L. Thompson
The Mind & Heart of the Negotiator

CHAPTER 4

Integrative Negotiation: *How to Be Strategically Creative*

Sam, an automotive engineer, decided to start his own consulting business after working for a very large car company in Detroit and then at a smaller company on the West Coast for a couple of years. At this time, a large rift existed between academic research and the design of engines at car companies. Sam had contacts at the major car companies as well as links with academia. He spent several months drawing up a business plan built on some innovative ideas involving the development of engine models from cutting-edge academic research.

In order to build his models, Sam needed special software made by a company that was interested in reaching the lucrative automotive market, but that so far had made few inroads. Sam believed that the software company produced a better product than its main competitor, but the competitor currently had the lion's share of sales to industry and academia.

The price of the software—over $10,000—was way beyond Sam's budget. As a first step, Sam called the software company and asked whether they would consider giving him a copy because he was in business for himself. The salesman suggested that Sam just buy the $10,000 software. Disillusioned, Sam hung up and reflected on what he should do. He was convinced that both he and the software company could ultimately benefit by working out some arrangement.

Before reading further, stop and think about what you would advise Sam to do: Give up? Take out a large loan? Buy a less-expensive competitor's software? Try to work out some mutually beneficial agreement? If so, how? The early stages of most integrative negotia-

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other party's utility to the same extent. For example, two people bargaining over the price of a used car in which the seller wants more money and the buyer wants to pay as little as possible is a purely distributive negotiation situation. Pure conflict is relatively rare in negotiation situations, but, ironically, most people treat negotiations as fixed-sum enterprises.

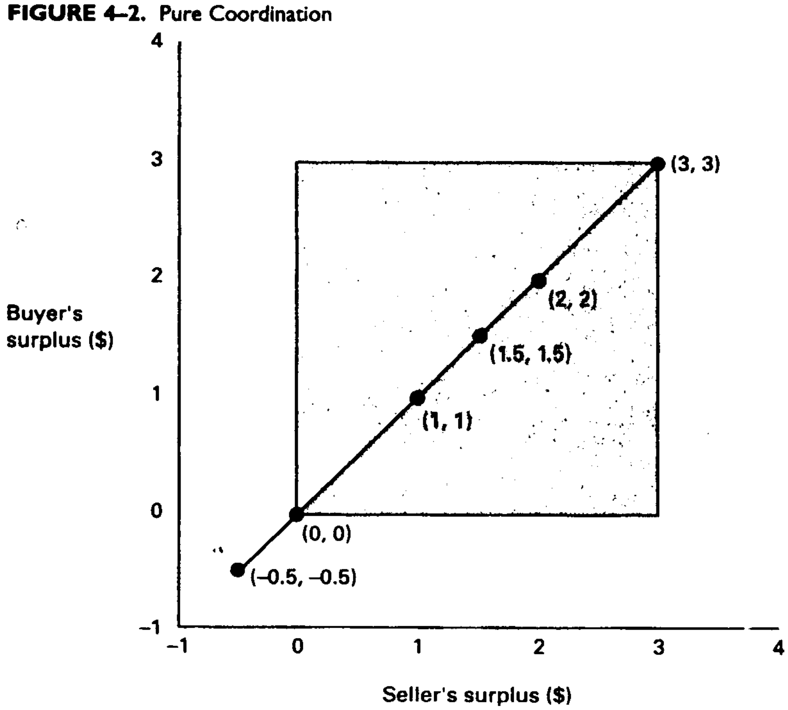
Pure Coordination

The opposite of pure conflict is pure coordination. **Pure coordination** exists when parties' interests are perfectly compatible (Figure 4–2). Increasing one party's utility also increases the other party's utility. Parties' interests are perfectly positively correlated—they win or lose together—and their preference functions are identical. In Figure 4–2, the seller prefers three units of surplus (leaving the buyer three units); the same is true for the buyer. Note that all possible agreements in the bargaining zone sum to different amounts. The settlement point (3,3) is the one that maximizes the parties' joint outcomes. Pure coordination negotiations are relatively rare, however.

Mixed-motive Negotiation

The most common type of negotiation situation is mixed-motive negotiation. In Figure 4–3 on page 46, the seller's most preferred settlement point (3.5, –.5) is outside of the bargaining zone, as is the buyer's most preferred settlement point (–.5, 3.5). At first glance, the situation seems to be very much like the pure conflict case. But in this situation, there are

FIGURE 4–2. Pure Coordination



Note: numbers in parentheses are seller's and buyer's surplus, respectively.

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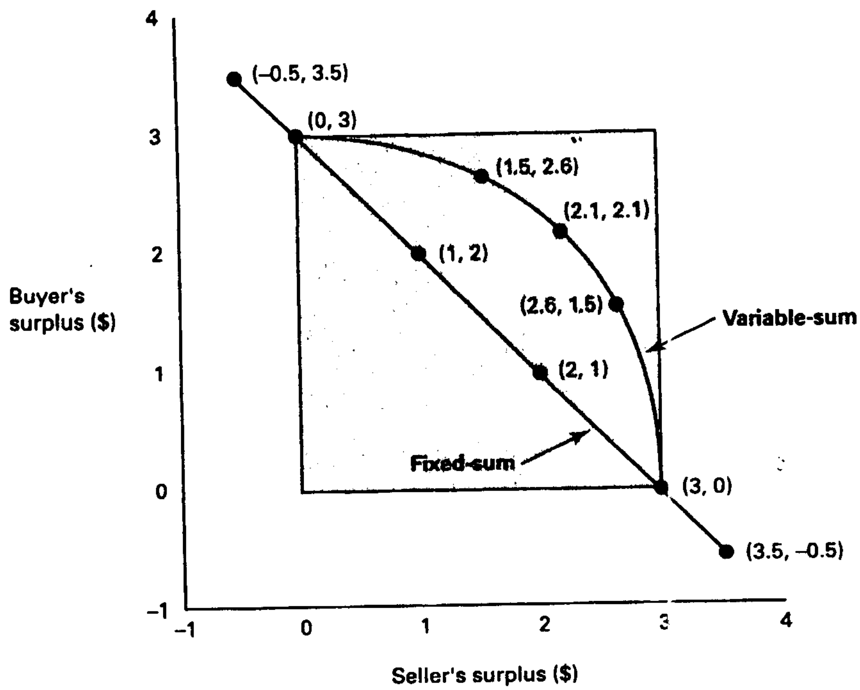

FIGURE 4–3. Mixed-motive Negotiation

more possible settlement points in the bargaining zone (shaded area). Some of these possible settlement points are better for *both* parties than are others. For example, both the seller and the buyer prefer the settlement point (2.1, 2.1) over settlement points (1,2) and (2,1).

The joint profit for the (2.1, 2.1) settlement is 4.2, compared to a joint profit of only 3 in the (2,1) and (1,2) cases—a 40% increase in joint profit. The **integrative potential** of negotiation is the increase in joint profit available to negotiators over and above the joint profit afforded by a fixed-sum solution.

Most negotiation situations are the mixed-motive type and contain potential for integrative agreement. In mixed-motive negotiations, parties' interests are neither completely opposed nor purely compatible. Rather, their interests are imperfectly correlated with one another. The gains of one party do not represent equal sacrifices by the other. For example, consider a negotiation between two collaborators concerning a joint project: one is risk-averse and values cash up front more than riskier long-term payoffs; the other is more interested in long-term value than in current gains. The two may settle on a contract in which a large lump sum is paid to the risk-averse negotiator and the other party reaps most of the (riskier) profits in the long term. Few conflicts are win-or-lose enterprises (Deutsch, 1973). Nevertheless, despite the abundance of integrative negotiation opportunities, people often fail to realize this and settle for suboptimal settlements.

The real question, then, for the negotiator is how to maximize the integrative potential of negotiation. Unfortunately, integrative negotiation agreements are much easier to see in hindsight than to create at the outset.

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DISTRIBUTIVE AND INTEGRATIVE NEGOTIATION

There are two important elements to every negotiation situation distributive and integrative. The distributive element is how negotiators divide or distribute resources amongst themselves. In short, the distributive element focuses on how much of the pie a negotiator claims for him- or herself. This is what we discussed in the previous chapter.

