often seek advice. Invariably, many if not most of their questions have a tactical slant: How much should I find out about the other side’s psyche and past? Should I make the first contact? By phone, in person, by mail, or through a third party? Wear a dark suit and meet in an expensive restaurant near my office? Order them strong drinks? Sit with my back to the wall and the sun in their eyes? Make the first offer? Start high? Concede slowly? Settle the easy issues first? Act conciliatory, tough, threatening, or as a joint problem-solver? Arrange for a “hard-hearted” partner? Look for self-serving rationales or objective principles? And so forth.

Such tactical concerns have often occupied the attention of negotiation analysts and practitioners. Yet practical and theoretical responses to these concerns often share an important implicit premise. By attempting to influence or predict the outcome of a negotiation within a given range of possible agreements, the responses generally take this range as unchanging. By contrast, in this article we investigate a complementary set of questions about the factors and moves that determine and may alter the range of possible agreements.

If one characterizes negotiation as an interactive process by which two or more people seek jointly or cooperatively to do better than they could otherwise, then the “otherwise” becomes crucial. The parties’ best alternatives without agreement imply the limits to any agreement. For each side, the basic test of any proposed joint agreement is whether it offers higher subjective worth than that side’s best course of action absent agreement. Thus, moves “away from the table” to shape the parties’ alternatives to agreement may be as or more important than tactics employed “at the table.” Actions of the first type delimit the range of possible agreements; those of the second type influence which point in the range may be chosen. The strategic arsenal from which moves of the second type are drawn includes actions that improve alternatives to the negotiation at hand: for example, searching for a better price or another supplier, cultivating a friendly merger partner in response to hostile takeover negotiations, or preparing an invasion should talks fail to yield a preferable outcome.

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By stressing that the desirability of negotiated agreement derives from its possible superiority to individual action, we emphasize our view that negotiation is a means of doing better cooperatively than would be possible otherwise.1

As such, potential negotiated agreements should be evaluated as competitors to other possibilities for furthering desired ends. This focus helps determine whether to negotiate at all, whether to continue the process, whether to accept a proposal, and whether an agreement, once reached, will be secure.

1. Alternatives in Theory

Many theorists take for granted that if bargaining is inconclusive, the parties fall back to their best alternatives. For example, game theorists (e.g., Roth, 1979) routinely include disagreement possibilities in their specification of bargaining situations. Other formal treatments and conventional accounts of bargaining implicitly incorporate the potential for improved alternatives into the evaluation of a failure to agree. Yet relatively little attention is given to the strategic aspects of alternatives or to negotiators' complex moves to shape, protect, and improve them. Generally, analysts take the strategy (including any search for better alternatives) to be employed in case of no agreement as a given or sort of benchmark for the study of subsequent bargaining. This approach often carries the implication that the alternatives, like the parties or the issues, form an unchangeable part of a bargain's specification. By this reasoning, admitting moves that affect alternatives and then discovering that the negotiation changes amounts to analytic sleight of hand.

Many circumstances, however, can justify treating alternatives as subject to change during the negotiation, thereby overcoming the theorist's potential objection. Improving alternatives can take time, and searches begun prior to a negotiation may run concurrently with it. Generating new alternatives can be costly, and only a limited search may be optimal at the outset. Especially in complex, protracted negotiations, new information and interpretations may become available about the external environment and about the bargaining situation itself (the real interests, aspirations, and tactics of other participants; subjective probabilities of reaching different outcomes; as well as the likely costs in money, energy, and time required for a settlement). Thus decisions on the extent and intensity of moves to affect alternatives should be conditioned by current assessments of the bargaining's future course. At the same time, the results of such moves can affect the nature of the bargaining and the tactics employed in it. In view of this dynamic relationship between bargaining 'inside' and searching 'outside,' fully rational participants may continually contemplate altering their choice of tactics, including the possibility of a reactivated or intensified search for better alternatives. In general, resources such as effort, time, or money should go toward affecting alternatives or generating new ones until the expected improvement in the value of the negotiated outcome from expending additional resources just equals the cost of doing so.3

Like the commitment, the threat, and the promise, the alternative can fundamentally affect the bargaining process. Highlighting it as such, however, risks a negative emphasis, for in concentrating on the limits of nego-

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tiation, the potential is ignored. Many techniques and principles exist to help invent and improve joint arrangements that each side would value more than its best alternative. After all, the main point of negotiating lies in the possibility of gains from cooperation. But alternatives—by implying the limits, reservation prices, or bottom lines—provide the standards against which to measure potential agreements.

Alternatives can be as varied as the negotiating situations they circumscribe. They may be certain and have a single attribute: an ironclad competing price quote for an identical new car. They may be contingent and multiattributed: going to court rather than accepting a negotiated settlement can involve uncertainties, trial anxieties, legal fees, time costs, and precedents that contrast with the certain, solely monetary nature of a pretrial accord. Alternatives may change over time with new information, interpretations, competitive moves, or opportunities. In case of no agreement, the status quo ante may be superseded by something much worse for one side: a now neutral island nation may intend to lease its naval base to one superpower if current negotiations fall through with the other. In multiparty and organizational negotiations, one side's alternatives may be the set of agreements that could be reached by potential opposing coalitions. Outright threats by one party to change the no-agreement alternatives of another are commonly made: the godfather's "offer you can't refuse." Or, the best alternative to the negotiated agreement may be to keep negotiating: in arms control, organizational deliberations, or minor marital disputes, failure to agree may involve worse relations, forgone benefit, and altered settlement possibilities, but in any case the necessity remains of continued dealings among the same parties. In all these disparate situations, the central analytical feature of alternatives flows from the bargainer's evaluation of no agreement compared with that of agreement. There is a strategic commonality regardless of whether the alternatives are certain or uncertain, have one, many, or different attributes, are static or dynamic, or depend or do not depend on other bargaining parties.

