



Negotiation Strategy

1st Semester, 2014/2015

CEMS MIM Programme

Instructor: Prof. Luís Almeida Costa

Short Biography: Luís Almeida Costa holds PhD and MSc degrees in Management from INSEAD. He is an Associate Professor at Nova School of Business and Economics, where he is the Academic Director of the CEMS - Master in International Management. Luís Almeida Costa was an Associate Dean at Nova SBE and the Director of the MBA Program. Luís Almeida Costa also teaches in several other international business schools, such as IMD, in Lausanne, and INSEAD, in Fontainebleau and Singapore. His research, teaching and consulting focus on Negotiation Analysis and Competitive Strategy. His research has been published in Strategic Management Journal, Journal of Economics and Management Strategy, Journal of Business, International Journal of Industrial Organization, etc. Luís Almeida Costa was responsible for consulting projects and conducted executive programs for numerous companies and governmental agencies in several countries, such as France, Germany, Great Britain, Hungary, Italy, the Netherlands, Norway, Portugal, Singapore, Switzerland, Turkey, and United Arab Emirates.

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COURSE DESCRIPTION

What does it take to be an effective negotiator? According to popular belief, it takes innate personal qualities, a certain “flair” or “Fingerspitzengefühl”. In contrast, countless “how to” books on negotiation claim that - with the right set of “tools” - anybody can be an effective negotiator.

Clearly, both views are crude caricatures of reality. Sophisticated negotiators have a knack for identifying the critical bits of information that are needed to piece together a

negotiation puzzle. Pattern recognition enables them to diagnose negotiating problems quickly and accurately. They combine a deep understanding of the psychological dynamics of negotiation processes with a realistic assessment of their own strengths and limitations. They possess tactical finesse, ambition and a willingness to take risks... tempered by judgment. While these qualities are partly innate, they are largely developed through experience.

This course offers a strategic and integrated perspective about how to prepare and how to deal with different types of negotiating situations. Building from simple to complex negotiations, the course develops an analytical framework that helps students to understand their negotiating situation, the tactics that are available given the situation, and the array of moves that can be employed to improve their prospects by changing the situation. The course develops the negotiation skill of students through a carefully controlled combination of lectures, interactive games, small group discussions and actual negotiations carried out by participants. It draws on the latest advances in the field of negotiation analysis and provides a forum for experience sharing.

The first part of the course (Sessions 1-2) covers some basic concepts in negotiation analysis. Some of the topics covered in these sessions are: How to determine our limit and our target when preparing for a negotiation? Who should move first? How to open a negotiation? How to react to the other side's offers? How to manage our concession pattern? How to resist demands for concessions? How to induce cooperative behavior?

The second part of the course (Sessions 3-8) provides fundamental concepts and tactics for effective handling of complex negotiating situations. Some of the topics covered in these sessions are: What are the appropriate deal structures for complex packages and for long-term arrangements subject to uncertainty? What are the key dimensions of trust, skepticism and credibility in negotiations? How to manage the negotiation process? How to deal with repeated relationships? What is the role of arguments in a negotiation? How to deal with information asymmetries and differences in expectations? How to avoid processes of escalation of conflict? How to evolve from win-lose to win-win situations?

This second part of the course is based on the simulation Negotiation Dynamics - *The Game*[™], developed by Professors Ingemar Dierickx and Luís Almeida Costa. Negotiation Dynamics - *The Game*[™] enables students to accumulate a wealth of experience in a realistic and time-effective way. Students engage in a broad range of face-to-face negotiations. A state-of-the-art computer model evaluates the deals and tracks their impact on all aspects of an evolving business relationship and, consequently, on the situation that students will face in later negotiations. This diverse menu of negotiating experiences will test and develop the students' intuition. They will be able to draw on computer-aided decision support systems and sophisticated analytical and conceptual inputs.

Negotiation Dynamics - *The Game*[™] has several distinctive features:

- *Evolving Business Relationship*. Negotiations are embedded in an evolving business relationship. Thus, the situation each student faces will change as a consequence of the deals that he/she negotiates, the decisions that he/she and his/her counterpart take unilaterally, as well as external factors. At any moment in time, the market, the options each student faces, the constraints that he/she is facing - in fact, the entire environment - will depend on what happened before. The simulation Negotiation Dynamics - *The Game*[™] tracks the dynamics of this evolving relationship over time. Thus, as in real life, each student and his/her counterpart will shape their own future.

