Interests: The Measure of Negotiation

David A. Lax and James K. Sebenius

People negotiate to further their interests. And negotiation advisers urge attention to interests—often solemnly, as if the suggestion were original and surprising. Yet Socrates' admonition to "Know Thyself" surely scoops any late twentieth century advice of this sort. So, academic compulsiveness aside, why write an article on interests or, more to the point, why read one?

The answer, in part, is that negotiators often focus on interests, but conceive of them too narrowly. We will argue for a more expansive conception of negotiator's interests. Moreover, interests often conflict, and simply listing them without understanding the tradeoffs among them is a bit like writing out a recipe without including the proportions. In addition to determining interests, negotiators need ways to assess the relative importance of those various interests. We will try to clarify the logic of assessing tradeoffs.

As hard as it may be to sort out one's own interests, understanding how others see theirs—their subjective scheme of values as perceived through their peculiar psychological filters—can be extraordinarily difficult. Obviously, suggesting a stretch "in the other person's shoes" is good advice; equally obviously, it is only a starting point. In this article we will try to go further.

An Expansive Conception of a Negotiator's Interests

In evaluating the interests at stake, a typical negotiator might focus on commodities that can be bought and sold or on concrete terms that can be written into a contract or treaty. And, negotiators definitely have such interests: the crippled plaintiff desperately wants compensation; a sales manager cares intensely about profits, profit margins, return on investment, and personal compensation; managers may derive value from seeing their particular product sweep the market or furthering some vision of the public interest.

Throughout this article, we assume that negotiators want to do well for themselves. Of course, "doing well" is only measured with respect to the things they care about, whether out of direct self-interest or concern for the welfare of others. Thus, doing "better" in a negotiation need not imply pressing for more money or a bigger share; rather, it means advancing the totality of one's interests, which may include money and other tangibles as well as...
fairness, the well-being of one’s counterparts, and the collegiality of the process. For instance, furthering Robert’s interests may mean taking less money to obtain a fair settlement by a friendly process; by the same token, Helen may want only to publicly humiliate her counterpart and extract from him the very biggest check.

It is especially common in business negotiations, however, to assume that interests extend only to the bottom line. Yet imagine holding rigidly to this assumption when negotiating with the number two executive of a technical products company from the upper half of the Fortune 500. He echoed his firm’s philosophy when he stated:

Our most important goal is to do a good job. We don’t have a specific growth target, but what we want to do is make a contribution. Not just a “me too” thing, but to develop technically superior products. Another goal is to earn our way, to grow from our own resources. A third goal is to make this an interesting and satisfactory place to work. The fourth goal . . . there must be a fourth goal. I mentioned it also in a speech at [a nearby university]. Oh yes, the fourth goal is to make a profit. (Donaldson and Lorsch, 1984, p. 85)

Negotiators’ interests can go beyond the obvious and tangible. Take for example the almost universal quest for social approval or the simple pleasure one derives from being treated with respect, even in a one-time encounter. A stockbroker may want to build a relationship with a customer because of the future business it may bring; or a plaintiff, anxious at the thought of a trial, may be willing to take a reduced settlement to avoid courtroom trauma. Negotiators have good reasons to be concerned with their reputations. A person who is widely known never to recede from a position may rarely be called on for concessions. Fisher and Ury (1981) argue that a negotiator should seek to be known for reaching agreements only by means of “objective” principles; once achieved, among other effects, such a “principled” reputation may reduce the need to haggle.

Beyond concerns about reputation, relationship, and process, negotiators often care about subtle aspects of precedent. For example, Luther—a product manager in a fast-growing medical devices firm—confronted his colleague Francoise for the second time with a vigorous demand for priority use of the firm’s advertising department—even though Francoise had informally “reserved” this block of the ad department’s time for her people. After analyzing her interests in this unexpected negotiation, Francoise balked at a few seemingly reasonable settlements that Luther suggested. Why? Francoise sought to avoid two undesirable precedents: first, in the substance of the issue (her division needed to count absolutely on future ad department reservations); and second, in the procedure set for raising a whole range of similar matters (she wanted to bolster the use of established policies). Concern with both types of precedent abounds in organizations and elsewhere.

Strategic interests are often at stake for managers. By this, we refer to the alignment of a particular decision with the manager’s long-term personal or institutional strategy. Suppose that a prompt investment in the capacity to manage mutual funds appears likely to have high short-term potential for a firm whose long-term plan has been to develop expertise in real estate invest-

ments. Would a key manager’s proposal now to devote substantial energy to mutual funds research and investment be wise? Recourse to strategic rather than short-term financial analysis may unravel the firm’s best interests in this case.

Through actions in one negotiation, a manager may have an interest in reducing the cost of later encounters and in affecting their outcomes. A manager may thus strive to create in subordinates the impression that explicit bargaining is impossible and that commands must be obeyed. Perhaps the back-and-forth process has become too costly and inefficient for the task at hand. In such cases, paradoxically, a prime managerial interest in routine dealings may actually be to drive out future overt bargaining. It is exceedingly ironic that a powerful interest to be achieved through a determined pattern of negotiation may be to establish an impregnable image of rigid hierarchy, potent command, and iron control—that brooks no conscious negotiation. Especially in early encounters, say, between a freshly hired vice president and others in the firm, the new officer may regard the establishment of a favorable pattern of others automatic deference to “suggestions” as of central interest. Or the new officer may strongly weigh the effects on his or her perceived track record or esteem as an expert so that others may be more likely to show deference in the future.

Comparing obvious, “bottom line” interests with “others”—reputation, precedent, relationships and the like—a very detailed study of corporate resource allocation in a multidivisional chemical company noted:

These are the dimensions a manager takes into account when he makes his decisions. In some instances they far outweigh the importance of the substantive issues in his assessment of decision-making priorities.

