

TEACHING OUTSIDE OFFER



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Outside Offer: Purpose of the Exercise

- Give students the experience of doing a multi-round negotiation
 - Classroom experience is very difficult environment for simulating long-term relationship, reputation effects that occur often in the real world
- Dearth of existing multi-round exercises
 - e.g., ABC Local

Topics to Highlight

- Relational capital
 - “Subjective value” built up in 1st round, carryover to 2nd round
- Reputation effects
- Short-term vs. long-term trade-offs
- Other options:
 - Use of different communication media across both rounds (e.g., email, text-based negotiations)

Set-up of the Exercise

- Acts as a 2nd round of New Recruit
 - Candidate becomes the employee
 - Recruiter becomes the employer
- Multi-issue exercise with distributive and integrative elements
 - Issues are qualitative, however, not quantitative as in NR
- Small bargaining zone; impasses common
 - Both parties have good BATNAs
 - Strong motivation for employee to wind up in Geneva
- Different media across 2 rounds mixes things up
- What happens if impasse in New Recruit?

New Recruit: Round 1

- Very common multi-issue, quantitative negotiation
 - Combines integrative and distributive elements
 - Helps students think about trading issues, expanding the pie
 - Introduces a scoring system
 - Power/BATNAs
 - Strong (4500), weak (2200), none
 - Focuses mostly on economic, objective outcomes

Issues in *New Recruit*

- Distributive
 - Parties' interests are opposed
(salary, starting date)
- Integrative/Compatible
 - Parties want the same thing
(job assignment, location)
- Integrative/Tradable
 - Parties have differing preferences
 - bonus (C), moving (C), vacation (R), insurance (R)



Distributive Issues



ISSUE	ALTERNATIVES	RECRUITER	CANDIDATE
Salary	\$90,000	-6000	0
	\$88,000	-4500	-1500
	\$86,000	-3000	-3000
	\$84,000	-1500	-4500
	\$82,000	0	-6000
Starting Date	1-Jun	0	2400
	15-Jun	600	1800
	1-Jul	1200	1200
	15-Jul	1800	600
	1-Aug	2400	0

Integrative Issues: "Compatible"



ISSUE	ALTERNATIVES	RECRUITER	CANDIDATE
Location	San Francisco	1200	1200
	Atlanta	900	900
	Chicago	600	600
	Boston	300	300
	New York	0	0
Job Assignment	Division A	0	0
	Division B	-600	-600
	Division C	-1200	-1200
	Division D	-1800	-1800
	Division E	-2400	-2400

Integrative Issues: "Tradable"



ISSUE	ALTERNATIVES	RECRUITER	CANDIDATE
Bonus	10%	0	4000
	8%	400	3000
	6%	800	2000
	4%	1200	1000
	2%	1600	0
Vacation Time	25 days	0	1600
	20 days	1000	1200
	15 days	2000	800
	10 days	3000	400
	5 days	4000	0

Integrative Issues: "Tradable"



ISSUE	ALTERNATIVES	RECRUITER	CANDIDATE
Moving Expenses Coverage	100%	0	3200
	90%	200	2400
	80%	400	1600
	70%	600	800
	60%	800	0
Insurance Coverage	Plan A	0	800
	Plan B	800	600
	Plan C	1600	400
	Plan D	2400	200
	Plan E	3200	0

Outside Offer

Employee's Interests

- “Your priorities in this negotiation center around the fact that you very much want to join your significant other in Geneva, Switzerland. At the very least you want to move as close to him/her as possible. You have decided to start a family together and do not want to spend any more time apart. Because you want to join your significant other in Geneva, and because your significant other has well paying job at the United Nations office there, in this negotiation you are less concerned with monetary issues and more concerned with quality of life issues. Simply put, your priorities have changed since the first negotiation.
- “You are happy in your current position and, all things being equal, prefer to stay with this company. However, you are also willing to leave depending on what happens in this negotiation, since you really want to be at a company that respects employees' private lives and work/life balance.”

Employee's Interests (con.)

- **Location**: The company has offices in San Francisco, Chicago, Atlanta, New York, Boston, London, Paris, Geneva, Frankfurt, and Hong Kong. You have heard that there are openings available in Paris and Frankfurt, but you don't know about London and Geneva. You are not particularly interested in ending up anywhere but Europe, unless the rest of the package is overwhelming. However, depending on how the negotiation goes you may bring up the possibility of splitting time between offices.
- **Vacation**: This company is notorious for giving employees very little time off, even in its European offices. You know of no one in the company with less than 10 years of seniority who takes more than 4 paid weeks off a year. The average for employees at your level is 5-10 days paid vacation/year

Employee's Interests (con.)

