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Chapter 1

The Game Has Changed

One of the pleasant aspects of my job is that most students thoroughly enjoy negotiation courses, which are highly interactive: students practice negotiating in simulations and receive feedback on how to improve in a low-risk setting. Negotiation also turns out to be fun to teach. While we cover many useful and practical ideas, there are always course participants who ask about topics that I failed to cover, whether by speaking to me directly or sharing this information in a course evaluation. This feedback is helpful to me. It generally starts with a compliment, then quickly continues to the substance: “This was a fine course, but . . .”

- it doesn’t account for the cultural norms of negotiating in my country.
- it doesn’t deal with negotiating with people from China [or pick any other country].
- you didn’t cover the supply crisis that we are currently facing.
- do your ideas apply when dealing with liars or irrational opponents?
- negotiating over Zoom is different than negotiating in person.
- how does the course apply to negotiating with my romantic partner?
- how does it apply to getting my patients to take their medicine?
- what if my negotiation counterpart doesn’t have the power to commit to an agreement?

This list, based on the many batches of feedback I have received, could easily be far longer. While each comment seems unique, the critiques

more broadly highlight the fact that the course was not focused on the student's particular *context*—the circumstances and conditions that surround a negotiation.

All of these criticisms are valid. In addition, research evidence supports the difficulties in transferring knowledge across domains, or what academics call analogical reasoning.¹ I wrote this book to respond to such questions—specifically, to explain how to adapt systematic frameworks for negotiating more effectively to your context. I will address many of these questions directly in the book. More importantly, I will show you how to adapt the central ideas of negotiation to your own questions and to the particular contexts you face.

Generic Ideas versus Context in Negotiation

My core strength as a scholar has been to develop novel ideas about how people think in negotiations. My research explores the systematic and predictable ways in which even experienced negotiators act that are not fully rational—that is, as they would with greater reflection. Paralleling research in the field now known as behavioral economics, my work offers a critique of traditional game-theoretic models of negotiation, which assume all parties engage in perfectly rational thinking throughout the process.² In fact, our actual behavior departs significantly from this assumption of rationality.³ To take one example, I found that most negotiators do not adequately think about the perspective of the other side, though understanding the other side is often critical to creating a wise negotiation strategy. I have also provided negotiators with a framework for better understanding the likely decisions of their counterparts. I have shared these ideas in my writing and draw on them regularly when advising my consulting clients.

I believe my research has made valuable contributions to the theoretical and practical literatures on negotiation. My work has been broadly accepted by behavioral economists and scholars who focus on the psychology of negotiation. But I certainly have had my critics, and they tend to focus on my failure to think about context. These scholars often study the uniqueness of specific negotiations, whether due to

culture, economics, politics, relationships, modes of communication, the behavior and identity of the other side, or many other important factors.

For simplicity's sake, it is easiest to plead guilty to having done my core research while controlling for, or ignoring, many of these contextual variables. Most of the formal research I published in academic journals was done in sterile laboratory contexts, devoid of much of the real-world context that surrounds any specific negotiation. The research is meant to identify basic aspects about how humans think in negotiation and to be generalizable across negotiation contexts. Similarly, negotiation professors like myself often organize our courses around the key analytic ideas about negotiation, and participants later criticize us for excluding certain factors. That is, the instructor presents analytic concepts (like reservation price, which we will soon cover in chapter 2), and practitioners want to know if and how those concepts apply to a very specific context, such as their home culture or industry. The executive programs that I teach at Harvard Business School (HBS) often have executives from many dozens of countries and a similar number of different industries. It would be impossible to be fully responsive to all of their contexts, including their nationalities, industries, and particular challenges. During breaks and over meals, I am always happy to hear about their specific contexts, and I try to tailor the course to their specific application as well as I can. But even if I could address all their contexts directly in class, I don't think doing so would provide the best negotiation education.