The worth pointing to emphasize this point. There is a very strong tendency in financial or decision-making treatments of capital budgeting to regard the personal status of managers as noise, “a source of bias.” . . . Theoreticians do not consider the problem a rational manager faces as he considers committing himself to a project over time. He has made other commitments in the past, other projects are competing for funds and engineering at the division level, and other managers are competing for the jobs he seeks. At the same time those same managers are his peers and friends. Whatever he does, he is more than likely going to have to live with those same men for a decade or more. While only some projects are technically or economically independent, all are organizationally interdependent. (Bower, 1972, p. 302)

It is not always easy to know how to evaluate interests; sometimes they may derive from interactions too complex to understand directly. In such cases, carefully chosen proxy interests may help. For example, the President of the United States cannot possibly predict the effects of any particular negotiated outcome on all of his substantive interests over the course of his term or beyond. Taking account of this, Richard Neustadt, in his classic bargaining manual, Presidential Power (1980), counsels him to evaluate his dealings in terms of three particular interests. The first is obvious: his interest in the substance of the immediate issue.

Second, however, the President’s professional reputation can heavily affect the reactions of important Washingtonians to his later concerns and actions. The President needs the resources and cooperation of these Washing-
tonians to carry out his programs. Thus, beyond the substance of the issue, Neustadt suggests, the effect of the current negotiation on the President's professional reputation among Washingtonians should be a proxy interest reflecting, in part, his ability to get the Washingtonians to act in accord with his subsequent desires.

Third, Neustadt argues that the President should evaluate the effect of his actions on his popular prestige. High prestige reflects the strength of his mandate and influences Washingtonians. It is, in part, a proxy interest; actions that enhance his public prestige improve his chances favorably to influence subsequent outcomes of direct concern. A President may also value popular prestige for its own sake. As negotiator, the President may well have to trade these interests off against each other. For example, he may yield somewhat on his substantive interest in the immediate issue to enhance his reputation and prestige elsewhere. In many positions less complex than that of the President, negotiators' interests are difficult to enumerate because the link between actions and eventual outcomes is hazy. In such cases, a negotiator may benefit by finding simplified proxy interests that predict outcomes either directly or indirectly, by predicting the negotiator's subsequent influence on outcomes of concern.

In short, interests include anything that the negotiator cares about, any concerns that are evoked by the issues discussed. Clarifying interests, however, can sometimes be difficult. We have often found that two distinctions can help.

**Two Helpful Distinctions**

**Interests, Issues and Positions**

Negotiators seek to reach agreement on specific positions on a specific set of issues. For example, a potential employee may initially demand $36,000 (the position) for salary (the issue). The job seeker's underlying interests may be in financial security, enhanced lifestyle, organizational status, and advanced career prospects. Or, the desire of a Midwestern utility company to build a dam may collide with farmers' needs for water and environmentalists' concern for the downstream habitat of endangered whooping cranes. Increased economic return, irrigated crops, and preserved species are the relevant interests; they conflict over the issue of the dam's construction, positions on which are pro and con.

Negotiators often assume that issues directly express underlying interests. Of course, many different sets of issues may reflect the same interests: a country might seek to serve its interest in mineral development through negotiations over issues as varied as simple royalty concessions, joint ventures, or service contracts. Conceivably, the country's interest could be equally satisfied by different terms on each of these alternative issues. The issue at hand, however, may be only a proxy for imperfectly related interests. For example, the United States in the Paris Peace talks may have insisted on a round table and the North Vietnamese a rectangular one. The relevant compromise would hardly have been oval. The real interests were far from the rectangular versus round issue.

Many negotiators retard creativity by failing to distinguish the issues under discussion from their underlying interests. When the issues under discussion poorly match the interests at stake, modifications of the issues some-
times enable all parties to satisfy their interests better. For example, recall the conflict between the Midwestern utility company, the farmers, and the environmentalists. After several years of costly and embittering litigation, the parties came to a resolution by a shift to issues that matched their underlying interests in a more fruitful manner. By moving from positions ("yes" and "no") on the issue of the dam's construction to discussions about the nature of downstream water guarantees, the amount of a trust fund to protect the whooping crane habitat, and the size of the dam, the parties reached an agreement that left all of them better off.

Negotiators who mistakenly see their interests as perfectly aligned with their positions on issues may be less likely to shift issues creatively. They might even suspiciously oppose proposals to modify the issues. Indeed, in attempting to protect their perceived interests, such negotiators may dig their heels in hard to avoid budging from their desired positions. In the "dam versus no dam" conflict, positions could have hardened to a point where the grim determinaton of each side to prevail over the other—whatever the cost—would have ruled out any real search for preferable options. At a minimum, such rigid dealings can be frustrating and time-consuming: impasses or poor agreements often result.

The prevalence of hard-fought, time-consuming, unimaginative "positional" negotiations led Fisher and Ury (1981, p. 11) to propose a general rule: "Focus on interests, not positions." While we think that negotiators should always keep the distinction clearly in mind, focusing exclusively on interests may not always be wise. When parties have deep and conflicting ideological differences, for example, satisfactory agreements on "smaller" issues may only be possible if ideological concerns do not arise. In such cases, the negotiations should focus on the issues or on a much narrower set of interests—not the full set of underlying interests. Two hostile but neighboring countries embroiled in tribal, religious, or ideological conflict may be best off handling a sewage problem on their common border by only dealing with this more limited issue. Or leftist guerilla leaders, each with an underlying interest in ruling the country, might unite on the issue of overthrowing the rightist dictator; an agreement that attempted to reconcile their underlying interests would likely be more difficult to achieve. Moreover, a negotiator may choose to focus on an issue that, for legal or other reasons, provides greater leverage than do discussions of underlying interests. The nature-loving group that has an abiding interest in preventing development may develop a sudden attachment to the issue of wetlands protection if the Wetlands Preservation Act provides the strongest grounds for negotiating with and deterring developers.