A variety of well-developed techniques exist to help understand and evaluate many of these types of alternatives to negotiated agreement. The subjective expected utility of the best alternative provides a strict lower bound for the minimum worth required of any acceptable settlement. One's "reservation price" (bottom line, threat- or resistance-point) is any settlement that gives exactly this minimum expected utility. When alternatives are uncertain or change over time, decision analysis can provide a systematic guide to action (Raiffa, 1968). Multiatribute value and utility theory can clarify the outcomes when they have many attributes; even when the features of the alternatives differ from those of the agreements (Keeney and Raiffa, 1976; Barclay and Peterson, 1976). In certain cases, there are many possible alternatives to negotiation, each with associated uncertainties and costs of discovery. In such cases, optimal search theory can provide strategies for searching efficiently among the alternatives and valuing the expected findings from such a search (Lax, forthcoming). Where the parties' alternatives to agreement are interdependent, concepts from game theory—including the dynamics of threats and counterthreats as well as the many variants of coalition analysis—can help bargainers understand their
alternatives and, in so doing, better understand the rationale for bargaining (Luce and Raiffa, 1957; Raiffa, 1982).

In certain ritualized or institutionalized negotiations, such as collective bargaining or the purchase of expensive items, alternatives to agreement (strikes, lockouts, other price quotes) are obvious, well defined, and tactically prominent. In other situations, alternatives can be subtler and can play less straightforward roles. Many bargainers tend to focus on tactics and the process itself, effectively assuming that a deal will result and trying to improve it as much as possible. In such situations, alternatives may function more as last resorts or afterthoughts than as primary influences on the negotiation.

2. Prescriptions and Propositions
To counter this common tendency, we have argued that analysts and practitioners should complement their customary focus on the bargaining process with scrutiny of moves intended favorably to alter the bargaining range itself. Lurking barely below the surface of the preceding discussion has been a general prescription that can be easily summarized: Realize the potential of alternatives to agreement.

To develop those ideas in more depth and to enhance their value in application, we offer a series of related propositions and prescriptions. Our first prescription is minimal but often honored only in the breach. A negotiator should evaluate all parties' alternatives, consider enhancing them, and be prepared to take his or her no-agreement alternative when it dominates negotiable possibilities. Second, evaluation of alternatives is inherently subjective and, thus, depends on perceptions. Experimental evidence suggests that negotiators tend to have inconsistently optimistic perceptions of their own alternatives. They should anticipate such systematic biases. Third, because improved alternatives generally yield better bargaining positions, it should not be surprising that notions of bargaining "power" are bound up with alternatives. A clearer understanding of this link can improve strategic and tactical choices. Fourth, the importance of alternatives does not end once agreement is reached. The enforceability and sustainability of many agreements depend on each party's alternatives to continued adherence. Agreements can be secured by ensuring that each party perceives continued compliance as superior to its alternatives. Finally, the preceding advice extends beyond face-to-face encounters to influencing decentralized bargains. Managers, policymakers, and legislators can affect far-flung negotiations by their ability to change negotiators' perceptions of their alternatives to agreement.

A. Evaluate Alternatives to Agreement
Obviously negotiators should evaluate what the alternative actions are likely to be for all sides. Sometimes it is appropriate for this evaluation to make use of sophisticated technical tools, such as those mentioned earlier, at other times careful thought will suffice. An intergovernmental example illustrates the point.

Over a number of years, states spent large amounts of money on certain types of social services, partially in the expectation of federal reimbursement. The circumstances were murky, the amounts of money ran into the billions, and it was not clear whether this was good public policy or merely
a loophole in laws and regulations. For several years, however, these state claims against the federal government had been a considerable thorn in the side of federal-state relations. A new administration came into office and placed improved intergovernmental relations high on its priority list. Still, finances were tight and budgets were under close scrutiny. Early in the new administration’s tenure, negotiations over these social service claims resumed in earnest. The federal official in charge of these talks thought very hard about tactics and approaches within the negotiations themselves but he also focused a great deal of attention on the parties’ best alternatives to a negotiated agreement.

If the parties did not reach agreement voluntarily, they would go to court. In fact, in previous suits over these claims, the two sides had already seen each other in court. The federal government had demonstrated its commitment to a legal battle by appealing to earlier adverse decisions on rather narrow grounds. Yet for all sides the prospect of continued legal battles was unappealing; the outcomes were uncertain, many resources would be expended, and the opportunity for an improved relationship could be lost in the ensuing adversarial process. In fact, the hoped-for value of voluntary agreement impelled both sides toward a solution. If they settled this long-standing problem between themselves, it could set an excellent procedural precedent and have benefits in many other areas.