I can explain this view more clearly by describing interactions I often have with potential clients who are thinking about hiring me to teach negotiation to their executives. When discussing the possible assignment, the potential client asks whether I will be using simulations that focus on the group's function (such as procurement, sales, or business development) and/or their industry (pharmaceuticals, energy, tech, etc.). Even when I have access to simulations that match their function and/or industry, I discourage the use of such simulations. My goal, I explain, is to provide compelling evidence that even seasoned executives do not intuitively think about negotiations optimally. I want the

executives to understand this independent of their unique context so they can determine how to analyze and plan for a variety of negotiations. For example, many negotiations assume the pie of value is fixed in size, when in fact it can be enlarged. I want students to learn this lesson in an environment that will clearly reveal where they are missing opportunities to create profit based on their faulty intuition. And I want them to learn how they can create value and improve their approach to negotiation.

If the simulation is too close to home, executives will try to connect it to their most recent or most salient negotiation. Rather than focusing on the lessons at hand, they will focus on how the simulation differs from the real-world negotiation most on their mind. In contrast, after the class develops some frameworks based on simulations far from their turf, participants are often extremely effective at applying the concepts to their own actual contexts and provide strong answers to the question, “What could you do more effectively in your real-world negotiations?” Generic knowledge is powerful and useful for figuring out how to improve the context-rich worlds we all inhabit. Thus, for custom negotiation programs, I usually recommend more general training on the front end and application sessions on the back end, where executives bring their own negotiation stories to the class for analysis.

One of my most memorable external teaching assignments was with a well-known publishing firm. My job was to teach these publishers and editors how to negotiate more effectively with people like me: authors. In fact, this particular company had published one of my books many years prior to this teaching engagement. A senior vice president, my main contact, informed me ahead of time that many of the other senior executives were skeptical about whether a professor had much to teach them. The president and my main contact pushed me to start with a publishing simulation to get their attention. I argued against this but ultimately agreed to their demand, since I wanted the assignment. What better way to understand the other side of these negotiations that were an integral part of my life? I didn’t have a publishing simulation, so I wrote one. It was based on one of my real-life book contract negotiations.⁴

I had a blast writing the simulation. Teaching it was fun, too. But when the session ended, two of the most senior people in the room

(famous names in the publishing world) made a point of informing me that all of my facts (which were actually facts) were inconceivable in the publishing industry. When I pushed for clarification, they shared anecdotes about very different book negotiations, anecdotes that I am sure are true. Not surprisingly, publishing negotiations can be very different from each other. I didn't tell them that they were accusing an actual publishing story of being inconceivable.

Despite their claim that my story could not possibly be true, listening to them helped me understand the importance of negotiating contexts. Rather than focusing on the lessons I thought they would need to learn to improve their negotiating skill, like thinking about alternatives and reservation price, setting the most effective anchor, and considering the other side's perspective, these publishers were fixated on the specifics of their most recent or vivid negotiation. General learning was lost in the details of comparing different publishing negotiations. In contrast, had the simulation been over buying a parcel of land or securing syndication rights to a TV show, I am confident the publishers would have focused on the more abstract concepts that would have helped them negotiate book contracts more effectively and train others to do so.

The challenge for any real-world negotiator is to figure out how ideas that you might learn about in a class or a book generalize to your negotiation context. In this book, we will examine when the research literature offers useful advice for your real-world negotiations as well as how to apply negotiation advice to specific contexts. Most of the time, the answer will be that the ideas presented in classrooms and books will be useful across contexts, with some tailoring. This book is all about good tailoring.

A Tool Kit for Contextualizing Negotiations

I hope that this book is useful to those who have never read a book on negotiation or taken a negotiation class. I would like it to serve as a great introduction to negotiation that recognizes many contextual changes that have occurred in society in recent decades. But I also hope the book will provide lots of new insights to those who have had some exposure

to the key concepts in negotiation theory, like BATNA (best alternative to a negotiated agreement), reservation value, zone of possible agreement, value creation, and even Pareto-efficient frontier. When these concepts come up, I will typically explain what they mean but also highlight ideas for thinking about how a particular context affects how you might use these concepts. Rather than concluding that reservation values, say, matter in some negotiations but not others, I will focus on how the context we're discussing affects how you assess your reservation value. Readers with extensive knowledge of prior books on negotiation should feel free to skim over the material that introduces the core concepts they already know well.

