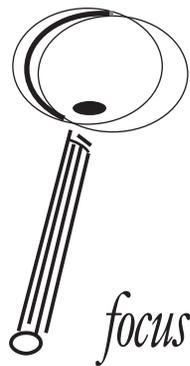


# 1

## Negotiations in the Contemporary Workplace



### *Learning Objectives*

By the end of this chapter, you should be able to:

- Explain the purposes and benefits of negotiation.
- Indicate why negotiating skills are so important for modern organizations and for individual careers.
- Describe the basic steps of the negotiating process.

### NEGOTIATION DEFINED

*Negotiation* is a means of resolving differences and conflicts between individuals, organizations, and other entities when imposed settlements are either not possible or not desirable. It is a way to get one's fair share, whether it is selling a proposal to management, settling a labor dispute, buying real estate, or obtaining a new car.

Consider these examples:

- *Not possible.* Two senior managers were having a dispute about the allocation of floor space within a new addition being made to their office building. Each wanted more than half of the space under construction. Because neither had the power to impose a decision on the other, they met to negotiate.
- *Not desirable.* During the final years of the Vietnam Conflict, U.S. and North Vietnamese diplomats met in Paris to discuss how they might end the long war. The U.S. had the power to impose a settlement. With thousands of nuclear weapons in its arsenal, it could have wiped North Vietnam off the map in a single day. However, it did not see this approach as a desirable way to end the war. It chose, instead, to negotiate. The result was the Paris Peace Accords (1973).

**Think About It . . .**

You might think that a person with substantial organizational power—like a CEO or some other senior manager—would never have to negotiate with employees to secure his or her objectives. Simply saying “This is how it will be” would seem sufficient. But wise leaders ration their power, using it only when absolutely necessary. The rest of the time they seek agreement with those whom they lead.

Can you think of a situation when a manager, an executive, or other powerful individual negotiated an agreement with you or your colleagues instead of simply dictating what should be done? Briefly describe that situation.

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Now, why do you suppose this individual found a negotiated agreement more desirable than a direct order?

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We negotiate with people all the time, often without realizing it. Do you recall your last family vacation? How was its destination decided? Did one family member say, “We’re going hiking in the Rocky Mountains in mid-July. Are there any questions?” Probably not. More likely, several family members mentioned places they’d like to go to and things they wanted to do. In the course of subsequent discussions, some family members may have made a case for their preferences, hoping to persuade the others. After some bargaining and compromising, a decision was made. Ideally, everyone in the family saw some benefit in the final decision.

Whether you recognized it at the time, you and your family members were negotiating the *what*, *when*, and *where* of your vacation. Negotiation was necessary because an imposed decision was either not possible or not desirable.

Negotiations are also common in the workplace: between companies, between departments, within departments, and even within work teams of a few members. Some of these negotiations are formal. Consider the following two examples.

Example 1: A private equity firm meets with representatives of a manufacturing company to purchase one of its operating divisions; its goal is to run the division as a stand-alone business. Together, the two sides must settle on a purchase price, which liabilities of the division (e.g., pension obligations to current employees) will be transferred with the sale, when the transaction will take place, and dozens of other issues. This type of negotiation involves teams of lawyers, executives, financial analysts, and consultants, and may go on for well over a year.

Example 2: A software company and a manufacturer of Internet and intranet servers meet to reach a collaborative agreement. The manufacturer would like to use the other company's operating and data storage software on an upcoming line of servers. Their agreement must address payment levels (how much) and payment terms (a flat amount or royalty paid on each machine sold). They must also determine how the software company's engineers and the server designers will work together. Additionally, these two companies must determine what the software company's responsibility will be for fixing "bugs" and security weaknesses discovered in the years following release of the servers. Again, teams of lawyers, executives, and technical specialists will be involved in this negotiation over many months.

