HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
George F. Baker Foundation

NEGOTIATION

Course Outline – Winter 2003

Faculty:
Max Bazerman (course head)
Terry Burnham
Lorraine Chen Idson
Deepak Malhotra
Kathleen McGinn
Siobhan O’Mahony
NEGOTIATION

Winter 2003

I. Course Objectives

Managerial success requires agreement and collaboration with other people. This is certainly true for transactions between suppliers and customers, and between investors and start-up companies. It also applies in settling lawsuits, resolving labor problems, forging joint ventures, and crafting strategic alliances.

Since other stakeholders do not have the same interests, perceptions, and values that you do, negotiation skill is needed, professionally and personally. This course is aimed at enabling you to become a more effective negotiator. Effectiveness at the bargaining table requires many things, including:

- The ability to create value and execute deals that others might overlook;
- The strategic skill to garner your fair share of what is negotiated;
- The ability to avoid common mistakes made by negotiators;
- The perception to understand your own ethics, and the ethics of others;
- The ability to work with people whose backgrounds, expectations, and values differ from your own; and
- The capacity to reflect and learn from your experience.

Effectiveness requires analytic vision and interpersonal understanding. The ability to identify key stakeholders, their interests, and leverage is essential, yet even the most ingenious strategy will fail if not artfully implemented. By the same token, being very persuasive does little good unless it is in service of a carefully conceived plan.

This course provides you with the opportunity to learn how to analyze negotiations at a more sophisticated level. It will give you the opportunity to identify your strengths as a negotiator and to work on your weaknesses. More fundamentally, the course will provide a conceptual framework to diagnose problems and promote agreement, both outside and inside your organization.

II. Method of Instruction

This course differs from the rest of the first year MBA curriculum in some important respects. While we will study traditional business school cases in some of our sessions, the heart of the course is a set of interactive negotiation exercises and simulations. These exercises have a dual purpose. First, they will give you hands-on experience with negotiation. You will learn first by actually negotiating, and then by stepping back to compare your approach and results with those of your classmates. You can test your analytic skills and experiment with new techniques. Special preparation and follow-up assignments will encourage you to draw practical lessons from your personal experience.

The exercises also illustrate the key elements of our systematic approach to negotiation analysis. Our first simulation will involve a two-party, price-focused negotiation. We will then move on to progressively more complex situations involving a broader range of issues, multiple parties, and internal-external relationships. Debriefing the exercises, we will examine the range of agreements that people reached, and then identify the key drivers of success. We will see why, for example, some pairs of buyers and sellers agree to a low price while others settle much
higher, even though both pairs were given the same initial instructions. We will also see why some people reach agreement while others, in identical situations, do not. Comparing your own results with the class’s collective experience will demonstrate the economic, psychological, and social dynamics that animate the negotiation process.

Because your regular sections are “scrambled” for this course, you will have the chance to negotiate with both people that you see every day and others that you do not know very well – just as in the real world. Appendix A explains the procedures for conducting the exercises.

III. Content and Organization

Because the course provides a general approach to negotiation, it draws on examples from a variety of industries and contexts. Likewise, the underlying principles incorporate ideas from a range of fields and disciplines, from economics and decision theory to psychology, organizational behavior, and law.

The first seven classes present the core model of negotiation analysis, explaining how value is generated at the bargaining table and how the parties divide it. The remainder of the course extends this model by considering more complicated cases. We will consider the strategic consequences of having many parties in a negotiation – for example, how coalitions form and bargaining power often shifts. We will also explore the complexity that arises when internal differences within an organization make it difficult to reach agreement with outside partners and customers. Likewise, we will look at how hidden political agendas, cross-cultural issues, and a host of other factors can impact the negotiation process. As an on-going theme, we will consider challenging ethical issues of truth telling, fairness, use of power, and principal-agent conflicts. An outline of the classes appears in Appendix B.

This is a relatively short, graded course. It is meant to give you the basic tools and concepts to be an effective negotiator and to systematically learn from your future experiences. Students who wish to do further classroom work in this area will be well prepared for the following specialized second-year electives: Corporate Diplomacy; Changing the Game; Dealmaking; Negotiating New Ventures; Power & Influence; and Negotiating Complex Deals & Disputes.

