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ANALYSIS OF TWO-PARTY SALARY NEGOTIATIONS: FACTORS IMPEDING A MUTUALLY-BENEFICIAL JOINT AGREEMENT

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ABSTRACT

Business professionals were surveyed to explore both factors associated with negotiation propensity, as well as the strategies used by employees and employers in salary negotiations. The objective is to examine the factors that impede both parties in reaching a mutually-beneficial joint agreement in salary negotiations. In order to achieve this objective, a review of the negotiation literature was conducted including both, descriptive literature - to present research findings and scientific theory which characterizes negotiation and examines the forces that determine its course and outcome – as well as a review of the prescriptive literature - in order to develop practical advice given a description of how negotiators behave.

Research results show that, although there is general tendency for employers to leave room in the first offer for negotiation, employees rarely ask for more and generally accept the first offer. The sub-optimal outcome was partially a result of the employees' preferred strategies for negotiating salary; a soft approach focusing on compromise and maintaining the relationship. An analysis of the results combined with the literature explored, demonstrates that both parties exhibited a fixed-pie perspective, focusing on salary as the key issue, which impeded the search for integrative settlements and mutually beneficial trade-offs.

TABLE OF CONTENTS

1 INTRODUCTION.......... 4
1.1 Research Problem.......... 5
1.2 Relevance.......... 7
1.3 Research Question.......... 8
1.4 Purpose and Objectives.......... 8
1.5 Limitations of the Problem.......... 9
1.6 Expected Results.......... 9
2 THEORETICAL FRAMEWORK.......... 10
2.1 Approaches to Decision Making.......... 10
2.2 Distributive and Integrative Bargaining.......... 23
2.3 The Method of Principled Negotiation.......... 31
2.4 Modes of Responding to Conflict.......... 36
3 RESEARCH METHODOLOGY.......... 39
3.1 Type of Research.......... 39
3.2 Method of Data Collection and Analysis.......... 40
3.3 Research Limitations.......... 41
4 CASE DESCRIPTION AND ANALYSIS.......... 43
4.1 Diagnosis.......... 43
4.2 Prescription.......... 54
4.3 Index of Assessments.......... 73
5 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH.......... 75
6 BIBLIOGRAPHY.......... 81
7 ANNEX – SURVEY QUESTIONS.......... 86

1 INTRODUCTION

Negotiation is the process whereby people attempt to settle what each shall give and take or perform and receive in a transaction between them (Bazerman, 2005; Rubin and Brown, 1975). A negotiation situation has five characteristics: (a) People *believe* that they have conflicting interests; (b) communication is possible; (c) intermediate solutions or compromises are possible; (d) parties may make provisional offers and counteroffers; and (e) offers and proposals do not determine outcomes until they are accepted by both parties (Bazerman, 2005; Schelling, 1960). Negotiations involve people and where there are people there is *communication* and *relationships*. In negotiations there are issues at stake where each party has one or more *interests* in the outcome. It is these interests which can be met in several ways by creating *options* using *objective criteria* in order for the parties to draft fair and realistic commitments. And where agreement seems difficult to decide upon, each party has their *alternative* by which to measure any proposed agreement.

Many job seekers and currently employed professionals miss out the opportunity to increase their salary and benefits due to their lack of understanding, and preparation for, the negotiation process, which results in their settling for sub-optimal results. This is because most people are generally knowledgeable in only one negotiating style and thus apply it naively to every situation. According to Lewicki *et al* (1996), people lack the breath of knowledge to negotiate strategically. The elements, structure, and rules of many negotiation situations are not completely known by all parties. A common dilemma is that people see two ways of negotiating: soft or hard. The soft approach is intended to avoid personal conflict by making concessions easily in order to reach an amicable agreement. This approach has a tendency to leave the person open to being exploited. The hard approach involves a winning objective where the aim is to obtain the biggest piece of the pie. An optimal approach falls somewhere in the middle. It involves a balance between being empathetic to the other person's interests and being assertive with their own. Druckman (1977) refers to it as a balance between firmness and accommodation. It suggests looking for *mutual gains* instead of aiming for the whole pie. It entails being fair while at the same time protecting you from those who would take advantage of your fairness.

Fisher *et al* (1991) refer to this *approach* developed at the Harvard Negotiation Project[1] as the method of *principled negotiation* meant to decide issues on their merits rather than through a haggling process focused on what each side says it will and won't do. Instead of a "take-all" or "give-all" approach people should look at negotiations as one of problem-solving which can offer the most promising means of creating value.

This work is concerned with the fundamental processes and key elements of negotiations and those situations in which there is a need for opposing parties to recognize that there are differences of interest in which they should aim to achieve a mutually beneficial agreement through negotiations. The discussion of integrative and distributive bargaining strategies and tactics is intended to shed light on the tactics that lead negotiators both towards and away from achieving optimal solutions. Although this paper will attempt to treat competitive and cooperative elements of negotiation separately, the two are inextricably entwined and it is this bonding that, according to Lax and Sebenius (1986), is fundamentally important to the analysis, structuring, and conduct of negotiation. Just as Bazerman (2005) and Raiffa *et al* (2002) approach the concept of negotiations, this work also views negotiation and conflict resolution as multi-party decision making activities in which the individual cognition of each party and the interactive dynamics of multiple parties are critical elements. This work will be driven by a negotiation analytical approach with an aim at the method of principled negotiations, as described by Fisher *et al* (1991), coupled with the strategy of integrative bargaining, as solutions for achieving a joint-successful outcome in salary negotiations.

1.1 Research Problem

Salary negotiations between two parties in a corporate environment can arise for one of three reasons:

1. People apply for jobs and want to get the best deal they can

[1] The Harvard Negotiation Project was created in 1979 with a mission to improve the theory, teaching, and practice of negotiation and dispute resolution.

2. Someone already has a job and would like to speak to their employer about getting paid more
3. Someone is up for their annual review or promotion and will be negotiating an increase in salary or other compensation package

Salary negotiation is where the employee and employer's goals conflict directly - the employees goal is to get the best salary possible, one that captures a fair proportion of the value he or she can deliver while the recruiter's goal is to recruit that person as cheaply as possible without them feeling exploited[2]. It is this faulty, fixed-pie perspective, directs negotiator behavior towards strategies and tactics that result in leaving money on the table, settling for too little, walking away from the table, or settling for terms that are worse than their alternative. Thompson (2001) recognizes these shortcomings as the four major sins of negotiation.

According to Loeb (2006), CareerBuilder.com conducted a survey of 875 hiring managers which revealed that about 60% of them leave room in the first offer for salary negotiations, 30% say their first offer is final, and 10% say it depends on the candidate. At the same time, a study conducted by the Society for Human Resource Management[3] found that four out of five corporate recruiters said they are willing to negotiate compensation yet few job seekers actually ask for more.[4]

Dawson (2006), author of *Secrets of Power Salary Negotiating,* believes that many employees are working for far less than they are worth simply because they don't know how to negotiate a salary. Evidence from the present study demonstrates that a large portion of employee turnover is a result of employee dissatisfaction with their salary. Many employers could reduce the amount of employee turnover if they knew how to negotiate compensation packages that would provide greater options for the employee. Both sides should have genuinely positive feelings with the results because anything less and the arrangement will more than likely fall apart.

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[2] Taken from Mindtools.com, the internet's most visited career skills resource.
[3] Founded in 1948, The SHRM is a professional organization committed to advancing the human resource profession.
[4] Taken from CareerJournal.com. The Wall Street Journal Executive Career Site.

1.2 Relevance

In the past two decades negotiation and conflict resolution have emerged as areas of intense interest to researchers, as well as to professionals in areas such as law, government, and business (Bazerman, 2005). While negotiation and conflict resolution have long been recognized as activities that affect world peace, these fields have more recently been identified as central aspects of professional life (Bazerman, 2005). Negotiation is not a process reserved only for the skilled diplomat, top salesperson, or for organized labor; it is something that everyone does, almost daily (Fisher *et al*, 1991; Harvard Business School Publishing, 2003; Lewicki *et al*, 2003). Negotiation presides over much of the change that occurs in human society thus, the agreements achieved in negotiation may involve new divisions of resources, new rules of behavior, new people hired, and new departments organized (Pruitt and Carnevale, 1993). Pruitt and Carnevale (1993) also state that society is often harmed when negotiation goes poorly and fails to produce a mutually satisfying outcome. The research literature typically classifies the study of negotiations as part labor/management relations however; negotiations extend over a much broader range of organizational processes, occurring in, among other areas, salary negotiation (Bazerman and Lewicki, 1983). Lewicki *et al* (1996) state that; performance review, salary, and benefits are usually the major areas for discussion and possible conflict with one’s manager.

A large number of perspectives including theory and research from economics, psychology, political science, law, and sociology can be used to understand the various aspects of negotiations. The same negotiation outcome may also be explained simultaneously from several different perspectives (Lewicki *et al*, 2003; Oliver *et al*, 1994). Look through the table of contents of the vast array of written works on negotiation analysis and one will find similar approaches to negotiation using several disciplinary fields including: economic and game theory, negotiation analysis, decision analysis, and behavioral decision making (e.g. Bazerman, 2005; Goldman and Rojot 2003; Lewicki *et al* 2003; Raiffa *et al* 2002). As Raiffa *et al* (2002) put it; a little contribution from each discipline will collectively go a long way.

