Module 2

Key Project Negotiation Concepts

Introduction

Here we'll provide an overall framework for the negotiation process and introduce some key concepts in negotiation. We'll explain two different approaches to negotiation – competitive and collaborative – and describes some techniques commonly used in competitive negotiations.

While the course focuses on collaborative negotiation, there are some fundamentals which are common to both approaches. Many negotiations are a mixture of the two approaches, so it is important for the project manager to understand both. Project managers may also find themselves in situations or industries where competitive negotiation predominates and so must be able to respond appropriately.

You will learn the importance of identifying an initial target and bottom-line for each issue you are negotiating and how these concepts can help you determine a zone within which agreement is possible. You will also learn the critical role played by a backup plan.

You will have an opportunity to practice identifying the zone of potential agreement in a project management situation, and you will analyze a project management scenario to determine a backup plan for it.

Key Project Negotiation Concepts

Negotiation: Big Picture

Negotiation begins when the project manager identifies issues that need to be discussed and agreed upon. The next step is to consider what to do if he or she is not able to come to an agreement. This is the backup plan.

Issues may be dynamic (changeable) or static (not changeable). Static issues cannot be negotiated, so successful negotiators figure out how to convert them into dynamic issues. Project managers can present their dynamic issues as positions or they can discuss the interests behind their positions. Focusing on positions will result in competitive (win/lose) negotiation, while discussing interests will facilitate collaboration (win/win) negotiation.

There are four stages in a negotiation process, and effective negotiators use all four. They are rapport, exploration, movement or bargaining, and closure. Competitive and collaborative
negotiators use these stages but have different objectives for each one. We will explain what those objectives are. The amount of time spent in each stage also varies, depending on the negotiator’s approach, and we will discuss those differences.

When issues are presented as interests, the negotiation can be collaborative. While competitive negotiators focus primarily on the issues (content), collaborative negotiators consider both the issues and their relationships with the people involved.

There are three basic styles of competitive negotiation: soft, hard, and analytical. Soft negotiators go easy on the people and the problem; hard negotiators are tough on both; and analytical negotiators enjoy the process of negotiating. Each of these styles is recognizable by the types of techniques employed by the negotiator. This course describes some of the techniques commonly used in each style.

A negotiator’s personality type will also affect his or her negotiating and decision-making styles as well as his or her preferences for the different stages of negotiation.

Lastly, negotiations can become more complicated when the parties have different levels of power; generational or gender differences are involved; the negotiations take place in a virtual environment; multiple parties are negotiating; and/or the parties are from different cultures.

**Stages of Negotiation**

There are four stages in the negotiation process, each of which must be managed if a project manager is to be successful.

- **Rapport:** The objective of this stage is to establish a positive climate for negotiation and to reduce any tensions among the negotiating parties. Rapport may include introductions, discussion of the agenda, and personal conversations.

- **Exploration:** The objective here is to learn more about the other parties’ issues, positions, interests, targets, and bottom lines. It also provides an opportunity to discover whether the other party has a backup plan. So, the project manager typically asks questions and provides information to the other party during this stage.

- **Movement:** The objective is to reach agreement on the issues. This involves bargaining and making statements in the attempt to influence the other party. This is the stage many of us associate with the term “negotiation,” and that is why it has negative connotations for many project managers. In fact, effective project managers use all four stages and actually spend less time in this stage than in stage two.

- **Closure:** The objective here is to review and summarize agreements. Contracts may be signed and future commitments made. Project managers need to give adequate time to this stage even though there is often a rush to end the negotiating session quickly.

This four-stage cycle may be repeated for each issue in a negotiation, or a project manager may revisit stages as he or she refines the alternatives.

**The Backup Plan**

The project manager’s backup or contingency plan can have a powerful effect on negotiations. Project managers who have a backup plan tend to be more secure and confident during negotiations. Those who have not considered what they will do if the negotiations fail may feel
insecure and agree to terms that are not very favorable to them. Skilled negotiators may sense this desperation and use it to their advantage. That is why it is so important to develop a plan as soon as the project manager recognizes the need for negotiation—not when the negotiations are already underway.

A backup plan is not the same as your bottom line. It is not the worst deal a project manager would accept. A backup plan describes what a project manager will do if he or she is unable to make any deal. During negotiations, a project manager keeps the backup plan in mind and tests alternatives raised against the plan. Alternatives that are better can be accepted, while those that are not may get tabled.

