

Lecture 11

- Debrief Aerospace Investment
- Negotiate Flagship vs Eureka
 - Instructions and Guidelines

Reminders

- Flagship Eureka Results: **Due tonight at 9 pm**
- Pick up Confidential Info for Welsh Water
 - Keep a hardcopy of your results for reference
- Email Negotiation (CP Hong Kong): **Deadline**

Today's Themes

- Creating value within apparently distributive issues
 - When is this possible?
 - How?
- Totality of Your Interests
 - Balancing objective outcome and relationship interests
- Negotiating within and between teams

“ When You are Tempted to Deceive ”

Adapted from “*Smart Alternatives to Lying in Negotiation*,” by *Deepak Malhotra* (associate professor, Harvard Business School), first published in the *Negotiation* newsletter

“Do you have other offers that you are considering?”

“Is your cost budget accurate?”

In each of these stories, the negotiator eliminates the temptation to lie by reshaping facts prior to the bargaining session. There’s a deeper point here: the temptation to lie often indicates that reality doesn’t match our desires. One course of action is to misrepresent reality to others (and even to ourselves). A better option—one that resolves both the ethical and strategic dilemmas of lying—is to adapt reality to our desires and make the truth easier to tell.

Where are Aerospace Value Creating Opportunities?

Equity %

Dividends

Vesting

Negotiating in Teams

Team Effectiveness

Teams can be very effective at exploiting integrative potential....but do they necessarily outperform their solo counterparts?

“Team Efficacy Effect”

- Do teams outperform their solo counterparts?
 - Not necessarily!
 - Yet both teams and solo players *believe* that teams have an advantage
 - Solos are, in general, better off negotiating *with* a team than another solo player
 - Solo earns less than the team, but jointly available gains are, more often than not, greater in a team-solo negotiation than in a solo-solo negotiation

Thompson 3rd Ed. Ch. 9 p 246

- ***Morgan and Tindale 2000***: At least one team at the table greatly increases incidence of integrative agreement
- ***O'Connor, Carnevale (2007)***: Negotiators exchange much more information when teams are negotiating
- Information exchange leads to greater accuracy about parties' interests, promoting integrative agreement

Ref: Thompson Ch 9 p 245

Team Halo Effect

- “Holding constant the nature of the failure, teams tend not to be blamed for their failures as much as do individuals,”

Naquin & Tynan (2003)

- “Teams simply are given a lot of credit for their successes but are not blamed for their failures”

- “...people have an easier time imagining how and individual might have done something better than imagining how a team might have done something better”

Thompson Ch. 9 p 246

Multiparty Negotiations

CHALLENGES

- Coalition Formation
- Difficulty formulating tradeoffs
- Communications Breakdowns
 - Biased interpretation
 - Multiple audiences

STRATEGIES

- Manage information
 - Ask “Who has it?”
- Brainstorm
- Systematize proposals
- Equalize participation
- Stay at the table
- Avoid “equal shares” bias

Flagship Airways - Background

- Flagship's original \$1 Billion order = 10 Jumbo + 30 Mid-sized
- Flagship's revenue decrease prompts them to:
 - * Cancel Jumbo's, expand only Mid-Size
 - * Now need 90, not 130 engines
- Mid-Size Skyline engines:
 - * Eureka to provide JX5 and new C-323 under development
 - * C-323 LT Turbine more efficient than the AT Turbine
 - * Sweetner - \$150M in free kits for aging Firebird's

Restructuring the Agreement

1. How much will Flagship spend?
2. On which engines?
3. New total \$ value of Firebird fleet upgrade?
4. What constitutes the “engine kits” to be included in that upgrade?

Flagship vs Eureka Roles

Eureka

- Stiles, Gen. Mgr
- Delling, VP Finance
- Aitcheson, VP Prod Dev

Flagship

- Gordon, VP Engineering
- Langton, VP Finance
- Ross, VP Maintenance

- To be successful, you, Gordon (V.P. Engineering - *Flagship*), and you, Stiles (G.M. Engineering - *Eureka*) must

- 1) Listen carefully to the concerns of your team-mates

- 2) Find out what they would like in the restructured agreement.

- 3) Find out what they *need to know* to be precise about what options they can accept.

- 4) Show that you understand their concerns

Your Team Number _____

EUREKA

FLAGSHIP

Your Role as Pat Stiles Lou Atchison Alex Delling Sam Gordon Lorin Ross Marty Langton

Circle the agreement reached for each issue and enter the ranking for your role in the blank. Enter your score opposite it.

1) How much will Flagship prefer to spend on the reduced purchase? (Original = \$1 billion)

	<u>Ranking</u>	<u>Score</u>
1) \$850 million	_____	_____
2) \$800 million	_____	_____
3) \$750 million	_____	_____
4) \$700 million	_____	_____
5) \$650 million	_____	_____

2) Which engines will Flagship purchase?

1) JX5 engines only	_____	_____
2) Half each of JX5 and C-323's	_____	_____
3) C-323 engines only	_____	_____

3) What will be the new total dollar value of the upgrade to the Firebird fleet engines?

