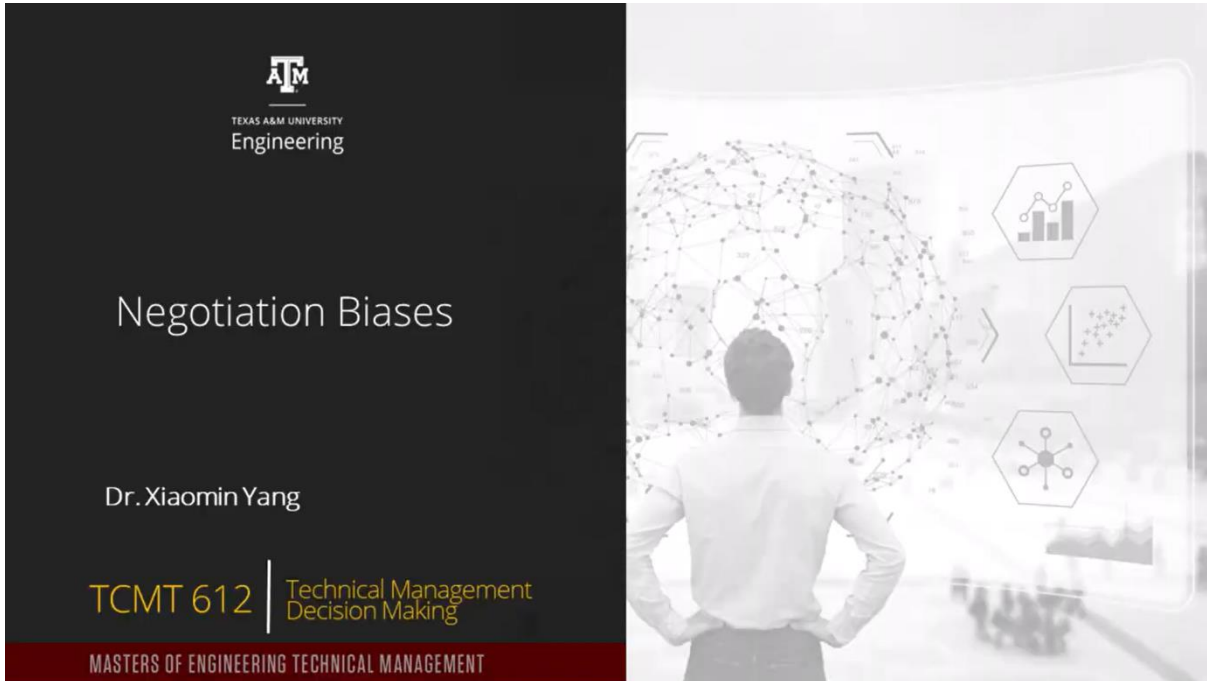


# M3L11. Negotiation Biases

## Slide #1



The slide cover is divided into two main sections. The left section is a dark grey rectangle containing the Texas A&M University Engineering logo at the top, followed by the title "Negotiation Biases" in white, the presenter's name "Dr. Xiaomin Yang", and the course information "TCMT 612 | Technical Management Decision Making" in yellow and white. A red banner at the bottom of this section reads "MASTERS OF ENGINEERING TECHNICAL MANAGEMENT". The right section is a light grey image showing a person from behind, looking at a large screen. The screen displays a complex network diagram with many nodes and lines, and several hexagonal icons containing different symbols like a bar chart, a line graph, and a network diagram.

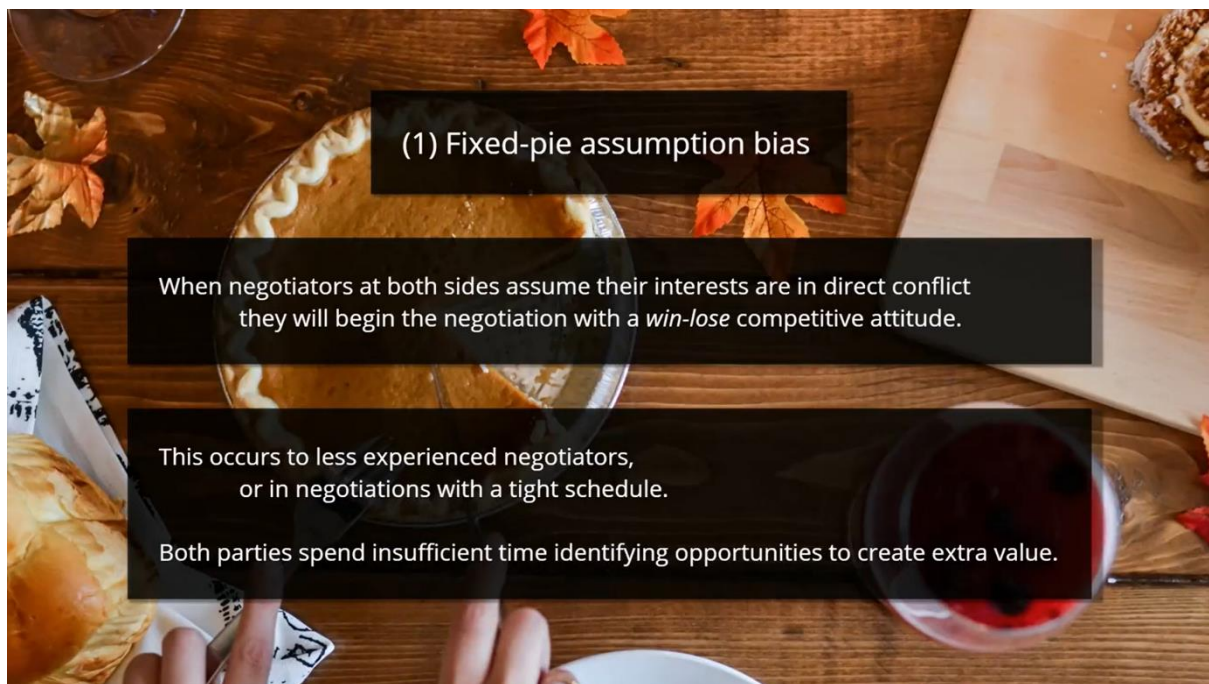
In this topic, we will discuss the major judgment biases in negotiation.