Most workplace negotiations, however, are informal, less complicated, and less protracted in duration. Consider these examples:

Example 3: The production manager of a publishing company is meeting with a supplier's sales representative. The publishing company outsources printing and binding work for over 80 books each year, and this sales representative is eager to capture some of that business. Since these jobs are routine, the two individuals talk for no more than 30 minutes. They discuss schedules, paper and binding materials, print quantities, and how particular details will be handled. At the end of the meeting, they have the basis for an agreement. The production manager is not happy about price, but the vendor's willingness to deliver the goods in less than one month has offset that objection. The sales representative says that she will return to her office and confirm her per unit price estimate, based on a first printing of 5,000 copies. "Okay," says the production manager. "If your estimate holds up—and if you can guarantee delivery in four weeks or less—I'll send you a purchase order for the work."

Example 4: Four members of a loan processing team are taking a break to discuss their work schedules during December. "I know that everyone would like to take time off between December 24 and January 2, but we have a backlog of loan applications to process, and

that means that at least two of us must be here every business day. We may even have to put in some overtime.” Who will come to work over the holidays and who will be allowed to take time off? Because this team leader is not authorized to impose a solution, he asks people to work it out among themselves. Over the course of their short break, the four team members express their preferences and share information about travel plans and how many vacation days they have coming. One person says, “I have four vacation days that I must use up before the end of the calendar year—otherwise I’ll lose them.” The team leader offers to extend the vacation days to January 31 to meet the department’s objectives. After some compromising and horse-trading, the four work out a plan that satisfies the needs of the business and most of their personal needs.



### Think About It . . .

Is there a situation currently looming in your personal or professional life that will require or benefit from negotiation? A salary discussion with your boss, perhaps? The destination for your next family vacation? If you can think of one, describe it below. If nothing comes to mind, keep alert for a negotiating opportunity.

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## THE IMPORTANCE OF NEGOTIATING SKILLS

The use of negotiations to settle differences within individual operating units, as in Example 4, has become more commonplace over the past decades as organizations have moved from centralized, command-and-control management to an atmosphere of greater employee empowerment. *Employee empowerment* refers to a management style that gives subordinates substantial discretion as to how they accomplish their objectives. Thirty years ago, many more decisions and directives, large and small, were made at the top of the organizational pyramid and dictated to employees below. Today, command-and-control is increasingly viewed as a counterproductive approach to handling people. Today’s managers are more apt to tell their subordinates what needs to be done, explain why it is important, and leave it up to them to find the best way to do it.

Empowered employees find that they have greater authority within their individual jobs. However, since most jobs today require collaboration with others, people discover that they must be skillful in negotiating mutually beneficial arrangements in order to successfully complete their work. Thus, individuals who in an earlier time would have been *told* how to work together and share resources must now negotiate those collaborations. Since these individuals seldom have power over the people with whom they work, they cannot force agreements or command behavior. Instead they must persuade, bargain, and show how collaboration serves the interests of participants.

The frequency with which negotiations are employed in the workplace—both formally and informally—makes it a career-enhancing skill at every level, especially as people move up the career ladder to managerial positions. Individuals who know how to settle disputes, enlist people in collaborative efforts, and bargain effectively with outside entities such as customers, suppliers, and regulators are of greater value to their companies than are employees who are either uncomfortable with negotiations or lacking in negotiating skills.

Do you have the right attitude to become an effective negotiator? No idea? Not sure? Then take the self-assessment in Exhibit 1-1. It asks you to rate yourself on a number of attitudes, personal preferences, and behaviors that contribute to negotiating effectiveness. The ratings range from 1 to 5, with 1 being not at all like you and 5 being very much like you. Example: If you think that “I always prepare for important work” doesn’t describe you at all, you should put a 1 in the “Never describes me” column.

**E****Exhibit 1-1****Self-Assessment: Do you have the makings of a good negotiator?**

Read each question and reflect on how accurately it describes you. Indicate your view with the appropriate number score. You’ll find scoring instructions at the end.

	<i>1 Never</i>	<i>2 Rarely</i>	<i>3 Sometimes</i>	<i>4 Frequently</i>	<i>5 Always</i>
I always prepare for important work.					
I know what’s important to me and what is not.					
I try to understand the views and interests of others.					
I am most satisfied when everyone comes away a winner.					