1.3 Research Question

What are the factors that impede the employee and employer in reaching a mutually-beneficial joint agreement in salary negotiations?

1.4 Purpose and Objectives

The purpose of this dissertation is to analyze the factors that impede the employee and employer in reaching a mutually-beneficial joint agreement in salary negotiations. In order to accomplish this, this paper will aim to satisfy the following objectives:

1. To identify the various theoretical approaches that make up the descriptive and prescriptive literature[5] of negotiation and conflict resolution
2. To identify and analyze behavioral/psychological barriers including: the concept of bounded rationality and common biases and heuristics which tend to preclude negotiators from engaging in behaviors necessary for integrative negotiations
3. To identify the factors related to the method of principled negotiation as a means of achieving win-win outcomes
4. To identify and analyze tactical and strategic barriers including modes of responding to conflict and five negotiation strategies, in order highlight the roles relationship and outcome play in determining an appropriate strategy
5. To differentiate between distributive and integrative bargaining strategies and their associated tactics for claiming and creating value
6. To utilize the information gathered in steps 1 through 5 in order to analyze the results of questionnaires which were aimed at uncovering negotiation propensity, as well as the strategies used by employees and employers in salary negotiations

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[5] The prescriptive literature provides practical advice – how to go about negotiations. The descriptive literature characterizes negotiation and examines the forces that determine its course and outcome (Pruitt and Carnevale, 1993).

1.5 Limitations of the Problem

The problem is concerned with analyzing the factors that influence both positively and negatively the process of reaching a mutually-beneficial joint agreement between two parties in the context of a salary negotiation. The study was concentrated within one country; The United States, within one region; California, and contained within five industries. As such, this research is restricted to its particular context and location; the problem is generalized to the literature, but not generalizable to the population as a whole.

1.6 Expected Results

The results expected of this study are to demonstrate that there is a general tendency for both employer and employee to exhibit a fixed-pie perspective which prevents both parties from searching for integrative settlements and mutually-beneficial trade-offs in salary negotiations thus resulting in sub-optimal outcomes for both parties.

2 THEORETICAL FRAMEWORK

This section will introduce the theories and concepts drawn throughout the paper in order to generate background information which will be used to analyze two-party salary negotiations in a corporate environment.

2.1 Approaches to Decision Making

2.1.1 Economic and Game Theory

The economic theoretical assumption is that people have stable, well-defined preferences and that they make choices consistent with those preferences and, it assumes that a person will choose the course of action that maximizes their expected utility. This approach can be seen as one of *individual* decision making and utility maximization. The payoff a person receives is solely dependent on his or her own choice.

Game theorists, on the other hand, study decision behavior in multi-party contexts where, according to Raiffa *et al* (2002), each player in the game must think about what the others might do and realize that the others are, in turn, thinking about what the rest are thinking. It is interactive decision making. Game theory is concerned with how groups of ultra-smart individuals *should* make separate, interactive decisions.

The name "game theory" derives from its original preoccupation with games of strategy. A strategy involves a player's conditional choices-conditional, that is, on the choices made by the other players (Swingle, 1970). Raiffa (2002) describes the essence of game theory as involving a set of individual decision makers, each constrained to adopt a choice (strategy) from a specified set of choices, and the payoff to each player depends on the totality of choices made by all players.

Game theoretic analysis focuses on predicting whether an agreement will be reached, and if one is reached what its specific nature will be. According to

Bazerman (2005), this model of goal-oriented, fully informed, rational behavior has remained the dominant economic theory of negotiation for almost half a century. Bazerman (2005) states that, the economic perspective has given negotiation researchers a unique benchmark of optimality to use in evaluating the processes and outcomes of a successful negotiation. Brandenberger and Nalebuff (1996) state that game theory started out by analyzing zero-sum games like poker and chess where one person's loss is the other's gain. Games in business though are seldom zero-sum because when one player can take the other player down with him, rationality matters.

Raiffa *et al* (2002) state, that game-theoretic thinking offers useful insights into the problem of negotiation because it focuses the mind on the thoughts and likely actions of the other side.

2.1.2 Negotiation Analysis (Joint Decision Making)

Sebenius (1992) refers to another analytic approach for addressing negotiation situations. He does not suggest this approach to be an "alternative" to game theory because it is in fact inspired by the categories, concepts, and techniques developed in the field of game theory. He suggests it can be called "non-equilibrium game theory with bounded rationality and without common knowledge" but he more precisely characterizes it as "negotiation analysis." Negotiation analysis is concerned with how groups of reasonably bright individuals *should* and *could* make joint, collaborative decisions (Raiffa *et al*, 2002). Some common features of this approach include an asymmetrically prescriptive/descriptive orientation, sensitivity to value left on the table, and a de-emphasis on game theoretic solutions with a focus on changes in perceptions of the zone of possible agreements including analysis of moves to change the perceived game itself. This last feature is important because it opens the door for moves that improve the subjective distribution of possible negotiated outcomes which, in turn, sheds light on the premise of integrative bargaining.

Negotiation analysis systematically blends a sustained focus on what might be called the "technology of cooperation" with a more boundedly rational view of the strategic, adversarial elements such as: their perceived interests, their alternatives to a negotiated agreement, the linked processes of creating and claiming value, and efforts to change the game itself (Sebenius, 1992). These elements can be found and analyzed in the simplest bilateral negotiation between monolithic parties as well as in most complex coalition interactions. According to Raiffa *et al* (2002), the essential elements of negotiation analysis are:

- You and the other individual or individuals can make mutually agreed-upon joint decisions.
- Your payoffs depend either on the consequences of the joint decisions or on each party's go-it-alone alternatives.
- You can reciprocally and directly communicate with each other about what you want, what you have, what you will do if you don't agree, or anything else. The communication might be honest or it might not.
- You can be creative in the decisions you make.

2.1.3 Behavioral Decision Theory

Raiffa's (1982) *The Art and Science of Negotiation,* laid the groundwork for a dialogue between prescriptive and descriptive researchers by, according to Bazerman (2005), creating a prescriptive need to descriptively understand how negotiators actually make decisions. Behavioral decision making is the psychology of how ordinary individuals *do* make decisions (Raiffa *et al*, 2002).

Bazerman and Lewicki (1983) suggest an alternative direction for negotiation research – that of defining the negotiator as a decision maker, focusing on the effects of the negotiator's decision making process on the negotiator's success, and the likelihood of reaching a negotiated settlement. Hogan and Speakman (2006) state that when we make decisions we like to think we weigh the options carefully, look at all the possibilities, and make the best choice based on a rational examination of the facts. But in fact, much of our decision making happens on a subconscious level based on feelings we might not even be aware of.

Many models of human behavior in the social sciences assume that humans can be reasonably approximated or described as "rational" entities and that many economics models assume that people are hyper rational, and would never do anything to violate their preferences. Within the limits of their ability to fully and accurately conceptualize and analyze the bargaining environment, the behavior of individuals is always rational for themselves when measured on their own terms even though the conduct may not be rational from the perspective of another party operating in the same bargaining environment (Goldman and Rojot, 2003).

The concept of bounded rationality was developed by Herbert Simon who analyzed the constraints which shape decisional criteria and the manner in which rationality takes part in decision making (Goldman and Rojot, 2003). Simon (1957) challenged economic theory by suggesting that individual judgment is bounded in its rationality stating that people try to make rational decisions but often fail to do so because of cognitive and informational limitations. A general finding of studies of human judgment is that the subjects studied are seldom able to describe consistently, accurately, and completely how they arrive at their judgments (e.g.: Balke *et al*., 1973; Cook and Stewart, 1975; Druckman, 1977; Summers *et al*., 1969). Simon (1957) points out that most people are only partly rational, and are in fact emotional/irrational in the remaining part of their actions. According to Simon (1957), boundedly rational agents experience limits in formulating and solving complex problems and in processing (receiving, storing, retrieving, transmitting) information. While the bounded-rationality framework views individuals as attempting to make rational decisions, it acknowledges that decision makers often lack important information on the definition of the problem, the relevant criteria, and so on (Bazerman, 2002). Decision makers face limitations including intelligence and perceptions that constrain their ability to accurately calculate the optimal choice from the information that is available, limitations on quantity and quality of available information due to time and cost constraints, and limitations on the ability to retain significant amounts of information in their usable memory. Bazerman (2002) states that these limitations prevent decision makers from making optimal decisions assumed by the rational model and the irrational decisions that result typically reflect a reliance on intuitive biases that overlook the full range of possible consequences.

The information processing system tends to behave economically to accomplish its goals by expending a minimum amount of time and processing resources (Thompson, 1990). This tendency gives rise to heuristics or cognitive shortcuts that facilitate information processing but often produce inaccurate judgments and biases (Tversky and Kahneman, 1974).