## Slide #2



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

### Slide #3

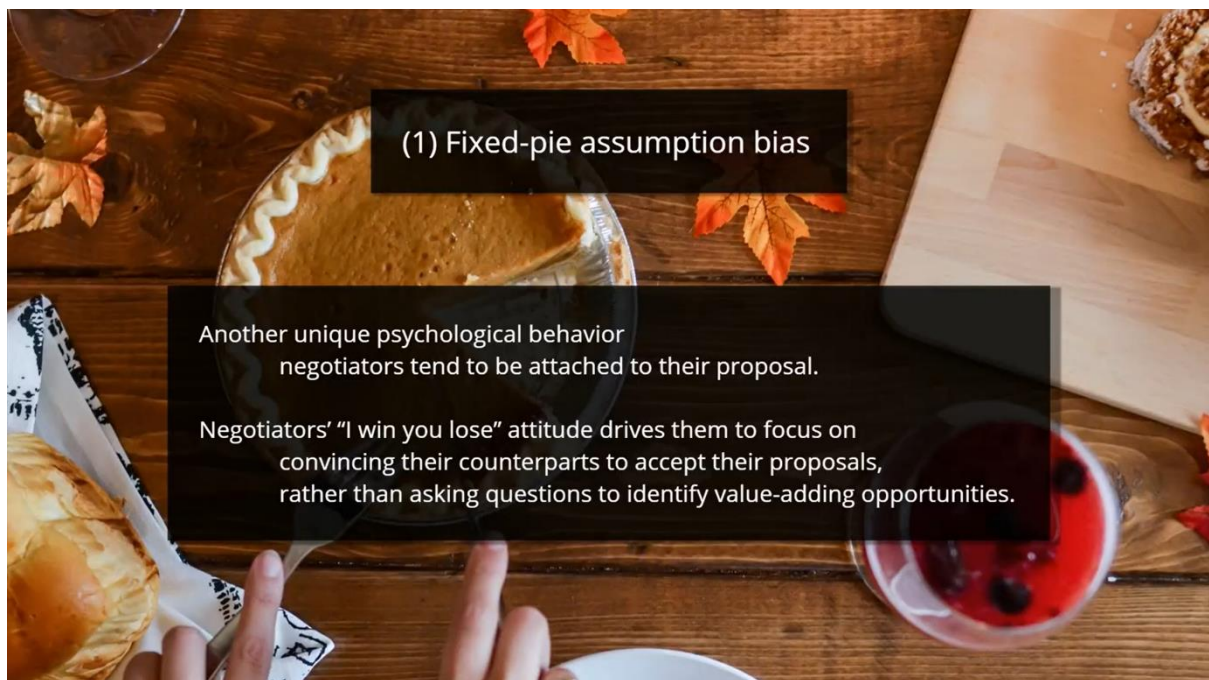


When negotiators at both sides assume their interests are in direct conflict, they will begin the negotiation with a win-lose competitive attitude.

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.

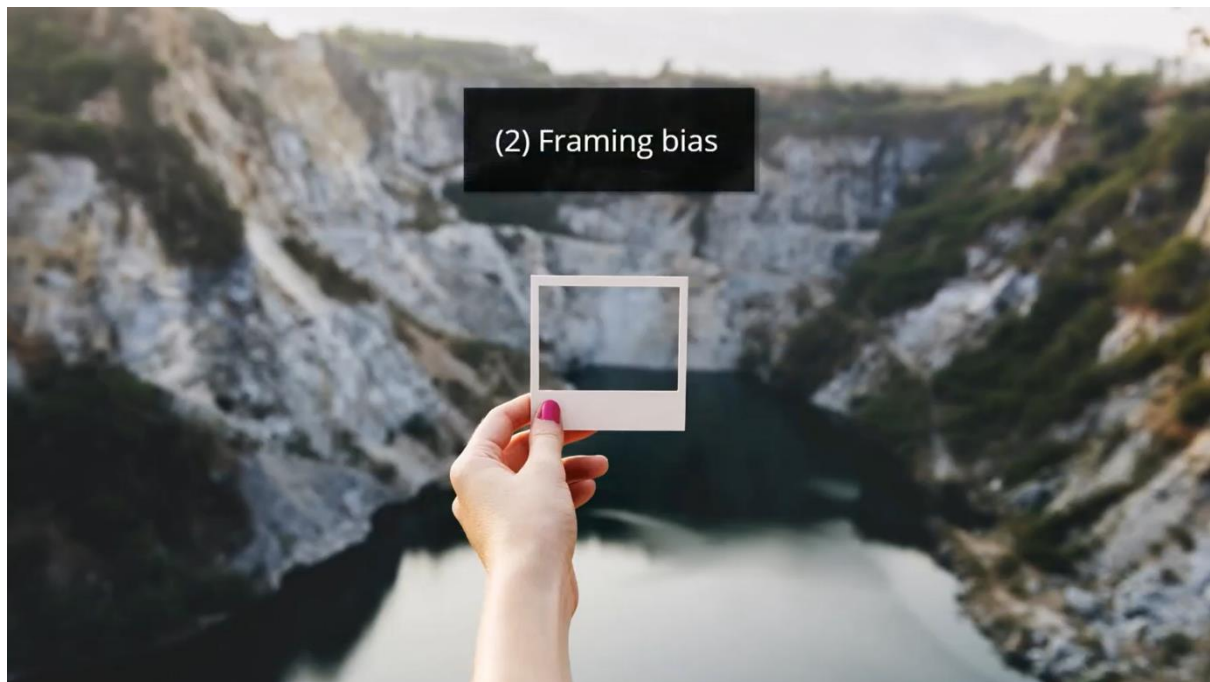
#### Slide #4



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

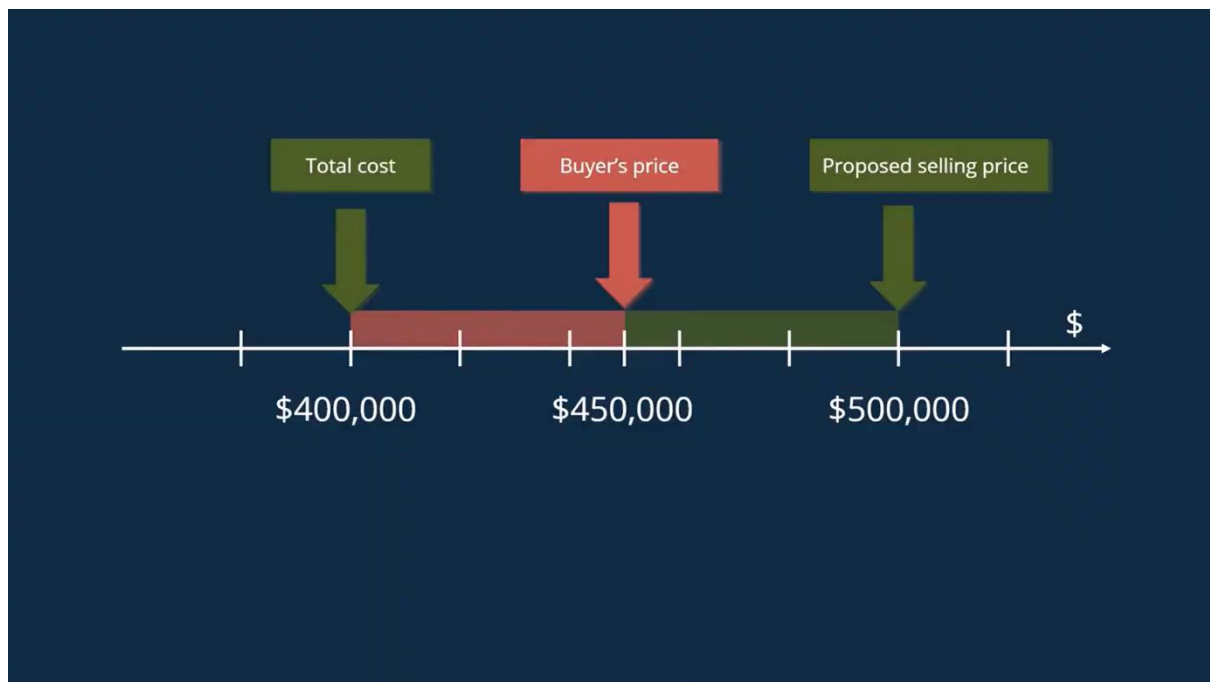
The negotiator's "I win you lose" attitude drives them to focus on convincing their counterparts to accept their proposals rather than asking questions to identify value adding opportunities.