IV. Materials

The basic course packet and a second packet of confidential instructions for the negotiations exercises will be distributed through the Spangler Center. This second packet is customized for you and will not contain exactly the same material as other people will have. Finally, some supplementary material will be distributed through the web or handed out in particular classes.

V. Grading and Course Requirements

Grading in this course will be on the standard HBS system (i.e., Category 1, 2, and 3). Grading will be based on four components: class participation (35%); short assignment #1 (12%); short assignment #2 (13%); final examination (40%).

Class participation has several components. First and foremost is diligent completion of all the negotiation exercises. This means not merely taking part in them, but being well-prepared for them – and completing the polls on time. Appendix C shows, in chronological order, the complete set of requirements that you will be responsible to complete, and the date and timing of these requirements. Please take these deadlines seriously. All this is important for your own learning. It also guarantees a good experience for the people with whom you will be matched.
With rare exception, students in the past have more than met this requirement. A failure in this regard, however, will have severe negative consequences in grading.

Your comments in class will be graded as well. We are mindful that in a shorter course like this one, the relative quantity of comments may have some element of chance. As a result, we will give less weight to the number of times a person has spoken in class. We are more concerned with the quality of discussion. Here again, our expectation is that it generally will be high. We will particularly note, therefore, truly outstanding observations, insights, and questions. The rare comment that betrays a lack of preparation or attention will be noted.

In a sense, the course is a laboratory in which you will be both experimenter and subject. Your instructor will encourage you to articulate general principles and extract prescriptions from your personal experience in the negotiation exercises. Merely relating who offered what in a particular simulation will be of little value to the rest of the class. The challenge will be to identify the underlying dynamics of a situation, and extract lessons that everyone will find useful.

Sometimes the most important learning comes from apparent “failure.” After all, if you have gotten a good deal, it may be hard to know whether you have been smart or simply lucky. By contrast, if you were deadlocked or got a poor outcome, it is often possible to identify what happened – and to see how to avoid getting in the same position in the future. As a consequence, we hope to create a classroom atmosphere that encourages self-reflection and candor. In this process of discovery, good questions will be valued at least as much as good answers.

You will also be assigned two short written assignments. These assignments are intended to solidify the learning from the course in advance of the final exam. Please be aware that the second of these two assignments will be done as a group project.

VI. Optional Speaker Series

The course also includes an entirely optional speaker series, in which members of the Negotiations teaching group and a few other scholars will present their current research or particular applications of negotiations tools and techniques. While we welcome all students, these sessions are entirely optional – none of the material presented will be tested in any way, and your attendance or non-attendance will have no impact on your grade for the course.

We believe that the seminar series will provide interesting and fun additional insights on the basic material covered in the course. The seminars will be stand-alone presentations, so that you may pick and choose according to interest. Unless otherwise announced in class, they will take place from 12:00 to 1:00 pm, approximately one per week for the six weeks that the course is in session. Please bring your lunch if you wish. The calendar for the speaker series is given in Appendix D.

On a related note, those students who wish to do further reading on the topic of negotiations can find a list of recommended readings in Appendix E.

VII. Special Note on Research

Throughout this course, you will complete a number of negotiation simulation and negotiation-related exercises. These exercises provide rich material for class discussion and are each designed to further your effectiveness as a negotiator. In addition, this data may sometimes support valuable research. Analysis of such data has contributed to the ongoing evolution of negotiation theory. Some of the concepts and insights that you will encounter in this course can be directly traced to learning that took place in prior versions of this course.
Whether or not the results of these negotiation exercises should be regarded as “experiments” in the formal sense of the word, the faculty in the course want to inform students of the potential research use of this data. For example, your data may be analyzed to detect patterns across negotiations, within or between demographic categories, and as it relates to attitudes and stereotypes that may emerge in the IAT exercise. Only aggregate, statistical information would ever be published. Complete anonymity would be guaranteed. No personal identifying information is ever involved; all analysis uses participant numbers rather than student names.