At times, a tenacious focus on positions may yield desirable results. With a group of landowners, the CEO of a major mining company had negotiated the general outlines of a contract along with a few critical particulars. Then the CEO turned the rest of the negotiations over to a company lawyer to finish in short order—before a hard-to-obtain environmental permit expired. One provision that the second group of negotiators inherited had not been extensively debated before. Yet, its tentative resolution, while barely acceptable to the landowners, clearly would confer great benefits on the company. Though the landowners' representatives sought to focus on "interests" and "fairness" in order to undo the provision, the company's lawyer made a
powerful commitment to it and turned a completely deaf ear to all argument, urging instead that they get on with "unresolved" matters. Though this tactic risked negative repercussions on the other issues, the lawyer's firm commitment to a position was an effective means of claiming value in this instance.

Thus interests should be distinguished from issues and positions. Focusing on interests can help one develop a better understanding of mutual problems and invent creative solutions. But such a focus may not always be desirable when, for example, underlying interests are diametrically opposed or when a focus on particular issues or positions provides leverage. Whatever the focus, however, interests measure the value of any position or agreement.

**Intrinsic and Instrumental Interests**

It should be clear that negotiators may have many kinds of interests: money and financial security, a particular conception of the public interest, the quality of products, enhancing a reputation as a skilled bargainer, maintaining a working relationship, precedents, and so on. However, one distinction—between intrinsic and instrumental interests—can provide an economical way to capture some important qualities of interests, call negotiators' attention to often-overlooked, sometimes subtle interests, and lead to improved agreements.

One's interest in an issue is **instrumental** if favorable terms on the issue are valued because of their effect on subsequent dealings. One's interest in an issue is **intrinsic** if one values favorable terms of settlement on the issue independent of any subsequent dealings. Thus, a divorcing parent's interest in gaining custody of his or her child, the farmer's interest in water rights, or a country's interest in secure borders can usefully be thought of as intrinsic interests. Such interests need not have any obvious or agreed-upon economic value. For example, Charles, a 60-year-old venture capitalist, was negotiating the dissolution of a strikingly successful technology partnership with Marie, a young, somewhat standoffish woman whom he had brought on as a partner two years before. At first Charles bargained very hard over the financial terms because he viewed them as indicating what he would contribute. In the event that he had not already contributed important ideas and skills to the venture's success. When Marie belatedly acknowledged her genuine respect for his ideas and contributions, Charles became much less demanding on the financial issues. In this instance, it happened that the venture capitalist also had a strong intrinsic interest in psychic gratification from acknowledgement of his role as mentor and father-figure.

Most issues affect both intrinsic and instrumental interests. Deals with a subordinate who wants to hire an assistant can arouse an intrinsic interest in the overall size of the budget as well as a concern with the perceived precedent the hiring will set in the eyes of the subordinate's peers—an instrumental interest. Recognizing the distinction may lead to improved agreements; the subordinate who can create a justifiable device to prevent decisions about his or her staff support from setting precedents may well receive authorization to hire a new assistant.

One of the main reasons we focus on the intrinsic-instrumental distinction is for the light it sheds on three often-misunderstood aspects of negotiation: interests in the process, in relationships, and in principles.

**"Process" Interests**—Intrinsic and Instrumental. Analysts often assume that negotiators evaluate agreements by measuring the value obtained from the outcome. Yet, negotiators may care about the process of bargaining as well. Even with no prospect of further interaction, some would prefer a negotiated outcome reached by pleasant, cooperative discussion to the same outcome reached by abusive, threat-filled dealings. Others might even derive value from a strident process that gives them the satisfied feeling of having extracted something from their opponents. Either way, negotiators can have intrinsic interests in the character of the negotiation process itself.

Beyond such intrinsic valuation, an unpleasant process can dramatically affect future dealings; the supplier who is berated and threatened may be unresponsive when cooperation at a later point would help. Indeed, negotiators often have strong instrumental interests in building trust and confidence early in the negotiation process in order to facilitate jointly beneficial agreements.

"Relationship" Interests—Intrinsic and Instrumental. Negotiators often stress the value of their relationships; this interest sometimes achieves an almost transcendent status. For example, Fisher and Ury (1981, p. 20) say that "every negotiator has two kinds of interests: in the substance and in the relationship." Many negotiators derive intrinsic value from developing or furthering a pleasant relationship. Moreover, when repeated dealings are likely, most negotiators perceive the instrumental value of developing an effective working relationship. After studying hundreds of managers in many settings, John Kotter (1985, p. 40) sensibly concluded:

> Good working relationships based on some combination of respect, admiration, perceived need, obligation, and friendship are a critical source of power in helping to get things done. Without these relationships, even the best possible idea could be rejected or resisted in an environment where diversity breeds suspicion and interdependence precludes giving orders to most of the relevant players. Furthermore, since these relationships serve as important information channels, without them one may never be able to establish the information one needs to operate effectively.

Of course, in the dissolution of a partnership or the divorce of a childless couple with few assets, the parties may find no instrumental value in furthering their relationship; that is, the parties would not be willing to trade substantive gains on, say, financial terms, to enhance their future dealings. In fact, a bitter divorcing couple may actually prefer a financial outcome that requires absolutely no future contact over another that is better for both in tax terms but requires them to deal with each other in the future. Similarly, a division head with two valuable but constantly warring employees may have a keen interest in separating them organizationally to prevent any active relationship between them. And, when dealing with an obnoxious salesperson who has come to the door or by the office, one's interest in the "relationship" may mainly be to terminate it.

