University of Pennsylvania
The Wharton School
OPIM 691 / MGMT 691 / LGST 806: Negotiations
Fall 2010

Professor: Jack Hershey
Office: Suite 568, JMHH
Phone: 898-5041
Email: hershey@wharton.upenn.edu
Office hours: by arrangement

Negotiation is the art and science of creating agreements between two or more interdependent parties.

This course has two purposes. First we will talk about and apply theories developed as guides to improving negotiating. (That's the science.) Second, students will develop and sharpen negotiating skill by negotiating with other students in realistic cases. (That's the art.)

Since negotiations occur in all kinds of organizations, and in many functional areas within an organization, we will discuss a wide variety of examples. Most of these examples are cases you will actually negotiate. The cases are the heart of the course.

Most of the cases will be distributed in class, but when cases are distributed in advance, please read the cases and think about them before actually negotiating. Preparation will generally get you a better deal (though not always, of course). Furthermore, when you are negotiating in a group, failing to prepare can hurt the entire group. You should also keep up with the assigned readings. The readings are (generally) relevant to the case which is to follow.

Most of the cases will be graded. Here's how: Typically a student will play one of two or more roles in a case -- buyer or seller, for example. The numerical performance of a student who is assigned to be a buyer will be compared only with the performances of other buyers, and the same will apply for sellers. Let x denote the numerical measure of our buyer's performance. The buyer's score for x is given by the following formula:

$$\text{Score}(x) = \frac{x - \text{Low Score}}{\text{High Score} - \text{Low Score}}$$

The lowest buyer score will be assigned a value zero and the highest buyer score will be assigned a one. All other scores are between zero and one. Adding all of your scores across the graded cases will determine your aggregate case grade. Your aggregated case grade will constitute 15% of your course grade.

It is absolutely crucial that you participate in the negotiation cases. Missing a case costs you an opportunity to learn, and disrupts the careful balance and pre-assignment of negotiation partners. It also costs the person or persons you were assigned to negotiate with. As a result, attendance is mandatory. If you miss a case without having a good excuse in advance you will earn a score of -1.0. Participating and doing poorly is always better than not participating at all. I will drop your two lowest case scores, but I will not drop a score of -1.0. Of course, missing a class can also hurt your participation grade.

In other words, for this class to work, you must make class attendance one of your top priorities this semester. Enrolling in this class constitutes acceptance of this requirement.

There are three additional rules about the cases.

(1) The written background you will receive in each case is meant to represent the preferences and knowledge of real people. You should not show anyone else your written material because in natural settings you would not show people the things the written material represents.

(2) You should not make up facts that are not in the case. People make up facts in real negotiations, of course, but facts that are made up in our cases are hard for others to check. We also have found that people who make up facts do not learn to negotiate. Lying gives them a strategic advantage (of debatable ethicality) which enables them to do well without facing the risk of severe legal and reputational penalties, and without facing up to the more fundamental and difficult aspects of negotiating. In the end, all of your private information will be revealed to your negotiating partner during the debriefing discussions. The tactics you use during a negotiation may well become the subject of a full classroom discussion, and may affect the rating you receive from your classmates (see below).

(3) Many of these cases will involve multiple issues. The number of points a participant receives for each issue will depend on his or her role in the case. You should never reveal your point structure to the other participants in the negotiation. This rule will be made clearer when we get to the relevant cases in the course.

Readings

There are three required texts, all available in paperback:

Roger Fisher, William Ury, and Bruce Patton's *Getting to Yes,* (Penguin, 2003),

Max Bazerman and Margaret Neale's *Negotiating Rationally,* (Free Press, 1993), and

Avinash Dixit and Barry Nalebuff's *The Art of Strategy,* (W.W. Norton, 2008).

You should read *Getting to Yes* as soon as possible. It is a quick read and provides some basic lessons for negotiations. Bazerman's text focuses on behavioral decision research and its relation to negotiations. Dixit and Nalebuff's text provides excellent background on game theory. These readings will provide a foundation for negotiation theory and strategy.

