



Business Development Fundamentals

Negotiation and Influence Strategies:

“Softer Aspects of Negotiations & Valuations”

by Anjan Aralihalli



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Know Yourself...

We all have Individual Negotiating Styles

Dominant Behaviors		<u>Cooperativeness</u> <u>(Other Side's Interests)</u>		
		High	Moderate	Low
<u>Assertiveness</u> <u>(Your Interests)</u>	High	Collaborating Goal: "To find a Win - Win"		Competing Goal : "To Win"
	Moderate		Compromising Goal: "Find a middle ground"	
	Low	Accommodating Goal: "To Yield"		Avoiding Goal : "To Delay"

Based on the Thomas-Kilmann Conflict Mode Instrument (available online).

This graph makes the TKI useful to show the tension between value claiming & value creating

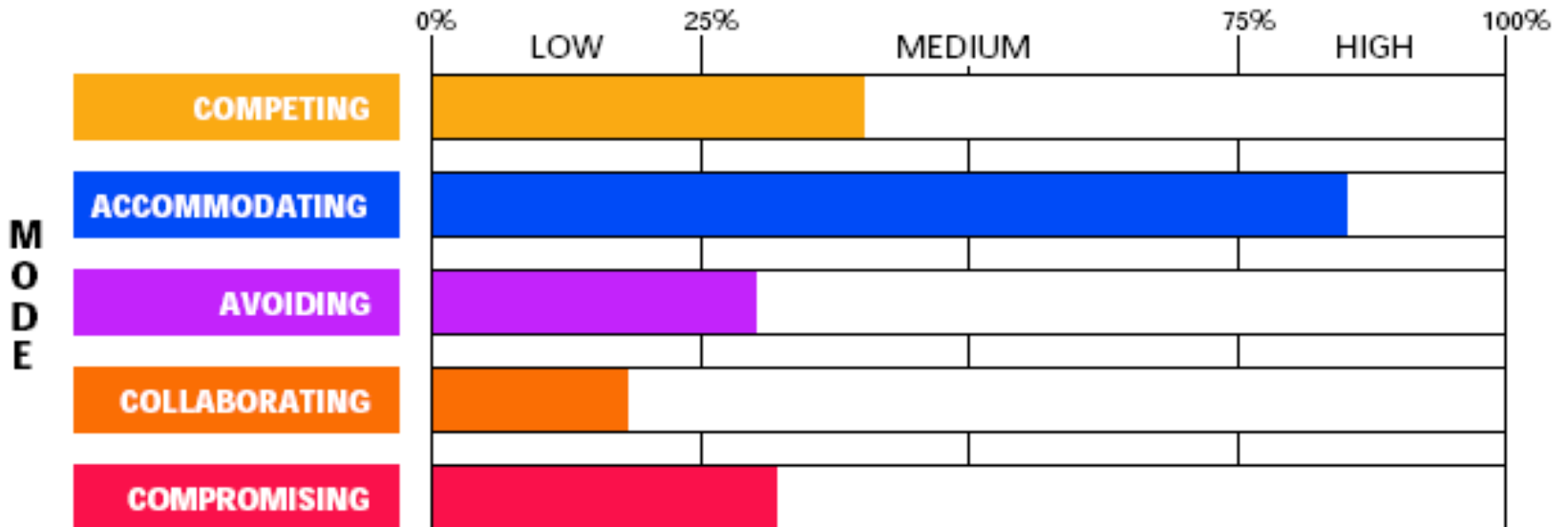


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Negotiating Styles

Each of us is a blend of styles – we're not monolithic!

PERCENTILE SCORE



Based on the Thomas-Kilmann Conflict Mode Instrument (available online).



Negotiating Styles

- Our dominate Negotiating Style is an inherent personal characteristic
- Unlikely to change much - Can drift with experience / age / situation
- Need to be mindful of how our Style impacts our negotiations
 - With those of other Styles
 - With those of other Status
 - With those of other Cultures
- While we can not change our dominate Style, we can develop skills to:
 - Recognize the Styles of others
 - Be cognizant of how our Style harmonizes or conflicts with the Style of others, and thus impacts our negotiations
 - Be flexible, and moderate or accentuate our Style for optimal results



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What's your style?

Competitor?

Compromiser?

Collaborator?



Accommodator?

Avoider?



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What's your style?

Competitor?

Compromiser?

Collaborator?



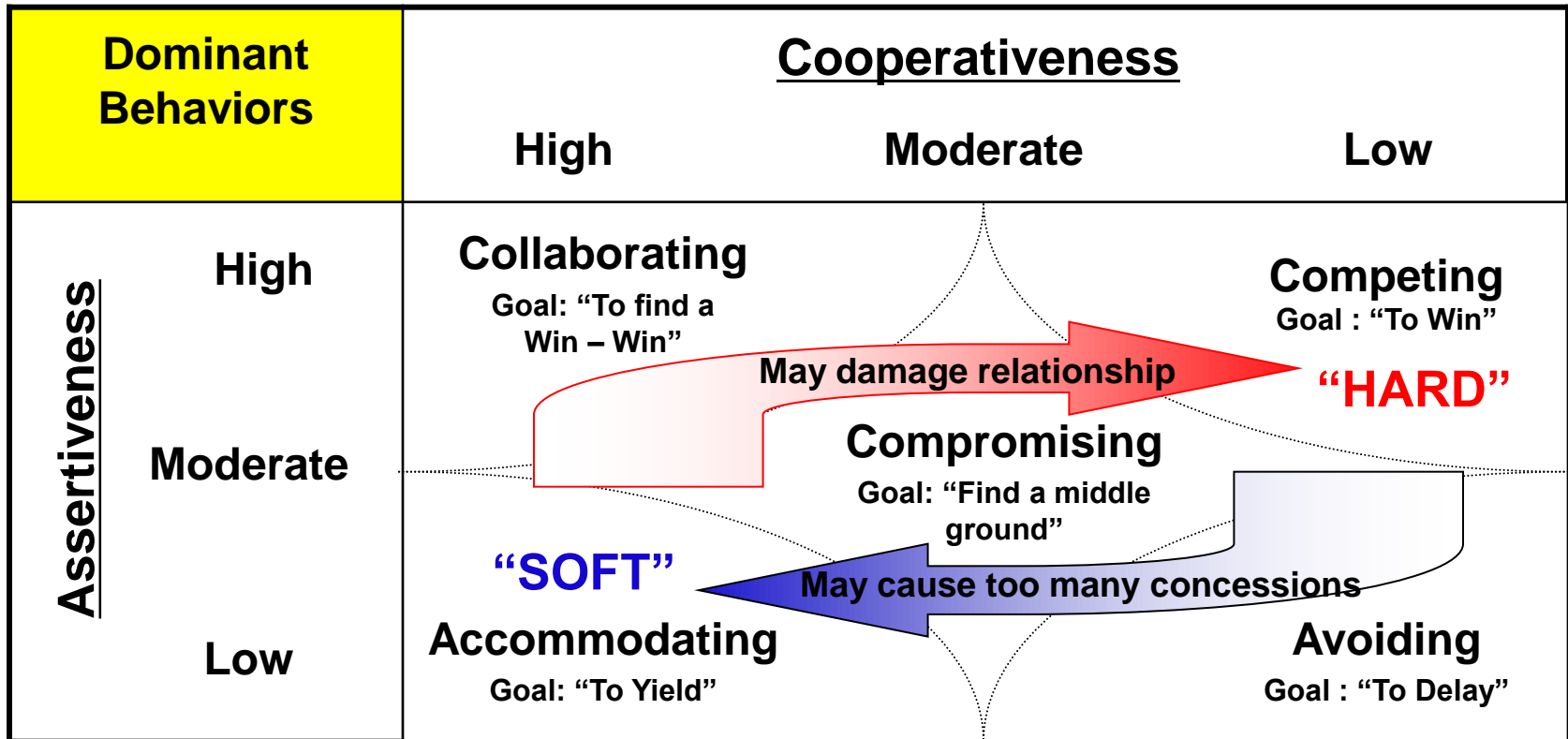
Accommodator?

Avoider?



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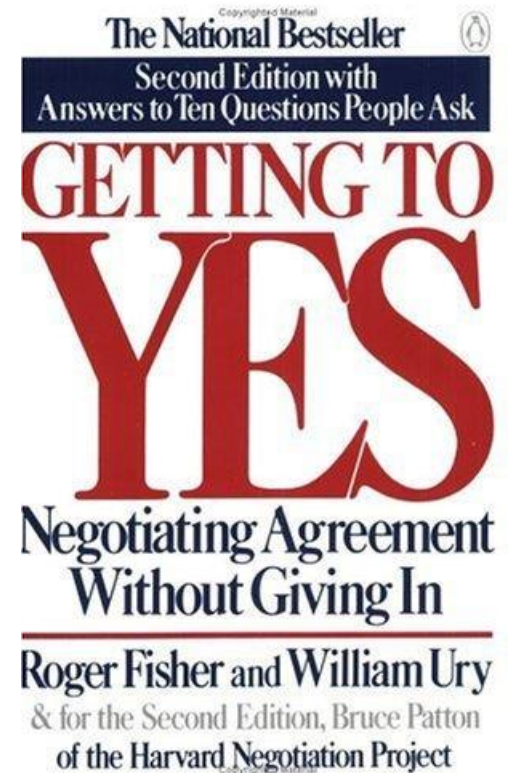
Impact of Negotiating Styles



Even as we encourage our students to negotiate in principled and problem-solving ways, a willingness to claim as well as create value is a must for any effective negotiator (Mnookin, Peppet, and Tulumello 2000)

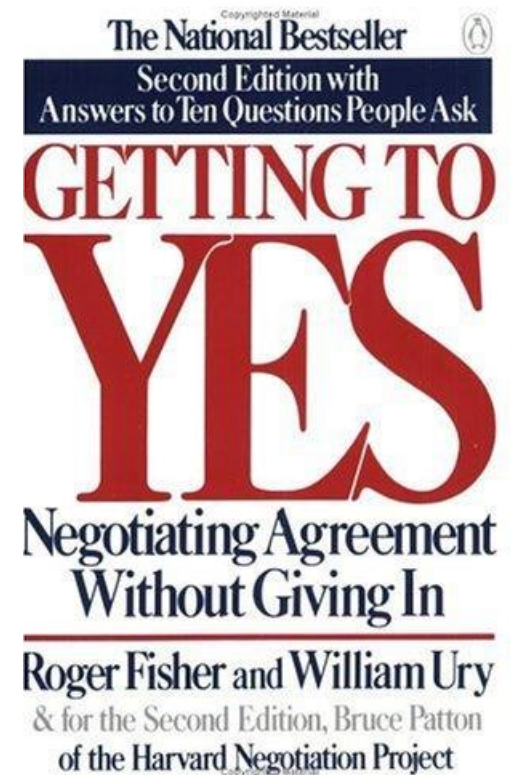
Beyond Style ... Negotiation Philosophies? “Positional Negotiations”

- Positions = offers & counter offers (bids)
- Arguing positions locks parties into thinking that may result in less than optimal agreements
- Arguing positions can take longer
 - parties may try to several counter-offers before they reach an agreement that is satisfactory
- Arguing positions may hurt the relationship
- Positional bargaining is even more difficult when there are > 2 parties



Beyond Style ... Negotiation Philosophies? "Principled Negotiations"

- Use principled negotiations
 - View participants as problem solvers and not as friends or adversaries
 - View the goal is achieving a wise outcome efficiently and amicably, not just reaching an agreement
- "Separate the people from the problem"
 - "Be soft on the people and hard on the problem"
- "Focus on interests not positions"
- "Invent options for mutual gain"
- Use objective criteria





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Beyond style, all negotiators should.....