We very much hope that you are comfortable with this kind of use. Nevertheless, if you are not, please contact the course administrator, Tara Abbatello (tabbatello@hbs.edu, 617-495-6032). If you object, your data will only be used for feedback in the classroom, will not be in any database beyond the course, and this will have no impact on your grade in the course. Your professor will not be aware of the choice you have made. Please feel free to contact Tara or any member of the teaching faculty if you have any questions.
Appendix A: Policies and Procedures for Negotiation Exercises

You will take part in a series of exercises or simulations in this course. The instructions and confidential information for them will be distributed through the Spangler Center. Other people will be assigned different roles, and therefore will get different confidential information.

Typically, you will be asked to read the background information for the upcoming negotiation, privately plan your strategy, and then meet with your assigned counterpart to try to negotiate an agreement. One person in your particular pairing may be asked to report the outcome on a course platform poll.

For three simulations, Adam Baxter 1983, Moms.com and Travelexis, the negotiations will take place outside of class time. They constitute your preparation for class just as would reading a conventional case. Although, we have set aside class time for the other negotiations, you must prepare to negotiate prior to class.

Preparation for these exercises should be done entirely on your own, not with a study group. Do not show your confidential instructions to others, before, during, or after the negotiations. In the real world, they would not have access to your confidential information unless you give it to them. Showing this information would compromise the negotiation experience for all concerned. By contrast, when you are actually negotiating with your assigned party, you may discuss as much or as little of your information as you think is appropriate. Whatever you say or do, you should be prepared to explain your negotiation behavior in class. We hope there will be spirited – and useful – debate about ethical questions of fairness and disclosure that arise during your negotiations.

In these simulations, you only know the information provided to you. To the extent that you convey facts that you do not know to be true, you are lying. Please note, we are not guaranteeing that the other side will not deceive you. Unfortunately, deception exists in the world, and it may exist in your simulation. We are simply clarifying that if you make up facts, you are lying, not editing the case.

It should be understood that everyone is trying to achieve as good an outcome as they can, consistent with their particular instructions. Your skill will improve if you are matched with excellent opponents. Someone who takes it easy on you does you no favor. By the same token, there is no obligation to come to agreement in any of these exercises. If you believe the other side is being unreasonable or unfair, you are free to declare an impasse and walk away from the bargaining table. You should be prepared to explain your decision in class, of course, and you still will have to report the outcome in the post-negotiation poll.

Unless a specific exercise has explicit instructions to the contrary, you and your counterpart can decide when, where, and how to negotiate. In most instances, you will want to meet face-to-face, but telephone and e-mail are important modes of communication as well. At some point in the course, you might want to experiment by negotiating through these media to see how it affects the process.

Firm deadlines are set for completing these negotiations, so that the faculty can organize and analyze the results for class discussion. Failure to submit results will be understood as failure to do the exercise. Even after you are finished, be especially careful about discussing any exercise. If people who have yet to do it inadvertently overhear you, their opportunity to learn may be seriously compromised.

Outcomes in negotiations are not a factor in grading. While we expect that people will strive to get good deals, success in this regard will be its own reward. Someone who has paid the highest price in a given negotiation will not be graded any differently than someone who
paid the least. As noted in the syllabus itself, however, failure to diligently prepare for and carry out the negotiation would be a serious matter.

