# M3L11. Negotiation Biases

## Slide #1Negotiation Biases

In this topic, we will discuss the major judgment biases in negotiation.

## Slide #2Judgment biases in negotiation:

We are going to discuss some specific judgment biases that we are subject to when negotiating with others.

## Slide #3Fixed-pie assumption bias

When negotiators at both sides assume their interests are in direct conflict, they will begin the negotiation with a win-lose competitive attitude.

This kind of bias occurs to less experienced negotiators or in negotiations with a tight schedule.

Both parties spend insufficient time identifying opportunities to create actual value.

## Slide #4Fixed-pie assumption bias

Another unique psychological behavior that negotiators exhibit is that negotiators tend to be attached to their proposal in the negotiation.

The negotiator's “I win you lose” attitude drives them to focus on convincing their counterparts to accept their proposals rather than asking questions to identify value adding opportunities.

## Slide #5Framing Bias

Framing your proposal in a positive or negative way makes a huge difference in negotiation.

## Slide #6Buyer's price

For example, your department proposed 500,000 dollars for an engineering consulting project.

The total cost is 400,000 dollars including overhead. When you presented the proposal to your client, they pushed back and would like to pay 450,000 dollars.

Does this counteroffer represent a 50,000 dollar loss or a 50,000 dollar gain in comparison with your current target?

## Slide #7Framing Bias

People with positive frames are more likely to make an agreement, so it is important to lead the opposition toward a positive frame when presenting a proposal.

Always show them the positive perspective of your proposal.

## Slide #8Escalation of Conflict

Now, let's discuss the escalation of conflict in negotiation and how to solve it.

One of the golden rules of negotiation is to match your counterpart's strategy.

Because of this, when one party initiates a conflict, the other party is likely to follow with the same course of action.

Then each party is focused almost exclusively on beating the other side.

They are primed to escalate their commitment to their initial course of action. Here are some classic examples about escalation of conflict.

## Slide #9Example #1

The first example is the 1994 and 1995 Major League Baseball strike.

The owners of baseball teams, baseball players, and the league could not reach an agreement on the payment to the baseball players.

Their conflict escalated pretty fast by the end of the baseball player’s strike.

Owners lost 375 million dollars in 1994 and 326 million dollars in 1995.

Players also lost money, status, and bargaining power.

It took the league and the players several years to recover from this catastrophic incident.

## Slide #10Example #2

Four years later, basketball players and the NBA league fell into this escalation of conflict trap again.

Basketball players and the league escalated their conflict over the player's salary. The basketball players refused and the league lost 1 billion dollars.

Players lost 500 million dollars.

The consequence of escalation of conflict in negotiation is catastrophic.

It always leads to both parties walking away from the negotiation.

## Slide #11How to solve escalation of conflict in negotiation

How to solve escalation of conflict when it occurs in a negotiation.

Once we become aware of the possible reason or the basis for a conflict, we can take steps to mitigate defensive behavior to find solutions.

To do so, we must first recognize that cooperation is the key.

We must understand that we cannot impose our own resolution on someone who is in a defensive pose.

The other person must be part of the solution by being included.

Through a cooperative effort, both parties can find a mutual resolution.

If both parties do not trust each other, then cooperation is impossible.

Both parties need to identify negotiators that both can trust.

If they cannot find someone within their own organizations, they may use a mediator to help rebuild mutual trust.

## Slide #12Overestimating your value in negotiation

We've learned that people, including negotiators, tend to overvalue their possessions.

Negotiators tend to overestimate not only the value of his offer, but also the chance that the offer would be accepted by the other party.

But in reality, conventional wisdom says that something is worth whatever a buyer is willing to pay for it.

## Slide #13Manage endowment bias

How to manage this endowment bias?

The first is to gain more knowledge about our object.

We can become knowledgeable by collecting additional market intelligence and analyzing similar business cases.

The second way is to seek objective value assessment from a neutral party.

If feasible, we can even hire a consultant to help us conduct an objective due diligence about the object.

The more knowledge we have, the more objective we become about the value of what we own.

## Slide #14Self-Serving Bias

Let us now discuss self-serving bias in negotiation and how to overcome it.

In a negotiation situation, a negotiator exhibits self-serving bias, means that person focuses on his own position and not giving enough attention to his counterpart's interest.

I want to point out the self-serving bias describes an individual's behavior when interacting with others in a negotiation situation.

It is different from individual cognitive bias that we learned in previous lectures, which describes an individual's psychological behavior when making his own judgment calls.

## Slide #15Accounting department

For example, my accounting department asked my team to help them negotiate a settlement with a company which declined to pay a licensing fee.

I had a member named Tom to handle this case.

My accounting colleagues unintentionally planted the self-serving bias in Tom's mind.

The company failed to fulfill its contract obligations.

So, Tom prepared his negotiation with this kind of a self-serving attitude.

At the beginning of negotiation with the company, Tom presented a position letter with detailed information to explain the amount of fees that the company owes us.

The company immediately argued that the claim was unfair and not right.

## Slide #16Overcoming Self-Serving Bias

So, the first step to realize the self-serving bias is to be aware that your initial judgment on your counterpart may not be correct.

Try to be objective and very beginning.

Your attitude is everything.

Try to understand the other side's problems and interest before judging them. Explore underlying interests of other parties’ positions and actions.

## Slide #17Overcoming Self-Serving Bias

The second practice is focus on your desired goal rather than your judgment.

Term-sheet and analytical assessment plays a large role in helping you focus on the desired outcome.

Please use the term-sheet.

## Slide #18Overcoming Self-Serving Bias

React constructively to different opinions, critics, and rejections.

Separate people from problems.

Be willing to solve problems together with your counterpart.

## Slide #19Anchoring Bias

One of the most frequently asked questions about negotiation is about who should make the first offer.

The rule is never make the first offer before you understand your needs and your partner's needs and interests.

However, you can make the first offer if you have sufficient information about the market and you are more knowledgeable about the market than your counterpart.

## Slide #20Tactic #1

When your counterpart anchors an offer and you do not like it, you should immediately reject the offer before making your counteroffer.

It is hard to do it in a constructive way and my suggestion can be.

I am not playing a game with you, but your offer is too far away from my acceptable range.

Then make your counterpart offer with justification.

Remember, always give a justification for your counteroffer.

## Slide #21Tactic #2

The second approach is to ignore the offer.

I always use this kind of statement.

I think we are looking at the contract from different perspectives.

How about we first discuss our interests and try to identify some opportunities that we have not realized yet.

A constructive response is important to keep the negotiation under a collaborative environment.

## Slide #22Tactic #3

The third tactic is to ask questions to create clarity.

For example, we can say, before talking about the price, can you help me understand the detailed scope of the service that you are going to offer?

Do not ask your counterpart to justify his offer that will anchor his price point.

## Slide #23Tactic #4

Sometimes, our counterpart makes the first offer to create a leverage.

For example, they may say company ABC is offering the same thing for 10 percent less.

Our counterpart mentioned company ABC to leverage their position and we really need to separate leverage from the offer.

We can ask, what commitment have you made to company ABC?

By asking the details will give us a chance not only to separate the leverage, but also to understand their BATNA.