

Negotiation Strategy

1st Semester, 2024/2025

CEMS MIM Programme

Instructor: Prof. Luís Almeida Costa

Short Biography: Luís Almeida Costa is a Professor and the Vice-President of the School Council at Nova School of Business and Economics. He is also a member of the Board of Trustees of Alfredo de Sousa Foundation and a NED of Nova Forum. Luís Almeida Costa also teaches at INSEAD, at Solvay Brussels School of Economics and Management (Université Libre de Bruxelles) and at Tias School for Business and Society (Tilburg University). He taught for almost ten years at IMD, where he launched and was a Director of the Negotiating for Value Creation (NVC) program. Luís Almeida Costa holds PhD and MSc degrees in Management from INSEAD and an undergraduate degree in economics from Católica Lisbon School of Business and Economics. His research, teaching and consulting focus on Negotiation and Strategy. His research has been published in *Strategic Management Journal*, *Strategy Science*, *Journal of Economics and Management Strategy*, *Journal of Business*, *International Journal of Industrial Organization*, *Organization Studies*, etc. Luís Almeida Costa was responsible for numerous consulting projects and conducted hundreds of executive programs for companies and governmental agencies in several countries, such as Belgium, France, Germany, Great Britain, Hungary, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Switzerland, Turkey, Angola, Brazil, Cape Verde, India, Singapore and United Arab Emirates.

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COURSE DESCRIPTION

What does it take to be an effective negotiator? According to popular belief, it takes innate personal qualities, a certain “flair” or “Fingerspitzengefühl”. In contrast, countless

“how to” books on negotiation claim that - with the right set of “tools” - anybody can be an effective negotiator.

Clearly, both views are crude caricatures of reality. Sophisticated negotiators have a knack for identifying the critical bits of information that are needed to piece together a negotiation puzzle. Pattern recognition enables them to diagnose negotiating problems quickly and accurately. They combine a deep understanding of the psychological dynamics of negotiation processes with a realistic assessment of their own strengths and limitations. They possess tactical finesse, ambition and a willingness to take risks... tempered by judgment. While these qualities are partly innate, they are largely developed through experience.

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

The first part of the course (Session 1) provides an introduction to auctions and competitive bidding. We analyze bidding processes both from the perspective of the entity organizing the auction and of the bidders. Some of the topics covered in this session are: What are the main auction types and what are their fundamental characteristics? How to choose among the different auction types, depending on the auctioneer's objectives and on the specific circumstances he/she is facing? How to define an optimal bidding strategy?

The second part of the course (Sessions 2-3) covers some basic concepts in negotiation analysis. Some of the topics covered in these sessions are: How to determine our limit and our target when preparing for a negotiation? How to approach different types of negotiating situations? How to determine our opening offer and how to manage our concession pattern? Who should move first? How to react to the other side's offers? How to resist demands for concessions? How to induce cooperative behavior?

The third part of the course (Sessions 4-9) provides fundamental concepts and tactics for effective handling of complex negotiating situations. Some of the topics covered in these sessions are: What are the appropriate deal structures for complex packages and for long-term arrangements subject to uncertainty? What are the key dimensions of trust, skepticism and credibility in negotiations? How to manage the negotiation process? How to deal with repeated relationships? What is the role of arguments in a negotiation? How to deal with information asymmetries and differences in expectations? How to avoid processes of escalation of conflict? How to evolve from win-lose to win-win situations?

This part of the course is based on the simulation **Deal Maker™**, developed by Professors Ingemar Dierickx and Luís Almeida Costa. **Deal Maker™** enables students to accumulate a wealth of experience in a realistic and time-effective way. Students engage in a broad range of face-to-face negotiations. A state-of-the-art computer model evaluates the deals and tracks their impact on all aspects of an evolving business relationship and, consequently, on the situation that students will face in later negotiations. This diverse menu of negotiating experiences will test and develop the

students' intuition. They will be able to draw on computer-aided decision support systems and sophisticated analytical and conceptual inputs. In addition, small group discussions provide a forum for sharing negotiating experience.

LEARNING OBJECTIVES

On completion of this course participants should be able to:

A. Knowledge and Understanding:

- Identify and understand different types of negotiating situations.
- Know how to prepare a negotiation.
- Know how to deal with different types of negotiating situations.