When the talented students and experienced executives I'm teaching raise contextual challenges surrounding negotiation, I try to remember that their challenge is unique—different in some way from the other stories I've heard about before. At the same time, these challenges often share commonalities. Organizing negotiation contexts into different types enables me to offer useful advice in particular situations. Any categorization of contexts will be imperfect. But, based on the thousands of unique negotiation stories and challenges I have heard, I have found this particular categorization to be helpful—to me and to my students.

The categories that follow—culture, economics, politics, relationships, modes of communication, and the behavior of the other side—provide important contextual information that we can use to assess the core concepts that go into all important negotiation analyses. These contextual variables are not a list of the chapter topics that follow. Rather, they are an overview of contextual categories I will refer to throughout the book to describe how social context can be used to develop effective strategies that incorporate our best general models of negotiation. The book's chapters will focus on different conceptual challenges where the analysis is informed by the consideration of the contextual information that I now overview.

Culture. The most common contextual factor that comes up in teaching executives from around the globe is the role of culture.⁵ “Changing the Game,” the executive program that I lead, highlights the importance of understanding the other side—what they value, their

BATNA, their reservation price, and so on. Gaining this understanding can be harder when we negotiate with people from other cultures. Cultural rules and norms that are very different from ours can seem strange, and negotiating with members of cultures that we don't understand feels difficult as a result. Rather than focusing on our own limited ability to understand a very different culture, we sometimes end up viewing other cultures negatively or even pejoratively.

A few decades ago, when the Japanese economy was peaking, and Japan seemed like the main economic threat to the United States, people would ask me for tips on negotiating with the Japanese. Today, people more often ask me for help negotiating with the Chinese. Similarly, I have found that people from cultures around the world find negotiating with Americans to be difficult and are eager to hear my advice. Interestingly, the cultures I'm asked about most tend to be those that are thriving. This leads me to believe that cultural differences aren't the main barrier for these negotiators. Instead, the real issue may be the other party's economic strength. If someone seems to have many more options than we do, we might develop the impression that they are difficult negotiators. Rather than recognizing the weakness of our own negotiating position, we view their behavior as strange and as caused by their unique culture.

If I ask a group of executives to think about a culture that they find difficult to negotiate with in the real world, they tend to assume I am asking about someone from another country. But industries, companies, religions, and municipalities also have cultures. New York and Texas are both in the United States, yet norms of behavior are very different in these two states. Similarly, I can think of numerous large cities outside the United States where I feel more comfortable than I do in small towns in the American South and Midwest.

Generally, when someone tells me about the difficulty they're having negotiating with a group from another culture, I try to better understand the other party's behavior by determining what is unique about them. Do they have better options? Are they simply more patient? Do they value the relationship differently? Are the other party's negotiators authorized to commit to an agreement? Are there behaviors that the

other side might find rude or offensive? Each of these questions may well be connected to culture. But these more specific attributes provide additional insight into the other side in ways that are meaningful for developing an appropriate negotiation strategy. Most of us better understand people from our own culture than those from other cultures. Yet, more and more, we find ourselves negotiating with people from different cultures. These circumstances highlight the value of understanding culture and diversifying our teams.

Economics. No executive has ever called me to say, “We have a negotiation that is going really well, but we thought that with your help, it might go even better.” Rather, when I get calls for help, it is typically because something has gone wrong. Most commonly, the executive seeking my advice lacks economic power in comparison to the other side.

I find it just as interesting to make the best of a bad situation as to make marginal improvements on a great situation. I used to be a very good card player, and like any good card player, I had fun when I was dealt a great hand. Yet I knew that the decisions I made when I was dealt a lousy hand were also very important. The same is true in our negotiations. In negotiation training, we typically advise negotiators to think about their alternatives to an agreement, as well as their counterpart’s likely alternatives. To do this, we need to think about the economic conditions affecting both sides. Economic conditions include basic financial considerations but also market conditions more broadly.

Economic conditions help us understand why the other side might seem unusually tough and assess whether they really will walk away from the deal on the table. Economic conditions help us understand our alternatives to an agreement and the opposing party’s alternatives. And economic conditions can help us identify creative solutions to difficult negotiations.

