

Negotiation

Topic Gateway Series No. 25



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Negotiation

Definition and concept

What is negotiation?

'The process through which two or more parties who are in conflict over outcomes attempt to reach agreement. It is the constructive, positive alternative to haggling or arguing; it is aimed at building an agreement rather than winning a battle.'

Pillutla, M. and Nicholson, N. (eds). (2004). Negotiation: how to make deals and reach agreement

When does negotiation occur?

Negotiation can occur in any business situation, but people negotiate in everyday situations outside of the workplace. It occurs when there is more than one possible outcome from a situation in which two or more parties have an interest, but they have not yet determined what the outcome will be. For example, negotiation occurs between a buyer and seller in the purchase of a second hand car, or even between groups of friends when they decide which film to see at the cinema.

Business negotiations can include:

- producing deals with suppliers, partner businesses or customers
- inter-departmental or team discussions to determine aims, processes and resources
- management and staff discussions to discuss job priorities and workload
- discussions between management and trade unions, for example, rates of pay
- recruiting new people to the business, for example, interviews.

In a way, both business relationships and personal relationships are shaped through the process of negotiation. Success in both business life and personal life depends on having good negotiation skills. In practice, personal negotiations require essentially the same skills as business negotiations.

Context

CIMA students are unlikely to study Negotiation for their professional examinations, but they will become involved in negotiation at all stages during their professional careers. It will be to their career advantage to develop good negotiating skills at an early stage.

Related concepts

Discussion; agreement; compromise

Overview

Why learn to negotiate?

Many situations will have more than one potential outcome. Learning how to negotiate enables individuals to understand fully how complex many situations are, and how to manage the situation more effectively. Good negotiation skills are beneficial to both individuals and businesses.

The benefits to individuals are:

- better outcomes from negotiating situations
- resolving differences of opinion without bad feeling
- a better understanding of other parties' aims, motivations and beliefs
- creating better business relationships
- less stressful negotiations.

The benefits to businesses are:

- reduced costs and overheads through better deal making
- more opportunities for business development
- avoidance of the cost of failing to make crucial deals
- better relationships with stakeholders and other involved parties
- more positive and less stressful work and business relationships.

Goals and outcomes

When negotiating, it is important to bear in mind that goals and outcomes are not the same thing.

Goals – the needs, wants and preferences that individuals consider before they negotiate.

Outcomes – a possible result of negotiation.

Possible outcomes of negotiation

Three outcomes are possible when negotiating:

1. Win-win (both sides win).
2. Win-lose (one side wins, the other loses).
3. Inefficient but equitable (all items shared equally).

Negotiating styles

Negotiators can be either aggressive or co-operative in their personal style. Either style can be successful or not, and it is possible to adapt a style to meet individual situations. In addition, negotiators can be factual, relational (building relationships), intuitive or logical in their approach.

In practice

Negotiation in practice

Goals

Goals are the needs, wants and preferences that individuals bear in mind before they negotiate. Goals are the 'why' behind the 'want'. If outcomes represent what somebody wants from a negotiation, goals explain why they want it.

A goal determines what outcomes are acceptable. If individuals decide on a particular outcome and try to achieve it, only that outcome is acceptable. Having goals means that negotiation can result in more than one outcome. Individuals can then decide what is more acceptable. Not all goals will be equally important.

Outcomes

An outcome is a possible result of negotiation. Outcomes can be general or specific, factual or subjective, absolute or relative. If negotiation only consists of both sides identifying a preferred outcome, making it their goal and forcing it on the other, haggling or arguing will result. This results in an unwise decision (or no decision), inefficiency and potential damage to relationships. Entering negotiations with only a specific outcome in mind can be very counter-productive. Negotiators should consider the wider goals.

Example

A potential client negotiates with a contractor for an office cleaning contract. The goal is to have a well cleaned office by 9am each day, regardless of how many people or hours the contractor has to provide. One possible outcome of the negotiation might be for the client to employ two people each day cleaning for two hours.

To identify the goals, it is necessary to consider business goals ('hard' goals) and cultural or personal issues ('soft' goals).