- Have the willingness to prepare
- Have high expectations and self confidence
There is solid research evidence demonstrating that people who expect more get more
- Have commitment to integrity and courtesy
- Have active questioning and listening skills
Make judicious use of questions, body language, interjections, supportive statements, and clarifying & summarizing statements to elicit information

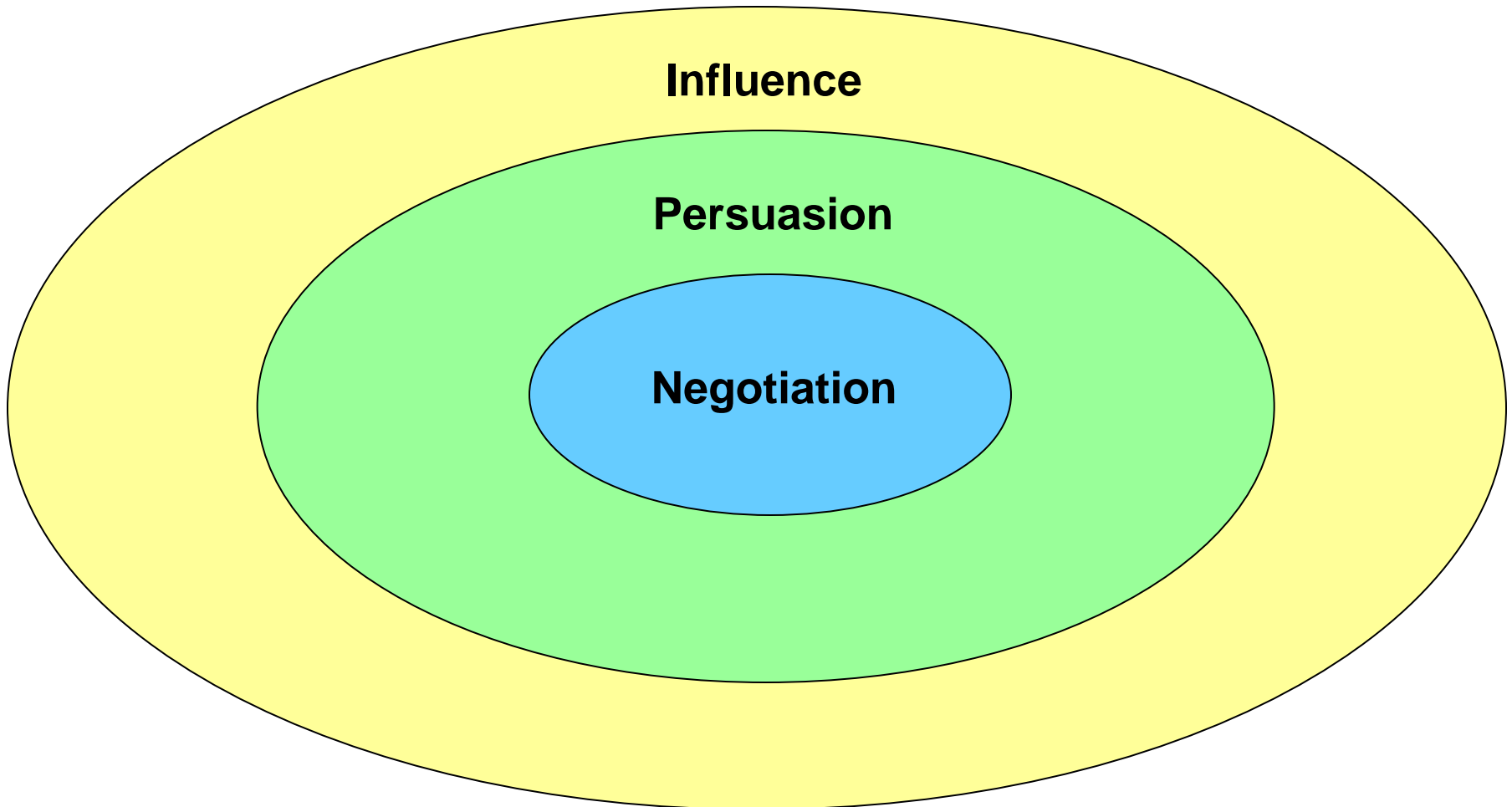


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Video



Negotiator's Toolbox





Outline

1. How People Think
2. Irrational Decision-Making?
3. Common Negotiation Biases
4. Persuasion
5. Non-Verbal Communication



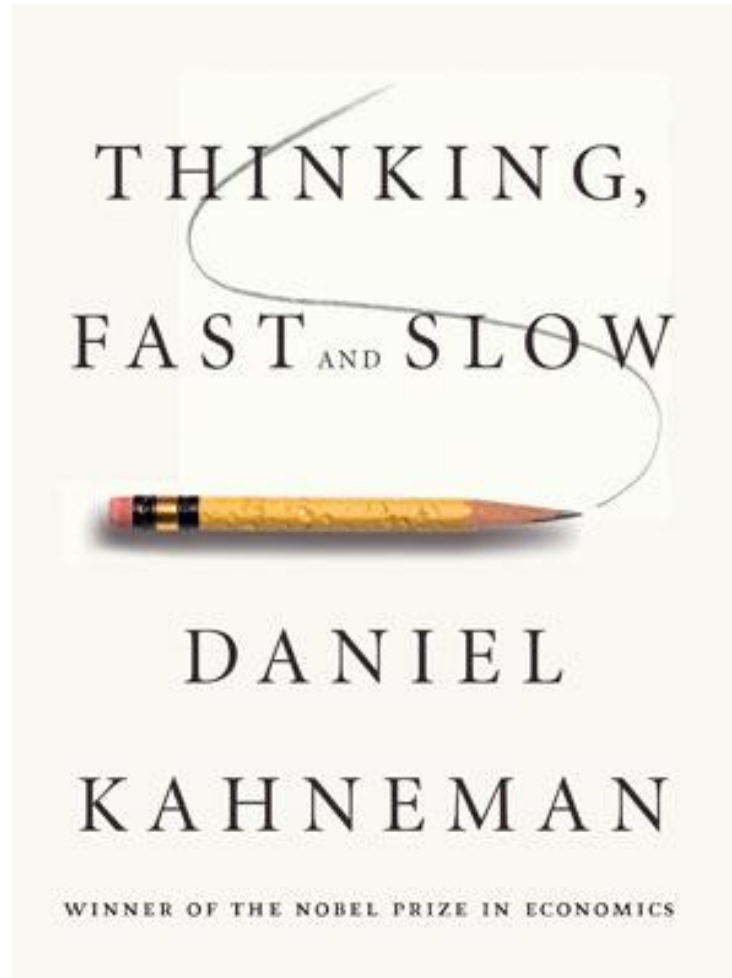
How People Think

- S1 Vs. S2
- Illusions & Intuition



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S1 Vs. S2 Thinking





Mind can be easily fooled – illusions.

Example



What about trusting our Intuition?

6 Illusions On How Our Intuition Deceives Us:

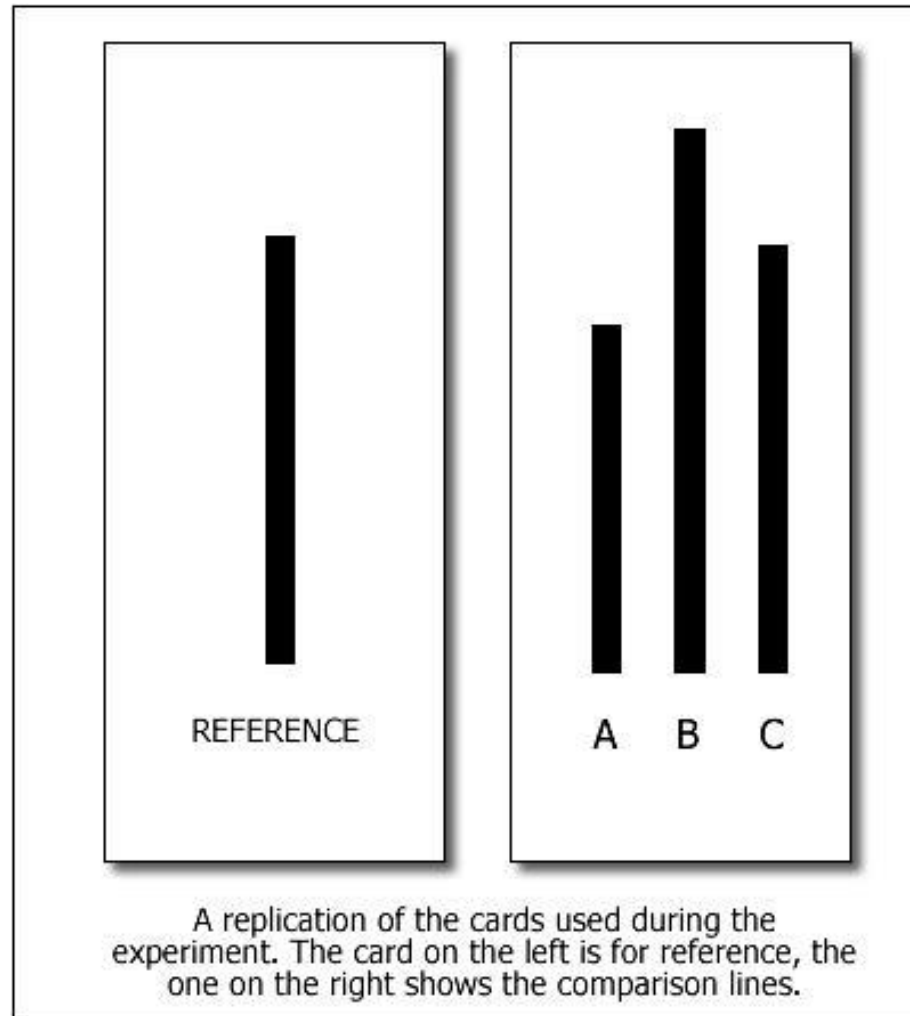
- 1) Illusion of Attention
 - 2) Illusion of Memory
 - 3) Illusion of Confidence
 - 4) Illusion of Knowledge
 - 5) Illusion of Cause
 - 6) Illusion of Potential
- Lots of debate.
 - Flavor of ice cream versus a mutual fund.
 - **Key to successful decision-making is knowing when to trust your intuition and when to be wary of it.**



Irrational Decision-Making

- Asch Experiments
- Economist Example
- Inattentional Blindness
- Are Humans Rational?

