The Manager as Negotiator

Bargaining for Cooperation and Competitive Gain

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The Free Press
A Division of Simon & Schuster Inc.
1230 Avenue of the Americas
New York, New York 10020

Printed in the United States of America

printing number
12345678910

Library of Congress Cataloging-in-Publication Data
Lax, David A.
The manager as negotiator.
Bibliography: p.
I. Sebenius, James K. II. Title.
HG50 A.L39 1986 658'.4 86-18420
Thinking About Tradeoffs

Listing one's interests as well as a best guess at those of others helps. 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 the 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 done very badly. Yet, whether or not negotiators choose to ponder priorities, they effectively make tradeoffs by their choices and agreements in negotiation. We believe that negotiators benefit by being self-conscious and reflective about their interests and the tradeoffs they are willing to make among them. We therefore discuss 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. 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

For example, see Raiffa (1982), Kenney and Raiffa (1976), Barclay and Peterson (1976), or Greenhalgh and Neslin (1981).

given price and interest rate for the self-financed home, Ralph can calculate precisely the benefit of a 1 percent decrease in the 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" such as principles, anxiety about a process, or the relationship.

Assessing Tradeoffs Among Seemingly Intangible Interests

Seemingly intangible tradeoffs can also be dealt with in analogous ways. The plaintiff crippled in a car accident 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, she would be willing to accept a settlement of $300,000. But, this analysis leaves her uncomfortable. The trial would cause her great anxiety. Yet her analysis so far does not take this anxiety into account. How should she take this into 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, someone asks her to vividly imagine the anxiety she would feel during a trial. He 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." $1000. "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 feel of the order of magnitude of the value she places on avoiding anxiety. Here we see that she would pay between $10,000 and $25,000 for 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, the insurance company executive may feel that going to trial against a plaintiff who evokes such sympathy will harm the firm's reputation. Yet how should be 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. He 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 monetize 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 at most he would be willing to pay $20,000, he could modify his maximum acceptable settlement and take this into account when negotiating with the plaintiff.

In some instances, concerns with precedent, prestige, anxiety, reputation, and similar interests loom large; negotiators focus on them and, finding them difficult to weigh, feel paralyzed with respect to their choices as a negotiator. After fretting inconclusively, the negotiator may ask himself how much he would be willing to pay to have the prestige conferred upon him by other means. He might discover that he values the prestige possibilities little relative to possible substantive gains. Or, by similar analytical introspection, he might discover that he would be willing to pay only a small sum to avoid an undesirable precedent. In such cases, the negotiator would have learned a great deal. First, the intangible interest is a second or third order concern rather than a first order one as he originally feared; he can now feel freer to make concessions on the less important interest if necessary. Second, unless the choice between packages becomes close, he 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 than to be painstakingly precise about monetary or other valuations.

In other instances, interests in precedent or reputation turn out on reflection to overwhelm the possible improvements in substantive outcome. Suppose that 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 he finds the range of possible financial compensation paltry, he may see that his interest in enhancing his reputation and political ambitions is extremely well-served by every increment he can obtain in the settlement. Thus, he may bargain tenaciously on his clients' behalf. In this case, the monetary interest was not the first-order concern. In other instances, simple self-assessment may suggest that the monetary and nonmonetary issues are roughly comparable concerns or, of course, 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, the manufacturer may say that he cares more about quality than about price. However, the total increment in technologically feasible quality may well be small; the price differential necessary to achieve it may well be undesirably high. Relative to the feasible range of qualities, the manufacturer actually places greater weight on price. Similarly, the management negotiator who thinks that she cares 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 of this negotiation. Suppose wages could range from a minimum of $10 an hour to a maximum of $13 an hour—and that this increment would have a significant impact on her firm's competitiveness. Yet if the increment from the worst to best possible work rules was small and would only marginally affect her firm's competitiveness, she should give greater weight or importance to wages in this negotiation. Her rate of tradeoff should follow from comparing her valuation of the wage increment between $10 and $13 with her valuation of the benefit of moving from the worst to best work rules and not from the judgment that she "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 subjective judgments to get a clearer sense of the relative importance of various interests. Again, we are concerned with orders of magnitude rather than precise quantification. To illustrate the central elements of this approach, we shall work through the thought process in a highly stylized, simplified example and then discuss the more general lessons for thinking about tradeoffs.

ASSESSING LISA'S INTERESTS Consider Lisa, a thirty-four 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 engineer who moved into senior management ranks seven years ago and has cautiously 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 interests 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 and with others in the firm, and on the results of numerous feelers, Lisa has concluded that the salary could plausibly run from $32,000 to $40,000, the vacation from two weeks to four weeks, and the staff size from ten to twenty. Suppose that her current job pays her $32,000, gives her four weeks of vacation, and assigns her a staff of 10. (See Table 4.1.)