**Exhibit 1-1 continues on next page.**

**Exhibit 1-1** continued from previous page.

	<i>1 Never</i>	<i>2 Rarely</i>	<i>3 Sometimes</i>	<i>4 Frequently</i>	<i>5 Always</i>
My reputation at work is that of a creative problem-solver.					
The people I work with regard me as trustworthy and fair-minded.					
I enjoy working with customers and with people in other departments.					
I am a patient person when it comes to solving problems.					
I spend as much or more time listening as speaking.					
I know how to determine what is a good deal or a bad deal for me.					
I find the motivations of other people interesting.					
I'm not opposed to compromising on some things when it results in a greater good.					
The people I work with would say that I'm assertive yet reasonable.					
I would rather speak with a customer who has a complaint than work in my office on a report.					
I'm not easily intimidated when dealing with others.					

Exhibit 1-1 continues on next page.

**Exhibit 1-1** continued from previous page.*Scoring instructions:*

1. Total each column.

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2. Add the five scores to get your total score. Write that total score here: \_\_\_\_\_
3. Divide your total score by 15 (the number of questions) to obtain your average score. Write your average score here: \_\_\_\_\_

If your average score is 4 or 5, congratulations. Once you learn the relevant skills and develop them through practice, you're likely to be an effective negotiator. If you scored 3 or 4, the same goes for you. Just work a bit on attitude, preferences, and behaviors. If you scored below 3, you'll carry some extra baggage into your future negotiations. For instance, if you indicated that you are easily intimidated, or if you described a preference for working in your office instead of talking with a customer who has a problem, you'll have more trouble negotiating effectively than will a person who answered the opposite to these questions—other things being equal. Fortunately, attitudes, personal preferences, and behaviors are not cast in stone. Once you are aware of them and understand how they limit your success, you can do something about them. Consider the late Alec Guinness, arguably one of the great actors of the late twentieth century. Guinness was plagued in his early years by stage fright to the point that it hung like a dark cloud over his future as a thespian. Once he recognized the impediment this problem posed to the career he hoped to follow, he managed to overcome it.

So, if you didn't score well on the test, take heart as attitudes, preferences, and behaviors can be changed from within if we recognize that they prevent us from achieving something we desire.

## THE NEGOTIATING PROCESS

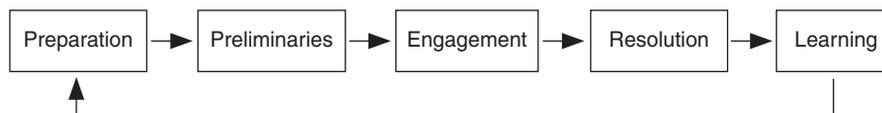
Many of the routine things we do at work every day can be described as work processes. A *work process* is a set of interrelated tasks that aim to produce a defined output. The loan department in a bank, for example, follows a process for handling loan applications, from gathering all the relevant information, checking the applicant's credit rating, deciding whether to approve the loan, notifying the applicant of the bank's decision, and (assuming that the loan is approved), meeting with the customer to get all appropriate signatures and to provide required disclosures. Other enterprises, both services and manufacturing, have analogous processes for getting work done.

The business of negotiating is likewise a process of sorts, and it is useful to have a mental overview of the process as one learns and masters its details. Exhibit 1-2 is graphic view of the negotiating process, seen as a linear series of phases:

- *Preparation.* In this phase the negotiator gathers as many relevant facts as possible, including information about participants in the negotiations, their strengths and weaknesses, their interests, their sense of urgency, their ability to deliver on their promises, and so forth. He or she should also look inward, asking, in effect, “What is our interest and what do we want from this deal?”
- *Preliminary tasks.* This phase could involve any number of tasks, such as coaxing a reluctant negotiating partner to the table, creating a physical setting conducive to a fruitful discussion, and determining if negotiations should begin with the small, easy-to-solve issues, or with an immediate attack on the knottiest problems.
- *Engagement with negotiating participants.* This is the phase that most people visualize when they hear the term *negotiation*. Here each side applies tactics meant to produce the outcome it seeks. These might involve compromise, concessions, strong-arming, bluffing, making offers and counter-offers, and so forth.
- *Resolution.* Negotiations formally end here, with some form of resolution. Resolution might take the form of one party walking away. Depending on the formality of the negotiation, a written agreement may be signed, complete with enforcement mechanisms.
- *Learning from the experience.* Even though formal negotiations end with the resolution stage, smart negotiators and their teams make a point of reflecting back on their experience. They try to understand what went well, what went badly, and what can be learned that will improve their future negotiations (reflected in Exhibit 1-2 by the feedback loop from Learning back to Preparation).