Conformity In Groups





Conformity In Groups

- Solomon Asch Experiments (1950s)
- Showed how perfectly normal human beings can be pressured into unusual behavior by authority figures, or by the consensus of opinion around them.
 - Done individually – easy task, all correct
 - When group makes error, sways your choice
 - Why? Info conveyed by people's answers and desire not to face disapproval of group
 - Less conformity when people are asked to give anonymous answers.
- Subsequent MRI studies – peer pressure can alter how people see the lines (people do not consciously deliberate).

REFERENCE:

Nudge, Thaler & Sunstein, Yale U. Press, 2008 (Pages 56-59)

The Science of Subtle Signals, Mark Buchanan, Strategy & Business, Issue 48, Autumn 2007, Booz Allen Hamilton



Conformity In Groups

- The principle of independent judgments has immediate applications for the conduct of meetings – before an issue is discussed, all members of the committee should be asked to write a very brief summary of their position.
- This procedure makes good use of the value of the diversity of knowledge and opinion in the group.
- The standard practice of open discussion gives too much weight to the opinions of those who speak early and assertively, causing others to line up behind them.

REFERENCE:

Nudge, Thaler & Sunstein, Yale U. Press, 2008 (Pages 56-59)

The Science of Subtle Signals, Mark Buchanan, Strategy & Business, Issue 48, Autumn 2007, Booz Allen Hamilton



The Economist Example (Video) Framing & Contrast Principle



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Framing & Contrast (WSJ Ad)

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Inattentional Blindness (Video)



Inattentional Blindness

- These videos illustrate two important facts:
- We can be blind to the obvious
- We are also blind to our blindness



Are Humans Rational?

- Traditional Economist – taught that each of us thinks and chooses unflinching well (rational).
 - Efficient market hypothesis questioned after stock market bubble in 1990s/early 2000's.
- Research has raised serious questions about the rationality of many judgments and decisions that people make.
- So in other words.....



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Traditional Economist's View of Humans



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Behavioral Economist's View of Humans



Common Negotiation Biases

- Anchoring
- Overconfidence Bias/Competitor Neglect
- Risk & Loss Aversion/Risk Seeking
- Fairness (Ultimatum Game)

Anchoring

- **Process of subconsciously influencing someone's thinking by dropping a number as a reference point.**
- 2 groups of students asked percentage of countries in the UN were in Africa. In each group, roulette wheel spun.
- 1st group, wheel landed on 10 & participants asked if they believed percentage was higher or lower than 10%. Most thought it was higher.
- 2nd group's wheel landed on 65 & same question was asked. Most thought lower.
- A discussion ensued and both groups were asked to make estimates....



Anchoring

- ... Mean estimates:
- 1st group (wheel landed on 10) was 24%
- 2nd group (wheel landed on 65) was 45%.
- Estimates strongly anchored by the roulette wheel's results, even though students all witnessed how completely arbitrary these starting points were.
- *192 member countries in the UN*
- *~50 countries in Africa (maximum is 26%)*



Using the Power of Anchoring

Anchoring (Playing Offense)

1. Set high goals prior to negotiation; those with high & measurable goals consistently outperform those that set more modest goals.
2. Open with the highest (lowest) number for which there is a supporting standard or argument enabling you to make a presentable case.

Anchoring (Playing Defense)

1. Use Inside “de-biasing” strategy – negotiator should consider the opposite perspective before deciding whether or not to accept an offer.
2. Use Outside “de-biasing strategy – effectively ignore the details of the case at hand & conduct an analysis of a number of analogous cases.

Remember to consider how much information the other party has about what is being negotiated (asymmetrical/symmetrical) & how experienced they are.



Overconfidence Bias & Competitor Neglect Illusion of Confidence & Knowledge

- 63-70% of people rate themselves as above average in intelligence
- ~90% of students rated themselves better than the average driver
- Investor's Assistance Program – 70% of inventions given failure grade; 50% of inventors persisted in spite of objective advice. Only 5/411 projects given failure grade were commercialized and none successful.
- Key factor in outcome of business initiative is competitor's behavior but executives tend to focus on own company's capabilities & plans.
- They often neglect the potential abilities and actions of rivals – results is an underestimation of the potential for negative events.

REFERENCE:

Cooper, Woo & Dunkelberg, *Entrepreneurs Perceived Chances for Success, Journal of Business Venturing* 3(2), 737-770 (1988) – Courtesy Guhan Subramanian (HBS)
The Invisible Gorilla, Chabris & Simons, Crown Publishers, 2010, Page 93
Thinking Fast And Slow, Daniel Kahneman (Farrar, Straus & Giroux/New York, 2011)



Risk Aversion

- Investor is a risk-seeker when faced with the prospect of losses, but is risk-averse when faced with the prospects of enjoying gains.
- Kahneman and Tversky, 1979 offered subjects following options to choose from:
 - a) 80% of winning \$4,000 with 20% of winning nothing
 - b) 100% of receiving \$3,000.
- Subjects chose (?).



Loss Aversion/Risk Seeking

- Then, the following options were given:
 - a) 80% of losing \$ 4,000 & 20% of losing nothing
 - b) 100% of losing \$3,000.
- Subjects predominantly chose (?).
- When faced with the prospect of a loss, individuals become risk-seeking – take the 20% chance!



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The Bogeyman: Risk Aversion in the PGA

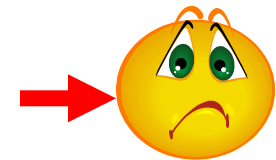
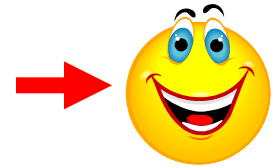


- Professors Schweitzer & Pope (Wharton) analyzed 1.6MM putts from ~200 pros.
- Birdie putts were made about 3% less often than otherwise identical par putts.
- Tendency existed regardless of skill, round or hole number, putt length, etc.
- Pros certainly do not make a conscious decision to slack off on birdie putts but their intense aversion to a bogey apparently contributes to extra concentration on the task at hand.
- Reinforces the psychological preference to avoid a perceived penalty (losing a stroke relative to par) rather than going for a perceived gain (gaining a stroke).

REFERENCE: <http://www.nytimes.com/2009/06/16/sports/golf/16study.html>

Loss Aversion/Risk Seeking Prospect Theory (Kahneman & Tversky)

- Scenario 1: Find a \$20 bill
- Scenario 2: Find \$10 bill; next day find another \$10 bill
- Scenario 1: Lose \$20
- Scenario 2: Lose \$10 bill; next day lose another \$10 bill
- We seem to prefer gaining money in installments but losing money in one lump sum. Impact of a loss is 2 to 2.5 X that of a gain.
- Give good news in chunks and bad news all at once!
- **Frame choices in terms of losses rather than gains.**





Risk Assessment of CEO VS BU Heads

- Top managers of 25 divisions of a large company were asked which with equal probabilities, could lose a large amount of capital they controlled or earn double that amount – none of the executives was willing to take such a dangerous gamble.
- When CEO was asked same question – “I would like all of them to accept their risks.”
- It was natural for the CEO to adopt a broad frame that encompassed all 25 bets.
- If all 25 bet \$1MM (\$12.5MM lost but \$25MM gained).



Fairness (Ultimatum Game)

- Allocator has been given \$10 to share with Recipient whom he does not know.
- If R refuses A's offer, neither player will receive anything.
- Rational acceptable offer would be \$0.01 (Spock)
 - A penny is better than nothing?
- Experiments found mean acceptable offer varied \$2 - \$2.59.

Fairness (Ultimatum Game)

- Experiment repeated in many countries & cultures & using higher amounts.
- Recipient will actually punish any unfair division.
- Conclusion: Notions of fairness can play a significant role in determining the outcomes of negotiations.