She should start by imagining the least appealing scenario: $32,000, two weeks of vacation, and a staff of ten. Lisa’s next task is to assess her relative preferences 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 (1) $40,000 salary but only two weeks’ vacation and ten subordinates; with (2) four weeks’ vacation but only $32,000 salary and ten subordinates; or with (3) twenty subordinates 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, she 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

15The following example contains certain technical aspects that need not be mastered to understand the logic of assessing tradeoffs. As such, some readers may wish to skim this section and turn to the next section, “Assessing William’s Interests.”
$32,000. If she managed to receive $35,000, she would receive 30 points, and she could move all the way up to 60 points if she were 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.

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 ten to twenty subordinates compare with the salary increment from $32,000 to $35,000? If she is indifferent, she should assign 30 importance points to the salary increment and, thus, the remaining 10 points to the vacation increment. 14 She decides and continues in this manner, finishing the assessment by assigning 20 of the 30 importance points to the increment between ten and fifteen subordinates and 10 points to the remaining increment. Lastly, she assigns 8 of the 10 vacation points to getting the third week of vacation and 2 to the remaining week.

Table 4.3 shows a scoring system that reflects this assessment. From the table, a $35,000 salary, three weeks of vacation, and fifteen subordinates would be valued at $30 + 8 + 20 = 58 points, whereas a salary of $37,500, two weeks of vacation and sixteen subordinates would be valued at $45 + 6 + 22 = 67 points. If Lisa is comfortable with this assessment and the scoring system, she can use it as a shorthand method of evaluating and designing possible proposals and counterproposals while preparing for and carrying out the negotiation.

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’ vacation, and ten 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 important comparison, though, is with her current job which, at a salary of $32,000, four weeks’ vacation, and ten 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, say, of $32,000, two weeks’ vacation, and twenty subordinates and another of $32,000, four weeks’ vacation, and ten subordinates. But, how 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 re-

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14To gain confidence in the assessment, she might also compare the value of the vacation investment with the values of various staff and salary increments and be sure that the assigned points are consistent with her actual preferences.
solved. 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.** As Lisa firms up the assessment of her own interests, she must, of course, 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 he 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, in a meeting enthusiastically offering her the spot “in principle,” William sketched the terms he felt were appropriate. There he said “a bit over $30,000, a few weeks’ vacation, and only the staff she really needs.” More than a little daunted by this less than forthcoming stance, Lisa feels a strong need to develop a much deeper understanding of his interests.

Asking around, she discovers that William is generally not at ease with “personal” 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.

Trying to ferret out his 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 startup of this new organizational unit. Lisa infers that the prospect of her taking extended vacations early on, while not at all uncommon elsewhere in the firm, would not sit at all well with William.

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11The “additive scoring rule” constructed in this example is a simple case of multiattribute value or utility function. When interdependencies exist, non-additive, multi-attribute utility functions can be used in the assessment. (See Kenney and Raiffa, 1976.)

12For 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).
ary" could be expanded to include stock options, bonuses, and fringe and in-kind benefits. A "vacation" might encompass time to be taken in later years, a generous policy of accumulating unused vacation or turning it into salary, or leaves for various purposes like education. "Staff" may mean direct employees of various backgrounds and levels, "loans" from other departments, consultants, temporary help, or equipment to enhance the productivity of a given number of staff. But throughout, constant probing of each party's interests is the sine qua non of creating value by designing good negotiated agreements.

General Lessons for Assessing Interests

The most important lessons from this kind of assessment are those that help one think more clearly about the qualitative judgments that negotiators implicitly 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 vaguer. There may be no apparent scale with which to measure say, 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 of value associated with each interest.
- 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; for example, 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 constantly to shuttle back and forth between 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 a negotiator should constantly assess his 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. 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. 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:

- Past behavior in related settings, both in style and substance.
- 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.
- Organizational position and affiliation. Those in the production department will often see long, 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 another example of the old and wise expression "where you stand depends on where you sit."
- What 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 instill group loyalty. Some people are altruists; others sociopaths. To some, ego looms large; to others, substance is all. Popular psychology designates Jungle Fighters, Appeasers, Win-Winners, and Win-Losers. Professionals label personality Types A and B along with victims of cathexed libido. Others have spun out such classes, sometimes wisely, but for now we stress that perceived interests matter, that perceptions are subjective, and, thus, to assess interests is to probe psyches.

Summary

As a means of summarizing the main observations of this chapter, we have converted them into the following prescriptive checklist for analysis and practitioners:

ASSESSING WHICH INTERESTS ARE AT STAKE
- Beyond the obvious tangible 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 others’ 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, organizational position, as well as those to whom the others defer.
- 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 which increments are most valued.
  - Break the increments into smaller pieces and similarly compare their relative valuation.
  - Change assessments as more is learned 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 apparently conflicting interests seek to do better by jointly decided action than they could otherwise. For evaluating alternatives and creating agreements, interests are the measure and raw material. The alternatives to negotiated agreement or what the parties could each do alone define the threshold of value that any agreement must exceed. The potential of negotiation is bounded only by the quality of the agreements that can be devised. The processes of negotiation are creating and claiming value. We can now focus more detailed attention on the first of these, namely, how value can be created from the parties’ interests. In other words, we look hard at the real bases of joint gains.