The **integrative** element concerns how negotiators expand the pie of resources to be divided. Why would a negotiator try to expand the pie? By expanding the pie of resources, there are more resources to go around. Most negotiations contain potential for integrative agreements, meaning that it is possible to create additional resources. Unfortunately, most negotiators fail to realize this because they have a **fixed-pie perception** (Bazerman and Neale, 1983; Thompson and Hastie, 1990). The fixed-pie perception can lead to unsatisfying outcomes, impasses, and **lose–lose agreements** or the unnecessary waste of resources (Thompson and Hrebec, 1996). The purpose of this chapter is to examine how negotiators can create more resources in situations where it appears that they have completely opposing interests. We call such skills strategic creativity.

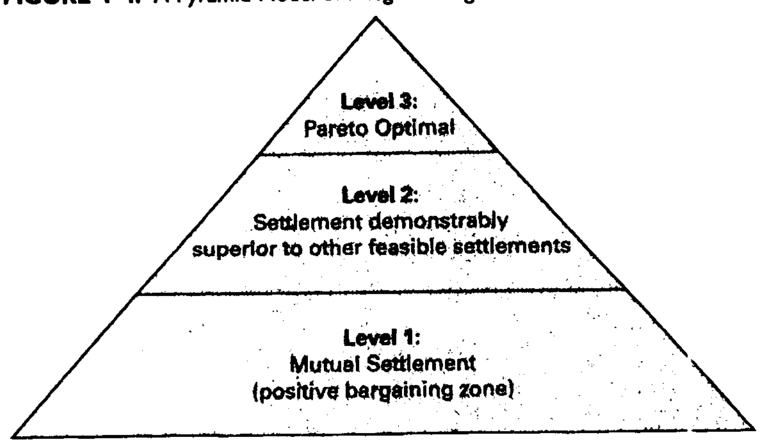
A Pyramid Model

Integrative negotiation refers to both a process and an outcome of negotiation. Parties to *negotiation may engage in behaviors designed to integrate their interests*, but that is no guarantee they will reach an integrative outcome. An **integrative agreement** is a negotiated outcome that leaves no resources unutilized.

The pyramid model presented in Figure 4–4 depicts three "levels" of integrative agreements. Beginning at the base, each successive level subsumes the properties of the levels below it. Ideally, negotiators should always strive to reach level 3 integrative agreements. Higher levels are progressively more difficult for negotiators to achieve, but are more beneficial to negotiators.

Level 1 integrative agreements are agreements that exceed parties' no-agreement possibilities, or reservation points. Reaching an agreement that exceeds parties' no-agreement possibilities creates value relative to the best alternative. Parties create value by reaching settle-

FIGURE 4–4. A Pyramid Model of Integrative Agreements



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ments that are better than their reservation points, or disagreement alternatives. If Sam's best alternative is buying the competitor's software, priced 15 percent cheaper, and the company's reservation point is selling the software at a 20 percent educational discount, then there is room for agreement between the two parties.

Level 2 integrative agreements are agreements that are better for both parties than are other feasible negotiated agreements. That is, negotiators create value with respect to one negotiated outcome by finding another outcome that all prefer. For example, suppose that Sam and the company representative both conclude that giving the software to Sam on a six-month trial basis with the understanding that Sam will supply contacts at universities and industries is better than selling the software to Sam at a 20 percent academic discount. The first arrangement is demonstrably superior to the second alternative in the eyes of both parties, and so it is a level 2 integrative agreement.

The existence of such agreements, by definition, implies that the bargaining situation is not purely fixed-sum: Some agreements yield higher joint gain than do others. Recall that in purely fixed-sum situations, all agreements sum to the same joint amount, and, therefore, no alternative agreement exists that improves one party's outcome while simultaneously improving or not reducing the outcome of the other party. If negotiators fail to reach agreement in a fixed-sum negotiation when the bargaining zone is positive, they have failed to reach a level 1 agreement. Unlike the pure fixed-sum case, integrativeness is much more difficult to assess in the more common mixed-motive case.

Level 3 integrative agreements are those that are impossible to improve upon from the perspective of *both* parties. Technically speaking, level 3 integrative agreements are settlements that lie along the **pareto-optimal frontier** of agreement; meaning that no other feasible agreement exists that would improve one party's outcome while simultaneously not hurting the other party's outcome. This means that *any* agreement reached by negotiators in a purely fixed-sum situation is level 3—that is, there is no way to improve any negotiator's outcome without making the other party worse off. In reality, it is difficult to determine whether an agreement is level 3, but we will present some suggestive techniques.

The Problem with Win–Win Agreements

In many instances, manufacturers and retailers, management and union, and buyers and sellers will proudly describe their negotiation outcomes to be "win–win." However, closer inspection usually reveals that money was squandered, resources wasted, and potential joint gain untapped. Clearly, these negotiators' hearts were in the right places, but they did not achieve what they wanted—an efficient (level 3) agreement. What went wrong? Integrative agreements are often used interchangeably with the term "win–win" agreement. However, the term "win–win" is problematic for many reasons. Win–win often implies that parties to the negotiation distribute the bargaining surplus equally among themselves. However, allocation of resources is a distributive issue and in no way ensures that an integrative agreement has been reached. Win–win is often used to mean that negotiators are happy or satisfied with the outcome. However, happiness is no guarantee that money and resources have not been squandered; many "happy" negotiators needlessly waste resources (see Thompson, Valley, and Kramer, 1995). Finally, win–win is a term often used to describe negotiations between persons who are interested in the welfare of each other, which implies that genuine interest in the other party's outcomes is necessary for integrative agreement. It is unreasonable to

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think that a requirement for integrative agreements is to have a strong, intrinsic interest in the other party's welfare. It is nice when it happens, but it is no guarantee for reaching a pareto-optimal outcome.

Lose–Lose Agreements

In 1990, Thompson and Hastie uncovered a particularly insidious and widespread effect in negotiations: the lose–lose effect. They constructed a negotiation situation in which the parties involved had compatible interests on a subset of the negotiation issues. That is, both parties wanted the same outcome. At first, it seemed absurd to imagine any other outcome occurring other than the parties settling for what was obviously the best solution for themselves and the other person. However, a substantial number of negotiators not only failed to realize that the other person had interests that were completely compatible with their own but reached settlements that were less optimal for both parties than some other readily available outcome. A situation in which two people fail to capitalize on compatible interests is a lose–lose agreement (Thompson and Hrebec, 1996). In an analysis of 32 different negotiation studies across over 5,000 people, Thompson and Hrebec (1996) found that negotiators failed to realize compatible issues about 50 percent of the time and fell prey to the lose–lose effect about 20 percent of the time. Lose–lose agreements are perhaps the most heartbreaking type of negotiation outcome.

What should negotiators do to avoid lose–lose agreements? First, negotiators should be aware of the fixed-pie perception and not automatically assume that their interests are opposed to the other party. Second, negotiators should avoid making **premature concessions** to the other party (i.e., making concessions on issues before they are even asked for). Finally, negotiators should develop an accurate understanding of the other party's interests—a skill we'll explore soon.

HOW DO NEGOTIATORS EXPAND THE PIE OF RESOURCES?

The complexity and value of reaching integrative agreements is best understood through an example. Consider a negotiation between a buyer, the Windy City Theater (WCT), and a seller, *POP Productions (POP). Imagine you are Gene Girard, general manager of the WCT. You would like to bring the Broadway musical, Oceania!, to the WCT for a week next April. Oceania! is represented and managed by POP Productions, one of the largest producers of* live entertainment in New York. You have a talk scheduled this afternoon with Nat Ryan, sales representative for POP. As general manager of WCT, you are committed to bringing quality live entertainment to the theater and structuring deals that are profitable for WCT. What steps should you take to maximize your profits?