We encourage you to keep track of your own outcomes and to compare them to the group results that will be presented in class. It is extremely unusual for anyone to get an above average outcome in all of the exercises, but some people tend to do better than others. While it may be a bit discouraging to discover that you are not in that group, we hope that you will search hard for explanations. It is far better to confront such issues in this setting – where the stakes are low and the opportunities to learn are high – than in real world negotiations, where losses, financial and otherwise, can be truly painful.
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<thead>
<tr>
<th>Module</th>
<th>Class/Date</th>
<th>Case/Topic</th>
<th>Assignment for Case/Simulation</th>
<th>Reading</th>
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<tbody>
<tr>
<td>A. Introduction to Negotiation</td>
<td>C1 – 1/13</td>
<td>Frasier</td>
<td>Prepare the Frasier case in advance of the first class. See course platform for details on computer-based assignment. After class: Complete the online Study Group survey by 5 pm today, URL on course platform.</td>
<td>Frasier (A) 9-801-447 Introduction to Negotiation Analysis: Creating and Claiming Value 1-898-085 The Knowing-Doing Gap, Ch. 2</td>
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<td></td>
<td>C2 – 1/15</td>
<td>Decision Biases</td>
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<td>Negotiating Rationally, Ch. 1,3 Optional reading: Negotiating Rationally, Ch. 4,8</td>
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<td>B. Multiple Issues, Multiple</td>
<td>C4 &amp; C5 – 1/23</td>
<td>El-Tek negotiation (in-class negotiation)</td>
<td>Read El-Tek role before class. Be prepared to negotiate in class.</td>
<td>Negotiating Rationally, Ch. 10-11 The Art and Science of Negotiation, Ch. 1</td>
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<td>Parties</td>
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<td>El-Tek (debrief)</td>
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<td>C6 – 1/24</td>
<td>Jessie Jumpshot</td>
<td>Written Assignment I: due at the start of class 1/24. Read, analyze and prepare written assignment on your own. See course platform for details.</td>
<td>Jessie Jumpshot (A-1) 9-800-388 The Manager as Negotiator, Ch. 2</td>
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<td>C7 – 1/27</td>
<td>Social Biases</td>
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<td>Fair Driving: Gender and Race Discrimination in Retail Car Negotiations, 2-896-020</td>
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<td>C. Negotiations &amp; Auctions</td>
<td>C8 – 1/28</td>
<td>Auctions &amp; Negotiations Game (in-class negotiation)</td>
<td>Read A &amp; N role and instructions before class. Be prepared to carry out A&amp;N simulation, in teams, in class.</td>
<td>Games, Strategies, and Managers: Bidding in Competition, Ch. 11, 1-898-119</td>
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<td>C9 – 1/30</td>
<td>A&amp;N (debrief)</td>
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<td>D. Complex Negotiations</td>
<td>C10 &amp; C11–2/11</td>
<td>Deeport I (in-class negotiation) Deeport II (debrief)</td>
<td>Read Deeport role before class. Be prepared to negotiate in class.</td>
<td>Barbarians at the Gate: The Fall of RJR Nabisco, Ch. 17 Optional reading: Negotiating Rationally, Ch. 16 Negotiating Rationally, Ch. 14 Sequencing in Multi-Party Negotiations 1-898-114</td>
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<td>C12 – 2/18</td>
<td>Adam Baxter I (in-class negotiation)</td>
<td>Prepare for Baxter ’83 by reading roles for Baxter ’78 and ’83. (’78 is background information.) Negotiate Baxter ’83 in 3-person teams outside of class. Read Baxter ’85 role before class. Be prepared to negotiate Baxter ’85 in class. <strong>Written Assignment II: email assignment due by midnight 2/18</strong> Before class: In 3-person teams, develop scoring system for Baxter ’85, as described on course platform. After class: Record outcomes of ’83 &amp; ’85 negotiations on team-developed scoring system, answering the analysis questions posted on course platform. Email completed scoring system to Professor’s assistant by midnight</td>
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<td>C13 – 2/20</td>
<td>Adam Baxter II (debrief)</td>
<td>Watch video at one of the assigned times. Social Conflict, Ch. 7, 1-896-016</td>
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<td>C14 – 2/21</td>
<td>Travelexis (debrief)</td>
<td>Read Travelexis role. Negotiate Travelexis outside of class. Party playing Travelexis/Hoff role reports outcomes on poll. Case picked up in Spangler after completing the negotiation.</td>
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<td>E. Synthesis</td>
<td>C15 – 2/24</td>
<td>Moms.com (debrief) Read Moms.com role. Negotiate Moms.com outside of class. Party playing Schiller reports outcomes on poll. The Manager as Negotiator, Ch. 7 Negotiating Rationally, Ch. 17-18</td>
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<td>Exam – 2/25</td>
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Appendix C: Student task requirements (check off as you complete the list)

1. _____ Prepare Frasier case in advance of class on 1/13.

2. _____ Complete online survey about study habits (URL available on course platform) after 3PM on 1/13.

3. _____ Go to R&T computer lab in Shad basement to complete 30-minute computer-based assignment. Each section has an assigned day between 1/13 and 1/23; see course platform for details.

4. _____ Read your side of the Salt Harbor Negotiation by class time on 1/17.

5. _____ Prepare El-Tek in advance of class on 1/23.