Yet, in preparing, the federal official thought hard about the role of time and realized that in at least four distinctive ways it worked strongly against the state’s alternatives to a negotiated agreement with the federal government. First, inflation was eating away at any possible settlement. The administration could credibly threaten to tie up the claims in court for many more years. Beyond economic costs to the states from a failure to agree, he realized, and probably much more important, political factors rendered a settlement much less valuable to the states if delayed beyond gubernatorial elections. The money spent on social services had been expended years ago; for the states it was a sunk cost. Any state administration receiving reimbursement in effect would get a windfall which could be crucial toward, say, balancing a current state budget or funding a favorite program. State governors’ terms were all shorter than or equal to the tenure of the new federal administration. The credible federal threat to drag out the settlement process could thus deny the governors great political credit. A third factor working against certain states was the frequent turnover in their personnel who would be able to back up their cases in court. In effect, as their ability to substantiate their legal claims eroded, the quality of those states’ best alternatives declined over time relative to that of the federal government.

Finally, the federal official portrayed administration eagerness to settle this issue as a sort of “fading opportunity” for the states. Settlement of this divisive issue briefly held a cabinet secretary’s attention. Yet the secretary’s alternative to any sort of agreement on claim settlement was simply to ignore the dispute. The claims would move off his priority list and would be handled at the same low bureaucratic echelons where they had been inconclusively mired for years.

Thus, the worsening of their alternatives over time pushed the states toward early settlement for a variety of reasons. Each of these factors, of
course, had exactly the opposite effect on the federal government’s alternatives to a negotiated agreement. Any claims settled in the future would be paid with cheaper dollars and, critically, as a budget liability to a later—not the current—administration. Relative to many states, the federal ability to uphold its legal case would not erode. Moreover, the alternative to secretarial resolution of this issue was a host of other important, pressing issues.

These factors heavily influenced state (and federal) perceptions of the zone of possible agreement. Within a clearer range, it was then possible to search for appropriate principles to govern a negotiated settlement. The sides did reach an agreement far below the states’ original claims but one that was realistic given the sides’ alternatives. The result did, however, have the strong benefit of improving intergovernmental relations across a variety of issues.

If careful evaluation of the sides’ alternatives is the first part of realizing their potential, a good negotiator will often consider improving his or her alternatives. The 1971 Maltese-British negotiations over renewed base rights provide an instructive example (Wruggens, 1976). Britain had enjoyed the use of a Maltese naval base and had extended its use to other NATO countries. Nevertheless, advances in ship design and warfare methods rendered the Maltese bases of considerably less importance than in earlier years. To obtain much-improved base rental terms, however, the Maltese made highly visible overtures to the Soviet Union about locating one of their bases in Malta. They also approached Libya and other Arab states for large assistance payments in return for Malta’s neutrality. At a simple level, this increased the attractiveness of Malta’s alternatives to negotiated agreement with the British. But the same moves made Britain’s alternatives to agreement with Malta considerably worse. As The Times of London noted, “What is important . . . is not that [the facilities] are badly needed in an age of nuclear war but that they should not on the other hand be possessed by Russia.” Not only did these actions put pressure directly on Britain, but NATO anxiety, which the Maltese carefully cultivated, served indirectly to increase the pressure. Beyond vastly increased base rentals from Britain, other NATO members ultimately agreed to provide supplemental aid to Malta. Without passing judgment on the questionable prudential or moral implications of such tactics, especially in the longer run, it is worth highlighting the fact that the Maltese actions to improve their own alternatives and worsen those of their negotiating counterparts considerably improved their bargaining position.

When preparing for a future negotiation, one side may change the expected nature of this encounter by taking steps to affect the other side’s alternatives to an agreement favorable to the first side. For example, in the early 1960s, Chilean expropriation of Kennecott Copper’s El Teniente mine seemed increasingly likely (Smith and Wells, 1975). In preparing to negotiate the terms of expropriation, such as the timing, compensation, and any continued management involvement with the mine, Kennecott sought early on to involve a variety of other parties to change the nature of Chile’s alternatives to agreement on Kennecott’s preferred terms. Somewhat surprisingly, the company offered to sell a majority interest in the mine to Chile. Kennecott then turned to the Export-Import Bank and the proceeds
of this sale of equity to finance expansion of the mine. The Chilean government guaranteed this loan and made it subject to New York State law. The company then insured as much as possible of its assets under a U.S. guarantee against expropriation. The mine’s output was to be sold under long-term contracts with Asian and European customers, and the collection rights for these contracts were sold to a consortium of European banks and Japanese institutions.

The result was that customers, governments, and creditors shared Kennecott’s concern about future changes in Chile. Moreover, the guarantees and insurance improved Kennecott’s alternatives if no deal could be worked out with the host country. When no agreement could be reached and Chile acted to expropriate the operation, Kennecott was able to call this host of parties in on its side. Though the mine was ultimately nationalized, Chile’s worsened alternatives to Kennecott’s preferred outcome gave the firm a better position in the dealings than those of similar companies who did not take such actions.