'Hard' goals

Strategy - The long-term aims of the business.

Change - The need or desire to change the business in order to achieve a specific outcome.

Adaption - The need to adapt to changes to ensure the continued survival of the business, or to move into new areas.

Improvement - These aims could include greater efficiency, saving money, greater profit margins or streamlining processes.

Growth - This might include increased turnover, new products and services, or product diversification.

Project oriented goals - These goals will be directed at a specific outcome.

'Soft' goals

These are cultural factors (overall business culture, employee involvement and status within the business) and personal factors (motivation and ambition, peer pressure and insecurity).

Preparing to negotiate

Before negotiation starts, there are several steps to consider.

1. Think carefully about what you want and why you want it.
2. Set specific goals based on realistic and justifiable targets.
3. Gain commitment by putting your goals in writing and sharing them with another team member.

It is important to identify, as far as possible, the other side's goals. This may involve research on companies and their markets, individuals and business culture.

Prior to negotiating, individuals should consider:

- What is the negotiation nominally about?
- What is it 'really' about, if different?
- Which issues matter to both sides?
- Which issues are more important (or relevant) to one side?
- How do various issues affect each other?
- Are some issues irrelevant or trivial? Would it simplify the negotiating process to omit them?
- Should you consider issues not on the formal agenda if they offer flexibility and alternatives?

Few negotiations involve only two parties. There may be several parties on each 'side'. The more people involved in a negotiation, the more goals have to be considered. Each party brings different goals to the negotiation, and some goals will conflict. It is important to consider:

- What is each party's interest in the negotiation?
- How will they be affected by the outcome?
- How can they affect the outcome?
- How can you affect their position or viewpoint?
- Does their influence benefit or harm your own goals? Should you attempt to increase or reduce it?
- What are the links and interdependence between parties?

The bottom line

It is useful to think about a bottom line, or the minimum you will accept. All negotiations have a bottom line which sets limits to flexibility. An outcome below the bottom line is not acceptable. For a buyer, the bottom line is the highest price he or she is prepared to pay. For a seller, the bottom line is the lowest price he or she is prepared to accept. Where these overlap, there is an area of potential agreement known as 'the bargaining zone'.

In a more complex negotiation, the bottom line might be defined as an unacceptable factor in a deal. It may not be possible to set a bottom line until negotiations start or the other side makes an offer. Individuals should look at how close they are to meeting goals, not how far they are from the bottom line.

Best Alternative to a Negotiated Agreement (BATNA)

Negotiators must consider their position if negotiations fail to produce an acceptable outcome. They can determine a Best Alternative to a Negotiated Agreement (BATNA). A BATNA gives an alternative where agreement cannot be reached. It does not need co-operation from others and gives options when negotiations fail.

For example, the potential client may decide to re-open the tendering process and look for another office cleaning contractor if the terms and conditions offered by one particular contractor go below the bottom line and are deemed unacceptable.

A negotiator can:

1. Avoid being forced into an unsuitable agreement.
2. Assess potential outcomes against the BATNA to decide whether a negotiated agreement is better than the alternative.
3. Understand when the other party does not need them to achieve their goals i.e. the other party has leverage.
4. Understand when they will damage the other party's interests if negotiations fail i.e. they have leverage.

Leverage

Leverage is the ability to reach agreement on the terms you want – it is the flip side of the BATNA. It depends on the threat of a negative outcome for the other party. Leverage is determined by whose need is greater, which party has the most to lose if a deal is not reached, and who can afford to quit negotiations. In short, leverage is determined by being in the stronger position.

It is possible for the various parties to have leverage in different areas. Negotiators can introduce extra options to increase their own leverage and to reduce another party's leverage over them. Leverage is often based on perception not facts; negotiators can make the other side think they have more leverage than they actually have.

In the case of the office cleaning contract, it is highly unlikely that one cleaning contractor will be a monopoly supplier in an area. Cleaning services are not a scarce commodity which cannot be easily bought. It is likely that the potential client will be able to consider hiring an alternative cleaning contractor at a comparable or even better price and will therefore have more leverage than the cleaning services.