**Slide #5**



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

## Slide #6



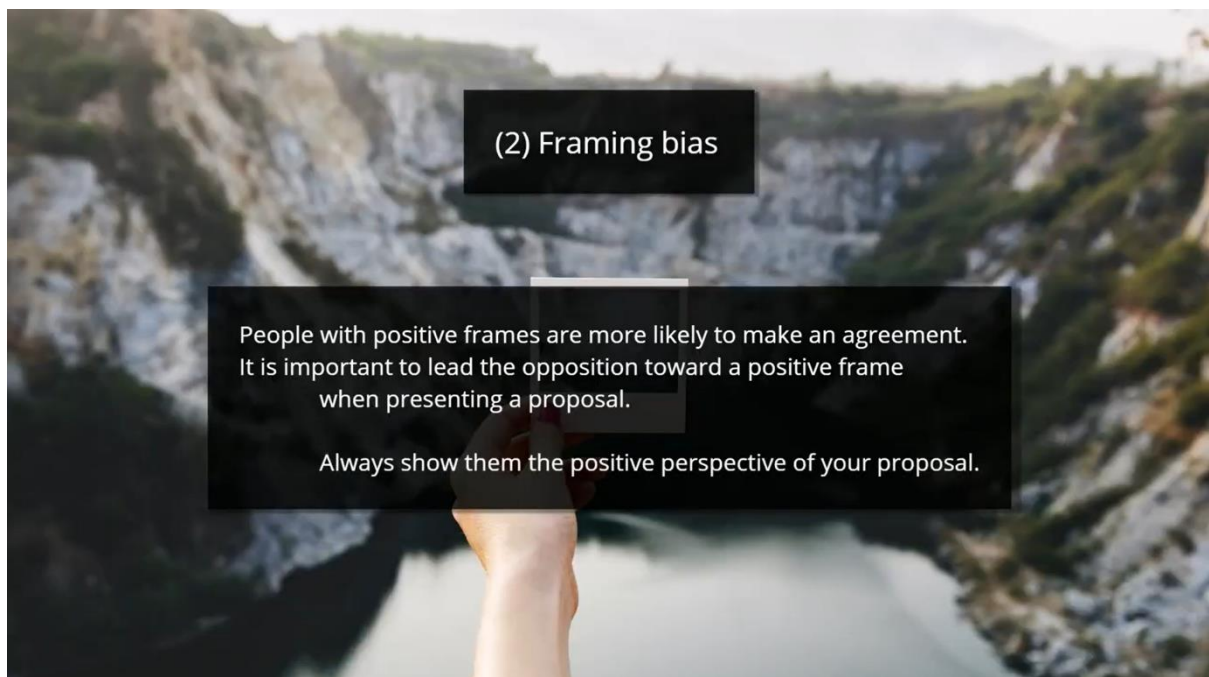
For example, your department proposed 500,000 dollars for an engineering consulting project.

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?