2.1.3.1 Heuristics and Biases

A substantial amount of research on clinical judgment, decision making, and probability estimation has demonstrated many systematic deviations from rationality (Bazerman and Lewicki, 1983). Bazerman (2002), Neale and Northcraft, (1990), and Tversky and Kahneman (1974) provide critical information about specific systematic biases in decision making that influence judgment. Lewicki *et al* (2003) state that negotiators may be prone to a number of cognitive biases or heuristic decision rules that systematically allow them to bias their perception of the situation, the range of possible outcomes, and the likelihood of achieving possible outcomes, all of which tend to preclude negotiators from engaging in behaviors necessary for integrative negotiations. In short, they are unconscious routines to cope with the complexity inherent in most decisions (Hammond *et al*, 2006).

Cialdini (1993), in his book, *Influence: The Psychology of Persuasion,* provides simplified explanations on how these heuristics, or rules of thumb, work by referring to this form of decision making as “click, whirr,” intended to simulate the sound of a machine clicking on and running up to speed. An example he uses to demonstrate this was a common bias which equates to “expensive = good.” For example, in general, the price of an item increases along with its worth so, a higher price typically reflects higher quality. In many instances sales have proven to increase when prices of items are increased even though the quality of those items is questionable. Price becomes the trigger feature in the person’s brain that translates to quality. Another example is the use of the word “because” to trigger an automatic response. Lieberman (2000) and Cialdini (1993) describe a study done where a person asked to cut in front of people using the copy machine. In one instance the person asked

“Excuse me, may I use the copy machine?” A little over half of the people agreed. When the phrasing of the request was changed to “Excuse me, may I use the copy machine because I have to make some copies?” almost everyone complied. Just as price is the trigger in a person’s brain that translates to quality, the word “because” triggers an unconscious acceptance that a valid explanation will follow.

Bazerman and Lewicki (1983), Goldman and Rojot (2003), Harvard Business School Publishing (2003), Pruitt and Carnevale (1993), and Thompson (2001) describe several decisional biases that systematically and predictably alter negotiator performance and dispute resolution behavior. According to Pruitt and Carnevale (1993), many researchers assume that the root of the problem of suboptimal outcomes in negotiation is that negotiators have limited attention, limited capacity to store and retrieve information from memory, and limited capacity to process information. As a result of these cognitive limitations, negotiators rely on heuristics.

2.1.3.1.1 The Mythical Fixed Pie

Research suggests that negotiators have a fundamental bias that leads them to enter bargaining situations with a win-lose, fixed pie perspective (Bazerman *et al*, 1985). Thompson (2001) estimates that two-thirds of all (untrained) negotiators squander resources as a result of the fixed-pie perspective. One would tend to think that this is not the case all of the time but Lewicki *et al* (2003) argue that *many* negotiators assume that *all* negotiations (not just some) involve a fixed pie. As the present study will show, salary negotiations are no different.

In essence, this is a belief that an issue can only be resolved distributively. This fixed-pie (also called zero-sum or win-lose in game-theoretic terms) assumption makes problem solving seem infeasible and hence encourages contentious behavior (Pruitt and Carnevale, 1993). Lewicki *et al* (2003) also state that those who believe in the fixed pie assume that the possibilities for integrative settlements and mutually beneficial trade-offs don’t exist, and they suppress efforts to search for such settlements or trade-offs. Lewicki *et al* (2003) frequently use an example of salary negotiations where an employee who assumes that the only issue is salary may insist on a salary of $70,000 when the employer is only willing and able to pay $60,000. If the parties are able to move away from this fixed pie perspective they may be able to discover that benefits, annual bonuses, or vacation time can also be negotiated, which may make the resolution of the salary issue far easier and mutually beneficial.

Lewicki *et al* (2003) describe an experiment that tested for this fixed-pie perspective. Participants in the experiment were asked to record their judgment of the other party's interests and desires. With this method, the fixed-pie perception is present to the extent that the individual regards the other party's interests as directly opposed to his or her own interests.

Thompson (2001), states that most untrained people have a fixed-pie understanding of negotiation and that it is not enough for negotiators to have experience or to receive feedback about their opponents' interests to eliminate this perception. Lewicki *et al* (2003) on the other hand, describe a recent study showing that fixed-pie perceptions can be diminished by holding negotiators accountable for the way that they negotiate. In the experiment, some negotiators were told that they would be interviewed afterwards to discuss what happened. Fixed-pie perceptions were weaker for these negotiators compared to those who were not expecting to be interviewed afterwards. The experiment also showed that the negotiators operating under accountability also reached agreements having higher joint value for the parties. The fixed-pie belief can also be minimized through procedures for inventing options as will be discussed in section 4.2.3.3. This procedure is considered "expanding the pie" and is an important method by which to create integrative agreements (Thompson, 2001). Negotiation has the potential to be a win-win process whereby the parties cooperate to create an even bigger pie.

2.1.3.1.2 Framing

In decision theory terms, a frame is a perspective or point of view that people use when they gather information and solve problems (Lewicki *et al*, 2003). The framing process can cause people to exhibit certain types of behavior while ignoring or avoiding others. Specifically, frames can lead people to seek, avoid, or be neutral about risk in negotiation. In prospect theory terms, framing has to do with situational determinants of risk preferences and the effects of these risk preferences on decision behavior (Neale and Northcraft, 1990). Prospect theory states that potential gains and losses are evaluated relative to their effect on current wealth (Bazerman and Lewicki, 1983).

Framing studies have shown that given the same objective situation, the way a decision is worded or presented (i.e., whether outcomes are framed in terms of prospective gains or losses) will influence risk preference and thereby affect decision behavior (Neale and Northcraft, 1990). In negotiation, the risk-averse course of action may be to yield enough concessions to insure a negotiated settlement whereas the risk-seeking course of action may be to hold out for a better offer or more concessions, and risk the possibility of no settlement. Intuition says that negotiators may react negatively to a perceived loss whereas; they might react more positively to the same situation if it is framed as a perceived gain. Lewicki *et al* (2003) state that the tendency to either seek or avoid risk may be based on the reference point against which offers and concessions are judged. Adapted from Lewicki *et al* (1996; 2003), in a typical salary negotiation, several reference points are possible.

1. The job candidate's current salary ($50,000)
2. The potential employer's initial offer ($60,000)
3. The least amount the candidate is willing to accept ($62,000)
4. The candidate's estimate of the most the company is willing to offer ($65,000)
5. The candidate's initial offer ($68,000)

When moving from the first point to the fifth, the suggested frame changes from positive to negative. For example, a settlement of $60,000 will be perceived as a gain when compared to the candidate's current salary of $50,000 but if compared to the least amount the candidate is willing to accept, $62,000, it will be perceived as a loss. Lewicki *et al* (2003) state that the positive/negative framing process is not inconsequential because negotiations in which the outcomes are negatively framed tend to produce fewer concessions, reach fewer agreements, and perceive outcomes as less fair than negotiations in which the outcomes are framed positively. Harvard Business School Publishing (2003) state that wage negotiations should be made with a frame that emphasizes financial constraints and the company's desire to ensure job security and higher future outcomes. Personal experience suggests that recruiters and potential employers tend to frame salary negotiations using the candidate's current salary as a reference point (e.g. we would like to offer you a 5% increase in salary) but considering the characteristics of the anchoring heuristic described in section 2.1.3.1.3, it would be wise for the candidate to steer the employer away from establishing this as an anchor.

2.1.3.1.3 Anchoring and Adjustment

Anchors are most powerful when uncertainty is highest and people often deal poorly with uncertainty (Tversky and Kahneman (1974). Cognitive biases in anchoring and adjustment are related to the effect of the standard, or anchor, against which subsequent adjustments are measured during negotiation (Lewicki *et al*, 2003). Job candidates are often asked by recruiters what their salary range is. The job candidate faces a difficult situation wanting to maximize his or her salary but at the same time not excluding himself from consideration due to unrealistic demands (Thompson, 2001). Dawson (2006) argues that employers attempt to establish an anchor by making an employee's past salary earnings a big issue because they think it will lower their salary expectations. There is some caution about letting past earnings box an employee in because many times employers compute a salary offer as a percentage increase over an employee's present earnings. According to Tversky and Kahneman (1974), people use a reference point as an anchor and from this point they adjust the value up or down as they see fit. Once the anchor is defined, parties tend to treat it as a real and valid benchmark by which to adjust other judgments, such as the size of one party's opening offer (Lewicki *et al*, 2003). Lewicki *et al* (1996) warn that people tend to use their first offer, or the other's first offer, as an anchor from which everything else will be judged but if the other's offer is extreme or irrational, it is a poor measure by which to judge more reasonable offers.

Dawson (2006) determined that employers tend to make an offer based on three factors: 1) How much the employee has made in the past, 2) what other companies are paying, and 3) what the company currently pays its employees. The problem with the first factor is that if employees have generally been paid below market rates in the past they may continue to be underpaid if, their current and future employers establish their opening offers using this factor as an anchor from which to adjust salary from.