If negotiation is seen as a means of doing better by joint action than would be possible otherwise, it should not be surprising that nonnegotiation courses of action will sometimes prove to be the superior means. A clearheaded focus on the alternatives may help clarify this judgment. For example, the mentor of a very ambitious young man in an investment management company found himself trying to renegotiate the terms of the young man’s association with the firm. The young man had made a great deal of money for the firm but had done so in a direction contrary to the strategy agreed to by the firm’s principals. Moreover, the young man had gone “outside normal procedures” in furthering his aims. His mentor, the firm’s president, could envision many possible joint arrangements that might be better from the firm’s point of view. But, ultimately, any set of terms agreeable to the firm seemed worse to the young man than separation (and vice versa). Carefully focusing both sides’ attention on the unilateral alternative clarified the ultimate resolution—the young man left—which, though it may be regarded as a failed negotiation, was probably a superior outcome for both sides.

In a more strident vein, President Reagan’s early dealings with professional air traffic controllers over their contract was resolved when the president fired them all and activated a contingency plan to run the nation’s air traffic control system. From Reagan’s perspective, decisive, noncooperative action not only settled the air traffic situation but sent strong signals for moderation to other public employee unions and enhanced the president’s reputation for toughness. Again, this case suggests a “failure” of negotiation that at least for one participant offered a superior alternative to any negotiable agreement.

Our first prescription, therefore, is to evaluate all sides’ alternatives, to consider steps to improve them, and, when negotiated possibilities are distinctly inferior—having carefully accounted for effects on relationships and future linked dealings—to take the best alternative course of action.

B. Anticipate Inflated Perceptions of Alternatives
A negotiator’s evaluation of alternatives is inherently subjective and, thus, depends on perceptions. Analysts and practitioners should, therefore, be sensitive to different possible perceptions of the same alternative. In an
experiment at Harvard, the findings of which have been replicated in many contexts with students and executives, players were given detailed information about the history of an out-of-court negotiation over insurance claims arising from a personal injury case (Raiffa, 1982). They were not told whether the negotiators settled or if the case went to court. Each player was assigned to the role of either the insurance company or the defendant. After reading the case file, the players were privately asked to give their true probability estimates that the plaintiff would win the case and, given a win, the expected amount of the ultimate judgment. Systematically, those assigned the role of the plaintiff estimated the chances of winning and the expected amount of winning as much higher than those assigned the role of the insurance company defendant. Players who were not assigned a role prior to reading the case gave private estimates that generally fell between those of the advocates for each position. Similar results have been found in cases involving the worth of a company that is up for sale. Even given identical business information, balance sheets, income statements, and the like, those assigned to buy the company typically rate its true value as low, while those assigned to sell it give much higher best estimates. Neutral observers ranked the potential someplace in between.

These results, in combination with many other negotiation experiences, suggest that advocates tend to overestimate the attractiveness of their alternatives to negotiated agreement. If each side has an inflated expectation of its alternatives, no zone of possible agreement for negotiation may exist. Awareness of this common bias dictates a conscious attempt to be more realistic about one’s own case, not to “believe one’s own line” too much, and to be aware and seek to alter counterparts’ estimates of their alternatives. A number of tactics can help deflate unrealistic perceptions. At a minimum one may seek advice from uninvolved parties whose estimates are not colored by their roles. So-called mini-trials can bring executives of opposing sides together to hear each other’s arguments presented in a mock courtroom setting. Firsthand exposure to the other side’s point of view may alter executives’ estimates of the court alternatives which were principally derived from overly optimistic corporate counsel. Roger Fisher (1983) even suggests establishing settlement divisions of law firms or general counsel’s offices (whose lawyers would not be involved in the court “alternative”), separate from litigation departments whose lawyers would prepare cases for trial. The optimistic biases of such lawyers might even make them more effective advocates if no settlement could be achieved.

One often hears that a particular dispute is not “ripe” or “mature” for negotiation or resolution. This state of affairs often arises when the sides have inconsistently optimistic estimates of their noncooperative alternatives. For example, a consortium of Midwestern power companies proposed to build a dam to bring electricity at lower rates to the area’s customers. Environmentalists opposed this plan, claiming that it would damage the downstream habitat of the endangered whooping crane. Farm groups lined up against the project, fearing that the dam would reduce water flow in the area. Though the sides tried early on to negotiate, each believed its alternatives to agreement to be quite favorable. Negotiations sputtered until the environmentalists and farmers won a substantial court victory (quite unexpected by the power companies) and, in their turn, the
power companies got strong indications of favorable congressional action. With each side’s perception of its alternatives to a negotiated agreement considerably less optimistic than at the outset, the stage was set for more realistic negotiation, which ultimately resulted in a creative agreement for a smaller dam, stream flow guarantees, and a trust fund for preserving the habitats of endangered species.

Many other examples could present themselves of disputes that are not “ripe” for negotiation given the parties’ inconsistently optimistic perceptions of their alternatives. If this is the diagnosis, however, getting people in a room together and employing all sorts of careful procedural means to foster negotiation will likely be to no avail. The basic condition for a negotiated agreement will not be met, since possible agreements will appear inferior to at least one side in comparison with its unilateral alternatives. When this is the case, strategy should focus not on the negotiation process but instead on actions away from the table that can reshape perceptions in a manner that generates a zone of possible agreement.