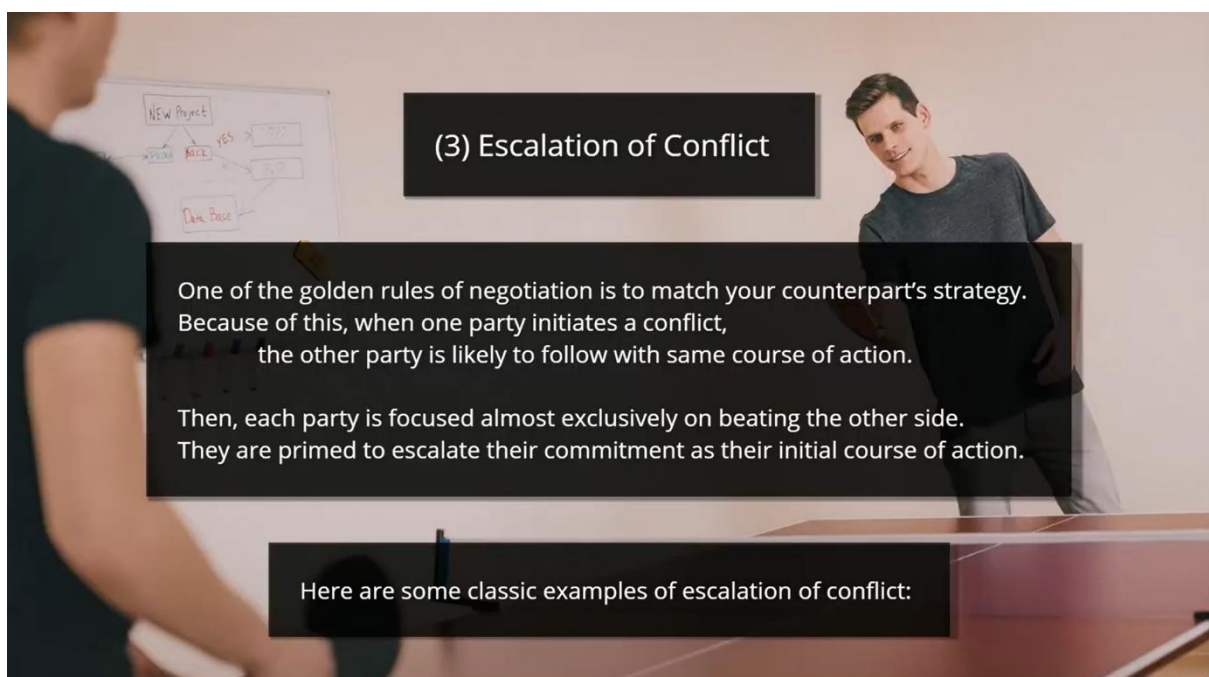
## Slide #7



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 #8



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

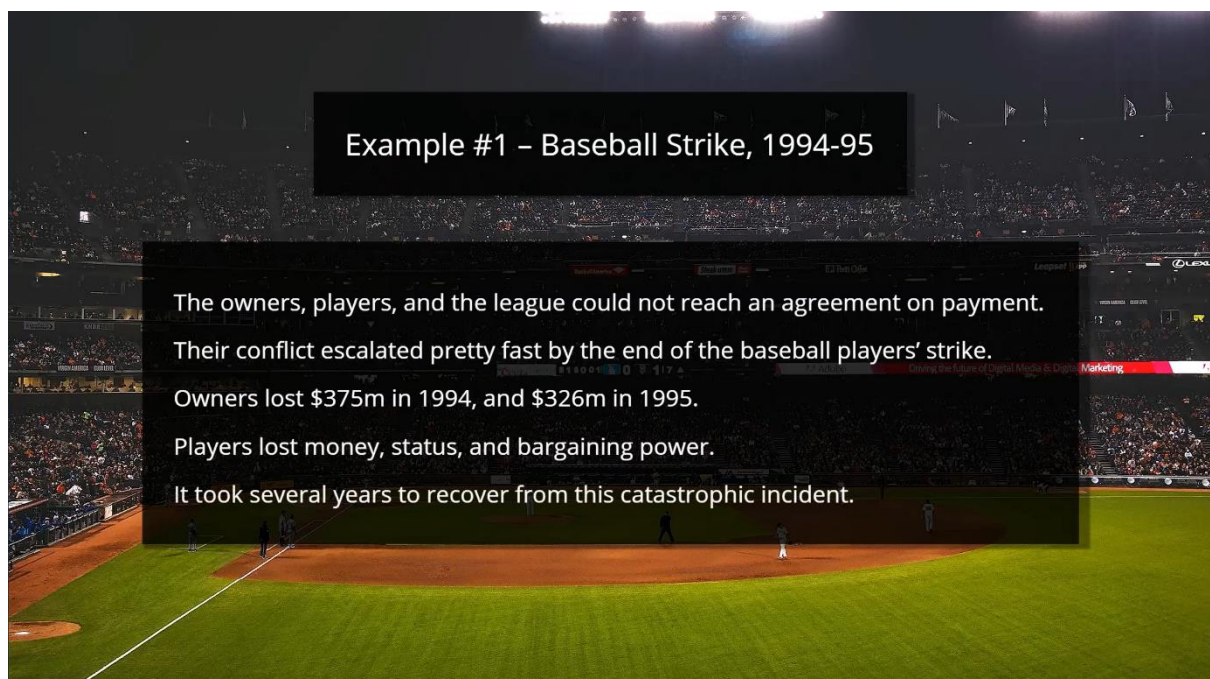
One of the golden rules of negotiation is to match your counterpart's strategy.

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 #9**



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.

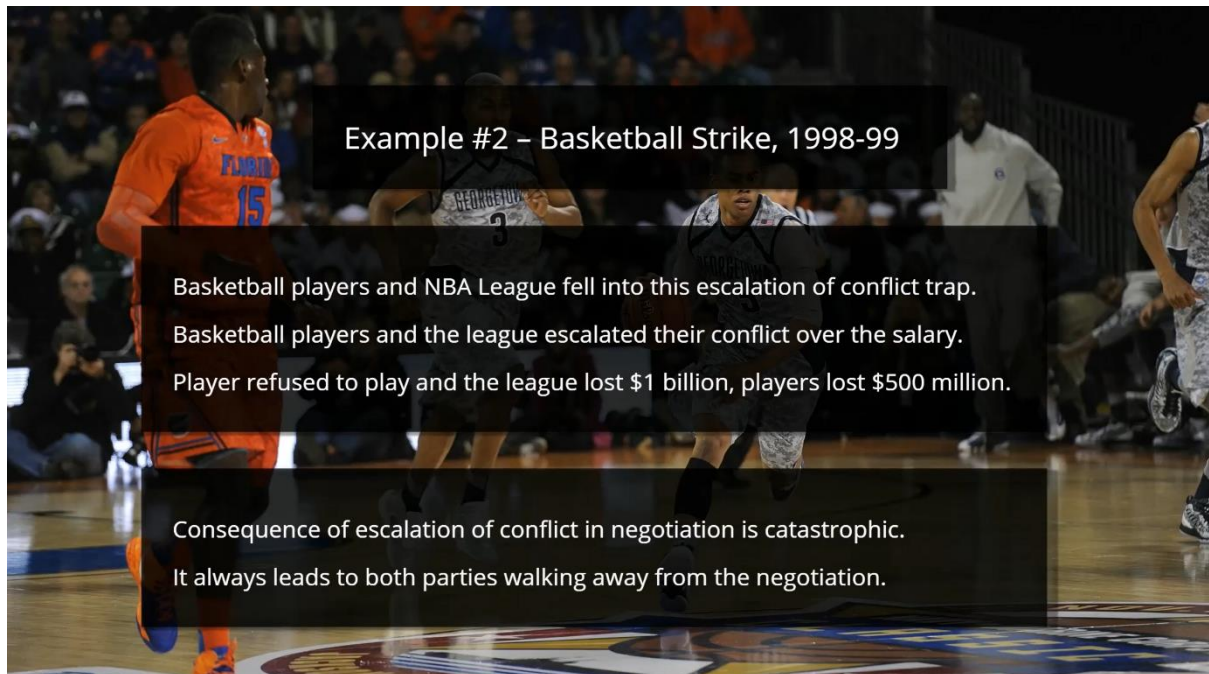
Owners lost 375 million dollars in 1994 and 326 million dollars in 1995.

Players also lost money, status, and bargaining power.



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

### **Slide #10**



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

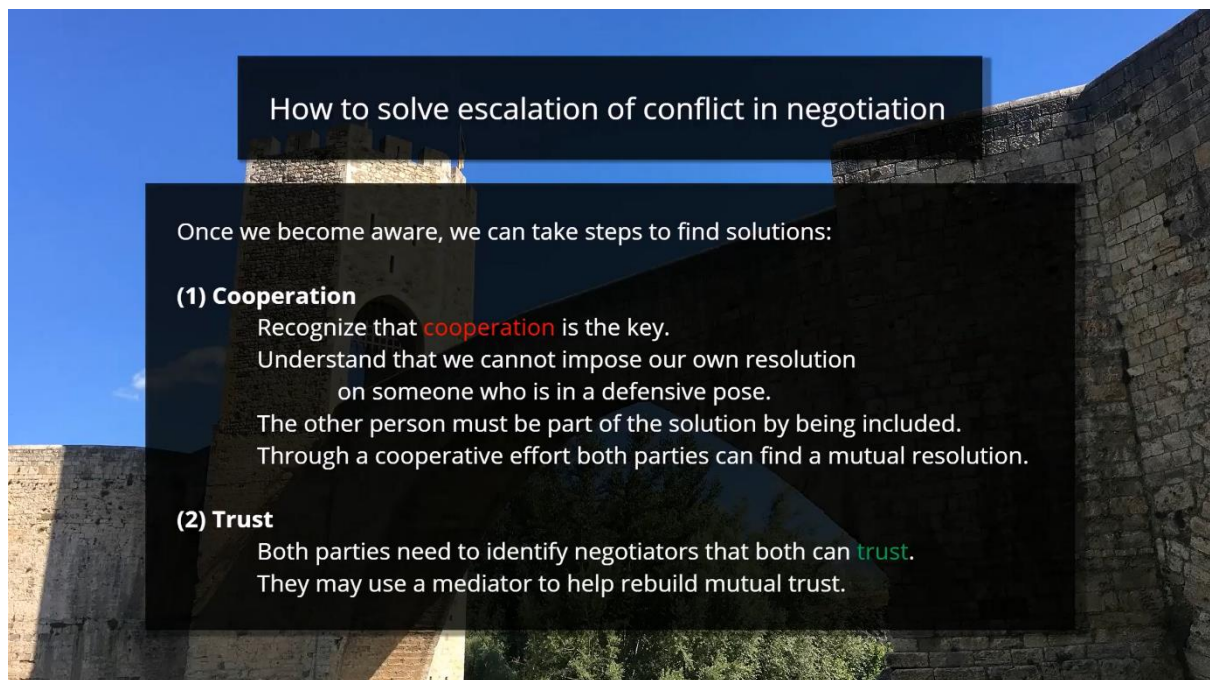
Basketball players and the league escalated their conflict over the player's salary. The basketball players refused and the league lost 1 billion dollars.