Many Decision-Making Biases Get an Outsider's Perspective

- **Decision-making and behavioral biases**

- Many of these biases are studied for how they affect belief formation and business decisions and scientific research.
- [Bandwagon effect](#) — the tendency to do (or believe) things because many other people do (or believe) the same. Related to [groupthink](#), [herd behaviour](#), and [manias](#).
- [Base rate fallacy](#)
- [Bias blind spot](#) — the tendency not to compensate for one's own cognitive biases.
- [Choice-supportive bias](#) — the tendency to remember one's choices as better than they actually were.
- [Confirmation bias](#) — the tendency to search for or interpret information in a way that confirms one's preconceptions.
- [Congruence bias](#) — the tendency to test hypotheses exclusively through direct testing, in contrast to tests of possible alternative hypotheses.
- [Contrast effect](#) — the enhancement or diminishment of a weight or other measurement when compared with recently observed contrasting object.
- [Déformation professionnelle](#) — the tendency to look at things according to the conventions of one's own profession, forgetting any broader point of view.
- [Endowment effect](#) — "the fact that people often demand much more to give up an object than they would be willing to pay to acquire it".[1]
- [Extreme aversion](#) — the tendency to avoid extremes, being more likely to choose an option if it is the intermediate choice.
- [Focusing effect](#) — prediction bias occurring when people place too much importance on one aspect of an event; causes error in accurately predicting the utility of a future outcome.
- [Framing](#) — by using a too narrow approach or description of the situation or issue.
- [Hyperbolic discounting](#) — the tendency for people to have a stronger preference for more immediate payoffs relative to later payoffs, the closer to the present both payoffs are.
- [Illusion of control](#) — the tendency for human beings to believe they can control or at least influence outcomes that they clearly cannot.
- [Impact bias](#) — the tendency for people to overestimate the length or the intensity of the impact of future feeling states.
- [Information bias](#) — the tendency to seek information even when it cannot affect action.
- [Irrational escalation](#) — the tendency to make irrational decisions based upon rational decisions in the past or to justify actions already taken.
- [Loss aversion](#) — "the disutility of giving up an object is greater than the utility associated with acquiring it".[2] (see also [sunk cost effects](#) and [Endowment effect](#)).
- [Mere exposure effect](#) — the tendency for people to express undue liking for things merely because they are familiar with them.
- [Need for closure](#) — the need to reach a verdict in important matters; to have an answer and to escape the feeling of doubt and uncertainty. The personal context (time or social pressure) might increase this bias.[3]
- [Neglect of probability](#) — the tendency to completely disregard probability when making a decision under uncertainty.
- [Omission bias](#) — The tendency to judge harmful actions as worse, or less moral, than equally harmful omissions (inactions).
- [Outcome bias](#) — the tendency to judge a decision by its eventual outcome instead of based on the quality of the decision at the time it was made.
- [Planning fallacy](#) — the tendency to underestimate task-completion times.
- [Post-purchase rationalization](#) — the tendency to persuade oneself through rational argument that a purchase was a good value.
- [Pseudocertainty effect](#) — the tendency to make risk-averse choices if the expected outcome is positive, but make risk-seeking choices to avoid negative outcomes.
- [Reactance](#) - the urge to do the opposite of what someone wants you to do out of a need to resist a perceived attempt to constrain your freedom of choice.
- [Selective perception](#) — the tendency for expectations to affect perception.
- [Status quo bias](#) — the tendency for people to like things to stay relatively the same (see also [Loss aversion](#) and [Endowment effect](#)).[4]
- [Unit bias](#) — the tendency to want to finish a given unit of a task or an item with strong effects on the consumption of food in particular
- [Von Restorff effect](#) — the tendency for an item that "stands out like a sore thumb" to be more likely to be remembered than other items.
- [Zero-risk bias](#) — preference for reducing a small risk to zero over a greater reduction in a larger risk.



Persuasion

- Nudges
- Choice Architecture
- Amsterdam Airport
- Menu or Food Placement
- Defaults – Organ Donations
- Persuasion Tools



What is a “Nudge”?

- R. Thaler (U of Chicago) & C. Sunstein (Harvard – on leave)
- “Everything matters” – small and apparently insignificant details can have major impacts on people’s behavior.
- Choice Architect: has the responsibility for organizing the context in which people make decisions.
- Nudge: any aspect of choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives.
 - Intervention must be easy and not mandated (e.g., fruit at eye level vs. banning junkfood)



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Amsterdam (Schipol) Airport



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Amsterdam (Schipol) Airport



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La Cage Aux Sports Restaurant (Montreal, Canada)



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Choice Architecture Health Eating



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*Organ Donations Example (Video)
Status Quo Bias/Default Option*



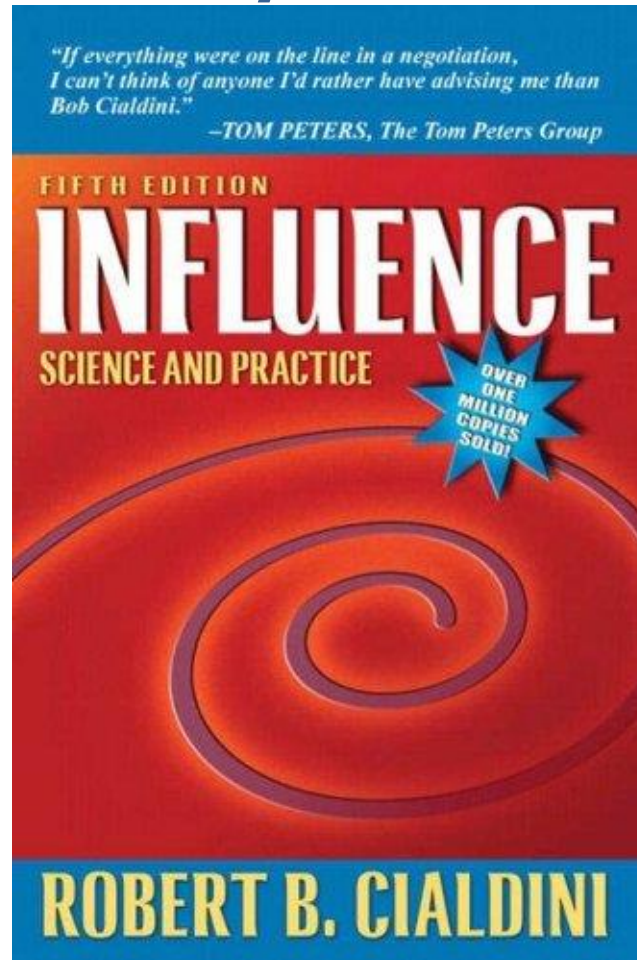
Nudges Review

- Humans are imperfect!
- Status quo bias (keep status quo or default – e.g., organ donations)
- Nudges can improve decision-making without restricting choices.
- Nudges are one example of influencing or persuading.



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Six Principles of Influence





Influence: Six Major Principles

1. Reciprocity – You, then me, then you, then me....
 - Be the first to give service, information, concessions during negotiation.
2. Liking – Making friends to influence people.
 - Uncover similarities, areas for genuine compliments & cooperation.
3. Consensus – People follow the lead of similar others
 - Show others' responses, past successes, testimonials.
4. Consistency – People fulfill written, public, voluntary commitments. Petitions are a good example.
5. Authority – People defer to experts who provide shortcuts to decisions requiring specialized information.
6. Scarcity – People value what is scarce
 - Emphasize genuine scarcity, unique features, exclusive information



Authority

“Outside Experts/KOLs/BoD/SAB”

- Blind Obedience
 - Airline Captains, Doctors & Nurses
- Best authority has both knowledge (expertise and background) & trustworthiness.
- Effective use of authority is often accompanied by:
 - independent justifications & explanations
- Candidate for Governor video
 - Pleads case using authority



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Candidate for Governor's Televised Speech (Video)



Non-Verbal Communication

- Facial Expressions & Body Language
- “Honest Signals”
- Communication Medium
- Deception

*“The most important thing in communication
is hearing what isn’t said.”*

- Peter F. Drucker



Facial Expression/Body Language Example

- Alex Rodriguez interview with Katie Couric in 2007 where denied steroid use.
- Feb 2009, Rodriguez admitted to steroid use. Interview was heavily analyzed.
- Several signals that suggest Rodriguez may have been hiding something/lying.
- Not a perfect science.



Non-Verbal Communication Significance

- Human language may be as little as 50,000 years old.
 - Prior, we still had ability to hunt, move and survive as teams.
- What is percentage of communication expressed non-verbally?
 - Plenty of debate on subject.
 - *“More than you think but less than what you’ve heard.”*
- Students responded very positively to teachers:
 - Eye contact, affirmative head nods, leaning forward & smiling
- Dr. John Gottman can predict with 90% accuracy whether a couple will get divorced based on (among other variables) body language and communication style during a 15 min conversation.

REFERENCE:

The Science of Subtle Signals, Mark Buchanan, Strategy & Business, Issue 48, Autumn 2007, Booz Allen Hamilton
Blink, Malcolm Gladwell, Back Bay Books, Little, Brown & Company, 2005, Page 20-33



Communication Medium

How to Negotiate When You're Far Apart (Literally)

- Email, Phone Call or Take a Flight?
- Globalization offers many new opportunities but time & higher costs of travel force more negotiations to go “on-line”.
- Choice of communication medium affects:
 - Quality of relationship, amount of information shared & efficiency of negotiated agreement.
- Telephone and written negotiations are more likely to result in impasse & less joint gains than negotiations conducted FTF.
- Cooperation/rapport decreases as richness of media decreases.

REFERENCE:

How to Negotiate When You're Far Apart, Swaab & Galinsky, Negotiation Newsletter, February 2007

Paese, Schreiber & Taylor, Group Decision & Negotiation 12: 537-566, 2003



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“Road Rage” Video Clip
Importance of FTF!



Deception During Negotiation

- Why is it common?
 - Hope of improving own short-term outcomes at expense of counterpart
 - Little choice but to rely on data & claims by other party.
 - Studies have shown most people lie at least once during a 10 min conversation
 - One study showed that people conversing by email told 5X as many lies as people speaking FTF. Emailed lies typically more self-serving.
 - People in general want to be honest but are also tempted to benefit from dishonesty.
 - As long as we cheat only a little bit, we can benefit from cheating and still view ourselves as marvelous human beings.
 - Dishonesty/cheating does not vary much between countries.
 - Cheating can be infectious



Deception During Negotiation

- Don't be afraid to be honest!
 - Honest disclosure elicits cooperation - causes other side to trust discloser.
 - Trusting atmosphere frees negotiator from having to guard against competitive tactics.
 - Environment allows the negotiator to make less defensive/ demanding offers that, in turn, lead to faster & more efficient resolution.



Discouraging Deception

1. Assure your counterpart they will meet their goals.
2. Convince your counterpart that they are making progress.
3. Point out how your goals & your counterpart's are linked.
4. Suggest that your counterpart has limited alternatives to the current deal.
5. Imply that you have strong outside alternatives .
6. Point out shared social identities (age, job history, marital status, etc.)
7. Encourage your counterpart to identify with an ethical organization such as his/her trade group.
8. Note that your connections to your counterpart's social network.
9. Suggest long-term business opportunities you might offer.
10. Remind your counterpart of the legal implications of unethical behavior.
11. Mention the prospect of future personal or social support.
12. Propose becoming a gateway to valued social or business networks.

