NEGOTIATION STRATEGY

For Better or Worse: How Relationships Affect Negotiations

Connections influence everything from our choice of negotiating partners to our interpretation of offers.

BY KATHLEEN I. MCGINN

Six years ago, Esther Lorenza, an experienced entrepreneur and the founder of a new Internet and catalog retailer, concluded that only one supplier could meet her unique product specifications and high standards for quality. There were just two problems. First, her start-up was still in the conceptual phase, while the supplier was an international, $10 billion public corporation. Second, the supplier had never created anything like the product she had in mind. (The names and industry specifics of this story have been altered to protect confidentiality.)

Undeterred, Lorenza called the corporation’s regional vice president, whom she knew from other business ventures, and made her pitch. Though doubtful his company would consider the idea, the VP made an introductory call to the COO on Lorenza’s behalf. The COO was skeptical as well but arranged a lunch for Lorenza with the CEO, who was also the founder of the corporation. The CEO was intrigued by Lorenza’s description of the possible partnership. After three hours, the two founders had discovered a wealth of mutual interests and the deal was on.

Today, the supplier is a $21 billion company with a new division that produces an entire line of products stemming from the deal. Last year, Lorenza sold her business, which had grown approximately 500% annually, for more than $350 million. The deal that made it all possible began with a relationship between Lorenza and the regional VP. This connection resulted not only in huge profits for everyone involved but also in a close alliance between the founders of the two companies.

Though not all negotiations involve such high stakes, many do involve interpersonal relationships, just as Lorenza’s did. In this article, I discuss how relationships affect negotiation processes and outcomes, including the choice of interaction partner and information sharing, as well as the ways in which negotiations affect relationships—for better and for worse.

How relationships influence your choice of interaction partner
A critical decision in negotiation is choosing whom to deal with in the first place. When many partners are available, we often turn to people with whom we’re familiar and

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comfortable. Lorenza didn’t cold-call the most appropriate VP—she called someone she’d known for years.

It’s natural to attempt to reduce “search costs” by turning to someone you know and trust. When trust is critical to negotiation success, selecting known partners also increases the likelihood that the other side will be willing to make a deal.

Have you bought a house or a car recently? If so, you may well have made the purchase through someone you know and were happy you had done so. In one study, researchers found that people who used their social ties when making a large purchase were more satisfied with the process—and with their purchase—than were people who dealt with strangers.

Negotiating with friends and acquaintances saves time and increases joint gains—but only up to a point. Researchers have found that people with strong outside alternatives tend to reap smaller profits in negotiations with friends than they would in negotiations outside their network. Conversely, parties with fewer options gain more when dealing with friends.

Some negotiators trade away possible economic gains in favor of maintaining or enhancing a relationship. (See the sidebar “Relationships in the Marketplace.”) People in committed relationships, whether business or personal, often signal loyalty by choosing to ignore negotiation opportunities with others. Whether this is a wise move or not depends on your long-term objectives for the negotiation and the relationship.

Relationships and attributions
People hold positive images (or illusions, depending on your point of view) of individuals they feel close to. The regional VP whom Lorenza first called knew the product she was suggesting didn’t fit his company’s line and probably would have considered the proposition outrageous if the same call had come from a stranger. But because the VP thought of Lorenza as someone with great ideas, he decided the plan might have merit.

When negotiations go poorly, positive attributions provide a cushion of trust. Even if you’re in a bad mood, it probably won’t affect the positive attributions you hold of those you trust. The negative spirals of ill will common in negotiations among strangers rarely occur in negotiations among friends and colleagues.

But a close relationship can also negatively affect our interpretations of the other side’s negotiating behavior. In general, we expect more from those with whom we have a pre-existing relationship. A marginal offer that might seem reasonable when delivered by a stranger, therefore, could seem like a betrayal when coming from a friend. You might be able to mitigate this effect, however, by trying to understand the negotiation from your friend’s or colleague’s perspective.

Shared understandings
Parties in positive relationships facilitate agreement by developing a shared way of interacting and of interpreting the world. Lorenza attributes her negotiation success to finding a kindred entrepreneurial spirit in the larger company’s CEO. The two spent time exploring how each thought about business in general and supplier relationships specifically. By the time they discussed Lorenza’s proposal, they knew their shared understanding of the economic environment would facilitate a mutually beneficial deal.

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SERVICE AND PERMISSIONS: Negotiation (ISSN 1546-9522) is published monthly by Harvard Business School Publishing Corp., at 60 Harvard Way, Boston, MA 02163. POSTMASTER: Send address changes to Negotiation, R.O. Box 297, Shrub Oak, NY 10588-0297. To resolve subscription service problems, please call 800-668-6705. Outside the U.S., call 617-783-7474.

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Articles in this newsletter draw on a variety of sources, including published reports, interviews with practicing managers and consultants, and research by management scholars, some but not all of whom are affiliated with Harvard Business School. Articles reflect the views of the author.
Sometimes negotiators assume mutual understanding when, in reality, they have different views. In a creative study, University of Chicago psychologists Boaz Keysar and Nick Epley presented a participant with a variety of items, including a roll of Scotch tape and an audiotape. The participant was instructed to conceal the Scotch tape in a paper bag and put it back with the other items. An individual then entered the room and, as instructed, asked the participant to pick up one item from a list at a time. When told to pick up “the tape” by a friend rather than a stranger, the participant was more likely to reach for the bag containing the hidden Scotch tape rather than the audiotape in plain view that the other person must have intended. Without conscious thought, participants assumed their friends shared their secret knowledge. Such errors can lead to missed opportunities for exploring differences in negotiations.

Coordination and information sharing

Lorenza and the CEO’s negotiation took place over a business lunch, a setting with clearly defined norms for acceptable behavior. Because of the formality of the occasion, Lorenza presented her fledgling company as a sound and profitable business proposition, rather than as a representation of her dreams and desires for a new entrepreneurial venture—a view she might have shared with a close friend.

Shared rules for interaction ease coordination in negotiations. Comparing negotiation processes between strangers and between friends, human resource specialist Angela Keros and I found that strangers often struggle to find a method of interaction that works for both sides. The result frequently is an impasse. In contrast, friends are able to coordinate a negotiation’s relational, procedural, and informational acts in ways that enhance information sharing and accurate interpretation.

The benefits of information sharing among friends and acquaintances in negotiation settings are multifold. Professor Brian Uzzi of Northwestern University’s Kellogg School of Management has found that bankers share detailed information and engage in joint problem solving when dealing with others they know well, but do not do so when negotiating with new customers. Similarly, Marc-David Seidel and colleagues at the University of British Columbia discovered that, at a high-tech firm hiring new employees, candidates with a friend already working in the organization were more likely to be offered increases to the company’s initial salary offers. Minorities, who were less likely to know people in the company, negotiated smaller increases than did whites. When minority candidates were matched with white candidates on within-company relationships, however, differences in negotiated increases disappeared.

Preferences and utility for outcomes

Because relationships influence the negotiation process, they inevitably affect outcomes. But negotiators’ objectives, preferences, and interpretations affect outcomes as well. Economic payoff is generally considered the most important measure of success in negotiation. But when talks take place between people with ongoing social or professional ties, implementation of the agreement becomes another critical factor. It’s hard to imagine that Lorenza would have considered the negotiation a success had her product been poorly manufactured and delivered late.

Ultimately, the relationship itself—whether it continues and the parties’ satisfaction with it—is a critical measure of negotiation success or failure. After all, a single deal is of limited value; but strong, stable relationships can provide rewards across years of negotiations.

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Reprint # N041A: To order a reprint of this article, call 800-668-6705 or 617-783-7474.

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