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 #11



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.

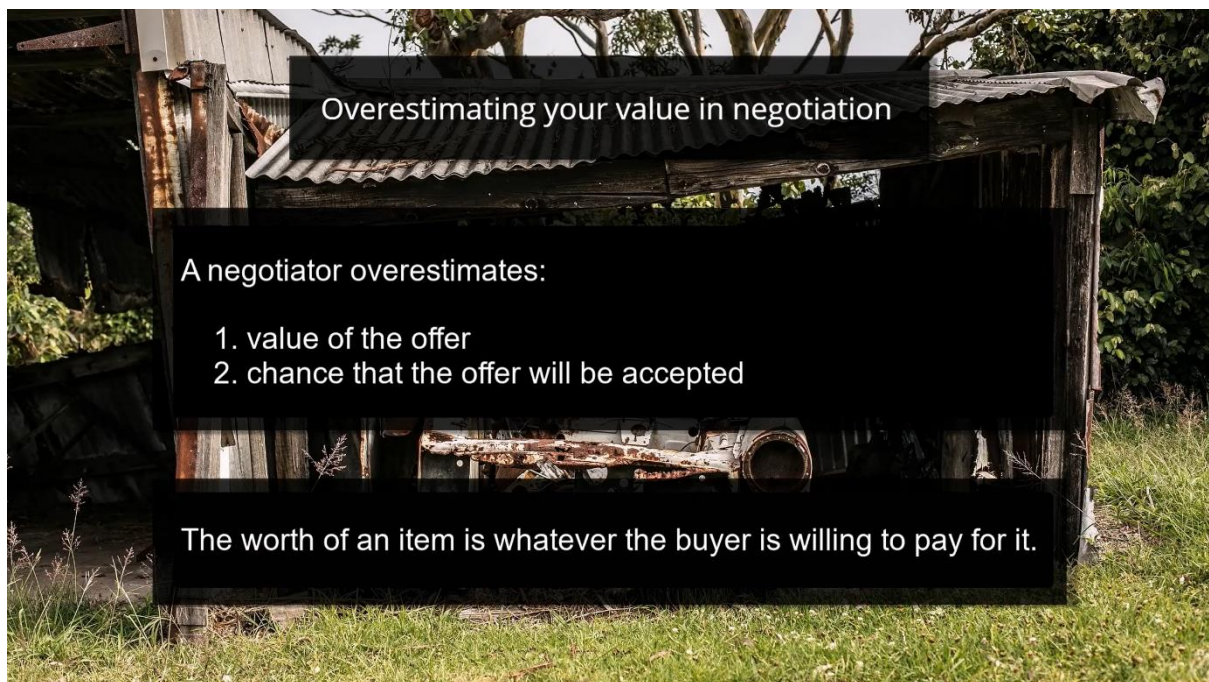
Through a cooperative effort, both parties can find a mutual resolution.

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 #12

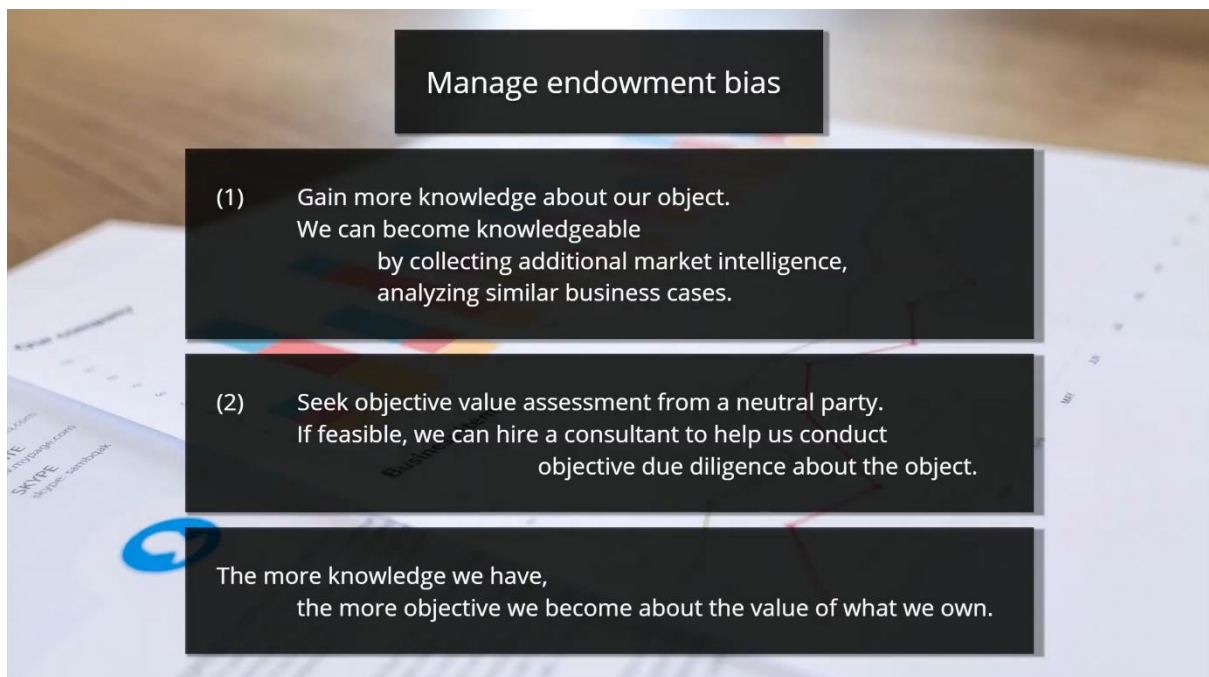


We've learned that people, including negotiators, tend to overvalue their possessions.

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 #13



**Manage endowment bias**

- (1) Gain more knowledge about our object.  
We can become knowledgeable  
by collecting additional market intelligence,  
analyzing similar business cases.
- (2) Seek objective value assessment from a neutral party.  
If feasible, we can hire a consultant to help us conduct  
objective due diligence about the object.

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

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.