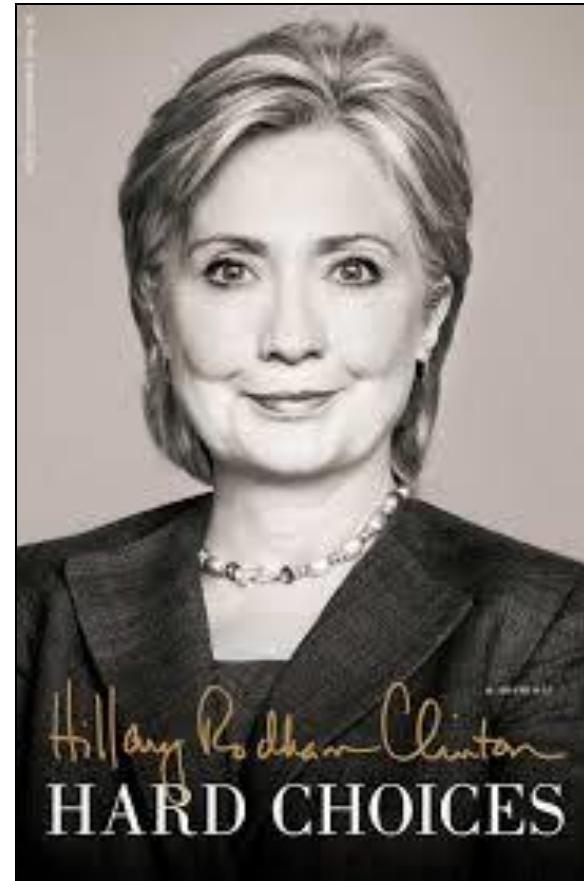
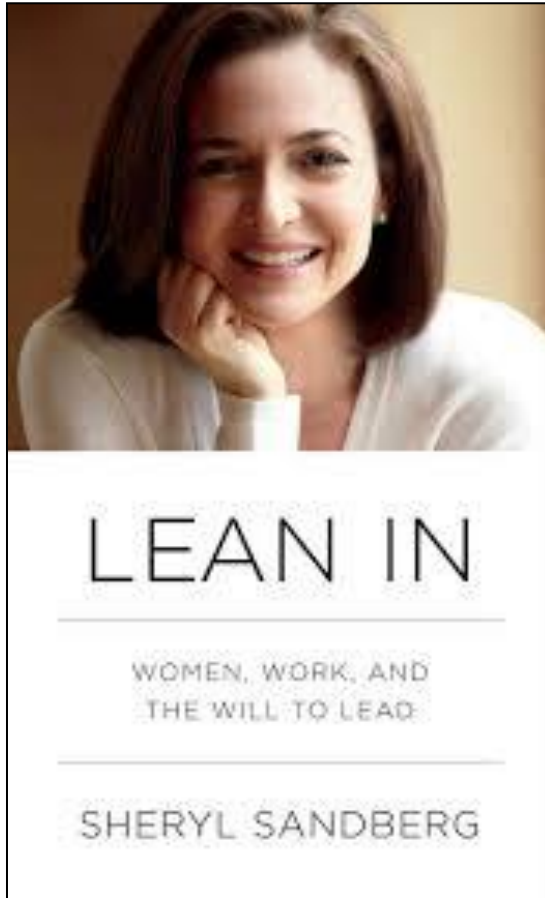
REFERENCE:

Negotiation Briefings, Volume 17, Number 6, June 2014 (Harvard Law School) from Neutralizing Unethical Negotiating Tactics: An Empirical Investigation of Approach Selection & Effectiveness" by Fleck, Volkema, Pereira, Levy & Vaccari in Negotiation Journal (January 2014)



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A Word About Women in Negotiations





Women in Negotiations (Continued)

- Average college-educated woman earns \$713,000 less over the course of her working life than her male counterpart.
- Women feel there is a “Social Cost to Negotiation” – feel they will be perceived as “pushy” or “demanding” vs. a male counterpart demanding the same thing.
- Women negotiate much better on behalf of others than themselves, often exceeding men – they feel they will not be penalized for negotiating forcefully for someone else.
- Outgoing, well-connected, successful venture capitalist
 - Howard was judged pleasant to work with
 - Heidi was judged to be selfish and an unappealing colleague
- **Think I, Talk We** – Women should try to link aggressive demands to the needs of others, such as the organization’s. Requests made on others’ behalf are likely to be better received.

“I know that the company would not want a subordinate to be paid more than a supervisor. I’m sure you agree that we should correct this.”

- **Use Objective Measures** – When making requests, women should reference relevant standards that would be difficult for the other side to ignore.



Women in Negotiations (Continued)

- Women receive psychological lift from feeling powerful that motivates them to negotiate more forcefully for themselves in distributive negotiations (single-issue)
- Women primed to feel powerful (“High Power” condition) made much more aggressive first offers & negotiated better outcomes for themselves than women in control condition. Men reached similar outcomes whether or not they were primed.
- Focus on skills: can gain confidence & overcome stereotypes by viewing negotiation as a skill that can be improved with practice as opposed to a stable personality trait.



A Word About Cross-Culture Negotiations

- Better understanding of cultural differences can improve our ability to understand & work more effectively with counterparts from other cultures.
- Cultural differences often spring from our different histories including population density and type of economy.
- Researchers recently categorized world's cultures into 3 prototypes:
 - Dignity, Face, Honor
- Dignity Cultures
 - Developed in societies built on agriculture with low population density
 - Includes US, Canada & Northern Europe
 - Tend to prize independence & free will rather than a reliance on others
 - Strive to manage conflict rationally & directly while avoiding strong emotional reactions
 - Because typically supported by strong markets & effective system of law, more trust
 - Prefer a collaborative approach to negotiation; explore mutual interests & priorities via Q&A

REFERENCE:

Negotiation Briefings, Volume 17, Number 6, June 2014 (Harvard Law School) from research published by Aslani, Ramirez-Marin, Semnani-Azad, Brett & Tinsley in Handbook of Research in Negotiation (Edward Elgar, 2013)



Cross-Culture Negotiations (Continued)

- Face Cultures
 - Found primarily in East Asian societies (China, Japan)
 - Sprang up in agricultural regions with rapidly growing populations
 - Reputation for social responsibility & great respect for elders and traditions
 - Cultural norms encourage people to save face & preserve harmony by avoiding direct confrontation, suppressing negative emotions & deferring to authority
 - Lack of trust leads to an indirect approach to explore other side's interests
 - May achieve more by exchanging offers & backing them up vs. directly trading info about priorities & preferences

- Honor Cultures
 - Sprang up in regions with herding economies & low population density
 - Includes Middle East, North Africa, Latin America & parts of Southern Europe
 - Herds were vulnerable to poachers thus traits promoting theft deterrence became prevalent
 - Strong defense of oneself & one's family, reliance on code of honor & close family ties
 - View insults & other conflicts as direct challenges to their status & can respond boldly
 - *Betrayal Aversion* – reluctant to trust for fear of being betrayed; more negative emotions
 - Important to spend time building trust & managing conflict

REFERENCE:

Negotiation Briefings, Volume 17, Number 6, June 2014 (Harvard Law School) from research published by Aslani, Ramirez-Marin, Semnani-Azad, Brett & Tinsley in Handbook of Research in Negotiation (Edward Elgar, 2013)



Cross-Culture Negotiations (Continued)

Remember.....

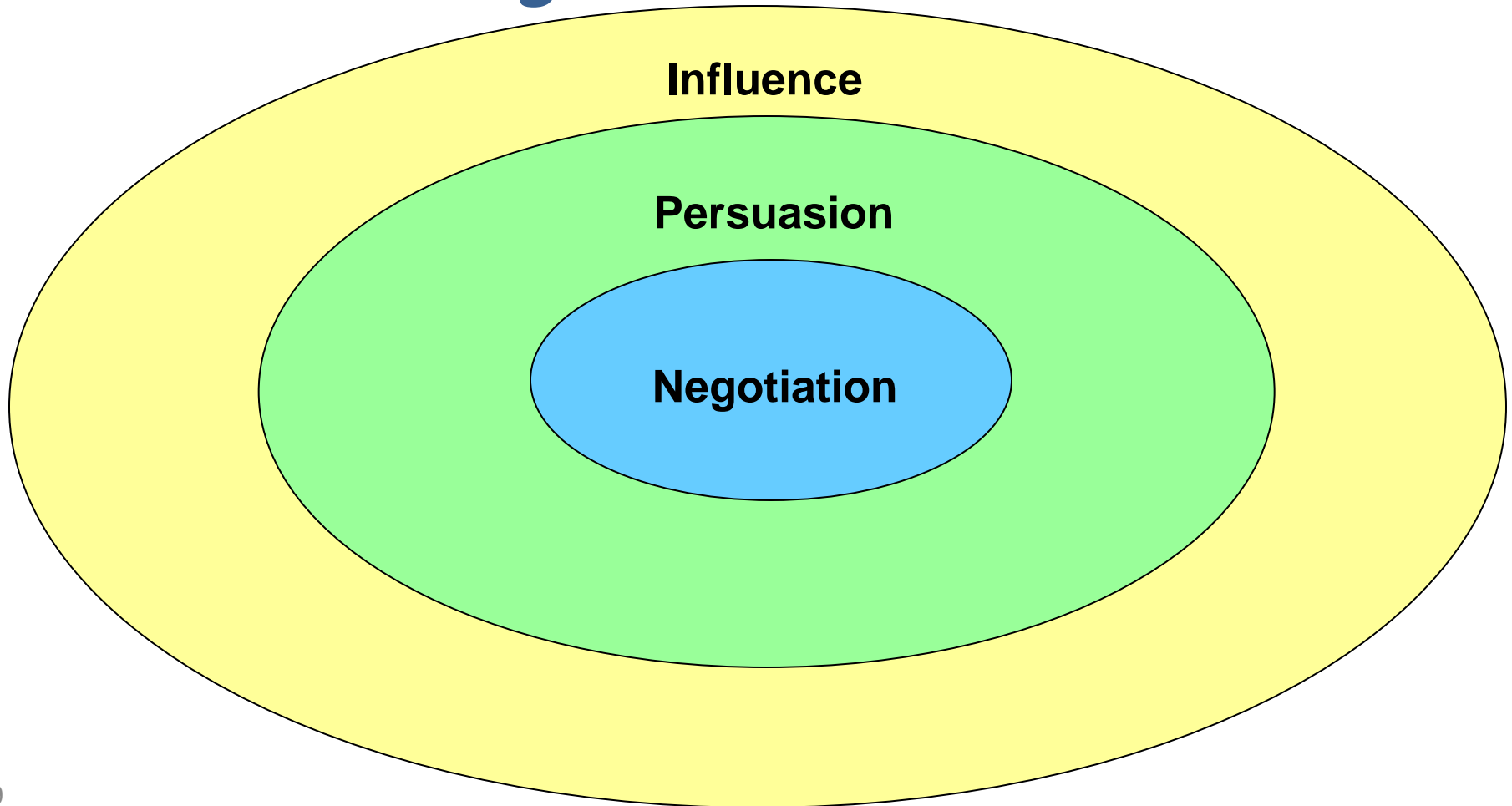
- These are broad generalizations that rarely exist in purest form
- Most societies are a blend even having cultural divisions within
- As technology & economic changes brings us together – divisions begin to blur
- Be aware of individual differences too:
 - Japanese counterpart may have gone to school in the US
 - US negotiator may try to “adapt” to Japanese style and possibly overdo it
- Diligence is important! Learn about your counterpart’s culture, background and of course the specific issues at stake in the negotiation.

