

# CLASS 4: Negotiator's Dilemma

# Three Types of Issues

- **Distributive**
  - Zero-sum
- **Compatible (non-competitive similarities)**
  - Can expand pie: Both parties want the same thing
- **Integrative**
  - Can expand the pie for mutual gain
    - How many people agreed to:
      - A division beside Division A?
      - City that's not San Francisco?

# Distributive Issues

Zero sum: **identical** valuations of each increment

Issue	Options	Recruiter	Candidate
Salary	\$90,000	-6000	0
	\$88,000	-4500	-1500
	\$86,000	-3000	-3000
	\$84,000	-1500	-4500
	\$82,000	0	-6000
Start date	June 1	0	2400
	June 15	600	1800
	July 1	1200	1200
	July 15	1800	600
	August 1	2400	0

# Compatible Issues

lose-lose deals

Issue	Options	Recruiter	Candidate
Job Assignment	Division A	0	0
	Division B	-600	-600
	Division C	-1200	-1200
	Division D	-1800	-1800
	Division E	-2400	-2400
Location	San Fran	1200	1200
	Atlanta	900	900
	Chicago	600	600
	Boston	300	300
	New York	0	0

# Integrative Issues

Are these zero sum since a gain for one side means loss for the other side?

Issue	Options	Recruiter	Candidate
Bonus	10%	0	4000
	8%	400	3000
	6%	800	2000
	4%	1200	1000
	2%	1600	0
Vacation	25 days	0	1600
	20 days	1000	1200
	15 days	2000	800
	10 days	3000	400
	5 days	4000	0
Moving Expenses	100%	0	3200
	90%	200	2400
	80%	400	1600
	70%	600	800
	60%	800	0
Insurance	Plan A	0	800
	Plan B	800	600
	Plan C	1600	400
	Plan D	2400	200
	Plan E	3200	0

# The “Compromise” or Mid-Point Approach

	Recruiter	Candidate	Joint
Bonus	800	2000	
Job Assignment	-1200	-1200	
Vacation Time	2000	800	
Starting Date	1200	1200	
Moving Expenses	400	1600	
Insurance Coverage	1600	400	
Salary	-3000	-3000	
<u>Location</u>	<u>600</u>	<u>600</u>	
Total	2400	2400	<b>4800</b>

# Integrative Solution

	Recruiter	Candidate	Joint
Bonus	0	4000	
Job Assignment	0	0	
Vacation Time	4000	0	
Starting Date	1200	1200	
Moving Expenses	0	3200	
Insurance Coverage	3200	0	
Salary	-3000	-3000	
<u>Location</u>	<u>1200</u>	<u>1200</u>	
<b>Total</b>	<b>6600</b>	<b>6600</b>	<b>13200</b>

# CREATING INTEGRATION

- How get there? 4 steps: (i) **expand** the issues (ii) **prioritize** your issues, (iii) **understand** the other's priorities, (iv) **trade**

## COMMON MISTAKES:

- Resolving issues one by one instead of simultaneously
- Spending too much time negotiating over preferences *within* issues, and not enough on understanding *relative* valuations of different issues
- Looking for “logical” or “thematic” packages
- “money bias”



# What Information to Share?

- Always use caution in sharing information and wait for reciprocation.
- Revealing priorities among issues (i.e., rank ordering) is a less risky disclosure than revealing preferences for specific alternatives within an issue.
- “I care a lot about all 5 issues, they are all important, but if I had to say, issues 1 and 3 are *more* important”

# NEGOTIATOR'S DILEMMA

Competitive/Distributive strategies lead you to withhold information needed for integrative win-win solutions

**BUT**

Cooperative strategies may leave you vulnerable to competitive exploitation

Apples & Oranges: Recall the famous orange story? **BUT** what if:  
I have 10 oranges, you have 10 apples

I love apples, I can't eat oranges

You like apples and oranges equally well

What the most efficient outcome?

What if I disclose my preferences unilaterally?

# REMEMBER OIL PRICING? ("golden balls")

	<b>Cooperate</b>	<b>Compete</b>
<b>Cooperate</b>	Great in long Run Great in long Run	Terrible Good in short run
<b>Compete</b>	Terrible Good in short run	Mediocre Mediocre

# HOW TO MANAGE THE DILEMMA?

Should you always compete and hope for maximal outcome?

- In indefinite round games typically get **coop/coop or compete/compete** cycles (no option for repeated individual maximal outcome)
- In integrative negotiations (unlike prisoner's dilemma) both sides cooperating may lead to **higher individual results** than the compete/cooperate scenario because cooperating allows for more issues to surface and be traded

# MANAGING THE DILEMMA

- TWO POOR APPROACHES:
  - 1) Assume all issues are win-lose and ignore potential mutual gains
  - 2) Assume all issues are win-win and ignore potential exploitation

# The Tit-for-Tat (“conditionally cooperative”) approach

## The Strategy:

- Opening move = cooperate

(“start nice”)

- Next move, choose whatever opponent last chose.

This means you’re: “**provocable**”- if they defect you retaliate,

BUT also “**forgiving**”- if they cooperate you reciprocate

- Strategy never won a single match (at best tie) but overall won most points by inducing cooperation

# Tit-for-Tat

*Another key element:*

- Train the other party

*“Treat people as if they were what they ought to be, and you help them become what they are capable of being.”*

– Johann Wolfgang von Goethe

# MANAGING THE DILEMMA

- Before the negotiations set a cooperative tone by signaling your desire to create value  
(“let’s find a solution that will max the benefits to both our sides”)
- There are no fixed rules for how negotiations are conducted – implicit rules get set in opening moments. Initial tone drives dynamic for rest of negotiations
- Often useful to start with a discussion about the process– and co-creating process plan.



# MANAGING THE DILEMMA

- Start by discussing interests not positions and try to stick to it by “training” counterparty  
(“unless you tell me what you want I can’t give you what you want”)
- Reveal information **gradually** and wait for **reciprocation** (let the norm of reciprocation work its magic!)  
“Trust but Verify” approach– cautiously cooperate making sure information flowing both ways  
(“I value this over that, how about you?”)
- Start with easier issues to build trust & momentum, often these are compatible or integrative, bracket distributive issues  
(but ideally only reach tentative agreements to preserve logrolling)

# Negotiating with Employers: Learning from Your Experiences

- Break into groups of 4-5
- Each person share an experience (about 2 minutes) negotiating (or deciding not to negotiate) with an employer
- Think about difficult strategic decisions you made and how they worked out
- Stories shared in groups remain confidential

# Key Strategic Questions

- Should you negotiate with employer? (how weigh risks either way?)
- When in the process should you negotiate? (what if employer pressures you to negotiate earlier?)
- What terms should you negotiate over?
- What should you ask for?
- What if they won't negotiate?

# Job Negotiations

## class of 2005 at “elite”MBA

Concessions received by those who negotiated:

- 44%: Signing bonus
- 33%: salary
- 21%: Relocations expenses
- 13%: Start date:
- 10%: Performance bonus
- 8%: Stock options, vacation time
- 5%: Benefits, Debt refinancing, additional training
- 3%: location, visa assistance, promotion calendar, position level

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15.665 Power and Negotiation  
Spring 2014

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