**"Interest in "Principles""—Intrinsic and Instrumental.** Negotiators may discuss the idea of norms or principles relevant to their bargaining problem. Such norms may include equal division, more complex distributive judgments, historical or ethical rationales, objective or accepted standards, as well as notions that simply seem fair or are represented as such. (Gulliver, 1979; Fisher and Ury, 1981). Acting in accord with such a norm or principle may be
of intrinsic interest to one or more of the parties; for example, a settlement of $532—arrived at in accord with the mutually acknowledged principle that each party should be paid in proportion to time worked—may be valued quite differently than the same dollar figure reached by haggling. Of course, an acknowledged norm need not be an absolute value in a negotiation: it may be partly or fully traded off against other interests.

Even when none of the parties derive intrinsic value from acting in accord with a particular principle, it may still guide agreement. Principles and simple notions often serve as naturally prominent focal points for choosing one settlement within the range of possible outcomes (Schelling, 1960). For example, equal division of a windfall may seem so irresistibly natural to the partners in a small firm that they would scarcely consider negotiation over who should get more.

The principles that guide agreement in the first of many related disputes may set a powerful precedent. Thus, negotiators may work hard to settle the first dispute on the basis of principles that they believe will yield favorable outcomes in subsequent disputes. They may take a loss with respect to intrinsic interests in the first negotiation in order to satisfy their instrumental interests in the principles used to guide the agreement.

In short, with many less tangible interests—such as process, relationships, or fairness—a negotiator should ask why they are valued. Distinguishing between their instrumental and intrinsic components can help. But even with these components sorted out, how can a negotiator go about assessing their "relative importance?" More generally, what logic guides setting priorities among conflicting interests?

Thinking About Tradeoffs
Listing one's own interests as well as a best guess at those of other parties is certainly useful. But difficult questions tend to arise in negotiations that force one to make sacrifices on some interests in order to gain on others: How much of a trade is desirable? In buying a seller-financed house, how should Ralph evaluate higher purchase prices compared to lower mortgage interest rates? How much more should a manufacturer be willing to pay for the next quality grade of components? How much should a sales manager trade on price for the prospects of a better relationship? How much should a manager be willing to give up on substance to secure a favorable precedent?

Thinking about tradeoffs is often excruciatingly difficult and badly done. Yet, whether or not negotiators choose to ponder priorities, they effectively make tradeoffs by their choices and agreements in negotiation. Because we believe that negotiators benefit by being self-conscious and reflective about their interests and the tradeoffs they are willing to make, we propose several methods to illuminate tradeoffs. These methods draw primarily on judgment about interests, not about negotiating. The methods we consider help to convert developed substantive judgments into forms useful for analysis and practice (e.g., Raiffa, 1982; Keeney and Raiffa, 1976; Barclay and Peterson, 1976; or Greenhalgh and Neslin, 1981). Finally, although these techniques have formal origins rooted in management science and technical economics, we find that their prime value comes in their contribution to clear thinking rather than from their potential for quantification. While negotiators may often choose not to quantify their tradeoffs, they may benefit greatly by employing the same style of thought in comparing interests.

Certain tradeoffs are easy to specify. The present value or total cost of a loan is a well-known mathematical function of the amount and duration of the loan and the interest rate. Thus, beginning with a given price and interest rate for the seller-financed home, Ralph can calculate precisely the benefit of a one percent decrease in interest rate and how much of a price increase he would be willing to accept before he became indifferent to the original price and interest rate. Yet other tradeoffs may seem much harder to think about, especially ones that involve "intangibles" like principles, anxiety about a process, or the relationship.

Assembling Tradeoffs Among Seemingly Intangible Interests. Seemingly intangible tradeoffs can also be dealt with in analogous ways. For instance, consider Joan, a plaintiff crippled in a car accident who wishes to negotiate an out-of-court settlement with an insurance company that is better than her alternative of a full court trial. Suppose that, only taking trial uncertainties and legal fees into account, Joan would be willing to accept a settlement of $300,000. But this analysis leaves her uncomfortable. The trial would cause her great anxiety, and her analysis so far does not take this anxiety into account. How should she consider the anxiety factor in her preparation for negotiation? Perhaps she should lower her minimum requirements, but by how much? How can she even think about this?

After several anxious, inconclusive struggles with this assessment, a friend asks Joan to imagine the anxiety she would feel during a trial. The friend then asks her to imagine that a pharmacist offered to sell her a magic potion that would completely eliminate the feeling of anxiety from court proceedings. What would be the most she would pay for the potion before the trial? Would she pay $10? "That's silly. Of course." Would she pay $100? "Sure." $100,000? "Certainly not, that's one-third of my minimum settlement." What about $50,000? "Probably not." $1,000? "I think so." $10,000? "Well, that's a tough one. But, if push came to shove, the trial would be an awful experience. So probably yes." $25,000? "Maybe not, but I'm not sure." ... And so on.

We want to stress our opinion that the important point in making such assessments is not quantitative precision. An absolutely precise cutoff would seem artificial. What is important is to get a sense of the order of magnitude of the value Joan places on avoiding anxiety. Here we see that she would pay between $10,000 and $25,000 or a little more to eliminate the anxiety. Thus, she should be willing to reduce her minimum settlement requirements by that amount because a negotiated settlement would avoid the anxiety. She should, of course, strive for more, but she can feel more comfortable knowing that her minimum requirements now roughly reflect her interest in avoiding trial anxiety.

Similarly, Mr. Acton, the insurance company executive, may feel that going to trial against a plaintiff who evokes such sympathy will harm his firm's reputation. How should he value this reputation damage and how should it affect his approach to the negotiation? As described in this thumbnail sketch, in comparing the court alternative to possible negotiated agreements, the executive sees two interests at stake: money and reputation. Acton could try to value the reputation damage directly by estimating the number of present and future customers he would lose and the financial loss this would
create. If he finds such direct assessment difficult, he could attempt, like the
plaintiff, to place a monetary value on the "intangible" interest. What is the
most he would be willing to pay to a public relations firm to completely undo
the reputation damage? If the most he would be willing to pay is $50,000, Acton
could modify his maximum acceptable settlement and take this into account
when negotiating with the plaintiff.