REFERENCE:

Negotiation Briefings, Volume 17, Number 6, June 2014 (Harvard Law School) from research published by Aslani, Ramirez-Marin, Semnani-Azad, Brett & Tinsley in Handbook of Research in Negotiation (Edward Elgar, 2013)



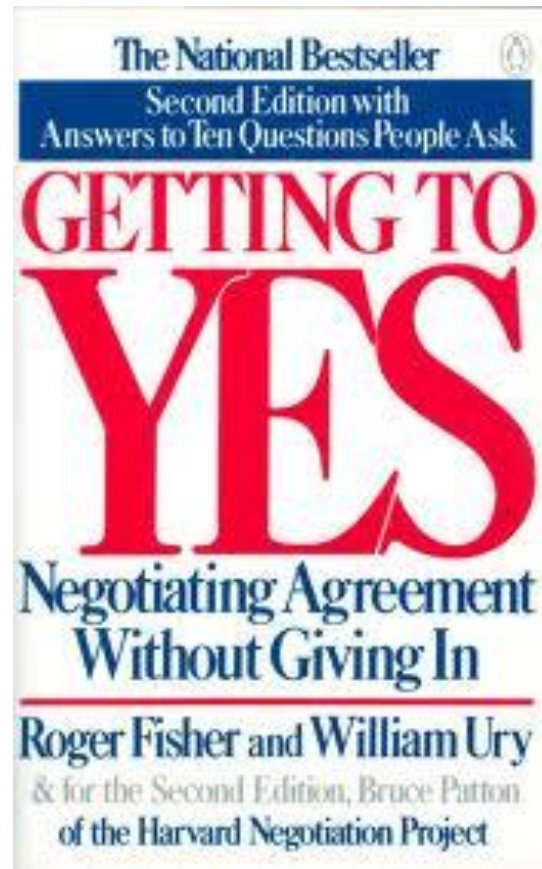
Summary *“Negotiator’s Toolkit”*





Business Development Fundamentals

Summary

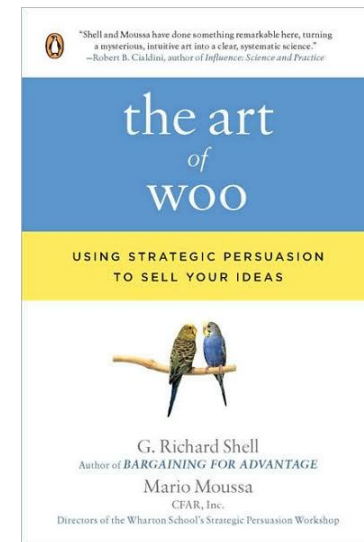
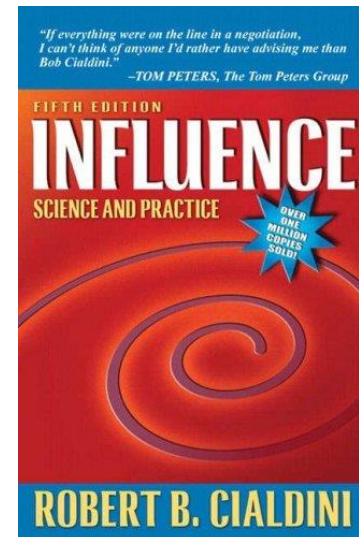
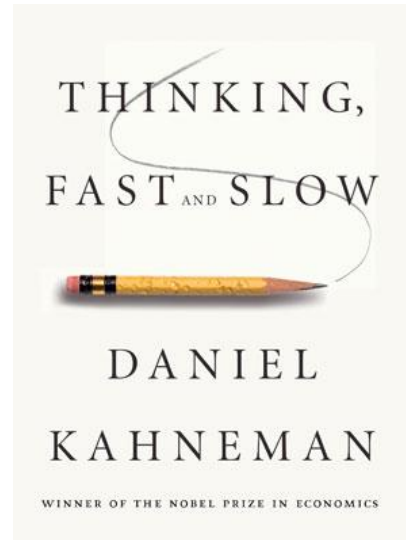
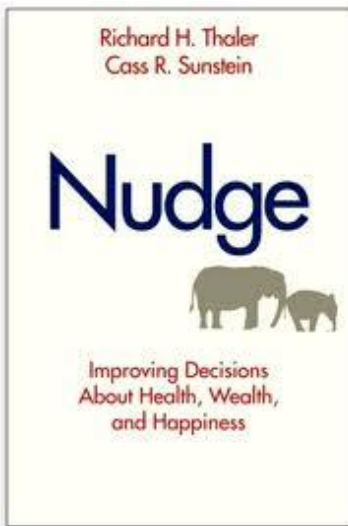
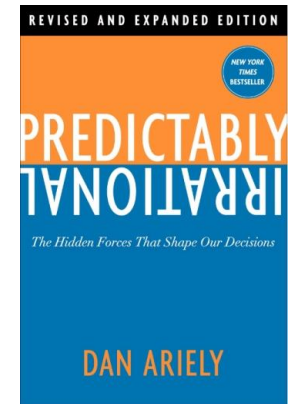
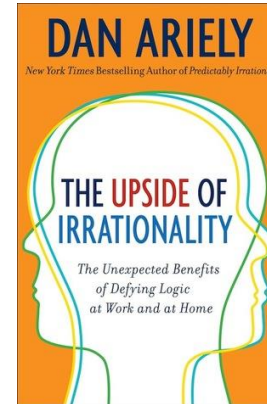
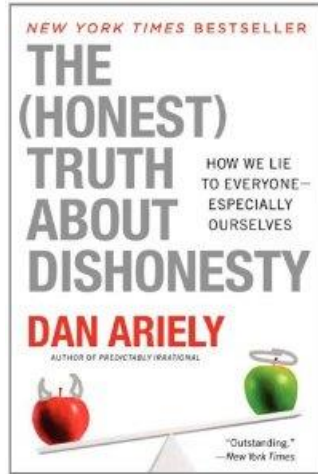




Business Development Fundamentals

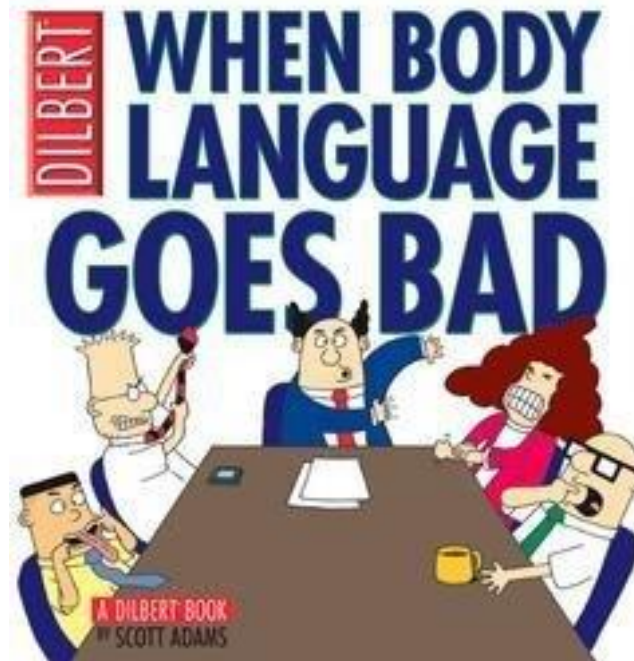
Summary

the signal and the noise and the noise and the noise and the noise why so many predictions fail—but some don't and the noise and the noise and the noise nate silver noise noise and the noise



Summary

TORSO	ARMS	HANDS AND FINGERS	FEET AND LEGS	
<p>LEANING AWAY FROM SOMEONE: Means we dislike or disagree with them.</p>	<p>FINGERTIPS SPREAD AWAY ON A SURFACE:</p> <p>A display of confidence and authority.</p>	<p>THUMBS UP:</p> <p>A good indication of positive thoughts.</p>	<p>PUGGLED/POORLY POSITIONED FEET:</p> <p>Indicates discomfort.</p>	
<p>LEANING TOWARD SOMEONE: Means we like or agree with them.</p>	<p>SPREADING OUT:</p> <p>A sign of comfort becomes a territorial or dominance display when they are serious issues being discussed.</p>	<p>ARMES AWAY:</p> <p>Establishes dominance or communicates there are "stakes".</p>	<p>STEERING: (DIGNIFIED TO INFERIOR)</p> <p>A powerful display of confidence.</p>	<p>CROSSING LEGS:</p> <p>Indicates we are comfortable.</p>
<p>CROSSED ARMS:</p> <p>Suddenly crossing arms tightly is a sign of discomfort.</p>	<p>NECK TOUCHING:</p> <p>Indicates emotional discomfort, doubt or insecurity.</p>	<p>ARMS BEHIND THE BACK:</p> <p>Says "don't draw me" - keeps people at bay.</p>	<p>THE POINTS UPWARD:</p> <p>Signals a good mood.</p>	



Reference: Emotions Revealed, Paul Ekman, Owl Books, 2007

<http://www.uintheusa.com/blog/category/general/page/5/>

Dilbert: When Body Language Goes Bad, Scott Adams



Business Development Fundamentals

“When you’re smiling...” Video Clip



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Questions!





Business Development Fundamentals

Thank You!



Further Reading



Business Development Fundamentals

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S1 Vs. S2 Thinking

- S1 continuously generates suggestions for S2: impressions, intuitions, intentions & feelings and if endorsed by S2, these get turned into beliefs & into voluntary actions.
- Focuses on existing evidence & ignores absent evidence: What You See Is All There Is (WYSIATI)
- It is easier to recognize other people's mistakes than our own.
- Underestimates role of chance: Luck plays a large role in every success story.
- Illusion that we understand past fosters overconfidence in ability to predict the future.
- Overconfidence in what we believe we know & our apparent inability to acknowledge full extent of our ignorance & uncertainty of world we live in.
- Reliable way to make people believe in lies is frequent repetition, because familiarity is not easily distinguished from truth.



Thinking Fast & Slow – Key Concepts (1)

- Affect heuristic – judgments and decisions are guided directly by feelings of liking & disliking with little deliberation or reasoning.
- Intuitive heuristic – when faced with a difficult question, we often answer an easier one instead, usually without noticing the substitution.
- High intelligence does not make people immune to biases (Keith Stanovich). Bat and ball questions and others like it are somewhat better indicators of our susceptibility to cognitive errors than are conventional measure of intelligence such as IQ tests.
- Cognitive strain (reading poor font, faint colors, when you are in a bad mood) – more likely to be vigilant and suspicious, invest more effort in what you are doing, feel less comfortable and make fewer errors, but you are also less intuitive and less creative than usual.