Before Negotiation

In preparation for your negotiation with Nat, you make a list of the relevant issues to discuss:

1. Profit sharing of ticket revenues (typically, the theater and production company share ticket revenues, but the exact percentage is a matter of negotiation)
2. Salaries for the cast and crew (the theater pays a lump-sum salary to POP productions for the cast and crew)

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3. The number of shows to be offered during the week (the typical number of shows is nine: five evening performances and four weekend matinees; however, the total number of shows could be reduced to seven or increased to add two weekday matinees)
4. Lodging and meal costs for the cast and crew (lodging and board for the 100-member cast and crew for the week-run show can be expensive—who should pick up the tab?).[1]

You spend the next week determining your reservation point and your best assessment of Nat Ryan's reservation point. Specifically, you make the assessments listed in Table 4–1. Note that in this negotiation, WCT has a reservation point for *each* issue (as opposed to a general, summary R.P).

First Meeting

You make a strategic decision to let your opening offer represent what you believe to be Nat's reservation point for each of the negotiation issues. You bring up these issues with Nat and clearly state your preferences for each (see Table 4–2).

Not surprisingly, Nat rejects your opening proposal and counters by proposing a set of terms that represent your reservation point (Table 4–2, POP's opening offer). Obviously, Nat has done her homework! You use the flipchart in the room to make a sketch of the proposals that looks like Table 4–2. A quick inspection of Table 4–2 reveals that your interests appear to be primarily opposed: POP wants 50 percent of net ticket revenues, and bigger salaries than WCT wants to pay; POP wants to contract for fewer performances and desires complimentary lodging and board. You are feeling a little downtrodden. Nat then suggests that the two of you compromise by splitting the difference halfway on each of the issues. Nat proposes the following:

Profit sharing:	60–40 (WCT/POP)
Cast and crew salaries:	$225,000/week
Performances:	9
Lodging:	WCT pays for hotel; POP pays for meals

You are pleased by Nat's reasonable offer. It clearly punctures your reservation price for each issue, and so you seriously consider accepting it on the spot and concluding the negotiation. You call your financial advisor, who gives you an assessment of the expected value

[illegible]

To-Be-Negotiated Issue	*WCT RP*	*WCT Target*	*POP RP**	*POP Target**
Profit sharing (WCT/POP)	50–50	70–30	70–30	50–50
Salaries for cast and crew	$250,000/week	$175,000/week	$200,000/week	$275,000/week
Number of performances	9	11	11?	7
Lodging and board arrangements	WCT expense	POP expense	POP expense	WCT expense

* *Note*: WCT does not know POP's reservation or target points, but this is Gene's best estimate.

[1] This negotiation has been simplified to illustrate key points. Case available from Dispute Resolution Research Center, Kellogg Graduate School of Management, Northwestern University; email: drrc@kellogg.nwu.edu.

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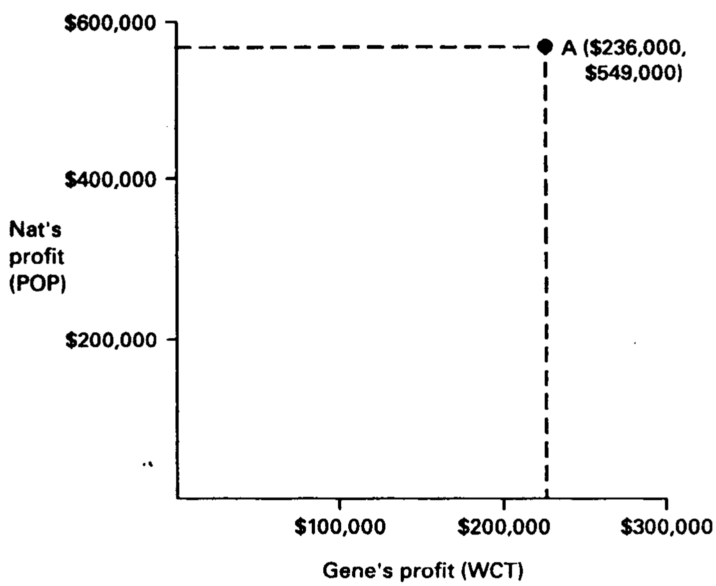
To-Be-Negotiated Issue	*Windy City Theater's Opening Offer*	*POP Production's Opening Offer*
Profit sharing (WCT/POP)	70–30	50–50
Salaries for cast and crew	$200,000/week	$250,000/week
Number of performances	11	7
Lodging and board arrangements	POP expense	WCT expense

of Nat's latest proposal, about $236,000.[2] You are unsure exactly how much the proposal is worth to Nat, but it is an obvious improvement over your opening offer to her. You guestimate that the proposal has a net value of $549,000 to Nat (40% of $885,000 in ticket revenues = $354,000, plus $225,000 in salaries = $579,000 less $30,000 for food = $549,000. Graphically, this is point A plotted in Figure 4–5.) Nat has her legal expert draw up the paperwork and you are about to sign off. However, you decide to wait until morning.

That night, you call your financial advisor, who gives you more details about the projected profits figure. She explains that the added revenue from each additional show to the regularly scheduled nine performances would be $98,000 per performance. This means that if you add two matinee performances to the run of *Oceania!*, you could increase your profits by nearly $200,000! You speculate that lodging and food expenses for POP would be more expensive than adding additional performances, since their cast and crew are already in town.

FIGURE 4–5. Gene's First Assessment of Profit to WCT and POP



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[2] This figure is based upon financial calculations that include ticket revenues from expected sales: i.e., 60% of $885,000 in ticket sales, less $225,000 for salary, and less $70,000 in hotel bills (quote from hotel for block of rooms).

You decide to suggest a tradeoff: You pay for the cast and crew's lodging and meals for the entire week (cost to you = $95,000); in exchange, POP adds two weekday matinee performances to the run. This would mean an increase in value to you of over $120,000 over the previous deal (or $356,000).

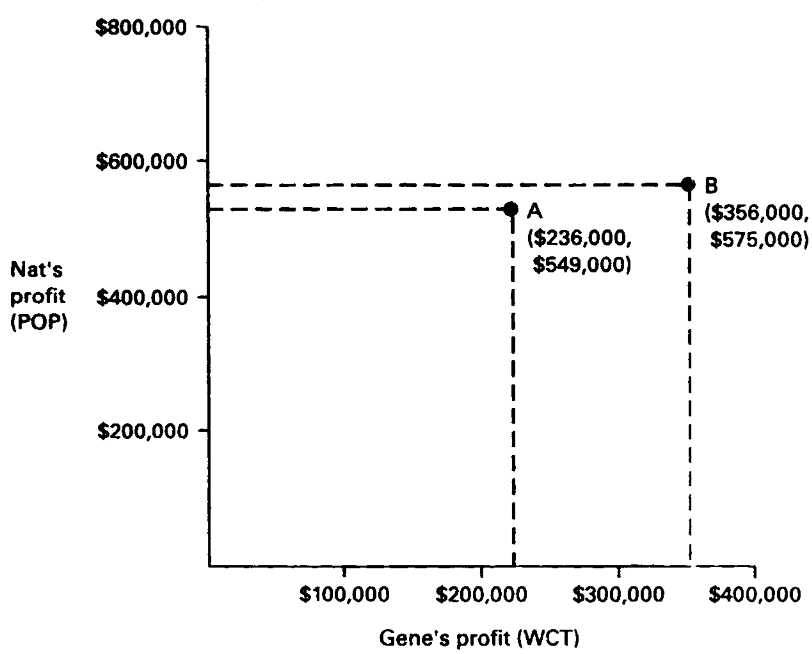
Second Meeting

The next morning, you propose the following offer (point B on Figure 4–6) to Nat:

Profit-sharing:	60–40 (WCT/POP)
Cast and crew salaries:	$225,000/week
Performances:	11
Lodging:	WCT pay for hotel/lodging (no charge to POP)

Nat is clearly pleased. You estimate that Nat's profits have increased by about $40,000—the savings she made on meals. In addition, it represents added value for you. This means that you have moved from a level 1 integrative agreement to a level 2 integrative agreement (see point B in Figure 4–6). Nat's attorney prepares another contract for you to sign. However, you are still reluctant to sign a contract. You feel that the terms are acceptable, but shudder at the thought that you nearly failed to realize the additional $120,000 in profit. You wonder: Is there more hidden value in this negotiation? You recall in your first meeting with Nat that you also discussed another POP Productions Broadway show, *Bugles*. You discussed the possibility of bringing *Bugles* to WCT with your board of directors, who agreed that it would be considered profitable if cast and crew salaries were $100,000 or less. You decide to ask Nat about her plans for *Bugles*.