Thompson (2001) suggests that there are two fundamental concerns with the anchoring and adjustment process. One is that the anchors we use to make such adjustments are often arbitrary. This can happen because of the proximity of the information from where the anchor was obtained and not because of the relevance to the situation. The second is that we are weighed by the anchor and tend to make insufficient adjustments away from it. Lax and Sebenius (1986) agree in that, when many people assess an uncertain quantity, they tend to jump to a point estimate of it and then adjust a bit around it to account for the uncertainty.

Because anchors can establish the terms on which a decision will be made, they are often used as a bargaining tactic by experienced negotiators (Hammond *et al*, 2006) and often show up in distributive bargaining behavior. Hammond *et al* (2006) state that no one can avoid the influence of anchors but their impact can be reduced by using the following techniques:

- Always view the problem from different perspectives.
- Seek information from a variety of people to widen one’s frame of reference.
- One must think through their position before any negotiation begins in order to avoid being anchored by the other party’s proposal.

2.1.3.1.4 The Lack of Perspective Taking

Harvard Business School Publishing (2003) refers to a lack of perspective taking as “partisan perception” which is a psychological phenomenon that causes people to perceive the world with a bias in their own favor or toward their own point of view.

Bazerman and Lewicki (1983) state that perspective taking ability positively affects the concessionary tendencies of negotiators and the likelihood that a settlement will be reached, and is found to affect positively the outcome obtained by a negotiator. Thompson (1990) argues that misperceptions of the other party are a primary cause of suboptimal outcomes in negotiation. A purpose of perspective taking is an attempt to get at the underlying interests of the other party's position which can open up doors for generating alternatives.

Negotiations can be seen from two aspects, motivational and conceptual (Druckman, 1977). Each party in a negotiation has a *motive*, which can be construed as preferences for outcomes, utilities, or incentives. This view can be seen as a contest between two rivals who are intent on winning. Thompson (1990), states that motivational models of bargaining behavior examine the influence of aspirations and goals on bargaining behavior and outcome. On the other hand, the aspects of negotiations that are *conceptual* and the functions performed by negotiators consist of steering or directing the course of the deliberations. Negotiators construct mental representations of the negotiation situation and their opponent, and their behavior is influenced by their judgments of the other party, their own bargaining role, and the bargaining situation.

Druckman (1977) argues that conceptual problems often prevent the parties from defining issues in a way that would render them negotiable. For example, in a salary negotiation between employee and employer, the employee might conceptualize salary as what he or she is worth in terms of experience, relevant knowledge, and value he can provide to the company whereas, the employer might view salary as simply a matter of job title (i.e. what is an acceptable salary for that title?). Before the parties can bargain over an exchange of money for services they have to agree upon the concept of the negotiation. This is further explored when providing prescriptive advice for salary negotiations in section 4.2.3.1 where negotiators must first *identify the problem* at hand.

After working out acceptable definitions of purpose negotiators focus on their objectives and begin the process of steering the process towards those objectives.

This is further explored in section 4.2.3.2 in that negotiators must clarify the objectives or, *uncover underlying interests*. This steering process involves both, monitoring and assessing the interests of both parties, as well as strategizing by determining the tactics necessary to move the negotiations forward. The purpose of these actions is to influence the course of the negotiations by putting the issues on the table, sorting through information, and proceeding point by point in order to address the differences in positions of the parties. It is these essential activities which Druckman (1977) argues are rooted in the cognitive processes.

Druckman (1977) suggested that cognitive processes should be supplemented with cognitive aids in order to help people overcome those cognitive limitations that prevent them from reaching agreement. These cognitive aids should help people do two things; (a) clarify judgment processes so that the true nature of disagreement can be ascertained and (b) assist people to change their judgment policies (i.e. subjects must decrease their dependency on the cues that they depend heavily on) in a controlled way. One tool which is used in the present study to analyze salary negotiation is the PrOACT way of though which is described in section 2.1.4 and implemented in section 4.2.3.

There appears to be a very limited amount of information and prescriptive advice for eliminating biases. Bazerman and Lewicki (1983) suggest the first step in training negotiators to eliminate decision-making biases is awareness. Hammond et al (2006) identify awareness as the best protection not at eliminating decision-making biases, but at protecting oneself against them. Most negotiators, or most people for that matter, are not aware of these biases. Research evidence shows that simply telling people about misconceptions and cognitive biases does little to counteract their effects (Lewicki *et al*, 2003).

According to Sebenius (1992), knowledge of systematic cognitive deviations from strict individual rationality and poorly calculated and inconsistent probabilistic assessments has direct tactical implications on the negotiation process. Behavioral decision theory provides useful *descriptive* analysis of how individuals think and act the way they do.

2.1.4 Decision Analysis

Unlike game theory and negotiation analysis, decision analysis is based on the unitary decision maker where individual choices must be made on such things as: the decision to negotiate, what to negotiate over, with whom to negotiate, and choosing the style of negotiation. Decision analysis is *normative* in that it suggests how idealized, rational, super-intelligent people should make decisions (Raiffa *et al*, 2002). It is also *prescriptive* in that it asks the question: What can people actually do to make better decisions? It considers such things as decision aids, modes of thought, conceptual schemes, and analytical devices. Combining the different forms of analysis such as the descriptive and prescriptive approaches, one can understand the behavior of real people in real negotiations so that one can better advise one party about how it should behave in order to achieve its best outcome. According to Raiffa *et al* (2002), this type of analysis takes a prescriptive perspective for the benefit of one party, and views the competing parties in descriptive terms from this focal party's vantage point. Advice is then given to the relevant side which can include advise on what strategies to take or what calculations to make.

Bazerman (2002) states that to fully understand judgment, one must first identify the components of the decision making process that require it. Bazerman (2002), Lewicki *et al* (1996; 2003), and Raiffa *et al* (2002) propose similar steps which can be used when applying a rational decision making process. Raiffa *et al* (2002) refer to them as the PrOACT way of thought for analyzing individual decision problems.

1. Identify the **Pr**oblem – The problem must be fairly well specified because ultimately the problem will depend on the objectives, interests, needs, and wants one wish to satisfy.
2. Clarify the **O**bjectives – Objectives are the criteria by which a decision will be made which are the interests, needs, desires and wants that motivate a person. The objectives are considered the "interests" in negotiation theory terms.
3. Generate creative **A**lternatives – Alternatives identify possible courses of action to satisfy one's objectives. A distinction is made between the

alternatives each party might pursue individually and alternatives that might be pursued jointly. The latter are considered "options" to define collective choices made within negotiations while the former are considered "alternatives" which are external to the negotiation. They could also be considered a negotiator's BATNA which will be described in section 4.2.1.

4. Evaluate the **C**onsequences **–** This step defines how well each of the alternative solutions achieves each of the defined objectives.
5. Make **T**rade-offs **–** This step involves exchanging some preferences over others. The alternatives generated in step 3 might not have met all of the objectives, or interests, from step 2. One alternative might contain 3 out of 5 interests while another alternative might contain a different set of interests. In the context of negotiation, not all of the alternatives meet all of the parties' interests so trade-offs must be made.

Raiffa *et al* (2002), state that most problems don't require the full treatment: problem definition, objectives, alternatives, consequences, and trade-offs. The conclusion might be obvious after a partial analysis. Rational models provide a straightforward way of choosing among options, which if followed correctly, will produce the best outcome for the chooser, maximizing his or her own preferences (Thompson, 2001).

2.2 Distributive and Integrative Bargaining

Negotiations may contain the elements of both competitive and collaborative bargaining, herein referred to as distributive and integrative bargaining. According to Raiffa (1982), two-party bargaining can be divided into these two types. Knowing the difference between the two is important in the preparation and successful outcome of a negotiation. When the goals of two or more people are interconnected so that only one can achieve a goal-such as winning a gold medal race-we have a competitive situation, also known as zero-sum[6] or distributive situation (Lewicki et al, 2003). On the other hand, when parties' goals are linked so that one person achieving their goal helps the others to achieve their goals, there is a mutual gains situation (a.k.a. win-

[6] The term zero-sum is developed from Game Theory – what one player gains the other side loses and vise versa (Raiffa et al, 2002).

win or integrative situation). The table below highlights key differences of these two approaches.

Table 1: Characteristics of Distributive and Integrative Bargaining

Distributive (also called competitive, zero sum, win-lose or claiming value)	**Integrative** (collaborative, win-win or creating value)
one side wins and one side loses	both sides can win
short-term focus: parties do not expect to work together in the future	long term focus: parties expect to work together in the future
there are fixed resources to be divided so that the more one gets the less the other gets	there is a variable amount of resources to be divided
the dominant concern is maximizing one's own outcome	dominant concern is to maximize joint outcome
dominant strategies include manipulation, forcing, and withholding information	dominant strategies include cooperation, sharing information, and joint problem solving
Pursuit of own goals at the expense of others	The goal is to have both sides leave the negotiation feeling they had greater value than before

Source: Adapted from Lewicki *et al*, 2003, pp. 38-39.