Politics. The political environment is another factor that affects the context of negotiations. Sometimes governments pass laws that change the dynamics between negotiation parties. A law that makes it harder for employees to unionize, for example, might give management more power in a particular employment negotiation. Sometimes one party in

a negotiation has better information about future political developments than their counterpart. For example, in a simulation case that I often teach, “Hamilton Real Estate” by Deepak Malhotra, the potential buyer of a parcel of land is politically connected and has learned that upcoming zoning changes will dramatically affect the value of the land.⁶ Part of the challenge for the seller is to discover this aspect of the political context in which they find themselves.

In both governmental and corporate contexts, our perceptions of the political environment surrounding our negotiations are predictably asymmetric. When the political context favors our side, we tend to view that environment as normal or fair. In contrast, when the other side has the advantage, we tend to see the politics as “political,” or unfair. From a negotiation perspective, we need to gather as much knowledge as we can about the political environment and how it affects the options of all the parties at the table and develop a wise negotiation strategy based on that reality—rather than on the world as we wish it was.

Relationships. In negotiation, relationships matter a great deal. Negotiating with a close friend will be a very different experience than negotiating with a supplier you have never met before. You can trust your friend to be honest and transparent, but you can’t yet rely on your new supplier to be honest and transparent. Your friend will want to treat you fairly in the negotiation, while the new supplier may or may not care about your long-term outcomes. At the same time, you might push for a better deal in your negotiation with the new supplier and be less assertive when negotiating with your friend. Similarly, when you are negotiating with others in your organization, the organization has a right to expect you to negotiate in a manner that is in its best interest and improves its overall value. As a result, such internal negotiations are likely to foster more positive relationships than external negotiations with suppliers and customers.

Modes of communication. At the start of the Covid-19 pandemic, we all learned new ways to work, socialize, and try to stay healthy. I learned to teach on Zoom, which wasn’t on my radar screen in 2019. Many salespeople who lived their lives on airplanes suddenly found themselves spending their days on Zoom and other similar platforms.

Developing relationships with customers over meals was no longer possible, and “reading” people became more challenging.

When I was forced into Zoom teaching in March 2020, I didn’t like it at first. But I adapted and eventually learned to enjoy it. This was especially true when, in 2021, I started teaching some classes in person, with everyone wearing face masks. I found it more comfortable to teach on Zoom, where at least I could see the students’ faces. Before the pandemic, I didn’t appreciate the degree to which I relied on facial expressions when teaching. I imagine people who negotiate all day long and made similar transitions experienced similar patterns and preferences.

Most of us prefer dealing with people in a way that allows for comfortable communication. Yet we often find ourselves negotiating in contexts where we can’t choose the mode of communication. This contextual factor affects our negotiation strategy. The more the social context deviates from a comfortable mode of communication, the more we need to think about the social context and plan our negotiation strategy accordingly.

The people on the other side of the table. In psychology, there have been decades of debate about whether the person (the parties in a negotiation) or the environment (the specifics that define the negotiation) is the most important determinant of behavior. Those unfamiliar with the empirical literature are often surprised to learn that most research psychologists agree that the environment explains far more of the variance in individual behavior. However, that doesn’t mean that individual differences are unimportant in negotiation. When we approach a negotiation, characteristics of our counterpart are indeed an important part of the context.

In particular, the other party’s gender, race, ethnicity, personality, intelligence, negotiation skills, and other individual differences all matter, and they affect the deal that is negotiated. Yet too many negotiators are overconfident in their ability to assess the personality of the other side and predict their behavior. Too many negotiators are overconfident that they can predict their counterpart’s behavior based on gender, racial, and other stereotypes.

Social psychologists have documented that most of us view the demographic groups to which we belong as heterogeneous but assume that members of other demographic groups, those to which we do not belong, are more homogeneous. For example, Americans tend to use stereotypes to anticipate the behavior of Chinese counterparts but accept a wider range of behavior from American counterparts. When we run into problems in negotiation, we are too quick to rely on stereotypical descriptions of people who share the demographics of the party we are facing. It would be a mistake to assume that the other party's behavior will be consistent with the stereotypes available from quick Google searches. We give too much weight to demographic stereotypes and would be better off observing our counterparts' actual behavior, research shows.