FIGURE 4–6. Gene's Second Assessment of Profit to WCT and POP



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Third Meeting

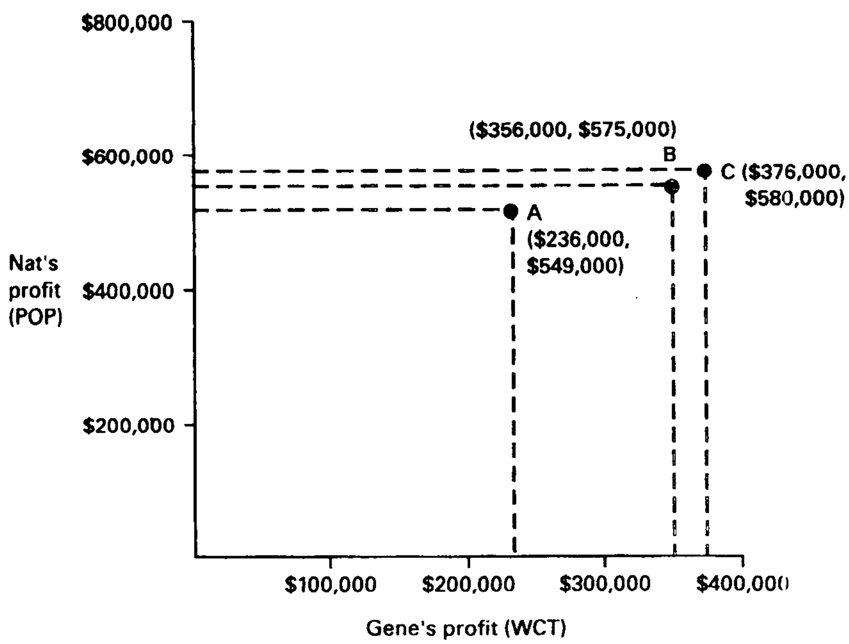
When you mention *Bugles* to Nat, her eyes light up and she says that she has received a lot of feelers about *Bugles*, but has not signed a contract. You ask Nat point blank about cast and crew salaries, and she says POP is targeting $100,000 per week with a bottom line of $75,000. You offer Nat $80,000 for *Bugles* at WCT. She accepts, and you have added another $20,000 of value to the deal for WCT! In addition, POP's profits have increased by at least $5,000 (see point C in Figure 4–7). Nat phones her lawyer, and *Bugles* is written into the contract. Again, you delay closing the deal, suggesting that the two of you meet for coffee the next morning.

You go home to think about the deal. You are unsure how to add additional value without renegotiating the terms that you have already agreed to. You feel that it would be bargaining in bad faith to renegotiate the profit sharing of 60–40 WCT/POP. However, you remember Nat saying she expected ticket sales for *Oceania!* to be about 85 to 90 percent of the house for the week-long run of *Oceania!* In contrast, you are less optimistic about the show's likely success. In fact, your marketing manager projects sales of 75 percent of the house. Clearly, the two of you have very different beliefs about the success of the show. You wonder if Nat would be willing to bet on it.

Fourth Meeting

You open up the meeting by telling Nat you are more pessimistic about the show than she is. You explain that it is highly unlikely that ticket sales will be over 75 percent of the house, and project $885,000 of net ticket sales. Nat shakes her head in disagreement and claims that *Oceania!* will sell 85 percent of the house across all performances, which would mean net

FIGURE 4–7. Gene's Third Assessment of Profit to WCT and POP



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ticket revenues in excess of $1 million. The two of you argue about this unproductively. You realize there is no changing her mind, and you propose the following offer to Nat:

- If ticket sales are less than $900,000, WCT takes 70 percent of the profits.
- If ticket sales are between $900,000 and $1 million, WCT takes 60 percent of the profits (original deal).
- If ticket sales are greater than $1 million, WCT takes 40 percent of the profits.

Nat is very receptive and accepts the bet (point D in Figure 4–8). How valuable is this proposal to you? You are 80 percent sure that ticket sales will be under $900,000. You estimate there is a 10 percent chance that ticket sales will be between $900,000 and $1 million. You estimate there is a 10 percent chance that ticket sales will be greater than $1 million. You compute your expected value, using the expected utility principle:

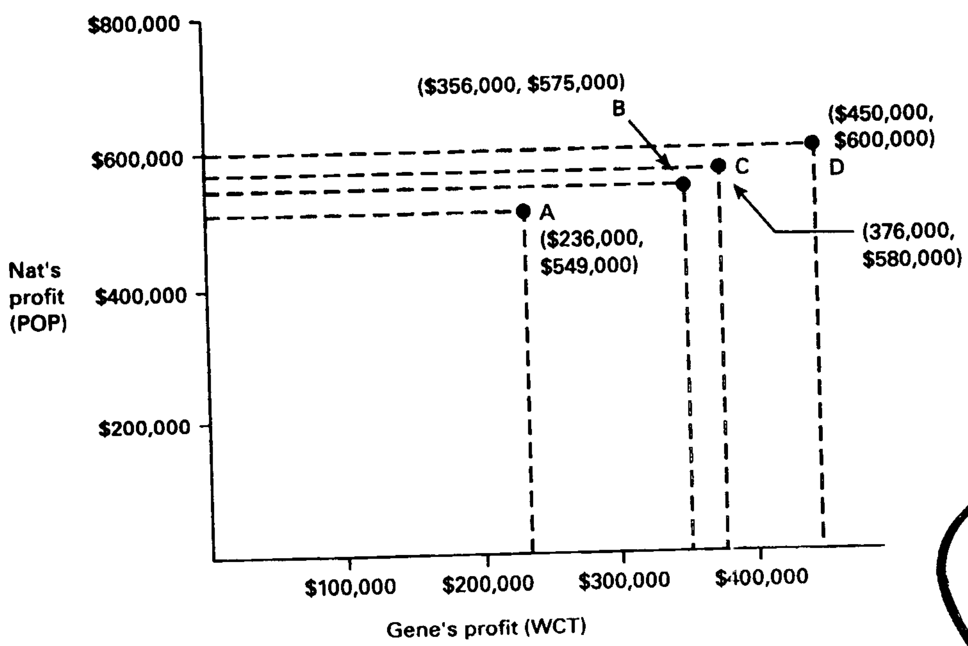
.8($630,000) + .1($560,000) + .1($400,000) = $504,000 + $56,000 + $40,000 = $600,000

$600,000 is clearly better than the original deal—the value of the deal to WCT has increased by $70,000 since your last meeting with Nat. You estimate that Nat's value increased by at least the same amount. Graphically, this is shown as point D in Figure 4–8. You now feel confident that you have negotiated a good deal for the WCT. Further, it is clear that the integrative negotiation process has had a positive impact on your relationship with Nat.

Analysis

In Gene's negotiations with Nat, the value of both parties' outcomes improved steadily. Figure 4–8 reflects the value (in thousands of dollars) of each successive proposal. Through a

FIGURE 4–8. Gene's Fourth Estimate of the Profit to WCT and POP



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combination of logrolling, bridging interests, and betting on different expectations, Gene successfully moved the negotiation from a level 1 integrative agreement to a level 3 integrative agreement.

THE ROLE OF INTERESTS

As Gene and Nat's situation illustrates, unlocking the integrative potential of negotiation hinges on understanding parties' interests for alternatives among negotiation issues. Three important components to this assertion reflect the fundamental "elements" of negotiation we outlined in the first chapter: interests, issues, and alternatives. In the example above, Gene found a maximally integrative agreement by examining parties' preferences for the alternatives for each issue.

This sounds easy enough, but there is a problem: Interests cannot be seen or measured objectively. Rather, we make inferences about someone's preferences based on his or her behavior or responses.