2.2.1 Distributive Bargaining

It can be seen from Table 1 that the distributive method has serious potential for negative consequences. Negotiators employing this type of strategy have a high level of distrust and guard information carefully to prevent the other side from obtaining the advantage (Lewicki *et al*, 1996). The main concern is obtaining the biggest piece of the pie. Bazerman (2005) states that negotiation ploys designed to increase the size of their own slice tend to stand in the way of maximizing, and may even shrink the size of the pie. In their book, *The Manager as Negotiator*, Lax and Sebenius (1986) highlight several class of tactics for claiming value including: shaping perception of alternatives, taking positions, and misleading other parties.

1. Shaping perceptions of alternatives – Typically, a negotiator doesn't know the other party's reservation value, or the value that a negotiator would receive from his no agreement alternatives. No-agreement alternatives set the lower limits on acceptable agreements and the key tactics for claiming value are intended to shape perceptions of these limits (Lax and Sebenius, 1986). Bazerman and Neale (1985) state that initial positions affect each side's perception of what outcomes are possible. One way to shape perceptions is by anchoring where one attempts to establish a reference point around which to make adjustments. According to Harvard Business School Publishing (2003), anchoring creates two risks. First, being too aggressive with the anchor may conclude it will be impossible to make a deal with you and the other party may feel personally insulted by the offer. Second, anchoring requires an assessment of the other party's reservation price and if you've made an erroneous estimate, the offer may fall outside the zone of possible agreements. Another example is that many times the employer will ask a prospective employee for his or her salary history. The reason being is that the salary history will be used as an anchor in determining what salary offer to propose the prospective employee and where to make adjustments away from. Dawson (2006) proposes three rules about requests for salary history: 1) never offer to give information on past salary, 2) make attempts to avoid the question by requesting to discuss the job first, and; 3) fog the response by providing a rough estimate such as "the total compensation package was around $100,000."

2. Taking positions- Lax and Sebenius (1986) state that opening offers are intended to influence the perceptions of the bargaining set and that equally extreme counteroffers may simply cancel the intended effects and increase the chances of impasse. In the case of salary negotiations, an employee

may request a salary of $100,000 suggesting that this is the least he would accept while, on the other hand, the employer's budget only allows for $60,000. Such a big difference in initial positions creates a risk of leaving one or both parties feeling discouraged, offended, or give rise to negative feelings of fairness. Dawson (2006) states that you can blow yourself out of contention for a job by taking an extreme position.

3. Misleading – Negotiators are often uncertain about each other's interests. Misleading each other becomes a significant tactic in each side's quest to claim value. Typically, interests are overstated. The intention being to later make concessions for a good price. According to Lax and Sebenius (1986), the lure of these tactics is individual gain at the risk of foregone joint value and compromising ethical standards.

Referring to hardball tactics Lewicki *et al* (2003) state that most of the tactics are designed either to enhance the appearance of the bargaining position of the person using the tactic or to detract from the appearance of the options available to the other party.

Contentious behavior consists of all those actions that are designed to elicit concessions from the other party (Bazerman, 1983). Unequal use of contentious tactics has been shown to lead to an argument favoring the biggest user (Pruitt and Carnevale, 1993). These tactics can lead to low joint benefit and/or failure to reach agreement partly because contentious tactics often bond the user to particular demands making them unlikely to seek or discover new options.

2.2.2 Integrative Bargaining

Integrative negotiations are those in which the parties enlarge the pie through trades. Integrative negotiations rely on greater collaboration and information exchange (Harvard Business School Publishing, 2003). Collaborative strategies require a high degree of trust, openness, cooperation, communication and a willingness to make concessions. The parties look for common needs and goals and engage in mutually supportive behavior to obtain them (Lewicki *et al*, 1996). Both parties realize that they are interdependent and that their *cooperative* efforts can solve the problems and meet the needs of both sides. These collaborative or integrative negotiations aim to create *and* claim value.

Integrative bargaining involves *joint* consideration of two or more options or potential agreements. Integrative bargaining refers to the processes by which bargainers locate and adopt such options. It is also defined as conflict in which all the participants are satisfied with their outcomes and feel that they have gained (Druckman, 1977). In integrative bargaining situations, the gains of one party do not represent equal sacrifices by the other (Bazerman, 2005). Integrative bargaining can be seen as problem solving.

Greenhalgh (1986) developed criteria for analyzing a dispute and determining how easy or difficult it will be to resolve thus underscoring the importance of integrative bargaining. The criteria are summarized in table 2 below.

Table 2: Conflict Diagnostic Model

Dimension	***Difficult to Resolve***	***Easy to Resolve***
Issue in question	Single issue - Matter of “principle" – values, ethics, or precedent a key part of issue	Divisible issue – issue can be easily divided into small parts, pieces, units
Size of stakes – magnitude of what can be won or lost	Large – big consequences	Small, little insignificant consequences
Interdependence of the parties – degree to which one’s outcomes determine the other’s outcomes	Zero sum – what one wins the other loses	Positive sum – both believe that both can do better than simply distributing current outcomes
Continuity of interaction – will they be working together in the future?	Single transaction – no past or future	Long-term relationship – expected interaction in the future
Perceived progress of the conflict – balanced (equal gain and equal harm) or unbalanced (unequal gain, unequal harm)	Unbalanced – one party feels more harm and will want revenge and retribution. Stronger party wants to maintain control	Balanced – both parties suffer equal harm and equal gain; both may be more willing to call it a “draw”

Source: Adapted from Greenhalgh, 1986, p. 45

Four dimensions of the conflict are considered in determining the ease or difficulty of resolving. These dimensions are included in the far left column of table 2. Conflicts with more of the characteristics in the middle column will be more difficult to resolve while those conflicts with characteristics in the far right column will generally be easier to resolve. Considering the context of a salary negotiation and the dimensions described in Table 2, it can be determined that salary negotiations between two parties should be relatively easy to resolve. The issue in question is divisible when compensation can be divided up into such things as salary, vacation, profit-sharing, car allowance, health benefits, etc. Once the issue is divided the size of the stakes - magnitude of what can be won or lost - become smaller, more incremental, instead of just focusing on one issue such as salary. Thompson (2001) argues that many negotiators make the mistake of identifying only a single issue to be negotiated and in job negotiations, salary emerges as the key issue. By identifying other issues, negotiators can add value to negotiations. Dawson (2006) states that the first thing to learn in salary negotiation is "don't narrow it down to just one issue." If the only thing to negotiate is salary, then someone has to win and someone has to lose. As long as there is more than one issue on the table there is always the possibility for trade-offs so that it's easier for the employer to concede on salary because the employee can offer something in return.

The interdependence of the parties is high in salary negotiations because an employer and employee will always be dependent on each other. The employer's performance depends on the employee's performance and vice versa so it is crucial that both parties have a positive sum mentality. The continuity of interaction will remain relatively consistent as long as they work within the same organization. The final dimension involving the perceived progress of the conflict can be balanced with both parties suffering equal harm and equal gain as long as the first four dimensions are easy to resolve. As previously stated, integrative bargaining is defined as conflict in which all the participants are satisfied with their outcomes and feel that they have gained and the gain of one party does not represent equal sacrifices by the other.

Druckman (1977) states that integrative bargaining reduces the chances that negotiations will fail by making it possible to locate options that satisfy everybody's ultimate limits, integrative bargaining leads to faster settlements, integrative bargaining reduces the danger that one or both bargainers will repudiate an agreement after it has been reached, members of groups that persistently achieve integrative agreements are likely to find their relationships with one another mutually satisfying, and integrative bargaining will contribute to organizational effectiveness.

Integrative agreements in bargaining are those that reconcile the parties' interests and hence yield high joint benefit (Bazerman, 1983). This can be contrasted with *compromises* which are reached when the parties concede to some middle ground which usually produce lower joint benefit. Integrative agreements emerge from creative problem solving and make use of known alternatives as well as develop novel ones. According to Bazerman (1983), there are four main reasons for bargainers to seek integrative agreements rather than compromises;

1. If aspirations are high and both sides are resistant to conceding, it may not be possible to resolve the conflict unless a way can be found to reconcile the two parties' interests.
2. Integrative agreements are likely to be more stable. Compromises are often unsatisfactory to one or both parties, causing the issue to come up again at a later time.
3. Because they are mutually rewarding, integrative agreements tend to strengthen the relationship between the parties. This has a number of benefits including problem solving in later conflicts.
4. Integrative agreements ordinarily contribute to the welfare of the broader community of which the two parties are members. For example, a firm will usually benefit as a whole if its departments are able to reconcile their differences creatively.

There is a central, inescapable tension between cooperative moves to create value jointly and cooperative moves to gain individual advantage (Lax and Sebenius, 1986). Tactics used to *create* a larger pie (for example: truthful sharing of information) may conflict with tactics designed to *claim* a large slice of the pie. In every negotiation, value creation is inextricably linked to value claiming - this is the negotiator's dilemma (Raiffa *et al*, 2002).

Approaches to creating value are vulnerable to claiming tactics (Lax and Sebenius, 1986). Thus, if one party is creative the other can take advantage and claim. If one claims then the other party feels they must do the same to protect their interests. As Table 1 shows, the character of most claiming tactics is the opposite of those essential to creation and the risks of lost opportunity for joint gain are inherently high. It is easy to see that these tactics to claim can impede the creation of alternatives and increasing the size of the pie.