6. _____ Read and analyze Jessie Jumpshot on your own. Prepare written assignment in advance of class on 1/24.

7. _____ Turn in responses to Questions #1-4 at the beginning of class on 1/24.

8. _____ Prepare for N&A simulation in teams in advance of class on 1/28. Default preparation time is 3-5 PM on 1/27.

9. _____ Prepare for Deeport negotiations in advance of class on 2/11.


11. _____ Prepare for Baxter ’85 by reading private role information and preparing in teams in advance of 2/18.

12. _____ Complete written assignment on scoring systems, in teams, for Baxter ’85. Bring this scoring system to class with you on 2/18.

13. _____ Record ’83 & ’85 outcomes on scoring system. Include one-paragraph assessment of the use of the scoring system for the ’85 negotiation. Email the completed scoring systems, record of outcomes, and one paragraph assessment of scoring system to your professor’s assistant by 2/18.

14. _____ Watch video of actual Baxter negotiation. See course platform for multiple out-of-class viewing times.

15. _____ Prepare for and negotiate Travelexis, outside of class by 2/19, 6 PM.

16. _____ If you were Hoff in Travelexis, report your results via the poll by 2/19, 7PM. (URL available on course platform)

17. _____ Pick up Travelexis case in Spangler after completing the negotiation. Read case for class discussion in advance of 2/21.

18. _____ Prepare and Negotiate Moms.com by 2/21, 5 PM.

19. _____ If you were Schiller in Moms.com, report your results by 2/21, 6 PM. (URL available on course platform.)
Appendix D: Negotiations Seminar Series Schedule

All of the sessions listed below are entirely optional – the material will not be tested in any way, and your attendance or non-attendance will not affect your grade. Each session will be held from 12:00 to 1:00 pm, unless otherwise noted. Please bring your lunch if you wish.

January 17th
Professors Bazerman, Burnham, and McGinn – Negotiating your summer job

January 22nd
Professor Kathleen McGinn - Within-organization negotiations, an example from the Canadian Auto Workers. We'll show and discuss video footage of a contentious negotiation between Buzz Hargrove, President of CAW, and his bargaining team. Appx. 30 trade union executives from international trade unions will be attending the session.

January 24th
Professor Mahzarin Banaji (Harvard Psychology Department) – Implicit Attitudes

January 27th
Dr. Tom Magliozzi, co-host of Car Talk

January 31st
Professor Guhan Subramanian (HLS) – M&A negotiations

February 13th
Professor Max H. Bazerman – Predictable Surprises

February 18th
Professor Terry Burnham -- Mean Genes: How Evolution Has Shaped Human Nature

February 20th
Professor Kathleen McGinn – Improvisations and transitions in negotiations
Appendix E: Recommended reading

Though not required for this course, the following books are recommended for those who have an on-going interest in negotiation:

Bazerman, _Judgment in Managerial Decision Making_ (Wiley, 2002)


Cialdini, _Influence: The Pyschology of Persuasion_ (William Morrow, 1993)

Kolb and Williams, _The Shadow Negotiation_, (Simon and Schuster, 2000)

Lax and Sebenius, _The Manager as Negotiator: Bargaining for Cooperation and Competitive Gain_ (Free Press, 1986)

Mnookin, Peppet, and Tulumello, _Beyond Winning: Negotiating to Create Value in Deals and Disputes_ (Harvard University Press, 2000)

Raiffa, _The Art and Science of Negotiation_ (Harvard University Press, 1982)

Raiffa, _Negotiation Analysis_, (Harvard University Press, 2003)

Shell, _Bargaining for Advantage_ (Viking, 1999)

Susskind and Field, _Dealing with an Angry Public_ (Free Press, 1996)

Thompson, _The Mind and Heart of the Negotiator_ (Prentice-Hall, 2001)

Ury, _Getting Past No_ (Bantam, 1993)

In addition, the _Negotiation Journal_, published by the Program on Negotiation (Pound Hall, Fifth Floor, Harvard Law School) is a good source of current trends in negotiation theory and practice.

Finally, the Negotiations, Organizations, and Markets group offers an excellent set of negotiations courses in the EC, and your instructor would be happy to talk to you about them in more detail.