In negotiation, people reveal their positions rather than their interests (Fisher, Ury, and Patton, 1991). Positions are a negotiator's stated demands. Interests are a person's underlying goals. Often, negotiators' stated positions may be in complete conflict, but their underlying interests may be compatible.

The Importance of Differences

Negotiators not only have differences in interest and preference, but they view the world differently. Nat thinks the show is going to be a near sell-out performance; Gene expects 25 percent of the tickets to go unsold. Different interpretations of the facts may threaten already tenuous relations. Attempts to persuade the other person may be met with skepticism, hostility, and an escalating spiral of conflict. The surprising fact is that differences in beliefs—or expectations about uncertain events—pave the way toward integrative agreements.

Because negotiators are not identical in their tastes, forecasts, and endowments, they have something to offer that is relatively less valuable to them than to those with whom they negotiate. Lax and Sebenius (1986) note five dimensions of difference that negotiators may exploit to capitalize on integrative agreement:

- differences in valuation of the negotiation issues
- differences in expectations of uncertain events
- differences in risk attitudes
- differences in time preferences
- differences in capabilities

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Differences in Valuation

Negotiators have different strengths of preference for each issue. For example, even though Gene and Nat's preferences were opposed on the lodging/meals and number of performances, Gene had the most to gain by adding two matinee performances while Nat was able to substantially cut lodging and meal expenses. By trading off these issues, both were better off than by simply compromising on each issue. The strategy of trading off so as to capitalize on different strengths of preference is **logrolling** (Froman and Cohen, 1970).

Differences in Expectations: Forming Contingent Contracts

Because negotiation often involves uncertainty, negotiators differ in their forecasts, or beliefs, about what will happen in the future. Consider the case of a woman and her brother who inherited a tool store from their father. The sister expected the profitability of the store to decline steadily; the brother expected the store to succeed. The sister wanted to sell the store; the brother wanted to keep it. A contingent contract was constructed: The brother agreed to buy his sister's share of the store over a period of time at a price based on her bleak assessment of its worth. The sister is guaranteed a certain return; the brother's return is based on how well the store does.

Consider another example. A city planner contracted with a building corporation to build and manage a condominium/retail center. The city's assessment of the likely sales was bleak, and so the city wanted to tax the units heavily. The corporation did not like the prospect of high taxes and believed that sales would be high in the coming year. A contingent contract was developed. The city promised the corporation a tax cap over ten years as a function of yearly sales: Higher sales meant a lower tax cap; lower sales meant a higher tax cap. Each party was confident that his or her "best case" scenario would come to pass.

Differences in Risk Attitudes

In other situations, parties agree on the probability of future events but feel differently about taking risks. For example, two colleagues may undertake a collaborative project, such as writing a novel, for which they both agree that the probability of success is only moderate. The colleague with an established career can afford to be risk-seeking; the struggling young novelist may be risk-averse. The two may capitalize on their different risk-taking profiles with a contingent contract: The more risk-averse colleague receives the entire advance on the book; the risk-seeking colleague receives the majority of the risky profits after the publication of the novel.

Differences in Time Preferences

People may value the same event quite differently depending on *when* it occurs. If one party is more impatient than the other, mechanisms for optimally sharing the consequences over time may be devised. Two partners in a joint venture might allocate the initial profits to the partner who has high costs for time, whereas the partner who can wait will achieve greater profits over a longer, delayed period.

Differences in Capabilities

People differ not only in their tastes, probability assessments, and risk preferences; they differ in their capabilities, endowments, and skills. Consider two managers who have different resources, capital, and support staff. One manager has strong quantitative, statistical skills and access to state-of-the-art computers; the other has strong marketing and design skills. Together, they may combine their differing skills and expertise in a mutually beneficial way, such as in the design of a new product concept. The development of successful research collaborations are fostered by differences in skills and preferences (Northcraft and Neale, 1993).

Cautionary Note

Capitalizing on differences often entails **contingency contracts,** wherein negotiators make bets based upon different states of the world occurring. Gene and Nat's bet on expected ticket revenues is an example of a contingency contract. For contingency contracts to

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be effective, they should be able to be readily evaluated, leaving no room for ambiguity of interpretation (e.g., ticket sales are readily assessed). Conditions and measurement techniques should be spelled out in advance (e.g., Gene and Nat should decide whether to include all ticket sales, only those for regularly scheduled performances, etc.). Further, a date or timeline should be mutually agreed upon.

A STRATEGIC FRAMEWORK FOR REACHING INTEGRATIVE AGREEMENTS

The discovery and creation of integrative agreements is much like problem solving. Problem solving requires creativity. Integrative agreements are devilishly obvious after the fact, but not before. At least two factors make the discovery and creation of integrative agreements complex and, often, seemingly impossible—the hindsight bias and functional fixedness.

The **hindsight bias** refers to a pervasive human tendency for people to be remarkably adept at inferring a process once the outcome is known, but unable to predict outcomes when only the processes and precipitating events are known (Fischhoff, 1975). The hindsight bias, or the "I knew it all along" effect, makes integrative solutions to negotiation situations appear to be obvious when we see them in retrospect, although before they were discovered, the situation appeared to be fixed-sum.

Functional fixedness occurs when a problem-solver bases a strategy on familiar methods (Adamson and Taylor, 1954). The problem with functional fixedness is that previously learned problem-solving strategies hinder the development of effective strategies in new situations. The person fixates on one strategy and cannot readily switch to another method of solving a problem. That is, experience in one domain produces in-the-box thinking in another domain. Reliance on compromise as a negotiation strategy may produce functional fixedness.

Because negotiation is an ill-structured task, with few constraints and a myriad of possible "moves," a royal road for reaching integrative agreement does not exist. The closest we come to a generic "bag of tricks" is the presentation of a decision-making model of integrative negotiation. The model is prescriptive; that is, it focuses on what negotiators *should* do to reach agreement, not what they *actually* do.

The decision-making model of integrative negotiation is depicted in Figure 4–9. The model has five major components: resource assessment, assessment of differences, construction of offers and tradeoffs, acceptance/rejection of decision, and renegotiation.

Resource Assessment

Resource assessment involves the identification of the bargaining issues and alternatives. For example, consider an employment negotiation. The bargaining issues may be salary, vacation, and benefits. The feasible salary range may be $60,000 to $100,000; vacation time may be 1 to 5 weeks, and benefits may include stock options or a company car. In this stage, parties identify the issues that are of concern to them in the negotiation. A superset emerges from the combination of both parties' issues.

In our earlier example, Gene considered the profit sharing, salaries, and number of performances to be the central issues; Nat considered crew and cast lodging as an important issue. The union of both parties' issue sets forms the issue mix of the negotiation. In addition to specifying the issue mix, parties also define and clarify the alternatives for each issue. For

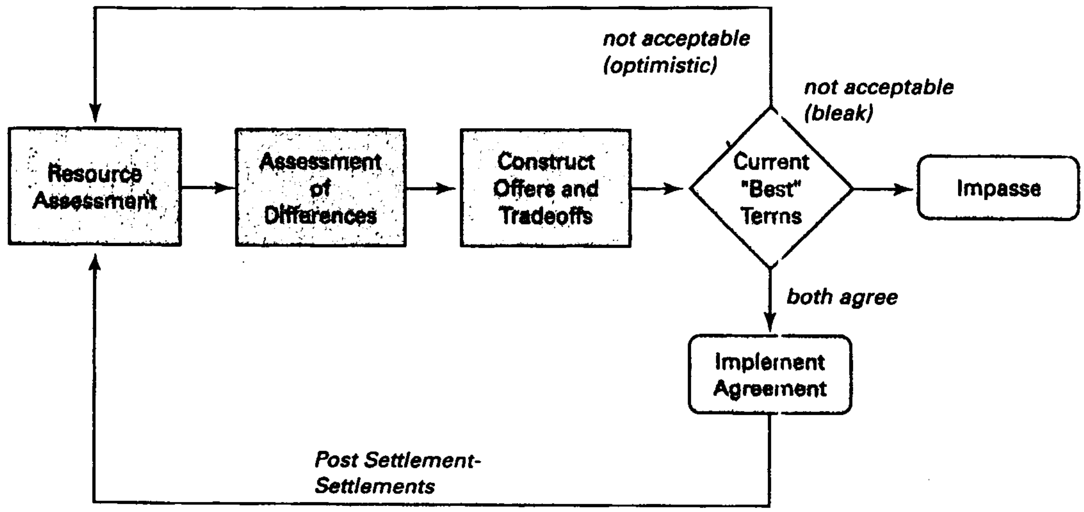

FIGURE 4–9. Decision-making Model of Integrative Negotiation

example, Gene may consider between nine and eleven performances; Nat may consider between seven and nine. The ultimate set of options for each issue is a superset of both parties' alternatives.