In some instances, concerns with precedent, prestige, anxiety, reputa-
tion, and similar interests loom large; negotiators focus on them and, because
such interests are difficult to weigh, feel paralyzed with respect to their
choices as a negotiator. After fretting inconsiderately, the negotiators may ask
themselves how much they would be willing to pay to have the prestige con-
ferred upon them by other means. They might discover that they value the
prestige possibilities little relative to possible substantive gains. Or, by similar
analytical introspection, they might discover that they would be willing to
pay only a small sum to avoid an undesirable precedent. In such cases, the
negotiators would have learned a great deal. First, the intangible interest is a
second or third order concern rather than a first order one as they originally
feared; they can now feel freer to make concessions on the less important
interest if necessary. Second, unless the choice between packages becomes
close, they may need to pay little attention to this interest. In short, much of
the purpose of such assessments is more to discover the relative importance
of different interests rather than to be painstakingly precise about monetary
or other valuations.

In other instances, interests in precedent or reputation overwhelm the
possible improvements in substantive outcome. Suppose that Jeff, a lawyer
working on a highly publicized class action suit against a corporation, has an
interest in his financial compensation and in the reputation he might develop
by exceeding expectations for how favorable a settlement he can get for his
clients. Even if Jeff finds the range of possible financial compensation paltry,
he may see that his interest in enhancing his reputation and political ambi-
tions is extremely well-served by every increment he can obtain in the settle-
ment. Thus, he may bargain tenaciously on his client's behalf. In this case, the
nonmonetary interest was the first order concern. In other instances, simple
self-assessment may suggest that the monetary and nonmonetary issues are
roughly comparable concerns or that the monetary aspects predominate.

A More General Approach for Assessing Tradeoffs. The judgment that
one "cares more about quality than price" cannot be made independently of
the range of possible values of quality and price. That is, in the abstract, a
manufacturer may say that it cares more about quality than about price. How-
ever, while the total increment in technologically feasible quality may be
small, the price differential necessary to achieve it may be undesirably high.
Relative to the feasible range of qualities, the manufacturer actually places
greater weight on price. Similarly, the management negotiator who professes
to care more about obtaining productivity-enhancing changes in work rules
than about wages must analyze the ranges of work rules and wages that are
possible outcomes from this negotiation. Wages might range from a minimum
of $10 an hour to a maximum of $13 an hour—and this increment would have
a significant impact on the competitiveness of the negotiator's firm. Yet if the
increment from the worst to best possible work rules was small and would only
marginally affect the firm's competitiveness, the negotiator should give
greater weight or importance to wages. The tradeoff rate should result from
comparing the valuation of the wage increment between $10 and $13 with the
valuation of the benefit of moving from the worst to best work rules—not on
the judgment that the negotiator "cares more" about one or the other issue in
general.

This leads to a straightforward method for such assessments. Like the
preceding examples, the purpose of this method is to help organize one's sub-
jective judgments to get a clearer sense of the relative importance of various
interests. Again, we are concerned with orders of magnitude rather than pre-
cise quantification. To illustrate the central elements of this approach, we
shall work through the thought process in a highly stylized, simplified ex-
ample and then discuss the more general lessons for thinking about tradeoffs.

Assessing Lisa's Interests
Consider Lisa, a 34-year-old second level manager who has been offered a
position in another division of her firm as the supervisor of a soon-to-be
created department. She must soon negotiate with William, a long-time engi-
eneer who moved into senior management ranks seven years ago and has cau-
tiously but steadily improved his division's results. Lisa has narrowed the
issues she will have to negotiate to three: the salary, vacation time, and the
number of staff for the new department. We will ask her to analyze her inter-
ests and then draw on her subjective judgment to assign 100 points to the
issues in a way that reflects their relative importance to her. To begin, she
should assess the range of possibilities for each issue. Based on a variety of
discussions with William, with others in the firm, and on the results of numer-
ous feelers, Lisa has concluded that the salary could plausibly run from
$32,000 to $40,000, the vacation from two to four weeks, and the staff size
from 10 to 20. Suppose that her current job pays her $32,000, gives her four
weeks of vacation, and assigns her a staff of 10 (See Table 1).

| TABLE 1 |
| LISA'S NEGOTIATION: ISSUES AND RANGES |
| Issues          | Range             |
| Salary         | $32–40,000        |
| Vacation       | 2–4 weeks         |
| Staff          | 10–20 people      |

Lisa should start by imagining the least appealing scenario: $32,000, two
weeks of vacation, and a staff of 10. Her next task is to assess her relative pre-
ferences on each issue. To do this, she must decide which one of the three
incremental improvements she values most. That is, would she feel best with
(a) $40,000 salary but only two weeks vacation and 10 subordinates; (b) four
weeks vacation but only $32,000 salary and 10 subordinates; or (c) 20 sub-
dinates but only $32,000 salary and two weeks of vacation? In making this
evaluation, she examines her interests in money and the effects of a higher
salary on her satisfaction, as well as the peace of mind and pleasure from
longer vacations. On further reflection, Lisa realizes that she must also consider her ability to do her job effectively and thus to improve her subsequent career prospects. A bigger staff could help her effectiveness directly; enhanced organizational status from a big staff and high salary may independently bolster her job prospects as well as add to her effectiveness. Suppose that after contemplating her interests in this way, Lisa decides that she prefers the salary increment to the other two increments, and, of the other two, she prefers the staff increment to the vacation possibilities.

Now comes a harder part. She must allocate 100 points—importance weights—among the three increments in a way that reflects her underlying subjective feelings. Would she prefer the package with the largest salary increment but minimum vacation and staff to the package with the lowest salary but maximum staff and vacation? If so, she should allocate more than 50 points to the salary increment. If she is indifferent between the two packages, she should allocate exactly 50 points to the salary increment.

