

Psychology of Negotiation

Psychology can give you a leg-up in negotiations, because it helps you understand how you (and your opponent) think. To maximise your effectiveness, get familiar with these psychological models and consider how you can use them to your advantage.



Cognitive bias

There are many types of cognitive bias, which are different ways that we interpret the world subjectively (rather than based on solid facts).

Some of the biases most relevant to negotiation include:

- **Ambiguity effect:** We tend to go for options where we know how probable a good outcome is, rather than options where the probability is unknown. This is why thoroughly investigating your BATNA is critical. Without clarity on your alternatives, you will naturally prefer to keep negotiating even though you might actually have a better option available.
- **Endowment effect:** You tend to overvalue what you already own, so you demand more money to sell an item than you would willingly pay to buy it. Always seek objective criteria for comparison when buying or selling—you or the seller may be asking more than the object is realistically worth.
- **Zero-sum bias:** Many people see negotiation as a zero-sum game, where anything one party gains mean a loss for the opponent. But this isn't the best way to approach a deal. By pursuing creative solutions rather than fighting for a bigger slice of the pie, both parties can get a better outcome. Think win/win!

Alloying

When two or more metals combine to form an alloy, it is often stronger and more useful than the pure metal. This is the power of synergy: negotiation is meant to come up with a better solution than either party has on their own. Come to the negotiating table prepared to add value.

Winning the battle but losing the war

This refers to the tendency to focus on short-term gains at the expense of better long-term outcomes. Of course this is dangerous in many areas of business, and can be particularly relevant for negotiations. It's easy to fall into the trap of wanting to "win" the present negotiation, but you need to consider your long-term interests, especially your relationship with the other party. Also keep this in mind in the middle of a negotiation: at times you may need to concede on a small matter, for the sake of getting a better outcome at the end.

Inertia

We all naturally resist change. We want to continue doing what we've been doing, and it takes force or pressure to make us change direction. If you're negotiating with someone who is firm on their specific outcome and won't take any other suggestions, it will be difficult to get them to agree to a more collaborative solution. Be aware of this, and come prepared to exert pressure by exposing weaknesses in their alternatives and emphasising the strengths of reaching a deal.

Sunk cost

A "sunk cost" is money that you've already spent which you can't get back. Often, spending money makes people feel like they need to continue with a certain course even if it will cost them more, so that initial cost was not in vain. In a negotiation, you may have already committed time, money, and energy trying to come to a deal. With sunk cost thinking you won't want to waste that, so you may keep negotiating even when it's genuinely not the best option. Be aware of your BATNA so you know when to pull the plug.

Black or white

This is the trap of thinking that there are only two alternatives when there are actually other possibilities on the table. For instance, you may think that the only options in a negotiation are to get the outcome you wanted or walk away. It's helpful to recognise this faulty thinking, and realise there could be alternatives which will satisfy your interests that aren't exactly what you had in mind. These "grey" options are often better than walking away.

Reciprocity

We've talked about the concept of reciprocity in this course. It refers to the obligation someone feels to do a favour for someone who has done a favour for them. This can be used to your advantage when negotiating by granting concessions to other party early on, or with matters which you don't value as highly. In response, they'll be more likely to make concessions to you further down the line.

Ad hominem

Sometimes people will personally attack their opponent instead of logically countering their argument. It's certainly something you should avoid doing in a negotiation, and be aware if your opponent uses it. Instead of getting angry and defending yourself, bring the discussion back to the salient issues. It may be a sign that they're getting unreasonably angry, so it's probably a good idea at this point to take a break.

References

- G Weinberg, 'Mental Models I Find Repeatedly Useful', Medium, 6 July 2016, accessed 11 September 2018, <<https://medium.com/@yegg/mental-models-i-find-repeatedly-useful-936f1cc405d>>
- 'Mental Models: The Best Way to Make Intelligent Decisions (109 Models Explained)', Farnam Street blog, accessed 11 September 2018, <<https://fs.blog/mental-models/>>