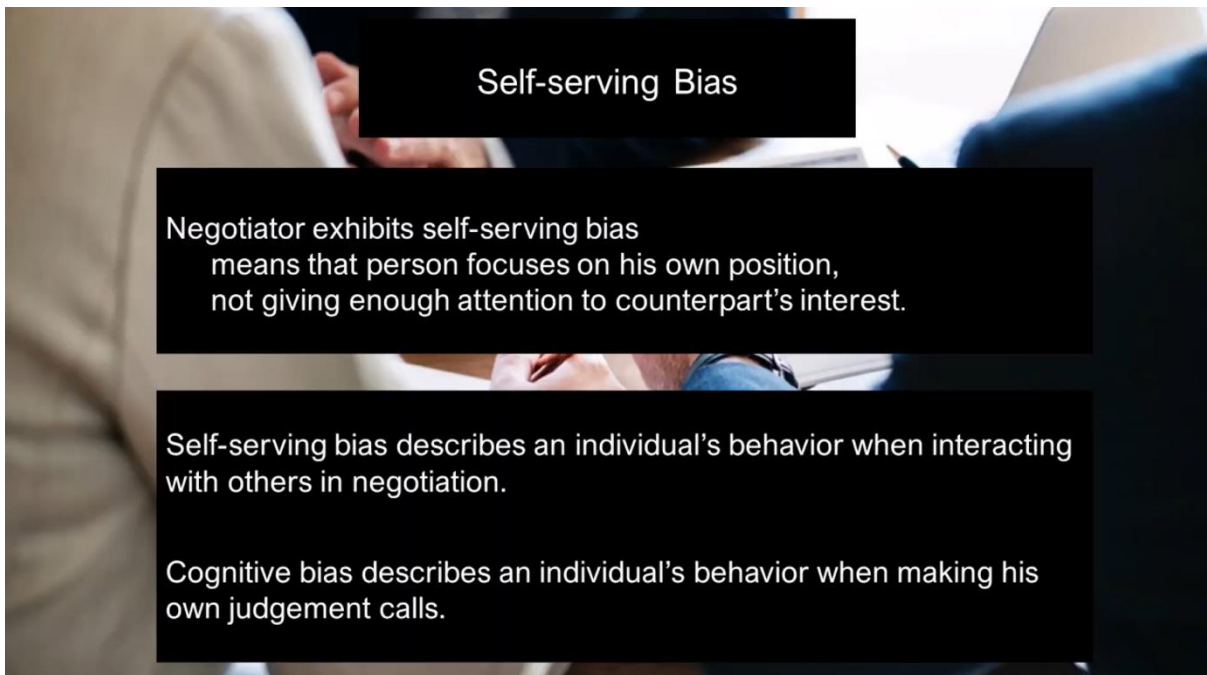
The second way is to seek objective value assessment from a neutral party.

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 #14**



Self-serving Bias

Negotiator exhibits self-serving bias means that person focuses on his own position, not giving enough attention to counterpart's interest.

Self-serving bias describes an individual's behavior when interacting with others in negotiation.

Cognitive bias describes an individual's behavior when making his own judgement calls.

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

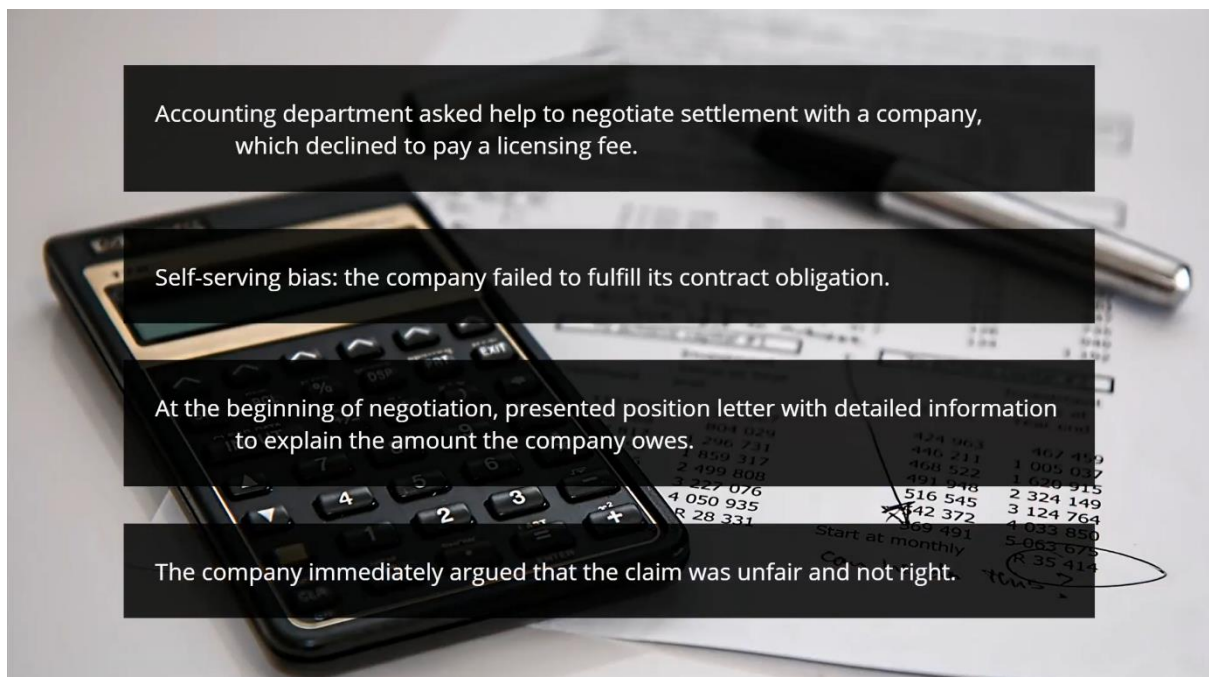
In a negotiation situation, a negotiator exhibits self-serving bias, means that person focuses on his own position and not giving enough attention to his counterpart's interest.

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 #15



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 #16**

## Overcoming Self-Serving Bias – Tactic #1

Be aware that your initial judgment on your counterpart may not be correct.

Try to be objective at the very beginning.

Your attitude is everything.

Try to understand other side's problems and interest before judging them.

Explore underlying interests of other party's positions and action.

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 #17

Terms/Issues	Relative importance (0-10)	Desired outcome	Expected outcome	Acceptable outcome
Licensed technology	5	All three	X & Y	X & Y
Licensed products	5	Battery	Battery	Battery
Field of use	8	All fields	Auto & energy	Auto
Territory of use	4	Global	US & Japan	US
Grant	9	Exclusive	Exclusive	Exclusive
Milestones	5	Commercial product	Commercial product	2019 commercial product
Royalty	8	4%	5%	6%
Minimal annual consideration	6	\$100,000	\$150,000	\$200,00
IP expenses	3	\$50,000	\$70,000	\$150,000

### Overcoming Self-Serving Bias – Tactic #2

Focus on your desired goal, rather than your judgment.