In each of these cases, then, negotiators should anticipate inflated perceptions of alternatives. The implied prescriptions are (1) be aware of and seek to counteract the biases of one’s own role, and (2) where the sides have inconsistent perceptions of the attractiveness of alternatives, focus negotiating strategy on altering those perceptions so that joint action will appear preferable by comparison.

C. Understand the Link between Alternatives and So-Called “Power”

Because improvement in perceptions of one’s alternatives implies a favorable change in the bargaining range, the ability to affect alternatives—and perceptions of them—lies at the root of many conceptions of bargaining “power.” The tight complementarity of alternatives and the negotiation process as well as the relation of alternatives to concepts of power are perfectly clear in a variety of settings. Suppose the boss orders an ethically questionable action. Contrast the resulting situation of the employee who can generate a good outside job offer with that of the one who cannot. Consider how the presence of marketable skills can likewise change a wife’s approach to negotiating the end of a bad marriage. What comes of the onerous claims of the neighborhood bully when his reliably protective older brother is drafted?

In an economic setting, one can say equivalently that monopoly power in a product market results either from a single seller or from buyers without alternatives. Labor unions may favor high minimum wage laws in part to limit the attractiveness of employers’ alternatives to the union scale. Of course, negotiation over product or labor prices is wholly driven out by pure competition in which everyone’s alternative to a proposed higher price is the going market rate.

These straightforward examples suggest the intuitive proposition that an increase in the desirability of one’s alternatives increases one’s “power,” whether the increase is from more highly valued attributes, less risk, less aversion to risk, earlier receipt of the alternative’s benefits, or later payment of its costs. A long line of observers has noted a connection between alternatives and “power.” Sketchy but very suggestive experimental evidence seems to confirm that, other things being equal, improvement in a bargainer’s alternative improves the distribution of his or her negotiated
outcomes. This connection can be clarified by reference to conceptions of bargaining strength in which bargaining strength derives from tactical skills, how much each side "cares" about the issues at stake, ability to inflict harm, dependence of one party on the other, or willingness to take risks and incur costs. The next sections explore the intimate relationships between these antecedents of bargaining strength and negotiators' alternatives to agreement. For ease of exposition, we consider a series of simple negotiations with potential ranges of mutually beneficial agreements and the possibility of credible, binding commitments. (The strong assumption that commitments can succeed facilitates analysis and highlights the distinctive role of alternatives.)

**Tactical Skill.** Bargaining tactics are often held to be potent. As noted above, however, the best alternative decisively limits the range in which they are applicable. The would-be house buyer who psychoanalyzes the seller, details the dwelling's flaws, and makes a low offer is wasting time if the seller can elicit a better price elsewhere.

This simple observation circumscribes the claims that high-priced consultants, true believers, and prescriptive theorists of negotiation can legitimately assert. Although the title, for example, of Cohen's 1980 best-seller, *You Can Negotiate Anything,* caters to widespread popular notions of the limitless power of bargaining skill, an academic version of the same book might gracelessly add: "With Some Probability, Provided Your Counterpart Finds It Better than His or Her Alternatives."

**Intensity of Preference.** Suppose that Sarah desperately wants a Mercedes but is negotiating with a salesman who, having exceeded his annual quota, now seems fairly unexcited at the prospect of another sale. Or say that neighborhood pools legally must be lifeguarded and that a pool's owners are trying to allocate this time-consuming responsibility among themselves. What is the relative position of the parent in the group whose child will swim the most frequently? And who has "power" in the discussion between the supervisor of many employees and a particular employee who asks for a raise? It is commonly asserted that the party who "cares more" about the issues at stake in a negotiation is at a disadvantage and that this "greater" interest can be exploited.

As Thomas Schelling has implied, however, once the bargaining range is correctly specified (with all relevant attributes factored in, from the immediate issue at hand to potential anger, altruism, spite, precedent, the relationship, and so forth), it is not relative "intensity of preference" that influences the outcome. Instead, the bargain is "won" by the side that is first to commit credibly and irrevocably to a preferred point—provided that point is the slightest bit better for the other side than its best alternative. The uncommitted side has lost; it faces a simple choice between the commitment point and the inferior alternative. If Sarah knows the salesman's true minimum, she can credibly commit to a slightly higher price. If there are six other pool owners, each known to have two days a week potentially free for lifeguarding, the parent-owner whose child swims the most could prevail by committing to equal sharing or nothing. If the supervisor, figuring the employee's productivity and the precedent set for other workers, were ultimately willing to offer up to an x percent raise, then the employee's commitment to getting an x minus ½ percent raise or else to
resign would be successful. (Again, the exposition—but not the underlying point—relies on perfect commitment possibilities. See Schelling [1960] for a splendid discussion of the art of commitment.)

The strategic situation, of course, is completely symmetric when the range is known and each side can successfully commit. If the salesman divines Sarah’s maximum and first commits to a slightly lower figure, he has won. If the five other pool owners initially band together and irrevocably demand that the intensive swimmer’s parent either drop out or guard for two days a week, while they each take one day, their demand will succeed. And similarly with the supervisor. In situations of pure bargaining, the first commitment within a mutually acceptable range prevails.