In the most simple of versions, the prisoner's dilemma involves only two parties, each with two options (Pruitt and Carnevale, 1993). The reward structure makes non-cooperation the rational choice for each party, since this option produces a larger outcome than cooperation, regardless of what the other party does. The paradox is that if both parties fail to cooperate, they will both be worse off than if they both cooperate. Hence, the prisoner's dilemma embodies a dilemma similar to those in negotiation such as the dilemma of creating and claiming value. The message of the Prisoner's Dilemma is very clear: uncoordinated, rational, self-interested behavior can result in awful outcomes (Raiffa *et al*, 2002).

2.3 The Method of Principled Negotiation

Fisher *et al* (1991) contrast the method of principled negotiation with hard and soft positional bargaining.

Table 3: The Method of Principled Negotiation

Problem Positional bargaining: Which game should you play?		**Solution** Change the game – Negotiate on merits
Soft	**Hard**	**Principled**
Participants are friends	Participants are adversaries	Participants are problem solvers
The goal is agreement	The goal is victory	The goal is a wise outcome reached efficiently and amicably
Make concessions to cultivate the relationship	Demand concessions as a condition of the relationship	**Separate the people from the problem**
Be soft on the people and the problem	Be hard on the problem and the people	Be soft on the people, hard on the problem
Trust others	Distrust others	Proceed independent of trust
Change your position easily	Dig in to your position	**Focus on interests, not position**
Make offers	Make threats	Explore interests
Disclose your bottom line	Mislead bottom line	Avoid having a bottom line
Accept one-sided losses to reach agreement	Demand one-sided gains as the price of agreement	**Invent options for mutual gain**
Search for the single answer, the one they will accept	Search for the single answer, the one you will accept	Develop multiple options to choose from; decide later
Insist on agreement	Insist on your position	**Insist on using objective criteria**
Try to avoid a contest of will	Try to win a contest of will	Try to reach a result based on standards independent of will
Yield to pressure	Apply pressure	Reason and be open to reason; yield to principle, not pressure

Source: Fisher *et al*, 1991, p. 12.

The elements of the method of principled negotiation are shown in bold on the far right column. The Harvard Negotiation Project developed this alternative to positional bargaining with the intent of producing wise outcomes efficiently and amicably. The first element involves separating the people from the problem. As will be discussed in section 2.3, every negotiator has two kinds of interests, one is to satisfy his or her own substantive interests and one is in their interests with the other party. Because most negotiations take place in the context of an ongoing relationship separating the relationship with the problem becomes challenging. This is the first element of the method. The basic approach is to deal with the people as human beings and with the problem on its own merits.

The second element involves focusing on interests, and not position. The basic problem in a negotiation lies not in conflicting positions, but in the conflict between each sides, needs, desires, concerns, and fears (Fisher *et al*, 1991). Positions are the claimed requirements that parties demand from the other side (Bazerman, 2002). In salary negotiations one party's position is the salary he or she demands. The interests behind this position can be anything from a desire to be fairly compensated or a need to pay for college tuition. Dawson (2006) argues that employees shouldn't focus entirely on how much an employer is going to pay them because there are many other factors that can be valuable. Negotiators seek to reach agreement on specific *positions* on a specific set of *issues;* an employee may initially demand $80,000 (his position) for his salary (the issue). Looking to the underlying interests instead of the position makes it possible to develop a solution to the problem. What's important is to uncover the parties' real concerns which can help focus on deeper interests and help unblock an impasse over incompatible positions.

The third element of the method involves inventing options for mutual gain. If one can tear themselves from the pull of focusing on position and thus focus on interests, options can then be explored. Fisher *et al* (1991) argue that as valuable as it is to have many options, parties in a negotiation rarely sense the need for them. When Dawson (2006) discusses his secrets for salary negotiating, he states that power comes from having options. Two common obstacles that inhibit the inventing of options is the assumption of a fixed pie and premature judgment which stifles creativity. Parties must separate the inventing of options from deciding which options work best.

The final element of the method involves using objective criteria. It entails bringing standards of fairness, efficiency, or scientific merit to the particular problem. In the case of salary negotiations, to support his or her salary proposal an employee might bring salary statistics obtained from the U.S. Department of Labor which publishes average and median wages for hundreds of jobs. An employer might use standard industry practices as a means of establishing objective arguments for his or her own salary proposal. Whatever form of objective criteria the parties bring, independent standards will increase the level of fairness, can help steer the process away from positional bargaining, and increase the chance of mutual gain.

Thompson (2001) argues that choosing between soft or hard approaches to negotiation is not effective and that a more accurate model of negotiation is a mixed-motive decision-making enterprise involving both cooperation and competition. One can see from the table that the method of principled negotiation is just that. For example, without cooperation the parties might not be able to invent options for mutual gain and without competition, choosing from these options would be one-sided or compromising, possibly leading to sub-optimal results. Much of the descriptive and prescriptive literature used for this study (e.g. Bazerman, 2002; 2005; Lax and Sebenius, 1986; Lewicki *et al*, 1996; 2003; Pruitt and Carnevale, 1993; Raiffa *et al*, 2002; Thompson, 2001) utilize one or more of the elements of the principled approach (i.e. interests, options, criteria) in their analysis of negotiation.

Fisher *et al* (1991) suggest that people find themselves in a dilemma because they see only two ways of negotiating; soft or hard and each involves an attempted trade-off between getting what you want and getting along with people. Thompson (2001), states that negotiators who have fixed-pie perceptions usually take one of three roads when preparing for a negotiation:

1. They resign themselves to “give in” to the other side (also known as *soft bargaining*).
2. They prepare themselves for an attack (also known as *hard bargaining*).
3. They *compromise* in order to reach a mid-point between their opposing needs or desires.

The effects of hard and soft positional bargaining on concession making can be seen in Pruitt and Carnevale’s (1993) three interrelated findings concerning the impact of these approaches on concession making and negotiation outcomes.

1. If agreement is reached, firmer negotiators will usually achieve larger outcomes. Soft negotiators who give up easily are not likely to explore the integrative potential, and hence are not likely to find the win-win options. As a result, they often achieve poor agreements.
2. Firmness tends to lengthen negotiation and make agreement less likely. The more negotiators demand at first and the slower they concede, the harder it will be to reach agreement.
3. The third finding is derived from the first two. Negotiators who demand too much will fail to reach agreement and thereby do poorly. Negotiators who demand too little will usually reach agreement but achieve low profits. The most successful negotiators will be those who are moderately firm falling between the two extremes.

The largest joint benefit will be obtained if both parties are moderately firm and also engage in some form of problem solving (Pruitt and Lewis, 1975). According to Ross and Ward (1995), tactical and strategic barriers are considered products of calculation where adversaries adopt negotiation strategies they believe will increase their share of any gains achievable through trades of concessions but in doing so, they preclude or diminish the possibility of efficient outcomes.

2.4 Modes of Responding to Conflict

Lewicki *et al* (2003) state that many approaches to managing conflict have been suggested, and inventories have been constructed to measure negotiator's tendencies to use these approaches. Each approach begins a fundamentally similar two-dimensional framework called the Dual Concerns Model[7] and then applies different labels and descriptions to five key points. The earliest users of the Dual Concerns Model treated it mainly as a theory of individual differences in conflict style (Pruitt and Carnevale, 1993). Conflict style is the way a person most commonly deals with conflict. Lewicki *et al* (1996) argue that the five basic types of conflict styles or, negotiating strategies, depend on a person's combination of preferences for two basic concerns:

1. The relationship with the other negotiator and,
2. The outcome for the negotiation itself.

The importance of each of these two concerns should direct the selection of the optimal strategy. A key prediction is that negotiators who have a high degree of concern for the outcome of the negotiation coupled with a high degree of concern for the relationship with the other negotiator will reach more integrative outcomes than will negotiators who are concerned only with the outcome of the negotiation, negotiators who are concerned only with the relationship of the other party, and negotiators who are not concerned with the outcome or the relationship. Figure 1 below summarizes the strategies.

[7] The Dual Concerns Model is a two-dimensional framework which postulates that individuals in conflict have two independent levels of concern, concern about their own outcome and concern about the other's outcome. The model presented here was adapted to reflect concern about one's own outcome and concern about the relationship. Both arrive at the same strategies.

Figure 1: Strategic Options

High……………… **Importance of relationship........... Low**	Accomodating		Collaborating
		Compromising	
	Avoiding		Competing
	Low…………….Importance of outcome…………….High		

Source: Lewicki *et al*, 1996, p. 57

1. Avoiding: This strategy is also known as lose-lose. Neither aspect of the negotiation, relationship or outcome, is important. Anyone employing this strategy would merely withdraw or avoid the negotiation entirely.
2. Accommodating: This strategy places high importance on the relationship and low importance on the outcome thus, in order to maintain or not harm the relationship anyone employing this strategy may back off or give up his outcome in part or in whole. This can also be described as "lose the outcome to win the relationship."
3. Competing: This strategy represents high concern for the outcome and low concern for the relationship. You win the other loses.
4. Collaborating: This strategy is best described as win-win, or problem solving, where both parties attempt to maximize their outcomes while at the same time preserving the relationship. Collaboration is appropriate when both the outcome and the relationship are important.
5. Compromising: With this strategy, each party gives in to find a common ground. This strategy may be employed if the parties cannot achieve good collaboration or are under time constraints and do not want to abandon the relationship or heavily pursue the outcome.