Lisa decides that she slightly prefers the salary increment and assigns a importance weight of 60 points to the salary increment. Now, she can either assign importance weights to the staff and vacation increments or she can think about the relative value she places on each of the possible salaries. She begins with the latter and again compares ranges. How does she compare the salary increment from $32,000 to $35,000 with the increment between $35,000 and $40,000? The first increment would improve her housing and thus enhance her life in direct and important ways; the second increment although larger, would go toward luxuries and saving. She thus feels indifferent between the first, smaller increment and the second, larger increment. In other words, she gives 30 of the 60 importance points to the increment between $32,000 and $35,000 and 30 to the remaining increment.

Table 2 presents importance scores that reflect Lisa’s preferences for salary; Figure 1 shows a plot of them. Interpreting this assessment, Lisa would get 0 points if she receives a salary of $32,000, 30 points if she manages to receive $35,000, 60 points if she is able to get a salary of $40,000. She must now assign points reflecting her comparative valuations of the vacation and staff increments. Naturally, making an assessment like this can feel like comparing apples and oranges—but Lisa will end up doing it either explicitly or implicitly.

<table>
<thead>
<tr>
<th>Salary</th>
<th>Importance Points Assigned</th>
</tr>
</thead>
<tbody>
<tr>
<td>$32,000</td>
<td>0</td>
</tr>
<tr>
<td>$33,000</td>
<td>10</td>
</tr>
<tr>
<td>$34,000</td>
<td>20</td>
</tr>
<tr>
<td>$35,000</td>
<td>30</td>
</tr>
<tr>
<td>$36,000</td>
<td>36</td>
</tr>
<tr>
<td>$37,000</td>
<td>42</td>
</tr>
<tr>
<td>$38,000</td>
<td>48</td>
</tr>
<tr>
<td>$39,000</td>
<td>54</td>
</tr>
<tr>
<td>$40,000</td>
<td>60</td>
</tr>
</tbody>
</table>

She can assess her valuations of the other two issues by comparing their increments directly, or by comparing one of the increments with her salary assessments. For example, how does the increment from 10 to 20 subordinates compare with the salary increment from $32,000 to $35,000? If Lisa is indifferent, she should assign 30 importance points to the staff increment and, thus, the remaining 10 points to the vacation increment. She decides and continues in this manner, finishing the assessment by assigning 20 of the 30 importance points to the increment between 10 and 15 subordinates and 10 points to the remaining increment. Lastly, she assigns eight of the 10 vacation points to getting the third week of vacation and two points to the remaining week.

Table 3 shows a scoring system that reflects this assessment. From the table, a $35,000 salary, three weeks of vacation, and 15 subordinates would be valued at 58 points (30 + 8 + 20) whereas a salary of $37,500, two weeks of vacation and 16 subordinates would be valued at 67 points (45 + 0 + 22). It is worth noting that all the scoring is relative to an arbitrarily chosen zero point. That is, the “worst” agreement—$32,000, two weeks of vacation and 10 subordinates, the bottom of the range for each issue—receives a score of zero. All other possible agreements are scored relative to this “worst” agreement. The

<table>
<thead>
<tr>
<th>Salary ($000)</th>
<th>Importance Points</th>
<th>Weeks of Vacation</th>
<th>Importance Points</th>
<th>Staff Size</th>
<th>Importance Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>33</td>
<td>10</td>
<td>3</td>
<td>8</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>34</td>
<td>20</td>
<td>4</td>
<td>10</td>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>
important comparison, though, is with Lisa’s current job which, at a salary of $32,000, four weeks of vacation, and 10 subordinates is valued at 10 points. Although any such scoring system is necessarily rough, Lisa can use it to evaluate possible agreements and to understand the tradeoffs she may have to make.

Comparing different increments can be difficult, but a few tricks can sometimes facilitate the process. For example, Lisa might construct one package of $32,000, two weeks of vacation, and 20 subordinates and another of $32,000, four weeks of vacation, and 10 subordinates. But, to compare them? Lisa might imagine that the phone rings and the call eliminates one of the options. Which option would feel worse to lose? Or, suppose that a coin flip will determine the choice of packages. Is a fifty-fifty chance of losing each appropriate? Or, would she prefer sixty-forty chances favoring one of the packages?

In helping Lisa construct this scoring system, we assumed that the value of an increment on one issue did not depend on how other issues were resolved; thus, scoring a package simply involves adding the points obtained on each issue. In some situations, though, the value of the outcome on one issue depends on how other issues are resolved. For example, suppose that with a high salary Lisa would like a larger number of subordinates. With a low salary, however, she might feel aggrieved; a larger staff would mean more responsibility for which she was not compensated. Thus, how she values staff size could depend on her salary level. Such interdependent preferences could be assessed using more elaborate techniques, but the general logic of defining and comparing increments would remain roughly analogous.

Assessing William’s Interests
Lisa, in addition to assessing her own interests, must also do the same for her negotiating counterpart and potential supervisor, William. Her preliminary investigations had fairly confidently bounded the ranges of the issues, but now the question becomes how be sees his real interests in them. Tentative discussions with William left Lisa little doubt that he would prefer to pay less, allow shorter vacations, and get by with as few new staff as possible. In fact, during a meeting in which he enthusiastically offered her the job “in principle,” William sketched the terms he felt were appropriate: “a bit over $50,000, a few weeks vacation, and only the staff you really need.” More than a little daunted by this less than forthcoming stance, Lisa feels a strong need to develop a much deeper understanding of William’s interests.

Asking around, she discovers that William is generally not at ease with “personnel” matters and that he tends to seek out whatever firm “policy” he can find for guidance. Fortunately for Lisa, little in the firm would be directly comparable to the new department she would head. But a few discreet inquiries turn up the fact that the supervisor of the firm’s largest department makes around $39,000. Since the new department is an important endeavor, Lisa feels fairly certain that salary money will not be too tight, but that the other supervisor’s compensation will make any salary above $39,000 very uncomfortable for William to consider.