There is a course pack of readings and cases (available at Wharton Reprographics). I will also give a lot of handouts during the course.

Behavioral Decision Research

These topics are highlighted in the course outline – e.g. see Class 1, "Discuss Escalation of Commitment." On these days, I will give a brief lecture on these topics. Most of them are discussed in the Bazerman and Neale book. Throughout the course, look for examples of these topics as they appear in the cases you negotiate, and try to incorporate the lessons from these topics into your negotiation strategies.

Class Feedback

Near the end of the semester you will rate your classmates, on a scale from strongly agree to strongly disagree, on the following item:

"This person helped create value in class discussions"

I will use your average rating as a part of your class discussion grade.

Class Participation

One of the best ways to learn about negotiation techniques and situations where negotiation may prove useful is from your fellow classmates. For this reason, it is important for you to participate fully in class. Your class participation grade will be based on several things. First, I will keep class attendance and second, I will generally keep track of willingness to take part in class discussions. As explained above, I will also use your classmates' assessment of how much you created value in the class discussion in deriving your score for this dimension.

Exam

There will be a 1½-hour exam during finals week based on the lectures, class discussion, readings, and guest lectures. This will be a closed-book exam, with short answers.

Class Presentations – Outside-the-Class Negotiation

We will devote much of the last two days of class to class presentations. The presentations will consist of each individual, one-by-one, presenting to the class a series of no more than six slides (that must be emailed to me by Wednesday, November 24, at 5 PM) that explains how you prepared for and went about a "real world" negotiation. You can negotiate anything – a good or service from a merchant, a taxi bill, a restaurant meal, or a couch. In fact, the negotiation need not even involve the exchange of money.

My preference is for you to negotiate in a setting where negotiations are uncommon (e.g., not a flea market). Although you do not need to complete a transaction to complete the exercise, the good or service that you negotiate for should be something that you actually care about and for which you could see yourself completing a transaction.

In your presentation I will be looking for (and grading) the following:

1. Is this an interesting negotiation setting? Any setting will work, but I would prefer to see you initiate a negotiation in a setting where negotiations are not the norm.
2. Preparation. You can write about spontaneous negotiations (e.g., after receiving bad service), but I am interested to see you document how you prepared for the negotiation.
3. Integration of class material. To what extent can you integrate theory and class lessons in analyzing this experience?
4. Identifying key lessons. What did you learn about yourself and/or others from this exercise?

Class members will grade each other and will be instructed to base their grades on the four factors listed above. I will assign the final grade for this component myself, but I will take the class opinion of each presentation into account.

Breakdown of Grades

Class Participation	25%
Cases	15%
Presentation of "real world" negotiation during last two classes	25%
Exam	35%

Course Pack Table of Contents

<u>Schedule of Classes</u>

Class 1a: Tuesday, September 14: Introduction, Escalation

    Prepare for Class: Read "Never Pay Retail Again." (Course Pack #1)
                          Read *Getting to Yes* during the first 2 weeks**.**
    Class Activity: Course Overview
                          Class Norms
                          Discuss Escalation of Commitment

Class 1b: Tuesday, September 14: Introduction (continued)

    Class Activity: Negotiate Case #1 (not graded)

Class 2a: Tuesday, September 21: Distributive Negotiations

    Prepare for Class: Read Bazerman and Neale: 1-22
                          Read Bazerman and Neale: 67-76
                          Read Dixit and Nalebuff, Chapter 1
                          Read carefully Shell, RG. "When is it Legal to Lie in
                                    Negotiations?" (Course Pack #2)
    Class Activity: Discuss Case #1
                          Discuss lying

Class 2b: Tuesday, September 21: More on Distributive Negotiations

    Class Activity: Negotiate Case #2 (graded)

Class 3a: Tuesday, September 28: More on Distributive Negotiations; Availability and Anchoring