The point here is that strategies should be chosen to achieve one's needs in the situation. Because most people negotiate when the outcome is important to them, they tend to use strategies that are high in concern for the outcome – the competitive and collaborative strategies (Lewicki *et al*, 1996). Although the various models of conflict suggest at least five viable strategic approaches to managing conflict, the same works also suggest that problem solving (collaborating) was the distinctly preferred approach (Lewicki *et al*, 2003).

According to Pruitt and Carnevale (1993), in negotiation, “other-concern” more often arises when people expect to be dependent on the other party in the future and wish to make a good impression now. In other words, they may want to establish a working relationship because they expect future interaction with the other party. In terms of salary negotiations where there is a need to maintain a relationship after the negotiation process, the ideal response by both parties would be to place high importance on satisfying each other’s needs which would result in both parties choosing a collaborating strategy. This form of “integrative” bargaining appears to rely on fairness which can open the door for better communication leading to brainstorming ideas, joint value creation and distribution. Pruitt and Carnevale (1993) argue that, this state of mind has been shown to produce both concession making and problem solving in negotiation and mediation. On the other hand, when the outcome is important but the relationship is not, such as when buying a car, it is important that people develop skills in competitive, or distributive, bargaining. Lewicki *et al* (1996) state that negotiating with the boss is often viewed as a competitive, win-lose situation or, it is also viewed as a lose-win situation from the employee’s standpoint. Instead of trying to negotiate for a preferred outcome and risk upsetting the boss, the employee may find it better to accommodate and let the boss win but this means not having his or her interests met. The aim here is that, understanding the various approaches and effects of individual perceptions towards negotiation and how selecting the wrong strategy for the situation can lead to terrible outcomes, can help steer one or both parties to a more collaborative solution.

Effective negotiators must make conscious decisions about whether they’re in a distributive or integrative negotiation situation, and that they actively prepare strategies and tactics that match this judgment. Independent decisions about the importance of the outcome and the relationship should dictate your strategy (Lewicki *et al*, 1996).

3 RESEARCH METHODOLOGY

3.1 Type of Research

In order to become familiar with the problem, or concept of this paper, exploratory research was conducted in order to provide significant insight into negotiation. Exploratory research can be considered the initial research before more conclusive research is undertaken, and is often conducted because a problem has not been clearly defined, or its real scope is as yet unclear. Exploratory research helps determine the best research design, data collection method and selection of subjects and sometimes it even concludes that the problem does not exist.[8] Exploratory research relies on secondary research such as reviewing available literature and/or data, or qualitative approaches such as informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, or case studies.[9]

The research methodology adopted in this paper was also qualitative in nature. Qualitative research methods are designed to help researchers understand people and the social and cultural contexts within which they live. This type of research aims at providing insights into questions that address the way people think about a certain subject and why they think that way as opposed to how many people share a certain opinion (de Ruyter & Scholl, 1998).

As such, a single case study technique was utilized. As a research strategy, the case study is used in many situations to contribute to our knowledge of individual, group, organizational, social, political, and related phenomenon (Yin, 1995). In other words, case study techniques are used to understand complex social phenomenon within its real-life context. In case study research, one should strive towards analytical generalization, which refers to generalizing the research outcomes to the existing literature (Yin, 1995).

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[8] http://en.wikipedia.org
[9] http://www.ryerson.ca

3.2 Method of Data Collection and Analysis

The research design relied on data collection techniques that were conducted in two separate stages: the first stage was the collection of secondary data including negotiation and decision making literature which forms the theoretical basis of the paper and explains the factors that affect the process of negotiation. This secondary data was both descriptive and prescriptive in nature in order to provide insight into existing theory used to analyze salary negotiation, and to provide prescriptive advice, or recommendations, to support the empirical findings, and to provide recommendations and conclusions to the specific case. This secondary data took the form of books, journals, article reviews, and the internet.

The second stage consisted of collecting primary data which included the distribution of two sets of questionnaires[10] aimed at uncovering negotiator behavior and tactics and strategies employed, in order to address the research question and specific objectives outlined in section 1.4. The questionnaire was developed from website information including the Program on Negotiation at Harvard Law School[11], questions pertaining to Fisher *et al's* (1991) analysis of hard and soft positional bargaining, as well as questions derived from other research literature[12]. One set of questions called "employee questionnaire," was aimed at employees in a non-hiring capacity. The other set of questions called "employer questionnaire," was completed aimed at employers in a capacity to interview and hire people which included both hiring managers and human resource directors. Both questionnaires' posed similar questions aimed to uncover negotiation experiences, bargaining knowledge, perceptions of conflict, and approaches towards negotiation from two perspectives; that of the employee and that of the employer.

The subjects chosen to complete the questionnaires included professionals from several industries in California including personnel staffing, telecommunications, real estate, bookkeeping, and investor relations. The majority of the questionnaires were

[10] Questionnaires can be found in the Annex
[11] http://www.pon.harvard.edu
[12] See bibliography

completed by the participants only on condition of anonymity thus; no reference will be made in this paper to particular participants or specific organizations.

A total of 80 questionnaires were distributed of which 66 were completed and submitted. The makeup of the participants is summarized in the following table:

Table 4: Participant Information

Position	***# of participants***	***% of total participants***	***Male***	***Female***
HR Director	15	23%	4	11
Manager	14	21%	9	5
Employee	37	56%	22	15
totals	66	100%	35	31

Source: author obtained questionnaire results

To simplify the development of this study, HR Directors and Managers will be referred to as "employers." An analysis of the research problem was conducted in 3 stages: diagnosis of the problem, recommendations, and index of assessments. The results established direct links between primary and secondary data sources thus providing construct validity[13] to the paper.

3.3 Research Limitations

The research is limited to understanding and analyzing negotiation within a single context, that of salary negotiation in a corporate environment. The primary data in this case was collected from a relatively small population, limited to the state of California, and limited to five companies and five industries. Although the results of exploratory research can provide significant insight into a given situation such as salary negotiation, they are not usually useful for decision-making by themselves. Also, even though the results of qualitative research can give some indication as to

[13] Construct validity refers to the degree to which inferences can legitimately be made from the operationalizations of the study to the theoretical constructs on which those operationalizations are based (www.socialresearchmethods.net). It involves generalizing from the program, or measures, to the *concept* of the program or measures.

the "why", "how" and "when" something occurs, it cannot tell us "how often" or "how many". In other words, the results can not be generalized and thus, are not representative of the whole population being studied.

Also, the research findings from the questionnaires were interpreted solely by the author which can be considered a limitation and open to bias.

4 CASE DESCRIPTION AND ANALYSIS

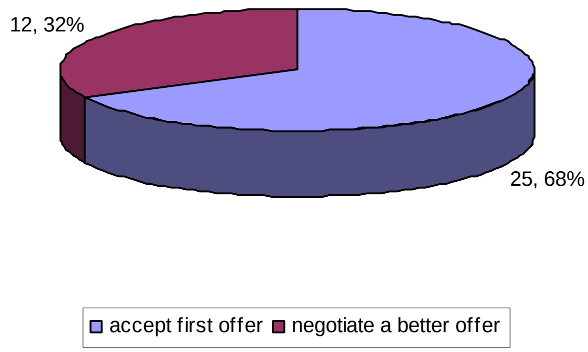
4.1 Diagnosis

In diagnosing what may be going wrong with two-party salary negotiations in a corporate environment, common symptoms, or negative outcomes observed, was the employee walking away from the bargaining table with too little, and feeling displeased with his or her negotiated salary. From the employer's standpoint, an obvious symptom was that a significant proportion of their annual employee turnover was a result of employee dissatisfaction with their salary. A diagnosis of these symptoms revealed several viable sources including both parties exhibiting a fixed-pie perspective. Employees tended to prefer strategies of compromise and maintaining the relationship whereas the majority of employers described their preferred strategy as collaborating. Furthermore, a large percentage of the respondents focused on their positions instead of uncovering *interests* and both tended not to explore *options*. These last two elements are part of seven[14] which, according to Fisher and Shapiro (2005), form the structure of any negotiation, including the method of principled negotiation described in section 2.4.

According to Loeb (2006), CareerBuilder.com conducted a survey of 875 hiring managers which revealed that about 60% of them leave room in the first offer for salary negotiations, 30% say their first offer is final, and 10% say it depends on the candidate. At the same time, a study conducted by the Society for Human Resource Management found that four out of five corporate recruiters said they are willing to negotiate compensation yet few job seekers actually ask for more.[15] To get a better understanding of this phenomenon, the present study questioned 37 employees on their tendency to accept an employer's initial offer. The question asked the employees about their decision to either accept the first offer presented by their present employer or negotiate a better offer. The following graph summarizes these findings:

[14] The Harvard Negotiation Project identified seven elements as comprising the basic elements of negotiation.
[15] Taken from CareerJournal.com. The Wall Street Journal Executive Career Site.