**Application of the Backup Plan**

A project manager does not typically communicate the backup plan to the other party at the beginning of negotiations because that can be intimidating, and it generally leads to competition. However, if negotiations stall or the other party does not want to collaborate, a project manager can use the backup plan to educate the other party. The best way to do this is to gently roll it out by asking questions, such as “What would you do if I were to tell you I had an alternative (the backup plan)? Or “How would you react if I were to tell you we have been talking with some other vendors?”

A project manager can also use the Exploration stage to figure out whether the other party has a backup plan and how powerful their plan is. Again, this involves gentle questioning, such as “Have you thought about what you might do if we are unable to come to agreement?” Or “How many contracts are you currently working on?” Or “How many companies are you considering for this work?”

The backup plan is only implemented fully if a project manager cannot come to terms with the other party.

**Characteristics of Issues**

Issues may be static or dynamic. Static issues arise from past experience and are often emotionally charged, making them difficult to negotiate. Because they arose in the past, they cannot be changed. For example, “The last project manager I worked with did not really ask us what we wanted from the project, so I am not looking forward to working with your department again!”

Dynamic issues are future oriented and changeable, so the project manager’s goal is to convert static issues into dynamic ones. Often, the first step is to give the other party an opportunity to vent about the past. This requires active listening and nondefensive responses from the project manager, who simply takes in what the other party is saying without conceding anything. A general apology from the project manager is also helpful.

The next step is to use the information gained to propose a strategy going forward. For example, “I’m really sorry that happened to you. So, what can we do going forward to ensure that your requirements are adequately identified?”
Two Schools of Negotiation Comparison

Many books and articles have been written about negotiation, and many different approaches have been advocated. Most of these approaches can be divided into two schools: competitive negotiation and collaborative negotiation. As we pointed out earlier, in competitive negotiations, one party usually “wins” something, and the other party “loses” something. In collaborative negotiations, both parties feel they have won.

Another key difference is in how the two schools approach the concept of value. Competitive negotiators assume the value to be gained by negotiation already exists, and it is their job to claim as much of that value as possible. Collaborative project managers see negotiations as an opportunity to explore potentially unidentified value. Their goal is to create new value, which can then be shared by both parties.

In other words, competitive negotiators try to get the biggest piece of the pie, while collaborative negotiators try to make the pie bigger.

Interests vs. Positions

Positions are explicit statements about what we want in a negotiation. Interests are the reasons why we take positions. When they are taking positions, negotiators may use the following words:

- Want
- Bottom line
- Stance
- Solution
- Specification

When negotiators are talking about their interests, they may use the following words:

- Expectation
- Hope
- Fear
- Benefit
- Function
- Concern

Often, people intuitively begin negotiations by taking positions. A natural response of the other party is to state a position of their own. Once we have stated a position, we tend to become emotionally attached to it, and we become entrenched in maintaining that position. Unfortunately, this inevitably leads to competition.

More effective project managers ask questions to discover the reasons why other parties are taking their stated positions. Instead of countering the other party’s responses, the project manager can use the information to gain insight into alternatives that may satisfy both parties’ interests.
Competitive Negotiation: Three Styles

In competitive negotiations, one or both parties lose something. There are three basic competitive styles: soft, hard, and analytical.

The soft style is an “I lose/you win” approach. The soft negotiator is primarily concerned with maintaining a good relationship with the other party. He or she searches for alternatives that are acceptable to the other party and may make concessions to keep the peace.

The hard style is an “I win/you lose” approach. The hard negotiator needs to dominate and will insist on getting what he or she wants. The hard negotiator is primarily concerned with the issue or problem and will demand concessions at the expense of the other party. He or she may also mislead the other party to gain the upper hand.

The analytical style is an “I lose/you lose” style because in its extreme form, negotiation becomes a game and can get stalled over details. The analytical negotiator is concerned with the process over the solution and enjoys demonstrating his or her knowledge of the facts. He or she does not view emotions (or relationships) as being important in negotiations and may manipulate data to achieve objectives.

Competitive Negotiation Techniques

A negotiating technique is a ploy or tactic that one party uses to get the other party to change its position. Many of the techniques we are about to discuss create tension in the other party, who gives in to relieve the discomfort. For that reason, competitive techniques may damage relationships and make it difficult for the project manager to work with the other party in the future.

However, competitive negotiating techniques may be used in industries or organizations where competition is the norm. Even if a project manager wishes to be collaborative, it is important to recognize when the other party is being competitive and to be prepared to convert their positions into interests. There are also cultural differences regarding the use of competition in negotiations, and project managers need to be aware of these differences in order to be successful. As a last resort, project managers may need to use competitive techniques for self-protection.