In trying to ferret out William’s feelings about vacation, Lisa discovers that he has been a hard worker, seldom taking more than a few days or a week each year. Also he has mentioned the extreme importance of dedication and long hours during the uncertain start-up of this new organizational unit.
plicitly make all the time. Such evaluations are often made with respect to nominal issues rather than directly on underlying interests. Lisa’s interests in money, lifestyle, peace of mind, career prospects, and organizational status are not perfectly aligned with the issues of salary, vacation limits, and staff size. When thinking about how well different packages satisfy her interests, the negotiator may discover reformulations that align more closely with her interests. If some of these “new” issues are easier to grant, they may form the basis for a better agreement.

During the process, the negotiator may learn about and change her perceptions about how well different positions on the issues serve her interests. As she learns, the relative importance of the increments on the issues may shift. If so, she should modify her assessments.

In contrast to the apparent crispness of the issues, interests are often vague. There may be no apparent scale with which to measure, for example, precedent or organizational status. Yet, the same logic that is useful for making issue tradeoffs can apply to assuring the relative impact of interests. The generic steps are as follows:

• Identify the interests that may be at stake.
• For each interest, imagine the possible packages that serve it best and worst; for example, imagine the range of precedents that might follow from the negotiation. This roughly defines the increment.
• As with Lisa’s job negotiations, the importance of each interest depends on the relative importance of its increment compared to those of the other interests; how does the gain from the worst to the best possible precedent compare with the gain from the worst to the best possible monetary outcome?

The currency of negotiation generally involves positions on issues but the results are measured by how well underlying interests are furthered. As such, it is helpful to shuttle constantly between often abstract interests and more specific issues, both to check for consistency and to keep real concerns uppermost in mind.

Assessing the Interests of Others

Finally, it goes almost without saying that negotiators should constantly assess their counterparts’ interests and preferences. Obviously, careful listening and clear communication help this process. Uninvolved third parties can render insights not suspected by partisans wrapped up in the negotiation. And some negotiators find that, as part of preparing for the process, actually playing the other party’s role can offer deepened perspectives. In various management programs at Harvard, for example, senior industrialists have been assigned the parts of environmentalists and vice versa. To simulate arms talks, high-level U.S. military officers and diplomats have been assigned to play Russian negotiators in intensive simulations. Palestinians and Israelis have had to swap places. After some initial discomfort and reluctance, the most common reaction of participants in these exercises is surprise at how greatly such role-playing enhances their understanding of each side’s interests, of why others may seem intransigent, and of unexpected possibilities for agreement.

Beyond various ways of trying to put oneself in the other’s shoes, assessment of another’s interests may be improved by investigating:

• Their past behavior in related settings, both in style and substance.
• Their training and professional affiliation: engineers and financial analysts will often have quite different modes of perception and approaches to potential conflict from, say, lawyers and insurance adjusters.
• Their organizational position and affiliation. Those in the production department will often see fng, predictable manufacturing runs as the company’s dominant interest while marketers will opt for individual tailoring to customer specs and deep inventories for rapid deliveries. This is but one example of the old and wise expression “where you stand depends on where you sit.”
• Whom they admire, whose advice carries weight, and to whom they tend to defer on the kind of issues at stake.

In the end, interests are bound up with psychology and culture. Some settings breed rivalry; others esteem the group. Some people are altruists; others sociopaths. To some, ego looms large; to others, substance is all. Airport bookstore wisdom names Jungle Fighters, Appeasers, Win-Winners, and Win-Losers. Professionals diagnose personality Types A and B and victims of cathexed libido. Others have developed such classes, sometimes wisely, but for now we stress that perceived interests matter, that perceptions are subjective. Thus, to assess interests is to probe psyches.

Interests and Issues are Variable

Many academic treatments of negotiation take the issues and interests at stake as unchanging over the course of the negotiation. Yet both the issues under discussion and the interests perceived to be at stake can change.

The link between issues and interests is often unclear; the negotiator faced with a set of issues must figure out which of his or her interests are at stake. For example, getting a corner office might enhance prestige and status, but how much would this affect various dealings and decisions?

Because these links are often vague and complex, perceptions of the links can be influenced or manipulated. One may shape the “face” that an issue wears (Neustadt, 1980); presenting Food Stamps as a means to increase demand for agricultural products rather than as a welfare program may win agricultural state representatives’ support for the program. Similarly, by portraying a new project that in reality departs sharply from a firm’s past strategy as a direct extension of current projects, a subordinate may both obtain funding and avoid a review of the project’s fit with broader strategic goals.

One may attempt less drastic changes in an individual’s perception of the relationship between the issue at hand and the underlying interest. Thus, the mining company negotiator may attempt to persuade a small country’s Finance Minister that high royalty rates, although they appear to further the country’s interest in revenues, will actually be worse than lower royalty rates. The mining company might argue, “once rates reach a certain level, we will invest less, other companies will be scared off, and you will end up losing in terms of your monetary interests.” If persuaded, the country’s evaluation of how its interests would be satisfied by different potential agreements would change.

Certain other tactics may effectively expand or contract the interests evoked, often in ways not intended by the negotiator. “Take-it-or-leave-it”
offers, forced linkages, commitment moves, threats, and preemptive actions all have potential to elicit strong negative reactions that may overwhelm the original issues at stake. Concern for one’s reputation or self-esteem may predominate. A trade union’s motivation for strikes, for instance, may shift over time from the strictly economic to a desire for revenge. Likewise, wars can escalate out of all proportion to the possible substantive gains for either side. The sudden Argentine occupation of the Falkland Islands in 1982 and the British response quickly came to involve weighty, irreconcilable interests such as national “honor” and the “right” response to aggression.