- **Promotion**: You are on schedule for a promotion in a year. The company has historically shown limited flexibility in fast-tracking promotions.
- **Performance Bonus**: You are currently eligible for up to 50% of your salary in performance bonuses. Employees are typically paid between 50% and 200% of their salary in performance bonuses, and this amount is usually based on seniority.
- **Salary Raises**: The company's typical annual raise is 5-10%. As far as you know, higher raises are paid out in two circumstances: for particularly outstanding performance, or when outside offers necessitate additional increases. You expect the employer will have a high priority on this issue.

Specifics of Employee's Outside Offer



Location	<i>London</i>
Salary	<i>20% raise</i>
Vacation	<i>4 weeks/ 6 weeks</i>
Promotion	<i>Eligible in 1 month</i>
Bonus	<i>up to 100% of salary</i>
Retirement	<i>10% direct contributions</i>

Employer's Interests

- “Your priorities in this negotiation center around the fact that the company is happy with the employee’s performance and would like to retain the employee if possible. The employee is a valuable asset. Even so, you do not have the resources to offer the employee ‘the world’ so to speak, and you are also reluctant to set a precedent for other employees to try to renegotiate their contracts. In addition, a recent graduate from a top-notch MBA program has expressed an interest in joining your company and could likely step into this employee’s position if it is vacated. (You assume the new MBA’s contract would be roughly the same as the initial contract of the current employee.) However, given the costs associated with employee turnover and the time it would take to get the alternative candidate up to speed, you think keeping the current employee on is preferable, all else being equal.
- “Going into the negotiation you are unsure to what extent your current employee is actually thinking of leaving, or whether this outside offer is a ploy to get more money from you. You have heard something about issues with a fiancé in Europe, but you don’t know if this is a ruse or not. Quite frankly, a fiancé in Europe sounds a little fishy to you, since there was no mention of this and no serious geographical restrictions when negotiating with this employee a year ago. You’ll simply need to find out more during the negotiation.”

Employer's Interests (con.)

- **Location:** The company has offices in San Francisco, Chicago, Atlanta, New York, Boston, London, Paris, Geneva, Frankfurt, and Hong Kong. There are openings available in New York, London, and Paris, and there might be one in Geneva, but the Geneva one would necessitate you calling in a favor or two, and you would likely want significant concessions in return. In addition, your San Francisco office (where the employee is currently) is understaffed and you need the employee there. No other openings are available for the foreseeable future. Splitting time between offices is a possibility but it is rarely done. Frankly, a San Francisco-Europe split makes little sense. Your employee would be spending too much time and too much money on airplanes.
- **Salary Raises:** The company's typical annual raise is between 5-10%. Higher raises are paid only for especially outstanding performance, and the employee's performance has been good but not yet outstanding. There is very little flexibility here.

Employer's Interests (con.)

- **Promotion**: The employee is on schedule for a promotion in a year. The company has typically shown limited flexibility in fast-tracking promotions. You could possibly arrange for the employee to be eligible for a promotion in another six months; anything else will be difficult and you would need significant concessions in exchange for something more.
- **Vacation**: Historically the company has not allowed much vacation time. The average at the employee's level is ten days paid vacation a year. That said, there is a new company policy going into effect which will allow more flexibility on this issue than there has been in the past. The company could give as much as 4 weeks paid vacation a year in exchange for other concessions. Unpaid vacation time is also a possibility.
- **Performance Bonus**: The employee is currently eligible for up to 50% of salary in performance bonuses. Employees are typically eligible for between 50% to 200% of their salary in performance bonuses, and this amount is usually (but not always) based on seniority.

Outside Offer: Preferences



Issue	Employee	Employer
Location	Importance: High Preference: Geneva	Importance: High Preference: San Francisco
Salary	Importance: Low	Importance: High
Vacation	Importance: High	Importance: Low
Promotion	Importance: Moderate	Importance: Moderate
Bonus	Importance: Moderate	Importance: Moderate
Retirement	Importance: Low Preference: Stock	Importance Low: Preference: Stock

Debrief

- Ask what parties' interests were
 - What were keys to getting a deal
- Ask how previous negotiation affected strategy/dynamics
- Ask how different communication media affected negotiation
- Highlight the critical importance of reciprocity and trust across multi-round interactions

Other questions to ask

- Did you create a scoring system like the one in New Recruit?
- If you were dissatisfied with your outcome in New Recruit, what did you do to overcome this in Outside Offer?
- If you had a contentious New Recruit negotiation were you able to turn the Outside Offer negotiation to be cooperative? What did you do?.
- If you had a cooperative New Recruit negotiation what was your Outside Offer process, did it remain cooperative or did one party attempt to take advantage of the cooperative relationship? What happens generally when negotiators break trust? What did you do to overcome this was this overcome in round 2?
- How did you interpret the issues in terms of distributive/integrative?
- If employees ended up in Geneva, what concessions were necessary to do so?
- What creative elements of agreements did you come up with?