That’s the “Big Picture” of negotiation. Getting that picture into your head will help you make sense of the many topics covered in subsequent chapters of this course and help you see how they all fall into place. Being an intensely human activity, of course, negotiation is never entirely linear. It does not proceed quite so neatly, phase by phase. Learning, for example, takes place in every phase, though perhaps less formally than in the final one. Nor does the process mapped in Exhibit 1-2 recognize all the skills and human activities that go into a typical negotiation—persuasive communications, the exercise of specific tactics, dealing

## **E** xhibit 1-2 The Negotiating Process



with difficult people, and so forth. Thus, we have not attempted to arrange our treatment of the subject in parallel with the process map shown in the exhibit.

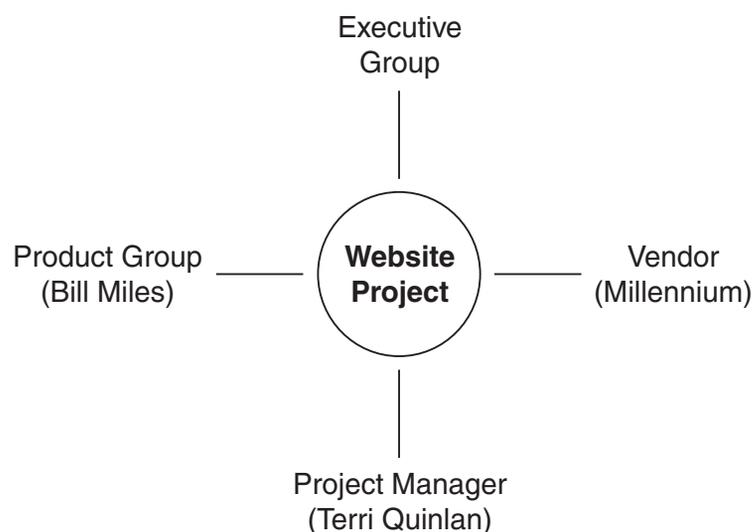
## A CASE EXAMPLE

To help you appreciate the process nature of negotiation, and what effective practitioners do to achieve their objectives, read and reflect on the following case, which is based on a true story disguised somewhat to preserve confidentiality. It involves a consumer products company (ProdCo) and its effort to build a new, state-of-the-art e-commerce website. The main cast of participants (Exhibit 1-3) includes the following:

- A four-person ProdCo executive group; this group controlled the project's budget and had authority for strategic decisions.
- Bill Miles, the head of the Product Group, whose goods would be sold on the new site.
- Millennium Software, an outside vendor hired by the company to build the site at an agreed cost of \$5 million.
- Terri Quinlan, a ProdCo employee assigned by the executive team to act as manager for the website development project. Her job was to coordinate the effort and assure that the site was built to specifications on time and on budget. She had no formal authority over any of the project's participants.

**E**

### Exhibit 1-3 Project Polaris



Work on the new website, dubbed Polaris, was already into the fifth month of its twelve-month development schedule. Project manager Terri Quinlan was in daily communication with the team assigned by the vendor, Millennium Software, and reported its progress each week to the executive group charged with project oversight.

Everything was going according to plan. Then Bill Miles, head of the product group, called Terri with an urgent request. "I've been talking with my people," he began, "and we'd like to add a new feature to the site."

"Tell me about it," Terri responded.

"Well, in our initial plans, we didn't incorporate the mechanism that Amazon and other e-commerce sites use to suggest additional purchases by visitors. You know, the feature that says, 'Customers who purchased that item also bought X, Y, and Z.' But our group absolutely needs to increase sales this year, and we think this feature will help."

"Oh," said Terri, "that's called a product recommendation feature. Do you want to add it to the site?"

"Yes, that's it. We think a recommendation feature would increase sales revenues from the site by 15 percent."

"I'm not surprised," Terri replied, "but that feature is outside the scope of the Polaris plan approved by the executive group late last year. Adding it now would surely delay project completion and add to the total cost—the current budget couldn't handle it."