Some of the techniques employed by negotiators using each style are summarized below.

Soft negotiating techniques create a form of tension by implying affiliation with the other party, creating guilt, or disarming the other party. These techniques include—

- **Association**
- **Tales of woe**
- **You are more important than me or you know more than me**

Association means asking questions and/or making statements that suggest both parties are alike and, therefore, should agree. For example, “We grew up in the same town or we both like the same restaurant.” Tales of woe are commonplace and self-explanatory. A version of the last technique is “You are the expert. You tell me what we should do.”
Hard negotiating techniques create tension by intimidating or threatening the other party. They include—

- Blaming a third party (scapegoating)
- Using a carrot-and-stick approach
- Deadlining
- Putting the other person on the defensive (POPOD)
- Name dropping

In many organizations, certain functional groups are used by competitive negotiators to justify their positions. For example, “Contracts (or finance, legal, or some other group) requires us to do it my way.” This may or may not be true. Negotiators may also achieve what they want by promising a reward if the other party gives in (the carrot and stick). Deadlining means forcing a decision from the other party by claiming there is an arbitrary deadline, which may or may not actually apply. Name calling is a common form of POPOD, and mentioning the name of someone in power or authority is another common ploy.

Analytical techniques create tension by implying that the user is more logical or knowledgeable than the other party. These include—

- Claiming budget limitations
- Using credentials to justify positions
- Issuing disclaimers of previous statements
- Playing “little professor”
- Citing standard industry practice

Analytical negotiators sometimes justify positions by relying on their budget estimates (which are better than yours) or by citing credentials such as a university degree or a professional certification. If caught manipulating data, they may respond by elaborating on the original statement and so issue a disclaimer of it. The “little professor” tactic usually begins with finger wagging and a statement about “what you need to know.” Citing standard industry practice can be a collaborative technique if the standard actually exists. However, analytical negotiators may simply use this tactic to justify a position without reference to actual standards.

**Negotiation Ranges and the Zone of Potential Agreement**

For many issues in negotiation, each party can establish a target or goal and a reservation point. The target is our ideal, and the reservation point is the least favorable alternative we would accept. For example, a vendor might ideally like to have 65 weeks to complete a project but could, if pressed, complete it in 45. Sixty-five is the vendor’s target and 45 is the vendor’s reservation point. Similarly, the project manager may have his or her own target and reservation point, which are likely to be different from the vendor’s.

Where the range between our target and our reservation point overlaps that of the other party, there is a zone within which agreement is possible. This is sometimes called the Zone of Potential Agreement (ZOPA). Project managers who are effective negotiators ask questions to determine what the other party’s ZOPA is because attempting to negotiate outside the ZOPA is inefficient and is unlikely to lead to any agreement.
Most negotiators will not reveal their entire range, in other words, the difference between their target and their reservation point, but they do frequently begin by stating their ideal or target. A project manager can then ask questions to validate the target and to figure out what the reservation point might be.

Competitive negotiators sometimes start by stating a target that is more favorable than their actual goal in the hopes of forcing the other party to make a concession. This is called “highballing” and is unproductive because it misleads the other party and creates pressure for him or her to “lowball.” The resulting discussion often takes place outside the ZOPA, so it simply prolongs the negotiation. It can also impact trust, which makes collaborative difficult, if not impossible.

Preparation to Negotiate Competitively

This course underscores the need for preparation in successful project management negotiations. Key preparation tasks for a competitive negotiation include—

- Identifying the issues we want to discuss (and those we do not)
- Developing a backup plan
- Converting static issues into dynamic ones
- Establishing goals (targets) and reservation points for each issue
- Considering which techniques we may wish to apply to gain concessions

Summary

- There are two major approaches to negotiation: competitive and collaborative.
- There are four stages in negotiation: rapport, exploration, movement, and closure. An effective negotiator uses all four stages.
- Project managers should identify the issues they want to discuss and develop a backup plan before starting negotiations.
- There are two types of issues: static and dynamic. Only dynamic issues can be negotiated.
- Negotiators may present issues as positions or interests. Discussing positions generally results in competitive negotiations, and discussing interests leads to collaboration.
- There are three primary competitive negotiation styles: soft, hard, and analytical.
- The Zone of Potential Agreement, or ZOPA, is where negotiators’ acceptable ranges on an issue overlap. In competitive negotiations, most resolution occurs within the ZOPA.