1) \$150 million	_____	_____
2) \$120 million	_____	_____
3) \$100 million	_____	_____
4) \$ 80 million	_____	_____

4) What parts will be included in the Firebird upgrade?

1) Full kit	_____	_____
2) Fan, frames and compressor	_____	_____
3) Fan and turbine	_____	_____
4) Frames and compressor	_____	_____

Consensus

- **A Team Leader CANNOT impose a deal by herself!**
 - Stiles **MUST** have the approval of his teammates, Aitcheson and Delling, to seal a deal with Flagship
 - Gordon **MUST** have the approval of his teammates, Langton and Ross, to seal a deal with Eureka

Scoring Flagship

- Your score is 16 minus the sum of *your ranks* for the particular agreement negotiated by the teams.
- If your team agrees to an alternative that is, for you, “unacceptable”, deduct twice the number of alternatives available for that issue.
- If teams do not agree, each individual gets a score equal to 16 minus the rank score assigned to “unacceptable”: $16 - 10 - 6 - 8 - 8 = -16$

Scoring of “Barely Accept”

- If your team agrees to an alternative that you can “barely accept,” assign a rank score equal to the number of possible options for that issue.
- Examples follow

Scoring of “Barely Accept”

of Options
for an issue

Rank assigned to
“Barely Accept”

3

3

4

4

5

5

Options

A

B

C

D

E

Example

Unacceptable

1

3

Barely Acceptable

2

- There are five options.
- “Barely Acceptable” = Rank of 5

Example

- Issues resolved as follows:
 - Flagship's expenditure on reduced purchase at \$700 ranks 3rd for you
 - Flagship purchases half of each JX5 and C-323's ranks 2nd for you
 - Firebird Upgrade chosen ranks "barely acceptable" for you
 - Parts included in the Firebird upgrade chosen ranks 4th for you

- Upgrade has four possible resolutions, so “Barely Acceptable” is assigned a rank score of 4.
- Your score is $16 - 3 - 2 - 4 - 4 = 3$
- If it had happened that the Upgrade alternative agreed upon had been “unacceptable” to you, your score would be $16 - 3 - 2 - 8 - 4 = -1$.

Team Leaders

- Each Team Leader's score will be equally weighted between:
 - The sum ***TOTAL of individual team member SCOREs***
 - The team leader's ***individual score***

Team Leader Score

- Gordon's Score = G
- Langton's Score = L
- Ross's Score = R

$$\text{Gordon's Score} = (G+L+R)/2 + G/2$$

$$= (L+R)/2 + G$$

CLARIFICATIONS

- **Upgrade costs** are *different and distinct* from **dual maintenance costs**.
 - Upgrade saves on fuel costs, not necessarily on maintenance.
- **\$ Value of an Upgrade shown on CI sheet is for 100% Firebird Fleet upgrade**
 - *All 100 planes are upgraded*

CLARIFICATIONS

- Kit 4 consists of *frames* and compressor [correction for Delling].
- **For a cost *range* use the mid-point** as a certainty equivalent

Issues to be Resolved

- **Fuel Savings:**
 - C 323=>7% or 3%?
 - Firebird upgrade fuel savings?
- **Total \$ Value** of Firebird engine upgrades
 - Individual Kit value?
 - Per Cent of Firebird fleet upgraded?
- **Less than 100 % of Firebirds Upgraded =>**
Generates Potential Costs
 - Incident, dual maintenance & grounding costs

Firebird Upgrade Issues

- **Langton:** *Only 100% upgrade of the Firebird fleet enables Flagship avoid incident, dual maintenance and grounding costs*
- If you do not upgrade 100%, then dual maintenance costs depend proportionately on the fraction of Firebirds not upgraded

What Do Langton & Others Need to Learn & From Whom?

Who has What Information?

- Firebird kit breakdown information?
- Savings target?
- Correct details on dual maintenance costs?

Flagship's Savings Target

- The CEO of Flagship has told Langton that he must meet a savings target
- Langton has accurate information about potential savings from some sources but not all

Communication Breakdowns

- Biased interpretation
 - “People often hear what they want to hear when receiving messages, especially ambiguous ones”
 - “They interpret neutral information as favorable..”
 - “...and ignore or misinterpret information that contradicts their position.”

Managing Time

- Observations suggest that negotiating groups severely mismanage their time!
 - Groups often begin with distributive bargaining over an issue and then transition into integrative mode.
 - Not systematic. Doesn't create value
 - Misused valuable time

Systematic Proposal Making

- Allow for some points of agreement, even if only on process
- Allow caucusing when at a roadblock
 - To assure that team members are still aligned
 - To share thoughts about conflicting information and where to get what is needed

What to Avoid

- The **“equal shares” bias**
 - Groups tend to this norm
 - Problematic because there is no universally “fair” method of allocation
- Sequential bargaining on individual issues
- The **Agreement Bias**
 - A focus on reaching common ground to the detriment of exploring options that create joint gain

Self Evident LESSONS

- The success of external negotiations depends on the outcome of internal negotiations.
- Trust expedites and improves the negotiation outcome.
- Unanticipated mutual interests can help “unlock” a stalled negotiation.

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