- *Information is Critical.* Negotiations are information driven. A key feature of Negotiation Dynamics - *The Game*[™] is that the information that will be available to each student depends on his/her previous deals and decisions. In addition, students may search for information through a special tool called Neginfo[™]. And of course, they may learn a great deal from their counterparts as well.
- *Negotiate Creative Deals.* Negotiation Dynamics - *The Game*[™] challenges students to become more creative negotiators. They may “invent” variables and create their own agenda. A special procedure was developed to reconcile creativity of negotiators with the logic of computers. Thus, students will be able to explore a vast array of interesting and creative deals.
- *Interpersonal Dynamics.* Students’ negotiating experience will be both exciting and highly realistic. As in real life, their objectives, their perceptions and their emotions will be affected by the interpersonal dynamics within an ongoing business relationship.
- *360° Feedback.* Throughout the students’ learning experience, the simulation Negotiation Dynamics - *The Game*[™] provides reliable feedback. After closing a deal, the computer provides prompt and detailed feedback about each student’s outcome. This is complemented by an in-depth analysis of key conceptual issues during the debriefing sessions. And towards the conclusion of the workshop students receive comprehensive “360-degree” process feedback based on observations from other students.
- *Personal Growth.* Students will discover some of their real strengths as well as, perhaps, some of their “bad habits”. They will learn to play the negotiating game with greater confidence and with superior tactical finesse.

Students will experience that Negotiation Dynamics - *The Game*[™], like negotiating in real life, is not only challenging but can also be great fun.

The last part of the course (Session 9) provides an introduction to auctions and competitive bidding. We analyze bidding processes both from the perspective of the entity organizing the auction and of the bidders. Some of the topics covered in this session are: What are the standard auction forms and what are the fundamental characteristics of the main auction types? How to choose among the different auction types, depending on the auctioneer’s objectives and on the specific circumstances he/she is facing? How to define an optimal bidding strategy?

ASSESSMENT

Class participation (including negotiation exercises): 25%
 Negotiation Write-Up: 25%
 Final Exam (closed book): 50%.

The object of the Write-Up is the analysis of a real-life negotiating situation using the concepts, models and frameworks discussed in the course.

Course grades are final and not negotiable.

BIBLIOGRAPHY

The following book is required for the course:

- R. Fisher and W. Ury, *Getting to Yes*, Penguin Books, Harmondsworth, Middlesex, 2011.

The following book is recommended (except the chapters mentioned throughout the Programme, which constitute required readings):

- H. Raiffa (with J. Richardson and D. Metcalfe), *Negotiation Analysis – The Science and Art of Collaborative Decision Making*, The Belknap Press of the Harvard University Press, Cambridge MA, 2007.

Some additional readings are mentioned in the Programme below. These readings will be made available online. The instructions for the different cases will be distributed throughout the course.

Acknowledgements:

I wish to thank Professor Ingemar Dierickx, whose cases and teaching materials are used in Sessions 1, 2 and 9 with his kind permission.

PROGRAMME OVERVIEW

Session 1 - November 11, 8:30-12:20

Participants prepare in advance the Episy negotiation (confidential instructions distributed by Sílvia Simões, of the CEMS Office, a few days before Session 1).

SINGLE-ISSUE NEGOTIATIONS

8.30-9.00 Programme overview

9.00-9.45 Participants carry out the Lot # 21, Sect. Y, Episy negotiation

9.45-10.45 Debriefing of the Lot # 21, Sect. Y, Episy negotiation

10.45-11.00 Break

11.00-12.20 Single-Issue Bargaining: Concepts and Tactics

Readings:

- Dierickx, I., *Price Negotiations - The Distributive Dimension of Bargaining*, 2008, mimeo (available online).
- Schelling, T., "Bargaining, Communication and Limited War" and "An Essay on Bargaining", in *The Strategy of Conflict*, Harvard University Press, Cambridge, Massachusetts, 1980, pp. 53-80 and pp. 21-52, respectively (available online).
- Raiffa, H. (with J. Richardson and D. Metcalfe), *Negotiation Analysis – The Science and Art of Collaborative Decision Making*, Part II, chapters 6 and 7.

Session 2 - November 13, 8:30-12:20

Participants play in advance the Repeated Prisoner's Dilemma game (confidential instructions distributed by Sílvia Simões, of the CEMS Office, a few days before Session 2). Decisions are due before the start of Session 2.