"I know," said Bill. "I wish we had included this in the initial plan, but we hadn't realized how powerful that feature can be in generating sales. Now that we understand it, we know that we need it."

Terri didn't doubt the merits of Bill's request, but as project manager she knew that implementing it would cost time and money. The executive group would have to approve the change, and the vendor, Millennium Software, might not be able to accommodate it in a timely way at an affordable price.

As head of the product group, Bill Miles was an important figure in the organization, and his request could not be discounted out of hand. Yet the executive group was on record as opposing any increase in Polaris's budget or delay in its schedule. Dealing with this situation would require substantial negotiating skill on the project manager's part.

Terri's first step toward resolving the problem was to learn exactly what new capability the product group wanted in the site, what that might mean in terms of future sales revenues, and what the change request would cost in time and money. She gathered that information through discussions with Bill and his staff, and with the vendor's consulting team, which furnished a price/time estimate. "Another \$400,000 and two more months in the schedule?" she asked the Millennium team leader with mild astonishment.

"That's what it will take," he confirmed.

Knowing that the executive group would balk at a change of that magnitude, Terri arranged a meeting with Bill Miles. "Bill," she began, "It may be possible that we can accommodate your request, but I'll need some help from you to get this through the execs."

"Good," he said. "How can we work this out?"

“Well,” she began, “the exec group is adamantly opposed to adding time and cost to this project, so we need to talk about your priorities. The current site plan includes lots of bells and whistles designed to sell products. Which of these would you be willing to give up in order to add your new feature?”

Bill adopted a shocked expression. “I don’t want to give up any,” he said forcefully. “There’s support in the product group for every one of those features.”

Terri paused and smiled knowingly at Bill, as if to say, “Of course, you want to have everything no matter what it costs.” Then she resumed: “I know that there is support for all the features you’ve proposed, Bill. But I also know that your group supports some features more than others. So let me rephrase my question. When the exec group says ‘no’ to your request, how will you respond?”

Bill knew he was off base. He could act tough toward Terri, but he couldn’t do that to members of the executive group. He understood the group’s reluctance to change the scope of the project at this late date, so he backed off a bit. “Well, we might be able to cut corners somewhere in order to get this feature. What would you suggest, Terri?”

Having done her homework, Terri had a ready answer: “I’d recommend dropping the preferred customer feature, which reserves some products for selected customers only. That feature will be costly to implement, and by your team’s own estimate it will have little impact on sales revenue. It’s a ‘nice to have,’ not a ‘must have’ item. We can always add it to the site in Version 2, which is only a year or so down the line. So it’s not that you’re losing that feature, Bill; you’re simply getting it a year later, if you still think you need it then.”

Bill reluctantly nodded his approval.

With Bill’s agreement in her pocket, Terri next approached the Millennium Software team to obtain an estimate of the time and money the project would save if Bill’s preferred customer feature were dropped in site Version 1. A few days later she had her answer: The project cost would drop by \$180,000 and one month would be cut from the new schedule. Netting this out, Terri could see that dropping the preferred customer feature and adding Bill’s product recommendation feature would still put the project behind by \$220,000 and one month. She needed to reduce each of those in order to get the executive group’s approval for the change.

Her next stop was the IT department, where she met with its manager, Hollings Griffin, to explain the situation. “Hollings,” she asked, “we need to get a better deal from Millennium to make this plan work. Do we have any leverage over Millennium?”

“Well,” he replied. “They’ve been trying to get their foot in the door here for two years. The website is the first project we’ve hired them to implement, and I know that they’re hungry for others. In fact, one of their sales reps has been calling me every week, looking for new business.”

“So, are you planning to hire them for another job?” Terri asked.

“In fact I am. I want them to rebuild our corporate intranet system later in the year. They’re the right vendor for that job.”

“Does Millennium know of your intentions yet?”

“No,” said Hollings. “I just got the funding approved last week and haven’t spoken to their sales rep about it.”

“Good,” said Terri. “Perhaps, we can use that assignment as leverage to get them to reduce their price on the website change I have in mind. What do you think?”

“Go for it.”