Thinking Fast & Slow – Key Concepts (2)

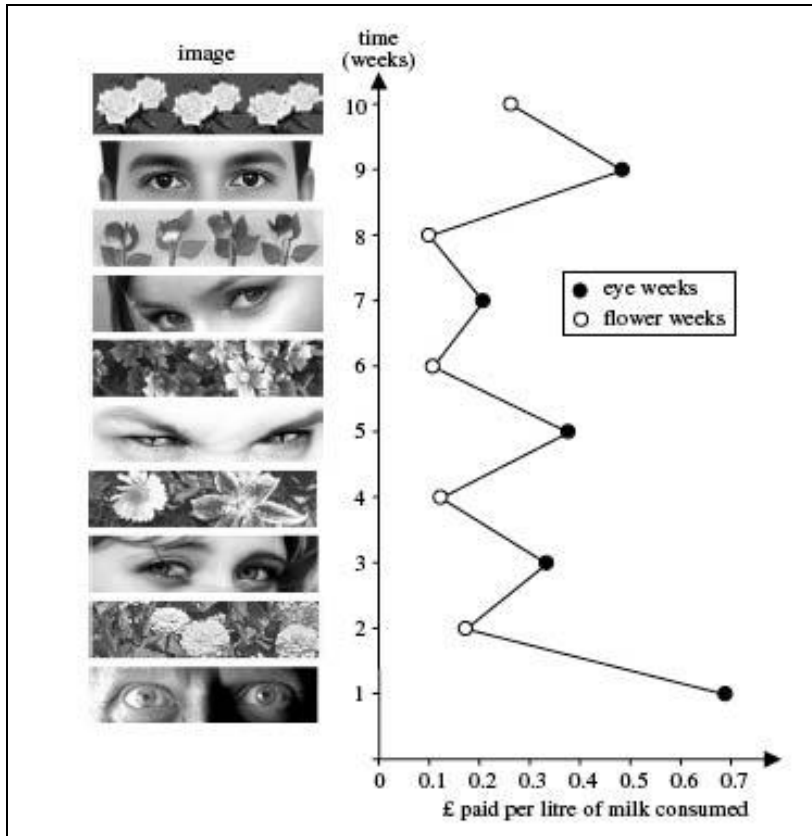
- Words that you have seen before become easier to see again.
- Writing a persuasive message: general principle is that anything you can do to reduce cognitive strain will help so first:
 - Maximize legibility
 - High quality paper to maximize contrast between paper and print
 - If color, more likely believed if printed in bright blue or red than in shades of green, yellow or pale blue.
 - Do not use complex where simpler language will do
 - Make your message simple and memorable
- The tendency to like (or dislike) everything about a person – including things you have not observed – is known as the halo effect.
- We are far too willing to reject the belief that much of what we see in life is random.
- Availability heuristic: process of judging frequency by the ease with which instances come to mind. Plane crash, shark attack etc.
- If the environment is sufficiently regular and if the judge has had a chance to learn its regularities, the associative machinery will recognize situations and generate quick and accurate predictions and decisions. You can trust someone's intuitions if these conditions are met.



Thinking Fast & Slow – Key Concepts (3)

- Planning fallacy – describes plans and forecasts that:
 - Unrealistically close to best case scenarios
 - Could be improved by consulting the statistics of similar cases
- Outside view - proper way to elicit information from a group is not by starting with a public discussion but by confidentiality collecting each person's judgment. This procedure makes better use of the knowledge available to members of the group than the common practice of open discussions.
- Reference class forecasting:
 - Identify an appropriate reference class
 - Obtain the stats of the reference class
 - Use specific info about the case to adjust the baseline prediction
- Theory-induced blindness: once you have accepted a theory and used it as a tool in your thinking, it is extraordinarily difficult to notice its flaws.
- Losses loom larger than gains – loss aversion ratio has been estimated in several experiments and is usually in the range of 1.5-2.5

Thinking Fast & Slow – Priming Effect



- Priming effect – influencing of an action by an idea (ideomotor effect) – smile & be happy, act calm – feel calm.
- Voluntary contributions for tea & coffee at office kitchen in British University.
 - 70 pence for “eye weeks” vs. 15 pence for “flower weeks”.
- Another example: Support for propositions to increase funding in schools was > when polling station was in a school.



Overconfidence Bias & Competitor Neglect Illusion of Confidence & Knowledge (2)

Canadian Organization – The Investor's Assistance Program

- Collects small fee to provide inventors with objective assessment of the commercial prospects of their idea based on ratings on 37 criteria.
- Inventions were given a letter grade where D & E predict failure (70%).
- Very accurate – only 5 of 411 projects that were given the lowest grade reached commercialization and none was successful.
- ~50% quit after receiving a failure grade. Rest continued development efforts & on average these persistent (or obstinate) individuals doubled their initial losses before giving up.
- Significantly, persistence after discouraging advice was relatively common among investors who had a high score on a personality measure of optimism – inventors generally score higher than the general population.



Competitor Neglect

Illusion of Confidence & Knowledge (3)

- We focus on our goal, anchor on our plan and neglect relevant base rates, exposing ourselves to the planning fallacy.
- We focus on what we want to do and can do, neglecting the plans and skills of others.
- Both explaining the past and in predicting the future, we focus on the causal role of skill and neglect the role of luck. We are therefore prone to the *illusion of control*.
- We focus on what we know and neglect what we do not know, which makes us overly confident in our beliefs.
- Overconfidence is another manifestation of WYSIATI: when we rely on information that comes to mind and construct a coherent story in which the estimate makes sense. Allowing for the information that does not come to mind – perhaps because one never knew it – is impossible.



The Fourfold Pattern

	GAINS	LOSSES
HIGH PROBABILITY Certainty Effect	95% chance to win \$10,000 Fear of disappointment RISK AVERSE Accept unfavorable settlement	95% chance to lose \$10,000 Hope to avoid loss RISK SEEKING Reject favorable settlement
LOW PROBABILITY Possibility Effect	5% chance to win \$10,000 Hope of large gain RISK SEEKING Reject favorable settlement	5% chance to lose \$10,000 Fear of large loss RISK AVERSE Accept unfavorable settlement

- Top row in each cell shows an illustrative prospect.
- Second row characterizes the focal emotion that the prospect evokes.
- Third row indicates how most people behave when offered a choice between a gamble and a sure gain (or loss) that corresponds to its expected value (for example between 95% chance to win 10K and \$9,500 with certainty). Choices are said to be risk averse if the sure thing is preferred, risk seeking if the gamble is preferred.
- 4th row describes the expected attitudes of a defendant and a plaintiff as they discuss a settlement of a civil suit.
- Because defeat is so difficult to accept, the losing side in wars often fights long past the point at which the victory of the other side is certain and only a matter of time



Experiencing Self Vs Remembering Self

- Experiencing Self is the one that answers the question: “Does it hurt now?”
- The remembering self is the one that answers the questions: “How was it, on the whole?”



Anchoring in Mock Jury Trials

Table 1—Malouff & Schutte Results

<u>Damage Request</u>	<u>Mean Award</u>
\$100,000	\$90,333
\$300,000	\$188,462
\$500,000	\$282,868
\$700,000	\$421,538

Table 2—Robbennolt & Studebaker Results

<u>Punitive Cap</u>	<u>Mean Compensatory Award</u>	<u>Mean Punitive Award</u>	<u>Total Award</u>
\$100,000	\$1,435,000	\$83,100	\$1,518,100
\$5 million	\$2,133,750	\$2,991,935	\$5,125,685
\$50 million	\$7,642,417	\$15 million	\$22,642,417

Other studies have shown the same phenomenon with Judges



Anchoring Example

Average prices paid for the various products for each of the five groups of final digits in social security numbers, and the correlations between these digits and the bids submitted in the auction.

Products	Range of last two digits of SS number					Correlations*
	00–19	20–39	40–59	60–79	80–99	
Cordless trackball	\$8.64	\$11.82	\$13.45	\$21.18	\$26.18	0.42
Cordless keyboard	\$16.09	\$26.82	\$29.27	\$34.55	\$55.64	0.52
Design book	\$12.82	\$16.18	\$15.82	\$19.27	\$30.00	0.32
Neuhaus chocolates	\$9.55	\$10.64	\$12.45	\$13.27	\$20.64	0.42
1998 Côtes du Rhône	\$8.64	\$14.45	\$12.55	\$15.45	\$27.91	0.33
1996 Hermitage	\$11.73	\$22.45	\$18.09	\$24.55	\$37.55	0.33

*Correlation is a statistical measure of how much the movement of two variables is related. The range of possible correlations is between -1 and $+1$, where a correlation of 0 means that the change in value of one variable has no bearing on the change in value of the other variable.



Winner's Curse (Origin)

- Competitive bidding in high risk situations
- 4 oil companies interested in same patch offshore property.
- Assume patch contained \$10MM worth of oil

Company	Internal Estimate	Auction (Bid)
A	\$5MM	<\$5MM
B	\$10MM	<\$10MM
C	\$12MM	<\$12MM
D	\$20MM	“Winner” at >\$12MM

- D is happy because they “only” paid \$12MM but
 - Bid exceeds value of tract; D loses money (\$2MM)
 - Value of tract is less than “expert” estimate; D is disappointed.



Framing Effects *Asian Disease Problem*

- Imagine that the U.S. is preparing for the outbreak of an unusual Asian disease which is expected to kill 600 people.
- Two groups of individuals were each presented two alternative programs to combat the disease.
- Assume the exact scientific estimate of the consequences of the programs are as follows:



Framing Effects *Asian Disease Group 1*

- Program A: “200 people will be saved”
- Program B: “there is 1/3 probability that 600 people will be saved, 2/3 probability that no people will be saved.”
- 72% preferred A (28% preferred B)



Framing Effects *Asian Disease Problem Group 2*

- Program C: “400 people will die”
- Program D: “there is 1/3 probability that nobody will die, 2/3 probability that 600 people will die.”
- 78% preferred D (22% preferred C)

Change in decision frame between two groups produced a reversal of preference.



Winner's Curse (Solutions)

- Negotiate instead
- Hold a “negotiauction” – negotiate individually with the seller with multiple rounds of bidding to narrow the field.
- If seller isn't open to negotiation, evaluate if you have :
 - an edge in terms of your ability to assess the asset & the skills and resources you can use to maximize its value
- If you have an edge on other bidders, bid comfortably up to a set limit.
- If not, bid conservatively or walk away (no bidding war).
- McKinsey Survey indicated that successful M&A companies are much more likely to exit when competitors initiate a bidding war (89%) vs. only 23% of less successful acquirers.
- If your company does not evaluate whether to drop out when others enter the bidding, this is a red flag.