Similarly, we shouldn't assume we have the clinical skills required to quickly assess others' personalities. A great deal of research sheds doubt on our ability to accurately and swiftly size up someone we've just met. Individual personality differences are important in negotiation, but most of us lack the ability to understand how these differences will affect people's behavior. When we try to do so, we often rely on stereotypes of categories of people. What should we do instead? Respond to people's behavior, not their demographics or our intuitive assessments of them. Demographic information can help us appreciate what we might not fully understand about the other side, but we should develop our negotiation strategy based on their actions—a very important part of the social context.

The World Has Changed

My students often ask whether the material in my negotiation classes has changed over the last couple of decades. The honest answer to this reasonable question depends on what a participant means by "the material." The core negotiation concepts have remained intact: you should still think about your best alternative to reaching an agreement with your current counterpart, as well as the other side's perspective. But

during these decades, the negotiation context has altered dramatically—along with the world.

Consider some of the changes we have witnessed in the United States during the current millennium (it would be easy to create an overlapping list for many other countries):

- As the most massive attack the United States has ever experienced, 9/11 changed the country's perceived power, our alliances with other countries, and the culture of the largest U.S. city. It also made many Americans feel much more vulnerable.
- The Great Recession, dating from late 2007 through mid-2009, burdened most Americans financially. It also shaped our understanding of the real estate economy and the nature of negotiations for mortgages. And it affected the job market, including candidates' bargaining power in salary negotiations.
- Over the last twenty-plus years, Americans have become much more bifurcated, a process that sped up during the Trump era. Political polarization has affected relationships. Some feel a stronger bond with their negotiating counterparts due to shared political preferences. Others find they must negotiate with people they now view as enemies. At the political level, it has become much more difficult for elected officials to reach bipartisan agreements that would improve the welfare of most citizens.
- The online economy has shaped how parties reach agreement. You can now rent another person's home without talking to them or to their agent. You can set up an e-auction to buy or sell goods for your company without talking to the other side.
- The phenomenal growth of the Chinese economy has given the Chinese government and Chinese companies more power while taking away power from the U.S. government and U.S. companies. It has also dramatically altered which parties belong to the trading networks of corporations all over the world.
- Our work life is much more diverse than it used to be. The globalization of the economy and societal shifts that bring more

diversity to the workplace mean that we interact with people who differ from us more than in the past. Obviously, this is wonderful. It also requires us to confront our own biases and to try to understand counterparts who have different norms than people who are more similar to us.

- No change has surprised us and altered the way we negotiate more than the Covid-19 pandemic. We have different trading partners and interact with our negotiation opponents in different ways. Supply chains have been disrupted in ways that no one ever expected. Negotiations over retail and office space have changed dramatically as demand for that space shrunk significantly. And the social aspects of our interactions have transformed as we moved many of our negotiations online.

While these changes are enormous, none of the core concepts we taught a couple of decades ago have become irrelevant or obsolete. Rather, what has changed dramatically in many negotiations is the context. The title of the executive program that I direct at HBS, “Changing the Game,” highlights the importance of defining the negotiation game rather than simply implementing moves in a fixed game. Fundamental transformations in our world have changed the game we are playing. We need to understand the context created by these changes and adapt core negotiation concepts to take account of our new context. That is what this book is all about.

Contextualizing the Simple and Complex

The early chapters that follow explore basic challenges that negotiators have faced for a very long time. In chapter 2, we consider the conventional wisdom of making extreme offers, and in chapter 3, we assess how to think about dividing the pie. Many readers will be for or against these negotiation strategies. You will not be surprised to learn that I think context matters. As the book continues, we will move on to contextualizing some of the challenges created by changes in contemporary

society, seeing how our core negotiation frameworks apply and how we can use our conceptual tool kit to handle these challenges more effectively.

Each chapter starts with a thought-provoking question that I have received from a student. The chapters will present information relevant to the challenge and related ones, then close with direct responses to the question. The goal will be to show how the chapter content helps us understand context-specific questions.

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