    Prepare for Class: Read Bazerman and Neale: 23-48
                          Read Dixit and Nalebuff, Chapter 2
                          Read "The Basic Decision Dilemma" (Course Pack #3)
    Class Activity: Discuss Case #2
                          Discuss Availability and Anchoring
                          Review of principles for distributive negotiations

Class 3b: Tuesday, September 28: Introducing Uncertainty

    Class Activity: Negotiate Case #3 (graded)

Class 4a: Tuesday, October 5: Harnessing Uncertainty; Overconfidence

Prepare for Class:	Read Bazerman and Neale: 56-64, 77-88
	Read Dixit and Nalebuff, Chapter 3
Class Activity:	Discuss Case #3
	Discuss Overconfidence

Class 4b: Tuesday, October 5: Multi-party Negotiations

Class Activity:	Negotiate Case #4 (graded)

FALL BREAK

Class 5a: Tuesday, October 19: Multi-party Negotiations

Prepare for Class:	Read Chapter 4 in Dixit and Nalebuff
	Read Bazerman and Neale: 160-170
	Prepare Case #5 (graded): *OPEQ*: Be <u>very</u> familiar with price and profit structure
Class Activity:	Discuss Case #4

Class 5b: Tuesday, October 19: Oligopoly

Class Activity:	Negotiate Case #5 (graded)

Class 6a: Tuesday, October 26: Oligopoly (Theory and Practice)

Prepare for Class:	Read Bazerman and Neale: 89-101
	Read Allred, "Distinguishing Best and Strategic Practices" (Course Pack #4)
Class Activity:	Discuss Case #5
	Receive team assignments for Case #7

Class 6b: Tuesday, October 26: Integrative Negotiations

Class Activity:	Negotiate Case #6 (not graded)
	Discuss Case #6

Class 7a: Tuesday, November 2: More Integrative Negotiations

Prepare
   before Class 9:   Read Chapters 11 and 13 in Dixit and Nalebuff
Prepare for Class: Case #7 team preparation
Class Activity: Discuss Confirmation Bias
                       Discuss Integration, Segregation, and Loss Aversion
                       Negotiate Case #7 (graded)

Class 7b: Tuesday, November 2: More Integrative Negotiations

Class Activity: Negotiate Case #8 (graded)

Class 8a: Tuesday, November 9: More Integrative Negotiations

Prepare
   before Class 9:   Reminder: Read Chapters 11 and 13 in Dixit and Nalebuff
Prepare for Class: Read Bazerman and Neale: 126-139
                       Prepare for negotiating Case #9 (handed out in previous class)
Class Activity: Discuss Case #7
                       Discuss Case #8

Class 8b: Tuesday, November 9: Multi-Party Negotiations

Class Activity: Negotiate Case #9 (graded)

Class 9a: Tuesday, November 16: Multi-Party Negotiations, Theory

Prepare for Class: Finish reading Chapters 11 and 13 in Dixit and Nalebuff
                       Read Bazerman & Neale: 140-151
Class Activity: Discuss Case #9
                       Begin negotiating Case #10 (graded)

Class 9b: Tuesday, November 16: Multi-Party Negotiations and Agency, Practice

Class Activity: Conclude negotiating Case #10 (graded)

Class 10a: Tuesday, November 23: Multi-Party Negotiations and Agency

        Prepare for Class: Read Bazerman & Neale: 49-55, 152-170
        Class Activity: Discuss agency theory and incentives
                                   Discuss Case #10
                                   Discuss Winner's Curse

Class 10b: Tuesday, November 23: Coalitions

        Class Activity: Negotiate Case #11 (graded)

Class 11a: Tuesday, November 30: Coalitions; Student Presentations

        Email to JC Hershey: Six slides for your outside-of-class negotiation by Nov. 24 at 5 PM
        Class Activity: Discuss Case #11

Class 11b: Tuesday, November 30: Student Presentations

        Class Activity: Student presentations

Class 12a: Tuesday, December 7: Student Presentations

        Class Activity: Student presentations

Class 12b: Tuesday, December 7: Student Presentations, Wrap-up

        Class Activity: Student presentations