Business Development Fundamentals

Winner's Curse (Example: HP/Dell/3Par in 2010)

- Aug 16th: Dell announces it will acquire 3PAR at \$18 per share (~\$1.15B)
- Aug 20th: HP comes up with superior proposal at \$24 (~\$1.6B)
- Aug 26th: Dell “matches” HP by increasing its offer to \$24.30 (\$1.6B)
- Aug 26th: HP revises its proposal to \$27 (~\$1.8B)
- Aug 27th: Dell announces 3PAR has accepted its matched offer of \$27.
- Aug 27th: HP immediately increases bid amount to \$30 (~\$2B)
- Sep 2nd: Dell revises offer to \$32 (~\$2B)
- Sep 2nd: HP tops offer with \$33 bid (~\$2.07B) before above deal is announced.
- Sep 2nd: Dell concedes an hour later, bringing the bidding war to an end but will receive \$72M from 3Par as a “Break-Up Fee”.

In 18 days, 3Par value “increased” ~85%.

“We took a measured approach throughout the process and have decided to end these discussions.” Dell



Winner's Curse (Example 2?): Hertz/Avis/Dollar Thrifty

Dollar Thrifty traded at \$53 in March, 2007 but fell to \$0.62/share in March 2009 (market cap of <\$25MM)

- April 26, 2010 - Hertz agrees to buy Dollar Thrifty in a \$1.2 B deal (\$41/share)
- May 3 – Avis says it is interested in making a "substantially higher" offer
- May 4 - Dollar Thrifty says it would be willing to entertain a higher offer from Avis.
- May 6 - Avis says it plans to begin due diligence for a possible bid for Dollar Thrifty that could top Hertz's \$1.2 B bid.
- July 28 - Avis offers ~ \$1.33 B for Dollar Thrifty, topping the Hertz offer.
- Aug 3 - Dollar Thrifty says not to Avis as it is unsure Avis can close the deal.
- Sept 2 - Avis raises its bid to \$1.36 B.
- Sept 12 - Hertz sweetens its offer to \$1.56 B.
- Sept 23 - Avis raises its bid by more than 10 percent to \$1.51 B (\$46/share).



Business Development Fundamentals

Winner's Curse: Hertz/Avis/Dollar Thrifty – the bidding continues

- **Sept 24 - Hertz says it won't raise its offer further.**
- Sept 27 - Dollar Thrifty rejects Avis bid.
- Sept 28 - Hertz says it will drop its offer for Dollar Thrifty if it loses a shareholder vote.
- Sept 30 - Dollar Thrifty shareholders reject Hertz's bid. Hertz says it will walk away from the deal, leaving the door open again for Avis.
- Nov 4 - Avis says it will need additional funding to complete the Dollar Thrifty deal.
- March 25 - Avis's top shareholder says it may hold talks with the board on an appropriate price the company should pay for Dollar Thrifty -- a \$1.66 billion deal which has been waiting for antitrust clearance for five months.
- May 9 - Hertz made a 2nd bid for Dollar Thrifty , offering close to \$2.1 billion (\$72/share), taking advantage of Avis' problems getting regulatory clearance.
- July – Avis buys Budget for \$1B
- Oct – Hertz pulled its offer off the table citing deteriorating market conditions and a negotiating deadlock



The Trust Game – Sweet Revenge!

- Allocator has been given \$20.
 - A can keep \$20 for themselves and go home.
 - If A sends \$20 to Recipient then experimenter quadruples money (\$80).
 - Now, R can either go home with all \$80 or split (send \$40 back to A).
- Luckily, in spite of rational economic theory, most people send \$20 and split the increased pot of \$80.

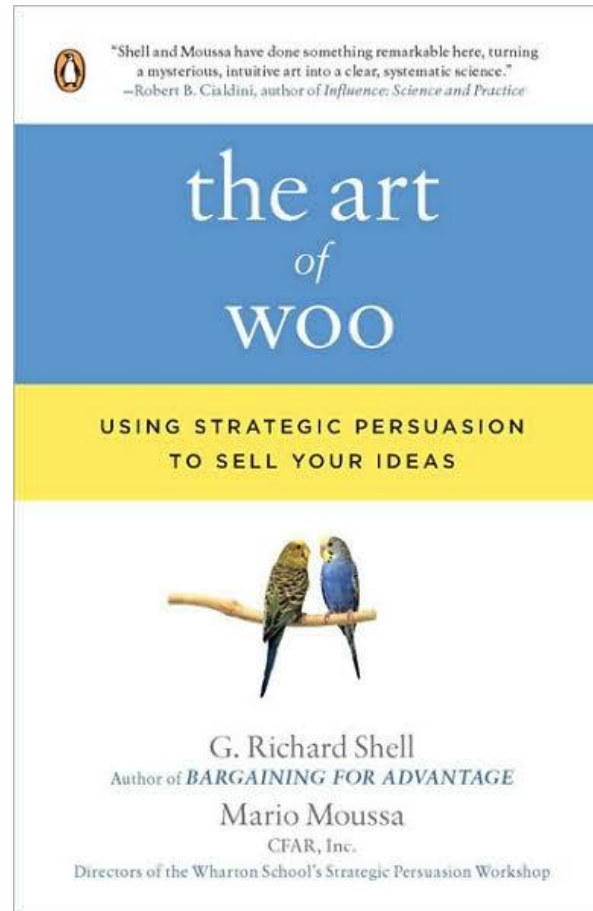
Interesting Variation (Betrayal)

- If R takes the \$80 and keeps it, A is allowed ***to spend their own money to punish the R***. Every \$1 A spends, \$2 taken from R.
- Given opportunity, participants punished severely.
- PET scans showed high level of striatum activation (pleasure).



Business Development Fundamentals

Introducing WOO Framework for Strategic Persuasion



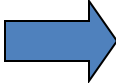
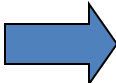
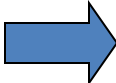
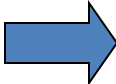


What is WOO?

- Highly relationship-based persuasion.
- A strategic process for getting people's attention & pitching your ideas.
- Seek first to understand, then to be understood – by understanding your audiences you have a better chance to be understood. (Stephen Covey)



Using WOO

- 1. Survey your situation:** What is my idea, and how is it better than the alternatives? Who are the decision makers and influencers? What is my “stepping stone” strategy?  **What problem are you trying to solve?**
- 2. Remove the 5 Barriers:** Relationships, Credibility, Channels, Beliefs, Interests.  **Which barriers are the biggest?**
- 3. Make your pitch:** Use PCAN (Problem, Cause, Answer, Net Benefit). Make your pitch memorable and rooted in evidence.  **What is your pitch?**
- 4. Secure your commitments:** Target key individuals. Manage the politics. Create a “snowball effect.”  **How do you create momentum?**



Facial Expressions – General Facts

- Each person has the ability to make more than 10,000 facial expressions!
- Facial expressions of emotion are innate & universal.
- Emotions can and usually do begin without awareness.
- Individuals differ in how expressive they are, but emotions are not invisible or silent.
- Note that emotion signal system is always “on”, therefore ready to broadcast instantly every emotion we feel.
- Can dampen our emotions difficult to inhibit them.
- Dr. Paul Ekman – world’s leading facial expression expert



Business Development Fundamentals

Seven Distinct Emotions/Facial Expressions

Anger

Sadness

Contempt

Surprise

Happiness

Disgust

Fear

Dr. Paul Ekman



Body Language - Basic Concepts



- Congruence: What is being said is consistent with body language & expressions
- Consistency – Need a person’s baseline under relaxed conditions. What is their normal way of sitting or standing when relaxed?
- Culture – varies depending on person’s background.
- Clusters – Can not look at one gesture in isolation.



Key Success Factors For Teams (Per Sociometer)

- Talk & listen in roughly equal measure, keeping contributions short & sweet.
- Face one another & conversations & gestures are energetic.
- Connect directly with one another – not just with team leader.
- Carry on back-channel or side conversations within the team.
- Periodically break, go exploring outside the team, and bring information back.

Key Elements of Communication (Per Sociometer)

- **Energy** – How team members contribute to a team as a whole.
- **Engagement** – How team members communicate with one another.
- **Exploration** – How teams communicate with one another.



Business Development Fundamentals

Non-Verbal Communication - Sociometric Solutions (MIT Spin-Off)



- Research by Dr. Alex “Sandy” Pentland (MIT).
- Honest Signals – ancient primate signaling mechanisms – unconscious channel of communication between people.
- Using a “sociometer” that measures:
- tone of voice, pattern of speech, proximity to others, gestures such as smiles & head nods.
- No recording of actual words.
- Predicted 87% of winners of a business plan competition based purely on data collected at a party 5 days prior to presentations.
- Very accurate on predicting outcomes of salary negotiations & identifying bluffing from poker players.
- Recently used by Cubist Pharmaceuticals



Honest Signals *Potential Future Applications*

- Improve corporate productivity (e.g., call centers and banks).
- Training negotiators and sales forces & even CEOs.
- Market research & focus groups.
- Detect daily fluctuation movements in Parkinson's patients.
- Detect depression (slow, quiet, halting monotone) as part of routine calls in a disease-management program.
 - Cogito Health (Boston), spun out of Pentland's research at MIT.
 - Conducting a clinical trial to measure accuracy of software in diagnosing depression based on recorded nurse/patient conversations.



Honest Signals

Key Success Factors (Per Sociometer)

- Strong “mirroring” behavior -Unconscious mimicking of gestures and movements of partners
 - Demonstrated empathy and understanding.
 - Consistent emphatic tone conveying confidence was critical.
 - Speaking style that is fast yet calm and fluid – no irregular pauses which shows confidence about themselves and their ideas.
 - Head-nodding, holding eye contact and trading smiles and “uh-huhs”.
- People that are “energetic” who spend more face-to-face time with others.
- Communication plays a critical role in building successful teams
 - most important predictor of a team’s success.

REFERENCE: We Can Measure the Power of Charisma, HBR, Jan-Feb 2010 (34-35)



Negotiating With Emotion

- Research by Brooks & Schweitzer showed that anxious subjects:
 - Had lower expectations, made lower first offers, responded more quickly to offers and exited the bargaining sooner and had worse outcomes
- People find negotiation process stressful for three reasons:
 - Lack of control, unpredictability, absence of feedback on performance.
- Trying “warming-up” for negotiation:
 - How do you want to feel going into negotiation and why?
 - What can you do beforehand to put yourself in ideal emotional state?
 - What can throw you off balance during a negotiation?
 - What can you do in the midst of a negotiation to regain your balance?
 - How do you want to feel when you are finished?