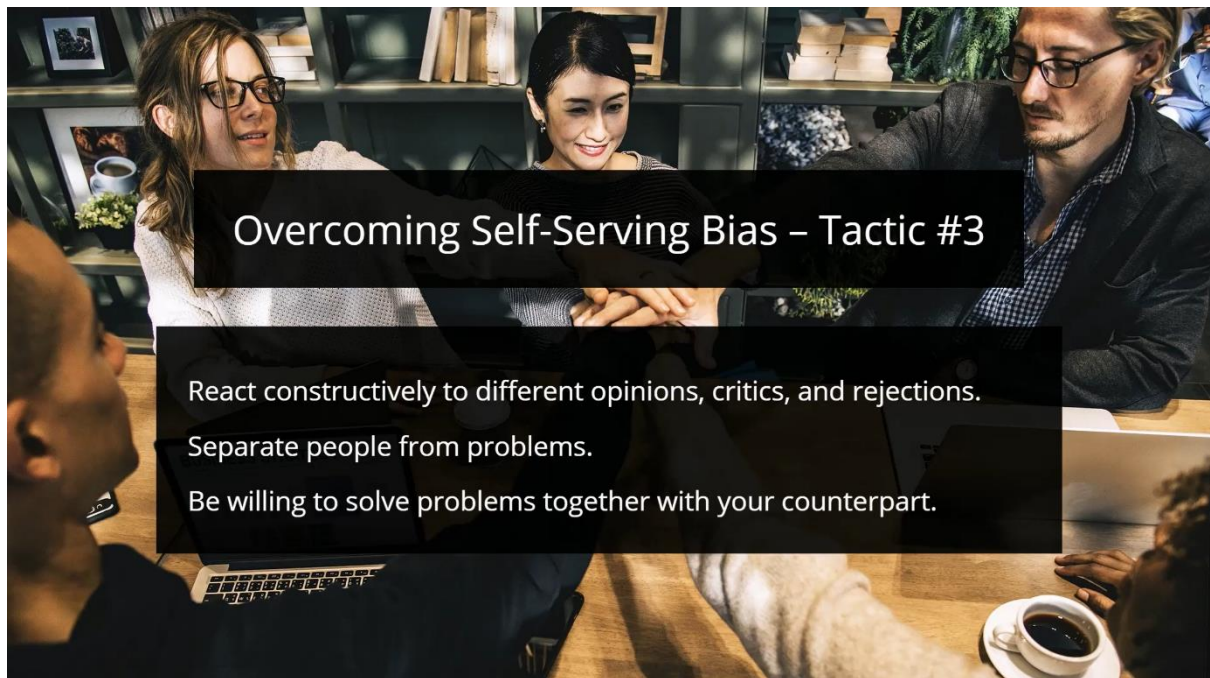
Term-sheet and analytical assessment ~ focus on desired outcome.

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 #18**



React constructively to different opinions, critics, and rejections.

Separate people from problems.

Be willing to solve problems together with your counterpart.

## Slide #19

**Anchoring Bias**

One of the most frequently asked questions about negotiation  
"who should make the first offer?"

NOTE: the first offers is an *anchor*

RULE: never make the first offer before you understand  
(1) your needs  
(2) your partner's needs and interests.

You can make 1st offer if you have sufficient information about the market,  
more knowledgeable about the market than your counterpart

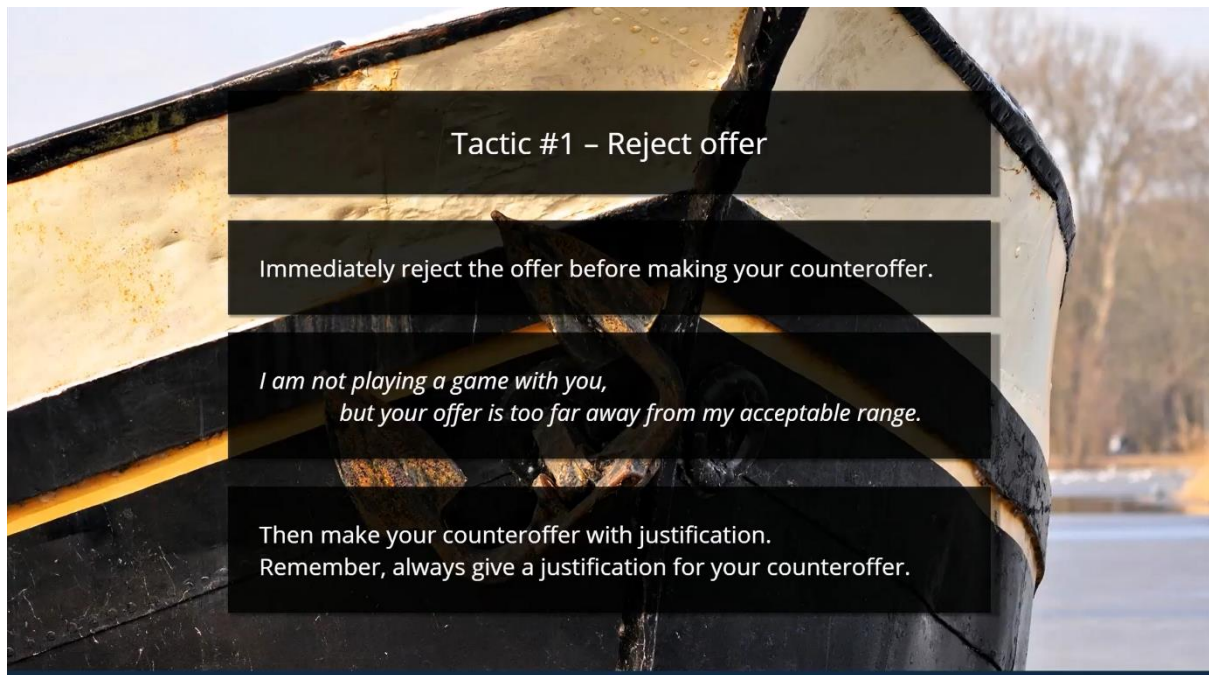
One of the most frequently asked questions about negotiation is about who should make the first offer.

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 #20



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

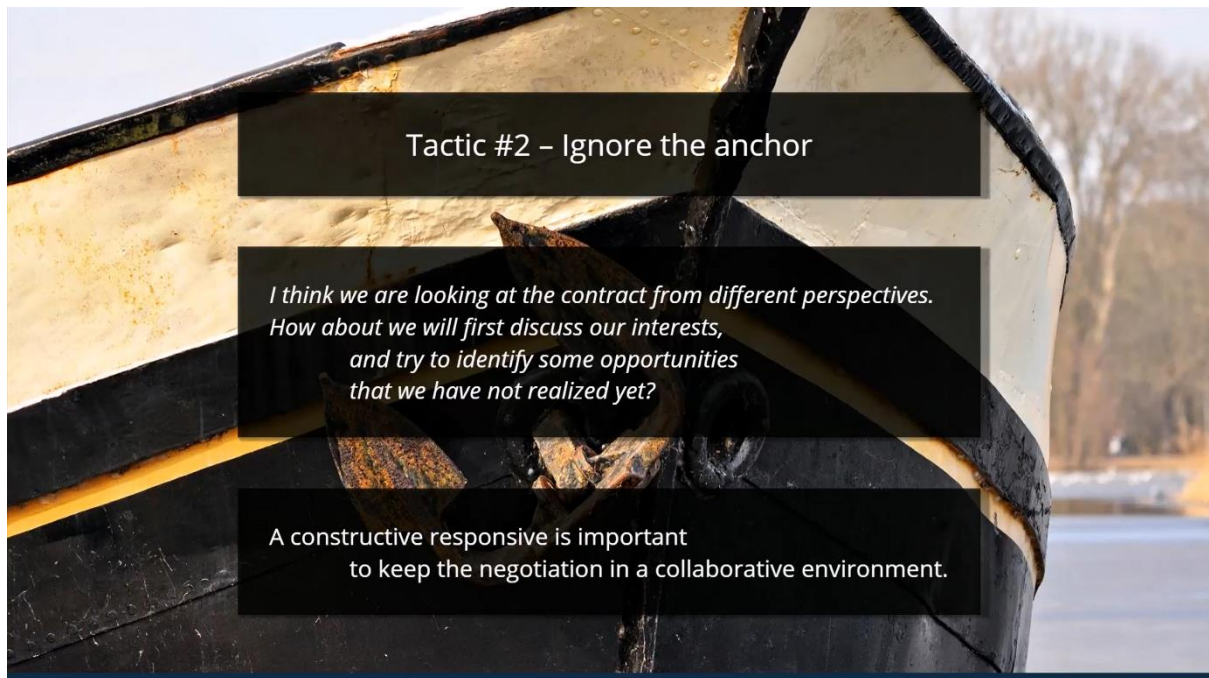
It is hard to do it in a constructive way and my suggestion can be.