Distributive and integrative negotiations

To see how goals, outcomes, BATNAs and threats function during negotiation, it is important to understand the difference between distributive and integrative negotiation.

Distributive negotiation: no scope for trade-offs on the basis of different preferences or goals. Negotiation is a zero-sum game where one side wins and the other side loses.

Integrative negotiation: the scope for trade-offs is determined on the relative importance of different factors to each party. Any negotiation involving a range of factors is potentially integrative because the parties will probably place different levels of importance on various aspects.

Outcomes are often described as 'win-win' or 'win-lose'. Although integrative negotiations are often perceived as 'win-win' and distributive negotiations as 'win-lose', it is possible for an integrative negotiation to result in either outcome.

Win-win, win-lose and other outcomes

Essentially, three negotiation outcomes are possible:

Win-win (both sides win). Items are shared out using a combination of personal preference where possible and equitable treatment or precedent if not. A win-win situation involves a discussion of the parties' goals and both parties achieving the majority of their goals.

Win-lose (one side wins, the other loses). This occurs where an aggressive negotiator has no interest in being fair and the other party cannot respond to these tactics. Some large supermarkets drive supplier prices down because they can, regardless of the needs of the small supplier.

Inefficient but equitable. All items are shared equally. This is 'fair' but misses a win-win situation.

Types of negotiator

There are several negotiating types, all with their own strengths and weaknesses.

The factual negotiator

A factual negotiator will know all the facts related to the negotiation. He or she asks factual questions and will cover all angles to make sure that no facts are omitted. A factual negotiator will provide all the necessary information, but tends to leave out emotional issues.

The relational negotiator

A relational negotiator establishes relationships with the other party. He or she is keen to build trust and is sensitive to emotional issues related to the case. A relational negotiator perceives the position of the other party, but can lose sight of the reason for the negotiation.

The intuitive negotiator

An intuitive negotiator sorts the key issues from the irrelevant detail. He or she often comes up with unexpected solutions and sees the 'big picture'. This type of negotiator visualises the implications of a proposal and predicts the negotiation's progress. However, intuitive negotiators are often regarded with suspicion because of their unconventional approach and lack of discipline.

The logical negotiator

A logical negotiator sets the rules of the negotiation and develops an agenda. He or she will argue in a logical, unemotional way, and will adapt their position to meet changing circumstances. A logical negotiator can sometimes see the negotiation process as being more important than the content or result.

Negotiation styles

Goals, bottom lines and BATNAs represent the 'what' and 'why' of negotiation. Negotiation style is the 'how'.

An individual's character determines his or her 'natural' negotiation style. A confrontational person will adopt an aggressive style, while conciliatory individuals tend to be co-operative. 'Aggressive' tactics include anger, ultimatums and threats, and the use and abuse of information. The latter includes withholding information, exaggerating facts to support a particular position and giving partial or misleading information. 'Co-operative' tactics include information sharing, listening, flexibility and looking for a fair deal for all, not the best deal for one side only.

Studies have shown that neither style has a monopoly on effectiveness, although results showed that 59% of co-operative negotiators were considered 'effective', against 25% of aggressive negotiators. (Pillutla and Nicholson in *Negotiation: how to make deals and reach agreement*, page 38). Regardless of style, all effective negotiators are well prepared and maximise their skills.

Success depends on how well a negotiator works within his or her style, and understands their weaknesses. A naturally confrontational person will benefit from improving his or her effectiveness, instead of trying to adopt an unworkable approach. It is best to stick with your chosen style, but to adapt it subtly in different situations. For example, an aggressive negotiator could listen more while a co-operative negotiator might place less emphasis on feelings.

The key negotiation skills

'Natural' human reaction to different opinions is often not helpful. Many people will become either timid or aggressive when placed in a situation with people whose aims and motivations differ markedly from their own. To reach agreement effectively, individuals need to learn new skills and then make the effort to use them.

The key skills for negotiators are:

Making the other party want to engage in talks - This means understanding the other party and working with and not against the grain of their characters and values.