Later stages of resource assessment move beyond the mere identification of issues and alternatives to two higher-order processes: the **unpacking** of issues and alternatives, and the addition of new issues and alternatives. Unpacking or unbundling (Lax and Sebenius, 1986) of issues is important in negotiations that center around a single issue. Because mutually beneficial tradeoffs require a minimum of two issues, it is important to fractionate conflict into more than one issue. In other instances, it may be necessary to add new issues and alternatives. The process of adding issues and alternatives is facilitated through the discussion of parties' needs.

Assessment of Differences

Once the issue mix and set of alternatives are identified, parties should focus on assessing their differences in valuation, probability assessment, risk preferences, time constraints, and capabilities.

Two concerns should guide the assessment of interdependencies. First, each party should focus on his or her most important issues. Second, parties should focus on issues that are of high value to one party and of low cost for the other party to provide. For example, in Sam's case, his high-value issue (obtaining a copy of the software) is a relatively low-cost item for the software company. Similarly, sales and training are high-cost issues for the company but are low-cost issues to Sam. In Gene's case, lodging is relatively low cost in comparison to the additional revenues from weekday matinees.

Offers and Tradeoffs

Pruitt and Rubin (1986) outline five methods for pursuing integrative agreement:

- expanding the pie
- nonspecific compensation

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- logrolling
- cost-cutting
- bridging

When negotiators **expand the pie,** they increase the amount of available resources. To take Sam's case, perhaps Sam might get a grant to buy the software he needs. In many cases, though, it is not possible to create additional resources. **Nonspecific compensation** involves one party receiving his or her most desirable alternative; the other party is repaid in some unrelated coin. For example, the software company might give Sam the software; in return, Sam might provide training seminars for the company using the software. When parties logroll, they make mutually beneficial tradeoffs among issues. Each party concedes on a low-priority issue in exchange for his or her most preferred alternative on a high-priority issue. For example, Sam's most important priority may be obtaining the software; the company's most important priority may be expanding its customer base. They may logroll their interests so that Sam receives the software in return for locating five new clients. When parties **costcut,** one party gets what he or she wants and the other's costs are reduced or eliminated. For example, Sam might receive the software free of charge in exchange for paying packaging fees, shipping fees, cost of manuals, and technical support. **Bridging** involves the creation of a new option that satisfies both parties' key interests. For example, the company might agree to provide Sam with a beta (prerelease) version of the software; in return, Sam provides the company with extensive feedback about usability and potential improvements.

In this phase, parties should consider several potential tradeoffs among valuations, forecasts, risks, time preferences, and capabilities, and eliminate those dominated by other alternatives. There is no sense in making a tradeoff unless what you are offering the other party is more valued by him or her than it costs you to provide.

Acceptance/Rejection Decision

At some point, negotiators may land on an outcome both find minimally acceptable: It exceeds both parties' reservation points, and constitutes a level 1 integrative agreement. Parties may end negotiations with this agreement, as Nat was inclined to do after the first meeting with Gene. But the identification of a minimally acceptable agreement does not necessarily mean that settlement is efficient. Like Gene, negotiators should continue to explore the possibilities, depending on their costs for time and their subjective assessments of the likelihood of reaching a superior solution. Negotiators' aspirations and goals may influence the search process in negotiation; negotiators who set specific, challenging goals are more likely to continue to search for integrative agreements than do those who do not set goals or who set easy goals (Huber and Neale, 1986).

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Prolonging Negotiation and Renegotiation

Two feedback loops emanate from the decision stage: the decision to prolong negotiations and the decision to renegotiate.

Negotiators should prolong negotiations when the best agreement on the bargaining table fails to meet both parties' reservation points. Negotiators should reassess the resources by unpacking the initial set of issues and breaking them down to smaller issues that may be traded off. In addition to unpacking issues, negotiators may add issues and alternatives to the bargaining mix. If parties have identified all the issues and alternatives, identified differences to tradeoff, and a mutually agreeable solution has not been found, then they should call a halt to the negotiation and pursue their best identified alternatives.

In some instances, parties may decide to renegotiate after a mutually agreeable settlement has been reached. It may seem counterintuitive or counterproductive to resume negotiations once an acceptable agreement has been reached. But the strategy of **postsettlement settlements** is remarkably effective in improving the quality of negotiated agreements (Bazerman, Russ, and Yakura, 1987) and moving an agreement from a level 1 agreement to a level 2 or 3 agreement. In the postsettlement settlement, negotiators agree to explore other options with the goal of finding another that both prefer more than the current one (Raiffa, 1982). The current settlement becomes both parties' new reservation point. For any future agreement to be binding, both parties must agree to the new terms.

The postsettlement settlement strategy allows both parties to reveal their preferences without fear of exploitation, because they can safely revert to their previous agreement. If better terms are found, parties can be more confident they have reached a level 2 or 3 settlement. If no better agreement is found, the parties may be more confident that the current agreement is level 3.

THE ROLE OF INFORMATION

Central to the decision-making model is information about parties' interests and priorities. Lax and Sibenius (1986) specify four areas to examine when assessing another party's interests in organizational negotiations.

- past behavior
- training and professional affiliation
- organizational position and affiliation
- relevant authorities

Of course, assessment of the other party's interests is important to do during negotiation as well. There are a variety of ways of acquiring such information, which may be generally classified as direct and indirect methods.

Direct Methods: Asking Questions and Providing Information

It is a fallacy to believe that negotiators should never provide information to the opponent. Negotiations would go nowhere if parties did not communicate their interests to the other party. Remember: You should negotiate as you would with your fraternal twin. If you don't provide information, neither will the other party. The important question is not *whether* to provide information, but *what* information to reveal.

Direct methods involve posing questions to the other party about his or her interests and preferences. A negotiator who asks the other party about preferences is much more likely to reach integrative agreements than negotiators who do not ask the opponent about priorities (Thompson, 1991). The disappointing news, however, is that left to their own devices, negotiators do not seek information. Only 7 percent of untrained negotiators seek information about the other party's preferences during negotiation (Thompson, 1991).

In addition to seeking information about the other party, negotiators may provide information about their own interests. Negotiators who provide information to the other party about their priorities are more likely to reach integrative agreements than negotiators who do

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not provide this information (Thompson, 1991). Further, there is no evidence to suggest that the "disclosing" negotiator is disadvantaged. The disclosing negotiator does not earn significantly more or less resources than his or her opponent.

Indirect Methods: The Strategy of Multiple Offers

In some cases, negotiators are disappointed and frustrated to find that their attempts to provide and seek information are not effective. This happens most commonly in the face of high distrust and less than amicable relations. Now what? Is all hope lost? Is there anything the negotiator can do? Fortunately, there is. The strategy of **multiple offers** can be effective even with the most uncooperative of negotiators. The strategy involves presenting the other party with at least two (and preferably more) proposals of *equal* value to oneself. The other party is asked to indicate which of the two (or more) proposals he or she prefers. By listening to the opponent's response, the negotiator learns about the other party's preference. Thus, the negotiator plays "detective" by drawing conclusions based upon the negotiator's responses to the multiple offers. The multiple-offer strategy has psychological benefits as well: When people perceive themselves as having more choices (as opposed to only one), they may be more likely to comply. The strategy can reveal valuable information about which issues are important to the other party.

DON'T FORGET ABOUT CLAIMING!