Possible integrative outcomes

Location	<i>Geneva</i>
Salary	<i>0-10% raise</i>
Vacation	<i>4 weeks</i>
Promotion	<i>6 months/1 year</i>
Bonus	<i>25-50% of salary</i>
Retirement	<i>15% stock options</i>



Subjective Value in Negotiations

- Satisfaction with instrumental (e.g., objective, economic) outcome
 - Feelings about one's own performance
 - Saving face, feeling competent
 - Feelings about the process
 - Fairness, opponent receptivity
 - Feelings about relationship
 - Willingness to negotiate again, trust, overall impression of opponent
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- **SV is also a significant predictor of 2nd round negotiation outcomes**



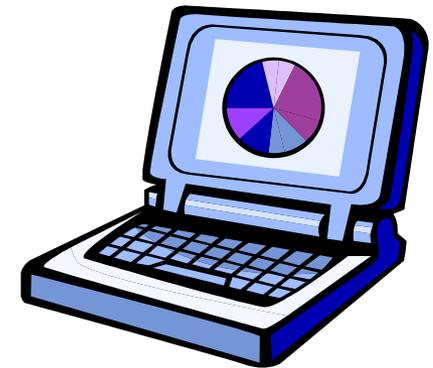
Multiple-Round Negotiations



- Previous history/long-term relationship can fundamentally alter negotiation dynamics
- Trust, reputation are critical factors
 - Those with “good reputations” prosper
 - Those with “bad reputations” lose out
- ***You should keep these variables in mind even if there is simply the possibility of negotiating again! Or if your own negotiation reputation could carry over into other negotiations with other parties.**

E-mail Negotiation

- What was it like to negotiate over e-mail?
 - How did it change the ebb & flow of communication?
 - How did it affect your outcomes?
- What do you think the advantages & disadvantages of e-mail negotiations are?
- When do you think you should use e-mail to negotiate?
- When should you avoid it?



A&B

- On the contrary, I see that you now put a lot of emphasis on vacation time whereas you never mentioned this as an important parameter at the beginning of the discussion. On top of that, you are offering me conditions for the Paris office that are not only worse than my offer in London but also worse than the average company standards:
- I do not have the feeling that I am treated fairly in this negotiation.
- Your offer looks like a blackmail now.

C&D

- I am slightly confused and concerned... I do hope you are being transparent with me C, because I'm not getting a good feeling with this.
- I would like you to reconsider the SFO offer, and there are some things we could work around to make your lifestyle better (SFO is one of the nicest places to live in the world according to the Oct. 2010 issue of Good Life! Magazine).
- I don't see your point insinuating that I could have hidden motivations behind this request.

E&F

But brandishing the threat of leaving the company and asking for the moon on criteria that have nothing to do with the topic (which is, correct me if I am wrong, your new personal constraints) is not an appropriate way to start a reasonable discussion Mr E. Your claim, after only one year with us, shows little commitment to building a career with us, and I am even wondering whether it is worth continuing this discussion. But I may be wrong, and that might be a miscommunication problem inherent to the email.

G&H

- As I said, I am very busy these days and I feel negotiating too much is straining our relationship.
- From your mail, I get the impression you're almost paternalistic.

I&J

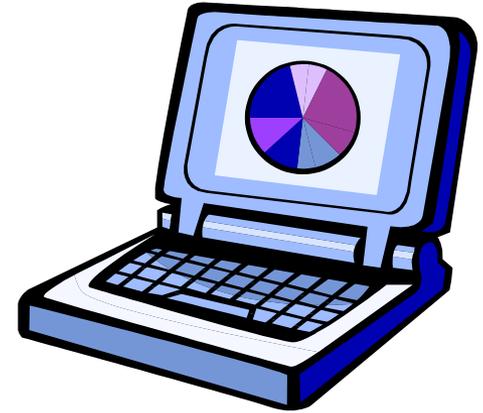
Naturally, a little disappointed that you are in talks with a competitor, especially given how far we went to accommodate your 'aggressive' demands last time. I do hope you are not going to use any discussions we have to improve any external offer, and we are not prepared to move forward on that basis.

K&L

- I believe there is a misunderstanding as I thought I had been clear when I said that no other changes to your contract are possible if you want to move to Geneva.

E-mail vs. Face-to-Face

- **Email takes longer**
- **Rapport**
 - More stereotyping, less individuation
- **Information exchange**
 - Less truth-telling
 - Less likely to ask diagnostic questions
 - Less revelation of interests
 - Less than 3-times information exchange
- **Impasses more likely over email**
 - Fewer social cues to mitigate misunderstandings
- **“Deindividuation”**
- **Lacks social context** – Easier to misinterpret messages



Advantages of Phone/ IM/Email Negotiations

- Allows negotiators to strategize between messages:
 - To calculate values of various outcomes, consider the best counteroffers and digest new information
 - Respond to arguments of an expert
 - Not immediately acquiesce
- Role of superficial status cues minimized



To conclude

- Outside Offer is a good exercise to introduce students to multi-round negotiations
- Can be done by email, or do New Recruit by email to highlight media differences
- Allows for a discussion of trust, reputation, subjective value, long-term interests

Thanks...