Being a good interviewer - This involves negotiators asking appropriate questions at the right time. Skilled negotiators make a sound case and put forward proposals in such a way that people find it easy to choose them.

Active listening - Good negotiators take on board what other people are saying and use the information constructively to move negotiations forward.

Discipline - Successful negotiations depend on careful preparation, keeping promises and staying committed to their bottom line.

Flexibility - Being prepared to create, consider and analyse a number of potential outcomes, rather than working towards a predetermined outcome.

Cultural differences

Negotiations between people of different cultural backgrounds can be difficult if those differences are not understood. Cultural differences can be economic, social, political or religious. They can include a shared sense of values and a personal outlook. Negotiators should ask themselves:

1. What business goals are considered 'natural' and 'normal'?
2. What outcomes are seen as 'fair'?
3. What is acceptable behaviour during negotiations?
4. How much information should be exchanged during negotiations?

Direct confrontation is acceptable in individualistic societies like the United Kingdom or the United States. It may offend in collectivist societies like China or Vietnam, where co-operation is part of social interaction. Social status is important in hierarchical societies like Japan or Malaysia, but everybody is considered to be more or less equal in the Netherlands and Italy. Obligations to a social group or class matter in collective societies like Hong Kong and Taiwan.

Listening

Much negotiation depends on what you do not say. Listening is beneficial because it allows negotiators to gauge the negotiating style of the other party, to identify their goals and to assess their BATNA.

Key listening techniques include keeping quiet, not jumping to conclusions, seeking clarification or repetition, not stating your own expectations and using non-verbal listening signals.

Uncovering goals and preferences

In co-operative negotiation, the main focus is to establish the other side's goals and preferences. Some good tactics for bringing these into the open include:

- talking generally rather than specifically
- making several proposals and use the responses to infer their goals and preferred outcomes
- using probing questions
- suggesting alternatives
- requesting advice.

Generating options

After establishing the goals of both sides, the next stage is to create suitable outcomes. Sharing information, keeping options open on both sides and giving the other party choices will assist this process. Other good tactics include:

- brainstorming
- developing a common purpose, for example, focusing on customers and any feedback
- asking 'what if?'
- adapting and reusing
- agreeing with your opponent
- appealing to the ego.

Reaching agreement

Negotiators must question themselves to make sure that the chosen outcome is the right one before they commit themselves. They should ask:

1. Does the outcome fully meet identified goals?
2. Have any goals been compromised? What is the trade-off?
3. To what extent have the other party's goals been met? How important is this and how will it affect the relationship?
4. Have all possible options been explored?

5. Is this the best possible deal which could have been obtained in the circumstances?
6. If not, what factors justify accepting a worse deal?

Gaining commitment

Commitment is gained in several ways. They include shaking hands, verbal agreements, making a public announcement, creating and signing documents, and agreeing to penalties for breaching the agreement.

If the negotiations stall, there are several ways to get back on track. They include revising goals or preferred outcomes, making small concessions, submitting fresh information, changing personnel or offering an apology.

General useful tips

- Work out your objectives in advance
- Be assertive
- Respect the other party
- Don't undersell yourself
- Always bargain – don't accept anything for nothing
- Make a realistic offer
- Take time to think if necessary
- Ensure a mutually beneficial outcome

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Further information

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CIMA Mastercourses

CIMA runs a series of Mastercourses on a wide range of topics throughout the year. To book via www.cimamastercourses.com please go to Find and key in the relevant course code.
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Websites

The Negotiation Skills Company website includes various articles on the subject of negotiation, including *How to fight fires without burning bridges*, *Getting to the point with interest-based negotiations* and *Deal and communicate effectively: map your strategy first*.

www.negotiationskills.com/index2.php

[Accessed 14 February 2008]

Power negotiation explains how to make the best of any situation where negotiation is necessary.

www.negotiation.co.uk/framcont1.htm

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There is a section on negotiation in Harvard ManageMentor Plus, which can be accessed via My CIMA.

www.cimaglobal.com/cps/files/harvard/index.htm

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