Better alternatives enter this strategic picture in two ways. First, though a prior binding commitment is in vulnerable to other commitments or threats, a newfound better alternative dominates such a prior commitment. If, in the face of the Mercedes dealer’s irrevocable commitment to a price just below Sarah’s maximum, another dealer offers her a better price, the first dealer has lost. If, on confronting the larger group’s two-day demand, the intensive swimmer’s parent locates a different pool that requires only a half-day per week of parental guard duties, the group has lost. A new job paying more than the wage committed to by the supervisor allows the worker to “beat” the commitment.

Notice, second, that if “intensity of preference” has any meaning at all, it is only with respect to the differences of preference for possible agreements and that for available alternatives. Sarah may live for the possibility of owning a Mercedes, but a firm offer by another dealer close to the prices under discussion with the first salesman renders uninteresting the judgment that Sarah may “care more.” Thus preference strength, high or low with respect to available alternatives, is tactically unimportant in the presence of credible commitment possibilities, which in turn are vulnerable to better alternatives.

The Ability to Commit. Schelling’s analysis closely identifies “power” with the ability to commit to a position from which one cannot be expected to recede. One commits to a point in the bargaining range by imposing large costs upon oneself for accepting settlements less attractive than the specified point. If these conditional costs render lesser settlements unacceptable relative to one’s current alternatives, one’s counterpart faces a preordained choice between accepting either the point in the bargaining range or a less desirable alternative. A commitment, therefore, functions by restricting the bargaining range in a way that favors the committing party.

There is a complementarity between strategic moves to commit and strategic moves to improve one’s alternative. Improving one’s alternative also restricts the bargaining range in a favorable way, but by a different mechanism: it changes the standard of acceptability to which possible settlements are compared. Committing, by contrast, changes the agreement possibilities relative to a fixed standard of acceptability. To accept less than one’s improved alternative is to forgo an attainable benefit. To accept less than the point to which one has committed is to incur a self-imposed cost.

Notice that both committing and improving alternatives may add new elements to an already specified bargaining game. Committing invokes the latent ability to incur conditional costs by contracting with third parties,
staking one's reputation with others, and using a host of other ploys involving new attributes, issues, and participants. Similarly, improving alternatives by searching for better outside terms, soliciting another offer, forging a new alliance, hiring better counsel, or building up military might can all be seen as tactics that alter the original game.

Commitments and strategic improvements in alternatives are thus somewhat complementary tactics. Bargainers must expend resources to employ either. But successful commitments are risky because they are difficult to make credible, binding, visible, and irreversible. Negotiators often do not know the limits of the mutually acceptable bargaining range. Thus a commitment to a favorable point involves the additional risk of falling outside the true range. A better alternative, however, does not incur this liability. Moreover, one's commitment is vulnerable both to the other side's prior commitment and to an improvement in its alternative. An improvement in one's alternative, though, cannot be superseded by prior or subsequent commitments. A threat, of course, may hold the possibility of degrading the opponent's original or even improved alternatives. A negotiator's choice among tactics should reflect these considerations.

**Ability to Inflict Harm.** The ability to inflict harm or withhold benefits is a classical bargaining lever. Of course, "the offer that can't be refused" and a nation's threat of economic or military sanctions can both be understood as functioning through alternatives to agreement, specifically, worsening those of the other side if acquiescence is not forthcoming.

The ability to change another's alternative conceptually differs from the ability to improve one's own. Roger Fisher nicely illustrates this point by contrasting the distinct sorts of "power" possessed by the job interviewee whose back pocket holds either a gun or an attractive competing offer.

The threat to inflict harm unless some action is taken can be understood as a conditional commitment. Prior commitments therefore can neutralize subsequent threats: if the job interviewer has dropped an irrevocable "do not hire" judgment into the pneumatic tube, the applicant's drawn gun can exact revenge but cannot win the job.

The firm facing an unfriendly takeover can attempt to deter it by threatening huge legal costs. The threat fails if the bidder has committed to bear all acquisition costs, no matter how large. If, however, the target company finds a "white knight" firm, it can prevent the unfriendly takeover or compel better terms. Such improvement in the alternative can negate the aggressor's commitment where ability to impose costs cannot. The threat of harm, therefore, can be understood as conditionally changing a counterpart's alternatives; it is conceptually and strategically distinct from improving one's own.

**Dependence on the Other Party.** A dependent relationship, such as that of child and parents, of worker and boss, or of colony and colonial power, is often thought to imply the bargaining weakness of the dependent party. Dependence increases as agreement (which depends on the other side) yields greater benefits relative to the value of independent alternatives.

A superpower can seek favorable terms by threatening to impose costs on or withhold benefits from a satellite country. A colony is dependent on the colonial power that is the sole buyer of its only product. Along with
overtones of differing preference intensities (considered above), "power" in dependent relationships thus can be understood as a variable combination of two key elements also earlier analyzed: the ability to change another's alternatives and the attractiveness of one's own competing alternatives. Notions of power derived from dependence are thus driven by the negotiators' alternatives.

As analysis of these elements implies, attributing "power" in dependent relationships is often trickier than it may first appear. The country in danger of default as well as the borrower who owes the bank $50,000, is six payments behind on his car, and has a sick wife may each think they have problems; instead, it could well be their bankers who are in trouble.

