

# Negotiation



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Negotiation and Decision-Making Strategies That Deliver Results

## NEGOTIATION DYNAMICS

### Why Rivalry Can Taint Talks

Competitive arousal may be derailing your negotiations.

BY DEEPAK MALHOTRA

**R**ECENTLY, A LARGE MULTIBILLION-DOLLAR conglomerate—let’s call it Firm A—was planning to sell off one of its telecommunications holdings. It sought advice from a consultant on how best to manage the negotiations that would shortly ensue. The owner of Firm A described the situation to the consultant and then revealed the list of potential buyers. Something was amiss, the consultant quickly concluded: Firm B (a key player in the telecom industry) seemed to be a perfect candidate, yet it was absent from the list of potential buyers. The consultant brought this to the attention of Firm A’s owner.

“They’re definitely interested in bidding,” the owner said, “and they could probably pay \$50 million to \$100 mil-

lion more than what we can finesse from the next guy. However, we’ve decided not to entertain offers from Firm B.” The owner went on to explain why: “When we were active in the telecom industry, Firm B was the big bully on the block. They did everything possible to make our life miserable, including some actions that we felt were completely unethical. Now we have what they want, and we’re not going to give them the satisfaction of scoring one last win.”

Firm A was willing to lose up to \$100 million to win its battle with Firm B, a decision that clearly ignored some basic yet critical economic fundamentals. As the consultant explained, even if Firm A decided to sell its holdings to a different buyer (say, Firm C), that buyer would likely turn around and sell the holdings to Firm B, which valued them most. Firm B would still acquire the holdings, but the additional \$100 million that Firm A was willing to pay would go to Firm C. “In the end,” said the consultant, “you’ll have sacrificed \$100 million in profit for a short-lived victory.”

“I understand what you’re saying,” the owner said, “but it’s still a tough decision.”

The negotiations in this real-life story are still pending, but the fact that Firm A’s owner was unsure whether to entertain offers from Firm B is worth examining. Why would he prefer to “win” rather than get the best deal possible?

In the heat of competitive situations such as business deals, auctions, and legal disputes, people often shift from the goal of getting the best deal possible to the goal of winning at any cost. This article describes this phenomenon, reveals three factors likely to trigger it, and shares strategies for overcoming its negative effects.

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## Team Negotiating: Strength in Numbers?

**ACCORDING TO CONVENTIONAL WISDOM**, when it comes to negotiation, there's strength in numbers. Indeed, several experimental studies have supported the notion that you should bring at least one other person from your organization to the bargaining table if you can. On average, this research has found, teams exchange more information than solo negotiators, make more accurate judgments of the other side, and create more value, resulting in greater profits compared to individuals.

Researchers from the University of Maryland, Northwestern University, Chung Hua University, and National Taiwan University found that in the United States, teams engaged in an exercise involving a potential deal outperformed solo negotiators; teams underperformed solo negotiators in the same exercise in Taiwan. When participants had to resolve a dispute rather than make a deal, teams and solo negotiators achieved similar outcomes in the United States, and teams outperformed solo negotiators in Taiwan.

The researchers hypothesize that in collective cultures such as Taiwan, negotiating teams focus on developing relationships, both within the team and across the table, and thus are less likely to challenge each other. The result is greater harmony—and less of the friction that is needed to generate novel alternatives. The stress of disputing in collectivist cultures may lead Taiwanese solo negotiators to engage in a “flight response” and take a minimum offer, whereas a team provides the support and assurance needed to stay at the table. The researchers further hypothesize that U.S. teams in a dispute will succumb to excessive competition, thus inhibiting value creation and distribution.

Although more work must be done to pinpoint the factors underlying these results, it is clear that the notion of “strength in numbers” is context specific. The next time you are preparing for an important negotiation, think through cultural and contextual factors before deciding whether to face your counterpart with a team or by yourself. ♦

### Resources

“Team Negotiation Across Cultures: When and Where Are Two Heads Better Than One?” by Michele J. Gelfand, Jeanne M. Brett, Daphne Huang, Lynn Imai, and Hwa-Hwa Tsai. IACM 18th Annual Conference, June 1, 2005. Available at SSRN: <http://ssrn.com/abstract=735003>.

## Dealing with Friends

**WE ALL KNOW PEOPLE** who have “alligator arms.” When the restaurant check comes, they can't manage to reach their wallets, or they quibble that they had the small tomato juice, and you had the large.

With our close friends, of course, the opposite tends to occur, with each person insisting on picking up the tab. Though motivated by mutual feelings of affection, these interactions can be awkward, even tense.

David Mandel, a scholar with Defence Research and Development Canada, recently conducted two experiments that tested how generosity affects negotiations between friends. Previous researchers had concluded that norms of fairness become more powerful between people with close ties. If that were the case, of course, friends would quickly agree on a fair price and the deal would be done.

The situation is more complicated, Mandel found. Specifically, in his experiments, most sellers of a music CD bent over backward to offer a generous price to their friends. In fact, the sellers' asking prices were significantly lower than what their friends were willing to offer. Thus, these sellers assumed the curious stance of wanting to talk buyers down in price. (This finding is a reversal of the classic endowment effect, in which the owner of an object tends to value it more highly than others do.) Curiously, in Mandel's studies, generosity toward friends proved to be something of a one-way street: when negotiating to buy from friends, participants were not motivated to overpay.

In dealings with friends, Mandel concludes, our attitudes and behavior vary depending on how the situation is framed and what “script” is evoked. The impulse toward generosity seems most powerful in exchanges in which “I am giving this to you.” When an allocation between two people is involved, however, a norm of fairness may dominate and suggest a 50-50 split. As a practical matter, that's a graceful way of concluding a friendly dinner. And when friends have much more at stake—say, when one is selling a car or a house to the other—it's wise to agree first on the appropriate process and principles to follow. ♦

### Resources

“Economic Transaction Among Friends: Asymmetric Generosity But Not Agreement in Buyers' and Sellers' Offers,” by David R. Mandel. *Journal of Conflict Resolution*, Vol. 50, 2006.