B. Skills:

- Develop the participants' negotiation skills.
- Develop the participants' ability to work in teams.
- Develop the participants' ability to apply the different concepts, models and frameworks to the analysis of real-life situations.

TEACHING AND LEARNING METHODS

This course combines lectures, class discussions, negotiation exercises and a negotiation write-up. As mentioned above, the course is largely based on the simulation **Deal Maker™**.

Negotiation Exercises

In the negotiations, participants are told which role they are supposed to play and the names of the players with whom they will negotiate. Most negotiations are embedded in an ongoing business relationship. Participants negotiate face-to-face.

Participants should learn a great deal from the negotiation exercises. A major requirement of the course, therefore, is to carry out the exercises and to share the insights with others. In general, the aim should not be to do "better" than the counterpart; "better" is often meaningless in games which are not strictly competitive and where players start in very asymmetric positions. The aim of each participant is to maximize his or her own gain... tempered with a concern to do what is right. While negotiated outcomes obviously matter, the process by which these outcomes have been achieved is often equally (if not more) important.

Participants should always respect the "rules of the game". Participants will receive confidential instructions for the different negotiations. During the negotiations, participants may wish to share information with their counterpart. However, the "rules of the game" do not permit participants to show their actual confidential instructions to the other side. In actual negotiations, we cannot refer to a set of confidential instructions to authoritatively convince our counterpart about our values, beliefs or capabilities. In fact, one of the major problems in actual negotiations is to convince a skeptical counterpart of the truth.

Deal Maker™

Deal Maker™ enables participants to accumulate a wealth of experience in a realistic and time-effective way. This simulation has several distinctive features:

- *Evolving business relationship.* Negotiations are embedded in an evolving business relationship. Thus, the negotiating situation participants face will change as a consequence of the deals they negotiate, the decisions they and their counterpart make unilaterally, as well as external factors. At any moment in time, the market, the options, the constraints that negotiators face – in fact, their entire environment – will depend on what happened before. The simulation tracks the dynamics of this evolving relationship over time. Thus, as in real life, participants will shape their own future.
- *Information is Critical.* Negotiations are information driven. A key feature of **Deal Maker™** is that the information that will be available to negotiators depends on their previous deals and decisions. In addition, they may search for information through a special tool called Neginfo™. And of course, they may learn a great deal from their counterparts as well.
- *Negotiate Creative Deals.* **Deal Maker™** challenges participants to become more creative negotiators. They may “invent” variables and create their own agendas. A special procedure was developed to reconcile the creativity of negotiators with the logic of computers. Thus, participants will be able to explore a vast array of interesting and creative deals.
- *Interpersonal Dynamics.* The negotiating experience is both exciting and highly realistic. As in real life, the objectives of negotiators, their perceptions and emotions will be affected by the interpersonal dynamics within an ongoing business relationship.
- *360° Feedback.* Throughout the learning experience, the simulation provides reliable feedback. The professor will offer informal tips and suggestions while you are preparing for a negotiation. After closing a deal, the computer provides prompt and detailed feedback about your outcome. This is complemented by an in-depth analysis of key conceptual issues during the debriefing sessions. And towards the conclusion of the workshop participants receive comprehensive “360-degree” process feedback based on observations from their colleagues.
- *Personal Growth.* Participants will discover some of their real strengths as well as, perhaps, some of their “bad habits”. They will learn to play the negotiating game with greater confidence and with superior tactical finesse.

Participants will experience that **Deal Maker™**, like negotiating in real life, is not only challenging but can also be great fun.

Negotiation Write-Up

The object of the Write-Up is the analysis of a real-life negotiating situation using the concepts, models and frameworks discussed in the course. The Write-Up should have 5-7 pages. Each participant chooses his/her own topic. The Write-Up constitutes an additional opportunity for participants to analyze how to deal with specific negotiating situations.

ASSESSMENT

Class participation (including negotiation exercises): 25%

Negotiation Write-Up: 25%

Final Exam (closed book): 50%.

The object of the Write-Up is the analysis of a real-life negotiating situation using the concepts, models and frameworks discussed in the course. The Write-Up should have 5-7 pages and is due on the day of the final exam.

Course grades are final and not negotiable.

BIBLIOGRAPHY

The following book is required for the course:

- R. Fisher and W. Ury, *Getting to Yes*, Penguin Books, Harmondsworth, Middlesex, 2012.

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

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

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

Acknowledgements:

I wish to thank Professor Ingemar Dierickx, whose cases and teaching materials are used in Sessions 1, 2 and 3 with his kind permission.