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 #21



The second approach is to ignore the offer.

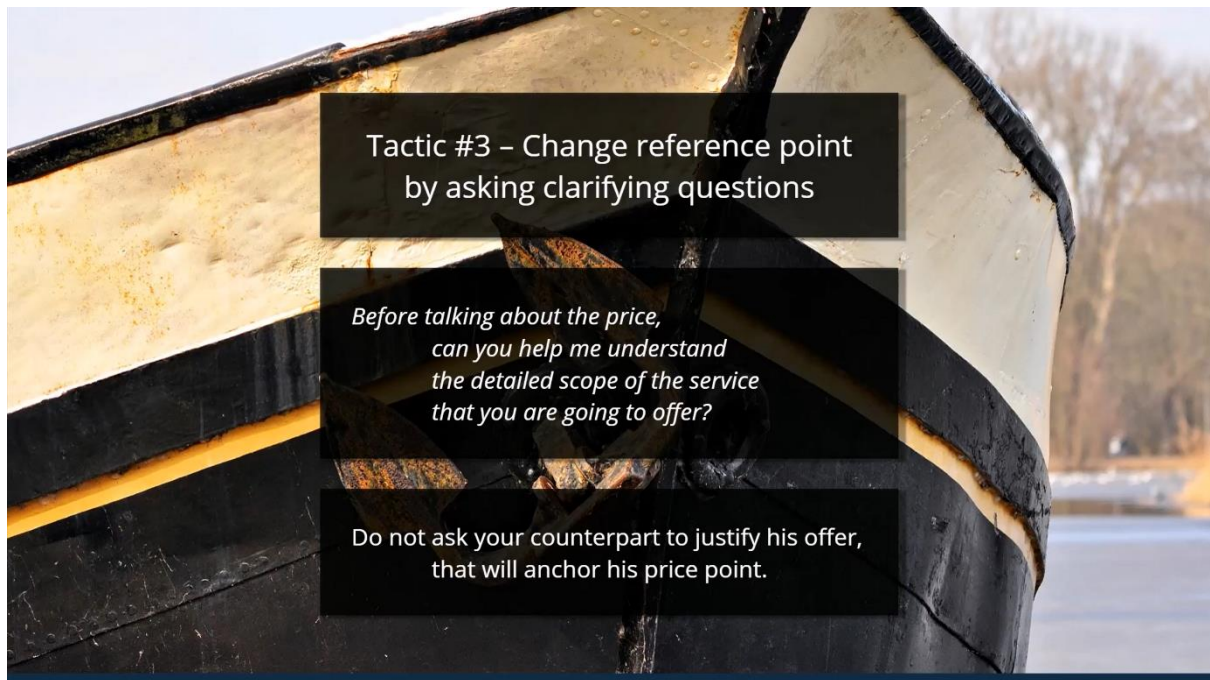
I always use this kind of statement.

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 #22

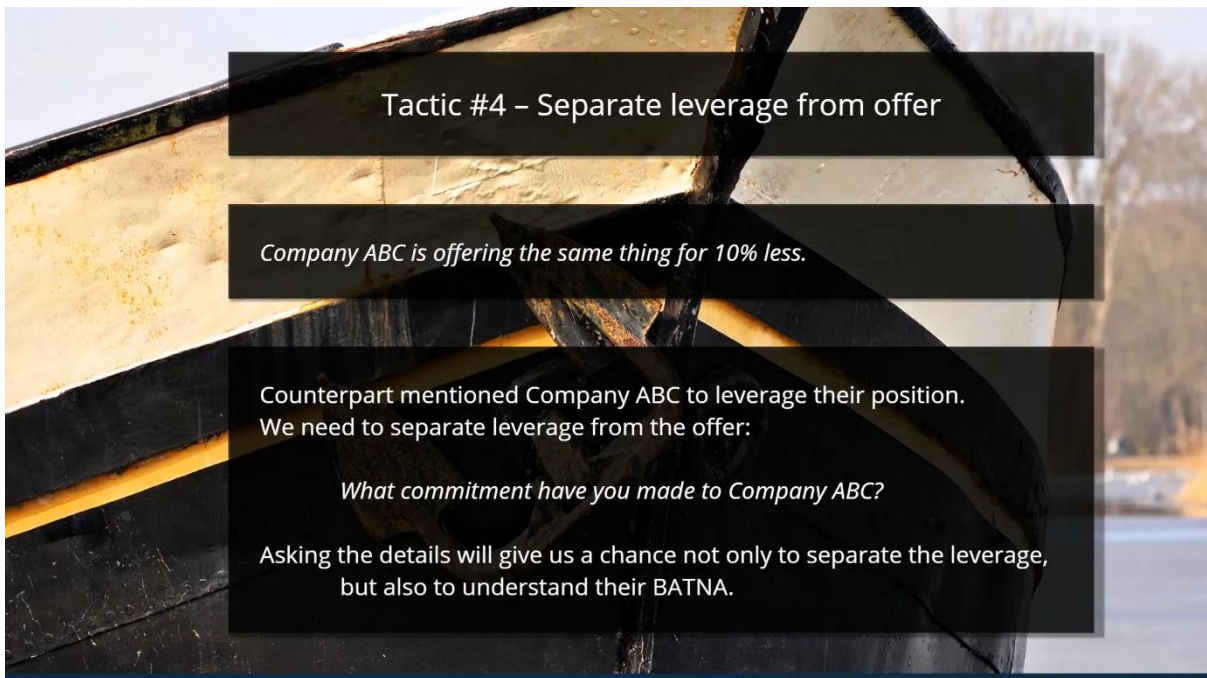


The third tactic is to ask questions to create clarity.

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 #23



Tactic #4 – Separate leverage from offer

*Company ABC is offering the same thing for 10% less.*

Counterpart mentioned Company ABC to leverage their position.  
We need to separate leverage from the offer:

*What commitment have you made to Company ABC?*

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

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.