Knowing Millennium’s interest in increasing its business with her company, Terri worked with Hollings and the head of Millennium’s website team to reduce the vendor’s estimates for the cost and time of implementing Bill Miles’s change. Given those adjustments and Bill’s willingness to drop other features in Version 1, she had negotiated agreements that put the total price of the new plan only \$120,000 over budget and only three weeks behind the original site launch schedule. Would the executive group approve these changes? The only way to know was to ask directly.

Terri favored inclusion of Bill’s recommendation feature into the new website because it would make the site a more powerful selling tool for the company. But she did not feel that it was her responsibility as project manager to advocate for it; that was Bill’s responsibility as head of the product group. He was requesting the change and he would have to do the persuading. Terri facilitated this by setting up a meeting with the executive group. She invited the head of the Millennium team to talk about the technical challenges of adding the feature, and she encouraged Bill to bring along whatever cost-benefit analysis his people had done. He would have to present a credible case that the added cost and time required by his change request would pay off in future benefits to the company.

Will ProdCo’s executive group approve Bill Miles’s change request, given the time and money it will add to the project’s schedule? We leave the answer to your imagination. Even without revealing the outcome, however, this case has exposed you to many of the elements found in workplace negotiations and its various phases: preparation, gathering facts, understanding the interest of other parties, trading one value for another, making concessions, using persuasion, and so forth. These are all important elements of negotiations, and you’ll learn much more about them in the chapters that follow.



### **Exercise 1-1** **Preparation**

Bill Miles’s change request created a problem for Terri, the project manager. How did she prepare for her negotiations with him?

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**Exercise 1–1 continues on next page.**

**Exercise 1-1** continued from previous page.

Rather than give Bill everything he wanted, Terri suggested that he trade off one thing he wanted for something he wanted even more. Describe that trade.

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Bill agreed to drop one of the features he had initially planned for the site. He hated making that concession. What did Terri offer in return that made this “bitter pill” easier to swallow?

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Before negotiating with Millennium for a better price and schedule, Terri tried to understand its interest. She would address that interest in getting a better deal. What was that interest?

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What did Bill Miles have to do in order to gain the change approval from the executive group?

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People use negotiations to resolve differences and conflicts when imposed settlements are either not possible or not desirable. Negotiation is a process with several phases: preparation, preliminary tasks, engagement, resolution, and learning. These phases do not always follow a linear path, however; nor do they describe all the things that negotiators must do.



## Review Questions

*INSTRUCTIONS: Here is the first set of review questions in this self-study course. Answering the questions following each chapter gives you a chance to check your comprehension of concepts as they are presented, reinforces your understanding, and provides you with information that is fundamental to your further study of chapters to come.*

*As you can see, the answer to each numbered question is printed to the side of the question. Before beginning, conceal the answers in some way, either by folding the page vertically or by placing a sheet of paper over the answers. Then read and answer each question. Compare your answers with those given. For any question you answer incorrectly, make an effort to understand why the answer given is the correct one. You may find it helpful to turn back to the appropriate section of the chapter and review the material about which you were unsure. At any rate, be sure you understand all the review questions before going on to the next chapter.*

1. A set of interrelated tasks that aim to produce a defined output is a: 1. (a)
  - (a) work process.
  - (b) collaborative assignment.
  - (c) contingency plan.
  - (d) command-and-control system.
  
2. A key phase of the negotiating process is: 2. (a)
  - (a) learning.
  - (b) conflict avoidance.
  - (c) imposed resolution.
  - (d) optimization.
  
3. In which of the following situations would negotiation be a potential means of resolving differences within a group or between individuals? 3. (c)
  - (a) When one party can impose a resolution
  - (b) When neither side has an interest or need to bargain
  - (c) When an imposed settlement is not possible
  - (d) When an imposed settlement is desirable
  
4. The ability to negotiate effectively becomes more important as a career skill when a person: 4. (c)
  - (a) gains more power and authority over others.
  - (b) operates in technical environments.
  - (c) moves into a managerial position.
  - (d) controls greater resources.
  
5. The use of negotiations to settle differences within individual operating units has become more commonplace as organizations have moved from command-and-control management to a management style that gives: 5. (b)
  - (a) supervisors and managers greater authority.
  - (b) subordinates more discretion in how they accomplish objectives.
  - (c) most decision making power to senior executives.
  - (d) unions a greater say in company policy.