**Willingness to Take Risks or Incur Costs.** These qualities, often loudly proclaimed, can be directly translated into the language of alternatives. The more risk-prone and cost-insensitive a bargainer is, the more attractive a risky, costly alternative to a proffered deal becomes. The subjective utility of no agreement is key to the role of alternatives. Risk and cost attitudes are merely part of the utility yardstick by which a bargainer evaluates potential outcomes and portrays them to the other negotiators.

"Power" is a notoriously slippery concept. Yet a number of common notions of bargaining power—tactical skill, intensity of preference, ability to commit, dependence, and risk-proneness—are all intimately related to alternatives. When ambiguous statements about power can be reduced to precise statements about alternatives, we prefer to speak directly in terms of alternatives. A bargainer's quest for power should often start with alternatives.

**D. Focus on Alternatives to Continuing Agreement**

Thus far, advice has concerned alternatives to negotiated agreement before and during the negotiation. Quite frequently, however, once an agreement is hammered out, its terms may not be secure. One or the other party may renege on or demand a revision of the terms. Sometimes such a demand is quite predictable. Consider the case of a multinational mining company negotiating with a country over digging a mine. Before the project has commenced, the company's alternative to agreement with the host is to take its business elsewhere. The country may have only a limited number of weaker contenders for the deposit. Yet once terms are agreed upon and the company has sunk hundreds of millions of dollars into the mine, its alternative to continuing agreement is to leave, now an expensive and losing proposition. With the construction of the mine, however, the country's alternatives to continuing the agreement may have shifted dramatically. Pressure for renegotiation may be expected to mount.

In fact, the structure of this situation is so common that Raymond Vernon has dubbed such mineral agreements "obsolescing bargains," and other analysts (Raiffa, 1982; Lax and Sebenius, 1981) have investigated the general properties of these so-called insecure contracts. An insecure contract is an agreement in which one party's incentives to abide by the terms are reduced after the other party has made an irrevocable first move in accord with the agreement. Equivalently, each party's alternative to negotiated agreement changes in a predictable way over the life of the contract.
A generic solution to the insecure contracts problem involves carefully tracing each side's alternative to continued agreement and taking steps to make agreement superior to the alternatives at each stage. In the preceding Kennecott-Chile example, the company sought, with only partial success, to change Chile's alternatives to continuing with the original agreement. Kennecott sought to change Chile's alternatives to ousting the company, which appeared as a one-shot, bilateral encounter, to a longer term, multilateral encounter involving many other entities that Chile would have to deal with and rely on across a range of other issues. Many modern mineral contracts design their financial structures to accomplish exactly this same end, that is, to worsen the host's perceptions of the consequences of not staying with the original contract (Fruhan, 1979).

In a related example, the new head of the Brazilian subsidiary of a British multinational company persuaded his parent board of directors to centralize all South American operations and to move away from the previous strategy of customized products to a mass standardized approach. Selling his strategy had been a long battle, and he had made numerous enemies at British corporate headquarters in London. Though he was the nominal head of the new South American organization, he had only limited authority over certain key decisions. Many of the formerly autonomous country managers resented his new status. The sales force preferred the old customer relationships and higher quality image. The company's South American engineers liked their prerogatives of individual design. Though the new South American manager took some steps toward implementing this strategy, he needed to obtain the more wholehearted cooperation of key South American players to act in accord with his chosen strategy.

At the outset of his new venture, he was only able to tempt each critical South American group into "agreement" with him by holding out the lure of joint gain from the new strategy. He offered a certain new status to country managers, he offered higher volume and profits to the sales force, and he challenged the company's engineers with new design problems. But at the early stages of the new strategy, each South American group's alternative to "agreeing" to act in accord with the new strategic vision was simply to ignore the new head or make end runs around him to the British headquarters. London had simply not given the new manager the tools to force compliance. However, the new South American manager's strategy was designed in such a way that, once embarked on, it involved the entire South American group in a price war with competitors and destruction of old ways of doing business. In short, the South Americans' alternative to continued agreement, once the strategy was under way, was a very much worse situation than had earlier prevailed. This kept the entire group on board and worked against the incentives and opportunities to resist, not to go along, or to defect. As it happened, the strategy was exceedingly successful, and all parties in South America as well as Britain shared in enormous profits. But the new South American manager had carefully designed his strategy such that, once implemented, the alternative to continued agreement with him always appeared worse for the parties than the cooperation he sought to obtain. This accords with the general prescription to focus on alternatives to continued agreement.
E. Manipulate Alternatives to Influence Decentralized Bargaining

Our final proposition concerns the role of alternatives in shaping a network of negotiations to be carried on by others. Quite frequently the rules or structures imposed by others will heavily condition decentralized bargaining. For example, in professional sports a large number of individual negotiations take place between players and teams. Under some league players' union contracts, players are bound to one team and may not negotiate with others; thus, a player has no alternatives (except for nonsports occupations). Predictably, this "reserve clause" system tilts the balance in favor of teams. At the other end of the rules spectrum, players may have the right to negotiate with all teams and play for the highest bidder. Under this "free agency" rule, the players have many alternatives and, not surprisingly, player salaries tend to be much higher. Between free agency and the reserve clause lie many intermediate options that specify the player's alternatives in more balanced ways. For example, one rule would specify that, if agreement is not reached with a designated team, the player must sit out for a year, without salary or experience, before entering unrestricted free agent status. Another set of rules might allow the player free negotiations but with a limited number of teams. The important point in this example is that the structure of rules governing a large number of decentralized bargains affects those bargains directly through the alternatives available to the parties.