Sometimes, when negotiators learn about integrative agreements and expanding the pie, they walk off into the sunset and forget about the distributive element of negotiation. It is *not* an effective negotiation strategy to solely focus on expanding the pie; the negotiator must simultaneously focus on claiming resources. After all, if a negotiator just focused on expanding the pie, he or she would be no better off, because the other party would claim all the added value.

Sometimes negotiators will regard this advice as callous and state that they "trust" that the other party will want to be "fair" in the negotiations. This is a nice thought but doesn't square with reality. Negotiation is not a game of trust—so why tempt your opponent? Negotiators can successfully build and maintain collaborative, mutually beneficial relationships if they both focus on claiming as well as expanding the pie.

Sins of Omission and Co-mission

Quite often, negotiations contain issues for which negotiators have completely compatible interests. We have discussed the sad case of what happens when *both* negotiators fail to realize this—they frequently end up with a lose-lose settlement (Thompson and Hrebec, 1996). What about the situation in which one party is aware of the compatible issue, but the other is not? We have the makings for a devious strategy: the misrepresentation of common interests (O'Connor and Carnevale, in press).

Consider the following situation: You and another person have been hired to act as a project team in a company that makes children's toys. You and your associate are given a large office to share and arrange your workplace. There are two desks and the only window can be enjoyed from one of the desks. During a conversation with your colleague, it is obvious that he wants the desk with the window view and is ready to make sacrifices on other joint resources to get this—like giving up the close parking space and the storage areas. Unbeknownst to your colleague, you have a terrible fear of heights; the window overlooks a steep precipice outside, and frankly, you would prefer the other desk that is near an attractive tropical plant. You consider not mentioning your true preference, hoping that you can *appear* to make a sacrifice, and so extract more of the other resources. This strategy is known as **passive misrepresentation** because a negotiator does not mention her true preferences and allows the other party to arrive at an erroneous conclusion.

Suddenly, your colleague startles you by asking you point blank which desk you prefer—the one by the windows or the plant. Do you lie about your preferences? If so, this is an act of **active misrepresentation** in that you deliberately mislead your opponent.

The strategic manipulation ploy is used about 28% of the time (O'Connor and Carnevale, in press). We do not advocate strategic misrepresentation of compatible issues as a bargaining ploy. It can backfire; you can be "caught" in a lie and can potentially engender ill will. Our advice is to be wary when expressing your preferences so that you don't become an unwitting victim of a strategic manipulation.

THE NEGOTIATOR'S DILEMMA

It would seem that reaching integrative agreement would be straightforward if negotiators simply revealed their preferences to the other party. Is this wise to do? If you completely reveal your interests to the other party, you may pave the way toward integrative agreement. But you risk giving away all of the bargaining surplus to the other party. In short, the final agreement may be highly integrative (level 3), but it may allocate most of the bargaining surplus to the opponent, rather than to you.

For example, suppose Gene told Nat that he was most concerned about the number of performances, moderately concerned about cast and crew salaries, and much less concerned about lodging and meal expenses. Nat might strategically respond by saying, "That's interesting. I am less concerned about the number of performances than the lodging issue, but salaries are also important to me. So, how about we increase the number of performances, but you pay for all lodging and meals and give us a high salary?" Such an agreement is a level 3 integrative agreement, but Nat receives the lion's share of the resources.

The **negotiator's dilemma** refers to the fact that revealing information about your interests may maximize joint gain but may put you at a strategic disadvantage (Babcock, Thompson, Pillutla, and Murnighan, 1997). This dilemma speaks to the inherent, inevitable tension between the distributive and integrative aspects of negotiation. So, given the tension, what should a negotiator do? As a general rule, it is not detrimental for a negotiator to reveal his or her **priorities** among issues. A simple rank ordering of the issues does not hinder individual gain (Thompson, 1991). In contrast, revealing preferences for specific alternatives on particular issues may in certain instances (i.e., when the other party is experienced) lead to a disadvantage (Thompson, 1990a).

AN APPLICATION

Sam used many of the principles discussed in this chapter to forge an integrative agreement with the software company. Through a thorough analysis of both parties' high-value needs as well as the resources that were relatively inexpensive for each to provide, an integrative agreement was carved out (see Table 4–3).

	Sam	*Software Company*
High-value needs	• Software package ($10,000) • Promotion of business	• Training seminars on software • Advertising (third-party endorsements) • Contacts: industry and academia • More customer loyalty
Low-cost capabilities	• Time investment • Training seminars • Making contacts	• Price of software ($50)

After several weeks of his time, involving research, letter writing, and phone calls, Sam received more than $16,000 of software free of charge and more than $40,000 in advertising for his own business through the company—an unexpected benefit that emerged through an evaluation of both parties' needs. In turn, the company made valuable inroads into both the automotive industry and the academic network through Sam's contacts. By giving Sam the software, the company achieved many valuable goals. First, it induced Sam to become committed to using the company's software, rather than its competitor's. The price of the software to the company is trivial—about $50 worth of diskettes and manuals. By providing Sam with a relatively cheap item, the company saved hundreds of thousands of dollars in sales and training costs, for Sam acts as both a salesperson and a training repre-sentative for the company in the development of his models. Further, with Sam as a representative, the company gains a valuable endorsement for their product from an external source.

WHERE DO INTEGRATIVE AGREEMENTS REALLY COME FROM?

Now that we know how differences among parties pave the way for integrative agreement, we may ask how differences come about. There are two views on how integrative agreements occur, which correspond to the classic "nature versus nurture" debate about human behavior.

Nature View

According to the **nature view**, negotiators' preferences are the "givens" in a negotiation. To reach integrative agreements, negotiators must "discover" the potential that underlies their preferences. The act of negotiation and the search process that it entails do not change negotiators' preferences. The key to the attainment of integrative agreements is the search for and discovery of differences in preferences and risk attitudes. Imagine two negotiators standing atop a field rich with oil. The oil is valuable and represents the integrative potential available to the two negotiators. Like most negotiation situations, the parties are unaware of the full potential in the situation. The question facing the negotiators is how to drill for the oil. Obviously, it is not cost effective for negotiators to place an oil well on every square inch of the land. How do they decide which is the most promising spot?

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Nurture View

According to the **nurture view,** negotiators construct and develop integrative potential through their evolving and changing preferences. According to this view, preferences are not necessarily well-formed, stable, and exogenously determined, but are malleable, unstable, and often unknown.

How do negotiators modify their opponents' perceptions of their own preferences? According to Walton and McKersie (1965), each party to a negotiation attempts to force the other person to reappraise the utility of a given issue. These attempts are based on the principle of uncertainty about outcomes and preferences. In many circumstances, individuals' preferences are unknown to them, and it is only through the process of negotiation that their preferences are defined. Preferences may change not merely as a function of an opponent's deliberate influence attempt, but as a negotiator learns and becomes more familiar with his or her tastes and preferences.

How do our preferences evolve and change? We identify three key processes: mere exposure, thought-induced affect, and reactive devaluation.

- **Mere exposure effect.** The more we are exposed to something—an image, item, or idea, the more we come to like it. The mere exposure effect (Zajonc, 1968) is extremely powerful and occurs below the level of our awareness. Advertisers know about the mere exposure effect. Why do you think that television ads are repeatedly shown to an audience? The more we are exposed to the ad, the more we come to like the product—up to a point.
- **Thought-induced affect.** Merely thinking about something or someone can polarize our feelings, a phenomenon known as thought-induced affect (Tesser, 1978). For example, people who are asked why they like a particular type of cereal will have stronger feelings about the cereal than people who are not asked to think about the cereal. The same is true when thinking about political candidates—or virtually anything else: Thinking about something polarizes our views about it. Further, thinking about the *reasons* for our preferences may change our preferences (Wilson and Dunn, 1986).
- **Reactive devaluation.** The mere act of offering an opponent a concession can lead to reactive devaluation—reduced preference for an option previously considered to be more attractive (see Ross and Stillinger, 1991). For example, in the mid-1980s, students in American universities were very concerned about divestiture from South Africa, and staged many protests. Imagine that you are a student and the university administration has proposed two different divestment packages, A and B, both rather highly complex economic packages. You and the entire student body are asked which of the packages is most preferable. Imagine that your university has offered to put policy A into place. What are your reactions? When policy A is offered by the administration, students protest and demand policy B. When policy B is offered, students protest and demand A. In the absence of a concession, the students are split in their preferences (from Ross and Stillinger, 1991).