PROGRAMME OVERVIEW

Session 1 – October 21, 9:30-12:20

Participants play in advance the Bidding for a Dollar exercise (instructions available in advance). Decisions are due before the start of Session 1.

INTRODUCTION TO COMPETITIVE BIDDING
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9:30-10:00 Programme overview

10:00-11:00 Bidding for a Dollar exercise

11:00-11:15 Break

11:15-12:20 Introduction to Competitive Bidding

Readings:

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

Perspectives, 16 (1), Winter 2002, pp. 169-189 (available online; optional).

Session 2 – October 28, 9:30-12:20

Participants prepare in advance the Episy negotiation (confidential instructions distributed in Session 1).

9:30-10:30 Typical Problems in Auction Design

10:30-10:45 Break

SINGLE-ISSUE NEGOTIATIONS

10:45-11:45 Participants carry out the Lot # 21, Sect. Y, Episy negotiation

11:45-12:20 Debriefing of the Lot # 21, Sect. Y, Episy negotiation (Part I)

Session 3 - November 4, 9:30-12:20

9:30-11:00 Debriefing of the Lot # 21, Sect. Y, Episy negotiation (Part II)

11:00-11:15 Break

11:15-12:20 Single-Issue Bargaining: Concepts and Tactics

Readings:

- Dierickx, I., *Price Negotiations - The Distributive Dimension of Bargaining*, 2008, mimeo (available online).
- Schelling, T., "Bargaining, Communication and Limited War" and "An Essay on Bargaining", in *The Strategy of Conflict*, Harvard University Press, Cambridge, Massachusetts, 1980, pp. 53-80 and pp. 21-52, respectively (available online).
- Raiffa, H. (with J. Richardson and D. Metcalfe), *Negotiation Analysis – The Science and Art of Collaborative Decision Making*, 2007, Part II, chapters 6-7.

Deal Maker™

Session 4 – November 11, 9:00-13:00

Participants read "Get Started" and prepare Negotiation 1 in advance (confidential instructions distributed in class in Session 3).

PACKAGE DEALS

9:00-9:30 Introduction to **Deal Maker™**

9:30-11:45 Teams prepare and conduct Negotiation 1

11:45-12:00 Break

12:00-12:30 Teams make decisions and enter data relative to Negotiation 1

12:30-13:00 Debriefing of Negotiation 1

Session 5 – November 11, 14:00-18:00

14:00-15:15 Debriefing of Negotiation 1 (Cont.)

Readings:

- R. Fisher and W. Ury, *Getting to Yes*, Penguin Books, Harmondsworth, Middlesex, 2012.
- Raiffa, H. (with J. Richardson and D. Metcalfe), *Negotiation Analysis – The Science and Art of Collaborative Decision Making*, 2007, Part III.

INTERNAL NEGOTIATIONS

15:15-17:00 Teams prepare and conduct Negotiation 2

17:00-17:15 Break

17:15-18:00 Teams make decisions and enter data relative to Negotiation 2

Session 6 - November 18, 9:00-13:00

9:00-10:30 Debriefing of Negotiation 2

10:30-10:45 Break

DEAL STRUCTURE

10:45-12:30 Teams prepare and conduct Negotiation 3

12:30-13:00 Teams make decisions and enter data relative to Negotiation 3

Session 7 – November 18, 14:00-18:00

14:00-15:30 Debriefing of Negotiation 3

Reading:

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

MANAGING ONGOING RELATIONSHIPS

15:30-15:45 Break

15:45-17:30 Teams prepare and conduct Negotiation 4

17:30-18:00 Teams make decisions and enter data relative to Negotiation 4

Reading:

- Dierickx, I., *Managing Long-Term Business Relationships*, 2019, mimeo (available online).

Session 8 – November 25, 9:00-13:00

9:00-10:15 Debriefing of Negotiation 4

10:15-10:30 Break

MASTERING PROCESS FUNDAMENTALS

10:30-12:30 Teams prepare and conduct Negotiation 5

12:30-13:00 Teams make decisions and enter data relative to Negotiation 5

Session 9 - November 25, 14:00-18:00

14:00-15:30 Teams prepare process presentations

15:30-16:30 Process Presentations

16:30-16:45 Break

16:45-17:15 Announcement of the winning teams

17:15-18:00 Concluding remarks