INDUCING COOPERATIVE BEHAVIOR

8.30-10.30 Debriefing of the Repeated Prisoner's Dilemma exercise

10.30-10.45 Break

10.45-12.20 Inducing Cooperative Behavior

Readings:

- D. R. Hofstadter, "Metamagical Themas: Computer Tournaments of the Prisoner's Dilemma Suggest How Cooperation Evolves", *Scientific American*, May 1983, pp. 14-20 (available online).
- Axelrod, R., *The Evolution of Cooperation*, Revised Edition, Basic Books, New York, 2006 (optional).
- Kreps, D., and R. Wilson, "Reputation and Imperfect Information", *Journal of Economic Theory*, 27, 1982, pp. 253-279 (optional, for the mathematically inclined only) (available online).

Negotiation Dynamics - The Game™

Session 3 - November 25, 8:00-12:20

Participants read "Get Started" and prepare Negotiation 1 in advance (confidential instructions distributed by Sílvia Simões, of the CEMS Office, a few days before Session 3).

PACKAGE DEALS

8.00-8.30 Introduction to Negotiation Dynamics - *The Game™*

8.30-11.00 Teams prepare and conduct Negotiation 1

11.00-11.15 Break

11.15-11.30 Teams make decisions and enter data relative to Negotiation 1

11.30-12.20 Debriefing of Negotiation 1

Session 4 - November 26, 8:00-12:20

8.00-9.00 Debriefing of Negotiation 1 (Cont.)

Readings:

- R. Fisher and W. Ury, *Getting to Yes*, Penguin Books, Harmondsworth, Middlesex, 2011.
- Raiffa, H. (with J. Richardson and D. Metcalfe), *Negotiation Analysis – The Science and Art of Collaborative Decision Making*, Part III.

Participants read “Get Started” and prepare Negotiation 2 in advance (confidential instructions distributed in class before Session 4).

INTERNAL NEGOTIATIONS

9.00-11.00 Teams prepare and conduct Negotiation 2

11.00-11.15 Break

11.15-11.45 Teams make decisions and enter data relative to Negotiation 2

11:45-12:20 Debriefing of Negotiation 2

Session 5 - November 27, 8:00-12:20

8:00-9:00 Debriefing of Negotiation 2 (Cont.)

DEAL STRUCTURE

9.00-11.30 Teams prepare and conduct Negotiation 3

11.30-11.45 Break

11.45-12.20 Teams make decisions and enter data relative to Negotiation 3

Session 6 - November 28, 8:00-12:20

8.00-9.15 Debriefing of Negotiation 3

Reading:

- J. K. Sebenius, “Six Habits of Merely Effective Negotiators”, *Harvard Business Review*, April 2001, pp. 87-95 (available online).

MANAGING ONGOING RELATIONSHIPS

9.15-11.30 Teams prepare and conduct Negotiation 4

11.30-11.45 Break

11.45-12.20 Teams make decisions and enter data relative to Negotiation 4

Reading:

- Dierickx, I., *Managing Long-Term Business Relationships*, 2012, mimeo

(available online).

Session 7 - December 1, 8:00-12:20

8.00-9.15 Debriefing of Negotiation 4

MASTERING PROCESS FUNDAMENTALS

9.15-11.30 Teams prepare and conduct Negotiation 5

11.30-11.45 Break

11.45-12.20 Teams make decisions and enter data relative to Negotiation 5

Session 8 - December 2, 8:00-12:20

8.00-9.30 Teams prepare process presentations

9.30-10.00 Teams analyze their Feedback Reports of Negotiation 5 and make final decisions

10.00-10.15 Break

10:15-11:15 Process Presentations

11:15-12:20 Concluding Remarks

Session 9 – December 5, 8:30-12:20

Participants play in advance the Bidding for a Dollar game and the Maxco-Gambit game (instructions distributed by Sílvia Simões, of the CEMS Office, a few days before Session 9). Decisions are due before the start of Session 9.

INTRODUCTION TO COMPETITIVE BIDDING
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8.30-10.30 Introduction to Competitive Bidding

10.30-10.45 Break

10.45-12.20 Typical Problems in Auction Design

Readings:

- McAfee, R. P., and J. McMillan, "Auctions and Bidding", *Journal of Economic Literature*, 25, June 1987, pp. 699-738 (available online).
- Klemperer, P., "What Really Matters in Auction Design", *Journal of Economic Perspectives*, 16 (1), Winter 2002, pp. 169-189 (available online).