The budgeting procedures of a well-known computer company illustrate this point. In this very successful firm, budgets are constructed by negotiation among all interested divisions and departments. Each division or department has the option of concurring or not concurring with proposals of the others. If nonconcurrences cannot be resolved by negotiation, they escalate through corporate ranks and finally reach a central management committee that renders a decision. Top management in this firm wishes to stimulate a variety of constructive negotiations among the people in the company who are closest to the problems and who have the most expertise. High-level "arbitration" functions as the ultimate alternative to negotiated agreement among people throughout the company. Beyond resolving individual disputes, top management wishes to affect perceptions in two ways by its pattern of decisions. First, by affecting employees' perceptions of the costs of disagreement, top management hopes to stimulate a large number of lower-level agreements. Second, by the pattern of its choices, this body wishes to affect the content of lower-level agreements in ways that accord with certain corporate objectives and policies. They wish to make recourse to the central management committee a desirable alternative for those whose lower-level disagreement is for reasons in accord with preferred company strategy. Similarly, top management wishes to make the escalation alternative unpleasant and very costly for those who disagree for reasons that are out of line with preferred policies. By carefully manipulating perceptions of alternatives to lower-level agreement, this corporate management has effectively influenced a large number of negotiations that are carried on throughout the company. Managers in many settings enjoy analogous possibilities.

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3. Conclusions
Throughout this article, we have treated negotiation as a means, albeit an important and promising one, to further desired ends. As such, what goes on "away from the table" may compete in importance with what goes on "at the table." Generally one is in a better negotiating position when one’s alternatives improve and one’s counterpart’s alternatives erode. Bargainers employ a variety of tactics to create the impression that this in fact is happening. Before and during a negotiation, we counsel participants to evaluate alternatives to agreement. They should routinely anticipate inflated perceptions and seek to counter them. A diagnosis that a dispute is not "ripe" for settlement may derive from inconsistently optimistic perceptions of alternatives; where this is the case, strategy should focus on altering those perceptions. We have also suggested several ways in which, as the negotiating process unfolds, the quest for "power" is bound up with alternatives. Even afterward, a key to securing agreements lies in reshaping subsequent alternatives so they remain inferior to continued agreement. This advice generalizes from conventional, face-to-face encounters to decentralized bargains that one wishes to influence. Across these points, the broader prescription is obvious: Realize the potential of alternatives to agreement. The challenge that this advice poses for negotiators, of course, is to find ways of cooperating to do even better.

NOTES
1. Roger Fisher and William Ury (1981) have christened the BATNA (Best Alternative to Negotiated Agreement) as a useful acronym for the economist's bland "no-trade" point or the game theorist's ominous "threat-point." See note 3 below for elaboration of the history of this idea in relation to bargaining "power."

2. More precisely, taking simultaneous account of other tactical possibilities, one should expend resources to enhance alternatives or generate new ones if the subjective probability distribution of negotiated outcomes thereby improves sufficiently to offset the expenditure. Optimal search theory shows that, to set a reservation price for the negotiation, one need not actually expend resources to search when the distribution of possible negotiated outcomes would not thereby be changed. In such a case, one merely needs to take such prospects into account when calculating the reservation price. When the search for alternatives can change the distribution of negotiation outcomes, one may well search less promising distributions of alternatives if actually finding a better alternative would sufficiently improve the outcome distribution. Lax (1983) discusses these issues in more detail.

3. For example, in an economic context, Jan Pen (1952) wrote: "When are the foundations of power economic in character? The answer is simple. ... If ... goods are in the hands of a seller who cannot be perfectly substituted by another seller, the buyer becomes dependent on the seller. The seller can exercise economic power by threatening to withhold the goods" (p. 32). By implication, if the buyer could better substitute for the seller (develop more attractive alternatives), he could lessen the seller's power and improve his own. In his classic Exchange and Power in Social Life, Peter Blau (1964) noted that "Generally, the greater the difference between the benefits an individual supplies to others and those they can obtain elsewhere, the greater is his power over them likely to be" (p. 120). In summarizing the work of several authors on the "bases of power" and applying these ideas to business strategy formulation, Ian MacMillan (1978) stated, "The structures of alternatives available to an organization and its opponents are important determinants of power" (p. 20). In Power and Politics in Organizations, Samuel Bacharach and Edward Lawler (1980) considered the position of "an organizational subgroup embedded in a network of relationships with other subgroups" and noted that "the power of the subgroup in any one relation is determined partially by the nature and level of outcomes available from the other relationships" (p. 20). Though these and other students of bargaining have noted and elaborated the relationship between alternatives and
"power," Fisher and Ury made a key contribution to prescriptive approaches by making the conscious development of alternatives a basic tenet of their advice: "What if they are more powerful? Develop your BATNA." While they emphasize this as a strategy for increasing the weaker party's "power," the concept applies to all parties. See also Dunlop (1950), Chamberlain (1951), and Emerson (1962).

4. See Bacharach and Lawler (1981). In a number of unpublished experiments, we have observed similar phenomena.

REFERENCES