  What is going on here? The phenomenon of reactive devaluation is the tendency of an opponent to devalue proposals offered by the other side. Why? Obviously, not on the proposals' intrinsic merits, but rather, as a mere consequence of their having been offered. The phenomenon stems from a basic trust issue: If we negotiate with someone about something we don't know that much about, a simple heuristic is to distrust anything they offer in the way of a concession. This pattern can lead to comic–tragic results, as when two opponents cycle through a never-ending trade of concessions that are offered—refused—reneged, ad infinitum.

All of these examples suggest that preferences in negotiation are not necessarily fixed but may be manipulated, modified, changed, and discovered.

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A Balanced View

Just as human personality and behavior are a function of both nurture and nature, the same holds true for negotiation: Preferences are often stable but at times subject to change, either through direct manipulation or through natural interaction with others. The real task is to understand the conditions and contexts that tend to favor each view.

BENEFITS OF INTEGRATIVE AGREEMENT

Integrative agreements, like Sam's, result in a number of beneficial effects that extend well beyond the immediate parties. The creation of integrative agreement between two parties is like dropping a pebble in a pond: There is a ripple effect. Figure 4–10 illustrates the ever-widening beneficial effects of integrative agreements.

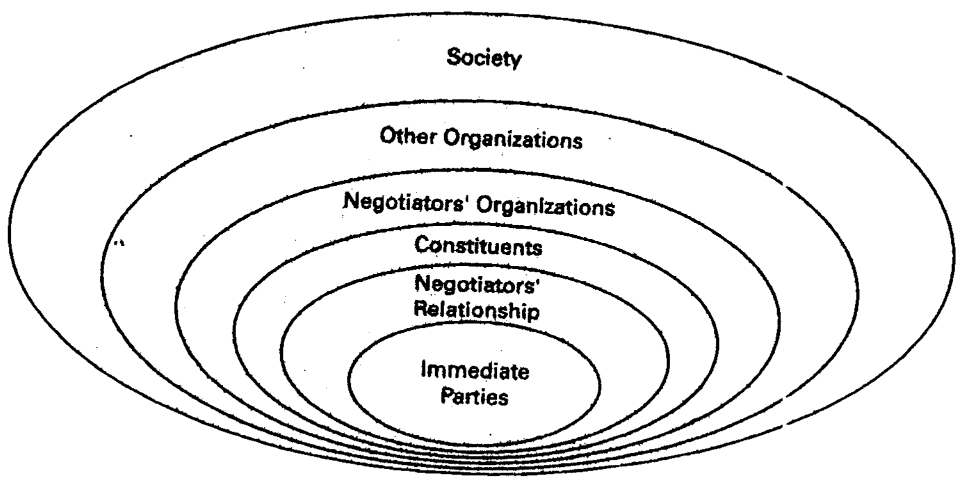
Immediate Parties

Integrative agreements are beneficial for the parties involved. Both Sam and the software company gained thousands of dollars' worth of value through their mutual agreement. Integrative agreements often allow negotiators to avoid impasse, deadlock, and stalemate (Pruitt and Rubin, 1986). For example, if both parties' reservation points are high (i.e., both have attractive alternatives to negotiated agreement) and the bargaining zone is very small but positive, it may be difficult for parties to resolve the conflict unless a way can be found to join their interests. Of course, level 2 and 3 agreements provide even greater rewards for negotiators.

Negotiators' Relationship

Because integrative agreements are mutually rewarding, they tend to strengthen the relationship between parties and pave a path of good relations (Pruitt and Rubin, 1986). Negotiators often view themselves as partners rather than opponents. Sam built a rewarding and prof-

FIGURE 4–10. Benefits of Integrative Agreement



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itable relationship with the software company. Through their joint problem solving, both have avoided costly attorney fees. For this reason, integrative agreements tend to be stable—people are less likely to renege on an agreement (Pruitt and Rubin, 1986).

Constituents избиратели., клиентура

Negotiators' constituencies also profit from integrative agreements. For example, Sam's contacts in industry and academia have benefited from his relationship with the software company.

Negotiators' Organizations

Firms will usually reap benefits as a whole if their departments reconcile their differences effectively. Both Sam's consulting business and the software company profit as a result of their departments' integrative agreement.

Other Organizations

The beneficial effects of integrative agreements extend to organizations outside the immediate negotiations. For example, Sam's negotiations with the software company led several automotive companies and academic departments to purchase software from the company (an organizational benefit) as well as hardware from other companies (an extraorganizational benefit).

Society

Disputes are costly to the parties, their constituencies, organizations, society, and families. For example, a Greyhound strike is harmful to the broader community because of the inconvenience caused to travelers. Service providers, such as travel agents, who are not on strike but in related industries, often suffer as much as customers and clients. On a broader scale, Sam's integrative agreement with the software company will ultimately improve the way automotive engines are developed for consumers in years to come.

DO INTEGRATIVE AGREEMENTS REALLY EXIST?

Whereas researchers and practitioners agree that integrative potential exists in just about every negotiation situation, negotiators are often skeptical, especially when in the throes of negotiation: "Your research examples are cute, but they don't pertain to my real life negotiations in buying my house or car, or negotiating my job—those are really fixed-sum situations!" Most people don't immediately see the opportunity for integrative agreement, and therefore believe the situation is fixed-sum. Hindsight in negotiation is not 20–20. That is, even when we look back on our negotiations, we remain convinced that they were fixed-sum.

Most negotiation situations involve more than one issue. The probability that negotiators will have identical preferences across the set of issues to be negotiated is very small. As we have seen, integrative potential exists when negotiators have different strengths of preference among negotiation issues, even if their preferences within issues are in opposition. Differences in preferences, beliefs, and capacities may be profitably traded off to create joint gain.

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The more interesting question concerns how much potential exists and how it may be identified by negotiators. A widespread fallacy about negotiation is the belief that people fail to reach integrative agreements because they take too much time and effort. Lack of time and effort do not explain ineffective negotiation. The biggest detriment to the attainment of integrative agreements are the faulty assumptions we make about our opponent and the negotiation situation. We explore these faulty assumptions in detail in chapters 6, 7, and 8.

CONCLUSION

Integrative agreements are forged from information sharing, decision making, and creativity. We focused on the substantive basis for achieving joint gains rather than on personality and simple tricks. People's preferences and problem-solving strategies are the key skills a negotiator needs to have to be effective. Some people believe that integrative agreement requires parties to be concerned with one another and to seek to further each other's interests. To be sure, negotiators may have warm feelings and express genuine concern for the other party, but these are not necessary ingredients for integrative agreement. Furthermore, they are no guarantee for the attainment of integrative agreement (not to mention unrealistic expectations in many business negotiations). As we have seen in this chapter, you need not have any altruistic or cooperative orientation toward the other party other than the desire to secure an agreement with him or her so that your own needs can be met. It certainly is true that many negotiators, like Sam, desire to foster good relations with the other party. These concerns do not necessarily reflect basic altruism, but rather, rational thought. We now turn to an analysis of normative models of negotiation, which are based on axioms of rationality. Rational models provide tools for analyzing negotiation situations and predicting the best outcomes of negotiations.

TAKE-AWAYS

- In most negotiation situations, parties' interests are neither completely opposed nor compatible, but rather, they have *mixed motives*—an incentive to reach a (profitable) agreement with the other party and a desire to maximize their own gains.
- The most effective way to reach an integrative agreement is to assess the other party's interests and capitalize on *differences* of interest, time preference, and risk attitudes.
- Asking direct questions, providing information, making multiple offers, and exploring postsettlement settlements should be part of every negotiator's repertoire.
- Integrative bargaining is intimately related to distributive negotiation: Do not expand the pie without thinking of your own interests. This is what it means to be *strategically creative*.

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