In many circumstances threats, commitments, and deterrent moves are effective and can be analyzed in terms of values for the immediate issues involved (Tedeschi, Schlenker, and Bonoma, 1973). In other cases, such tactics can induce anger, loss of “face,” and aggression (Deutsch and Kraus, 1962; Rubin and Brown, 1975). That is, the tactics bring new and often unhelpful interests into the negotiation. Counter-tactics may well bring in additional interests and a spiral begins. Conflicts are more likely to escalate when disputants attribute their concessions to their own weakness; similarly, escalation is less likely when concessions can be attributed to something impersonal, such as a budgeting system, a formal procedure, or a widely accepted norm (Bachrach and Lawler, 1981).

The essence of some tactics is to add new interests. For example, one may make a commitment to a position by invoking an interest that the other negotiator cannot satisfy and that would not otherwise be part of the process; in holding to a position, the insurance claims adjuster may invoke a strong interest in maintaining a reputation as a tough bargainer for subsequent claims negotiations. The potential house buyer who announces that one’s spouse would be tremendously angry if the purchase price were to exceed $150,000 adds a new interest to the negotiation: the relationship between husband and wife.

Other tactics, in contrast, may eliminate interests. Flipping a coin or submitting a dispute to arbitration may remove implications of weakness, strength, coercion, or tactical advantage.

Thus, interests can change even when issues remain fixed. The reverse is also true. Because the relation between issues and interests may be unclear, negotiators may reformulate the issues. During negotiations over deep seabed mining in the Law of the Sea negotiations, for example, many of the different nations’ underlying interests remained fairly constant. However, as the negotiations evolved, the issues changed dramatically—from whether mining should be done by private firms at all or by an international mining entity to the nitty-gritty aspects of mining contracts for private firms and the financing mechanism for the first operation of a new international mining entity. Trying to pin down the precise nature of the final issues at stake occupied a great deal of the negotiators’ time, perhaps more than it took ultimately to resolve the issues (Sebenius, 1984).

**Prescriptive Summary**

As a summary for analysts and practitioners, we have converted the main observations of this paper into the following prescriptive checklist:

---

**Assessing Which Interests Are At Stake**

- **Beyond the obvious, tangibles interests that may be affected by issues to be discussed, consider subtler interests in reputation, precedent, relationships, strategy, fairness, and the like.**
- **Distinguish underlying interests from the issues under discussion and the positions taken on them.**
- **Distinguish between intrinsic and instrumental reasons for valuing interests, especially some of the subtler ones.**
- **In seeking to understand other’s interests, remember that interests depend on perceptions, that perceptions are subjective, and thus that to assess interests is to probe psyches. This process can be aided by clear communication, the advice of third parties, role-playing, and taking into account past behavior, training, professional affiliation, and organizational position, as well as those to whom the other defers.**
- **Keep in mind that interests and issues can change on purpose or accidentally as the parties learn, events occur, or certain tactics are employed.**

**Assessing Tradeoffs**

- **Tradeoffs are as important to interests as proportions are to recipes.**
- **To assess tradeoffs among intangible interests, it is sometimes helpful to imagine services one could buy otherwise to satisfy the same interests.**
- **To assess tradeoffs among issues:**
  - Specify the worst and best possible outcomes on each issue to define the possible increments.
  - Compare the increments by thinking hard about underlying interests and how increments are most valued.
  - Break the increments into smaller pieces and similarly compare their relative evaluation.
  - Change assessments with learning about how different positions on the issues affect interests.
  - Assess interest tradeoffs using the same logic.

---

**When to Focus on Interests and When on Issues**

- **Focus the negotiation on interests to enhance creativity and break impasses by reformulating issues to align better with underlying interests.**
- **Focus the negotiation on positions, issues, or a narrower set of interests when underlying conflicts of ideology make agreement difficult or when a restricted focus is more advantageous for claiming value.**

Negotiation is a process of potentially opportunistic interaction in which two or more parties with some conflicting interests seek to do better by jointly decided action than they could otherwise. The alternatives to negotiated agreement or what the parties could do alone define the threshold of value that any agreement must exceed. The potential of negotiation is bounded only by the quality of agreement that can be devised. But, for evaluating alternatives and creating agreements, interests are the measure and raw material of negotiation.
NOTES

We would like to thank Arthur Appelbaum, Mark Moore, Howard Raiffa, Lawrence Susskind, and Thomas Weeks for helpful and friendly comments. A number of the ideas in this paper have been stimulated by the work of, and discussions with, Roger Fisher and William Ury, whom we also thank. Support from the Division of Research at the Harvard Business School and the Sloan Foundation Program of Research in Public Management is gratefully acknowledged. Much of this article is drawn from material prepared for a chapter of our book, The Manager as Negotiator (New York: The Free Press, forthcoming).

1. More technically-minded readers may find the following formulation helpful: Let u represent a negotiator's multi-attribute utility function; the attributes of u are the negotiator's interests. Let p be a vector of positions taken on the issue vector i. Let f be a vector-valued function that reflects the negotiator's beliefs about how well an agreement on position p on issues i advances his interests. Thus, an agreement p gives the negotiator utility u(f(p)). Typically, of course, the negotiator will be uncertain about the relationship between issues and interests, which we might model by letting w represent the random variable reflecting relevant uncertain events and letting f(p),w) reflect the negotiator's beliefs about the relationship between issues and interests conditional on w. Thus, we might say that the negotiator wants to choose p to maximize Ew[u(f(p),w)], where Ew is the expectation over the negotiator's subjective beliefs about w.

2. The "additive scoring rule" constructed in this example is a simple case of a multi-attribute utility function. When interdependencies exist, non-additive, multi-attribute utility functions (see Keeney and Raiffa, 1976) can be used in this assessment.

3. Or for that matter, how to take the twin scoring systems for Lisa and William's values to produce a Pareto frontier. For a discussion of how to do this, see Raiffa (1982) or Barclay and Peterson (1976).

REFERENCES