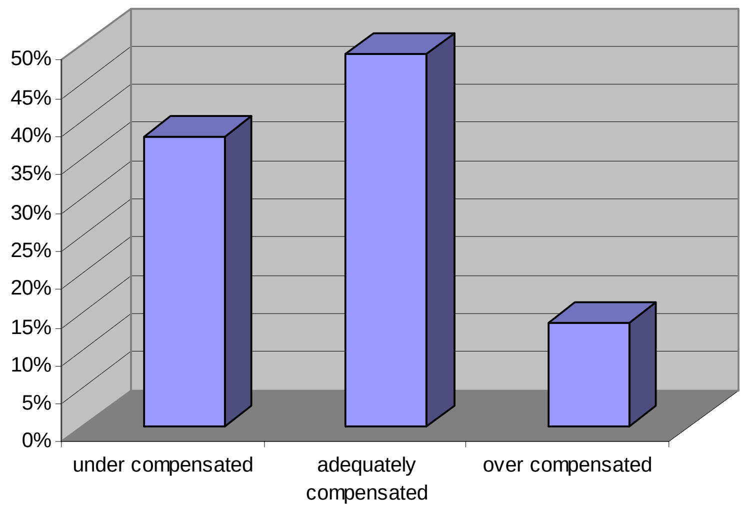
Graph 1: Employee tendency to accept first offer



Source: Author obtained questionnaire results

Of the 37 employees questioned, 68%, or 25 employees, stated that they accepted the first offer made by their employer at their present position. Less than half, or 32%, negotiated a better offer. These results, when posed by themselves, simply tell us that either a) employers are generally making great first offers, or b) employees are leaving money on the table. To determine which of these two options is appropriate for the situation, another question was posed to the employee. The question was: “Do you believe you are currently: a) under compensated, b) adequately compensated, or c) overcompensated?” The results are depicted in graph 2 below.

Graph 2: Employee's assessment of his or her present salary



Source: Author obtained questionnaire results

The results show that of the 37 employees, 38%, or 14 employees, feel they are under-compensated, 48%, or 18 employees, feel adequately compensated, and 14%, or 5 employees, feel that they are over-compensated. When combined with the results from Graph 1, we can assume that of the 25 employees that accepted the first offer, 14 of those left money on the table which left them feeling under-compensated. To support this assumption, of the 29 *employers* in the survey, more than half, or 62%, tend to leave room in their first offer to negotiate. These results are very much in line with the much larger surveys conducted by CareerBuilder.com that states 60% of employers are willing to negotiate salary and the Society for Human Resource Management's findings that discovered few job seekers actually ask for more.

Although employees leave their jobs for several reasons besides salary such as: relocation, better opportunities, retirement, etc., the employee turnover ratio is a good indicator of job satisfaction, or dissatisfaction. Common practice in U.S. companies is to conduct exit interviews which among other things, determines *why* employees leave their jobs. With this in mind, two related questions were posed to the employers. One was to determine the level of annual voluntary employee turnover[16] at their company and the other was to determine the level of turnover as a result of salary issues. The results are shown in the following table.

Table 5: Annual employee turnover ratios by company

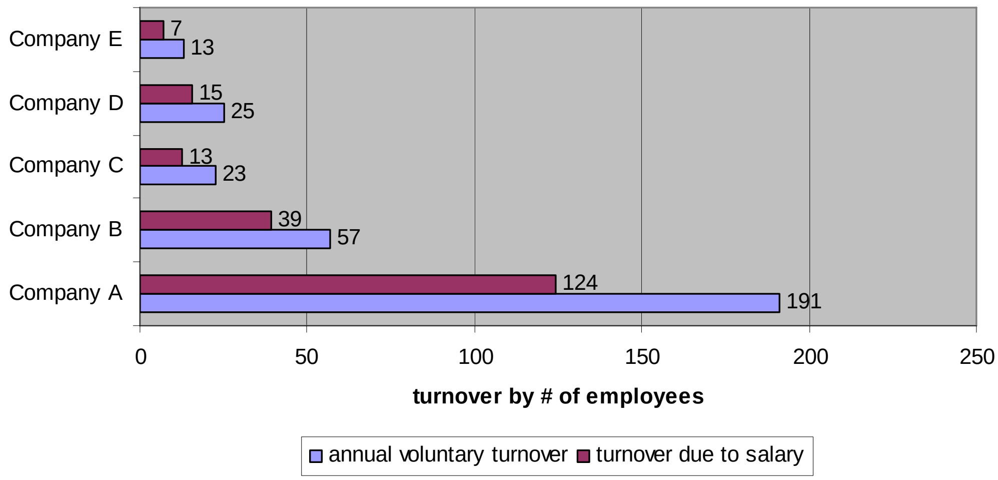
Company	# of employees	Annual voluntary employee turnover ratio	Annual voluntary turnover by # of employees	% of annual voluntary turnover due to salary	Turnover by # of employees due to salary
A	910	21%	191	65%	124
B	324	17.6%	57	68%	39
C	127	18%	23	56%	13
D	174	14.5%	25	61%	15
E	110	12%	13	54%	7
TOTAL	*1,645*	*18.8%*	*309*	*12%*	*199*

Source: Author obtained questionnaire results

As column 5 in table 5 shows, the percentage of annual voluntary turnover due to employee dissatisfaction with salary ranges anywhere from 54% to as high as 65% of total employee turnover. To put this into context, company A had an average of 910 employees on their payroll. Their annual employee turnover was estimated at 21%, or 191 employees per year. Of these 191 employees voluntarily leaving the company, 65% or 124 leave as a result of dissatisfaction with their salary. If we look at the total number of employees for all 5 companies which comes to 1,645, 12% or, 199 employees, leave as a result of salary discrepancy. Graph 3 below helps to clearly visualize the extent to which salary issues influence a company's employee turnover ratio.

[16] Annual voluntary employee turnover is determined by dividing the number of employees voluntarily leaving the company per year by the average number of employees.

Graph 3: Turnover comparison



Source: Author obtained questionnaire results

In all cases, the amount of employee turnover as a result of salary issues exceeds 50% of total employee turnover. One cannot dismiss that what appears to be an upfront gain, or win-lose situation for the employer in terms of possibly negotiating an initial salary in their favor, ends up to be a lose-lose situation in the long run because the employee who accepts the first offer is more likely to end up leaving in search of a better salary. Considering that the costs of employee turnover can exceed 150% of the employee's salary should lead more employers to negotiate better offers to retain their staff. In describing the basic premises of economic and game theory as described in section 2.1.1, models of rational behavior are based upon the principle of maximization such that the course of action guarantees that the negotiator will maximize his or her interests but, as behavioral decision theory described in section 2.1.3 suggests, many negotiators consistently violate these key principles. This has been proven by both the employees and the employers in the present study because a large percentage of employees tend to walk away from the table with too little while employers end up with high employee turnover when they should focus on providing compensation packages to increase productivity, retain their employees and keep turnover costs to a minimum.

4.1.1 Fixed-Pie Perspective

As discussed in section 2.1.3.1.1, those who believe in the fixed pie assume that the possibilities for integrative settlements and mutually beneficial trade-offs don't exist, and they suppress efforts to search for such settlements or trade-offs. Once again, the tendency of employees to accept the first offer shows that they are not searching for trade-offs or even exploring options beyond salary. The employee participants were asked if they negotiated anything else beyond pay in their most recent negotiation. 84% or, 31 of the respondents did not attempt to negotiate anything beyond salary. When the employer was questioned on their availability to negotiate compensation packages such as extra vacation time, bonuses, and gym memberships, 76% or 22 employers responded that they rarely do, 17% or 5 do frequently, while 7% or, 2 employers never do. The general tendency to not look beyond salary as the only issue in salary negotiation assumes a fixed-pie mentality.

4.1.2 Focus is on Position, Not Interests

As discussed in section 2.3, interests are what define the problem and these interests involve the needs, desires, and concerns of each party while positions are the claimed requirements that parties demand from the other side. Several measures were considered to support the fact that the participants focused on position and not interests. 1) Graph 1 above shows that the majority of employees tend to accept the first offer. In salary negotiations one party's position is the salary he or she demands. 2) Section 4.1.1 above concluded that the general tendency of the participants was not to look beyond the issue of salary. Once again, 84% of employees do not look beyond salary while 76% of employers rarely do. 3) In a simple yes or no type question, the respondents in the survey were asked if they aimed at uncovering the needs, wants, and motivations of the other party. 76%, or 22 of the employers responded yes. On the other hand, only 46%, or 17 employees answered yes. Here, there appears to be an inconsistency between the general tendency of employers to uncover the employees' interests and, their general tendency *not* to explore compensation packages beyond just salary, given the information they allegedly pursue. 4) Finally, to support the assumption that the parties were failing to uncover interests and thus focus on position, both employee and employer were asked to reflect on their values that declare what is important to them in a position. Table 6 lists the most common responses for each party.

Table 6: Most Common Employee and Employer Interests

Employee Interests	Employer Interests
• salary • benefits (vacation time, health ins., stock options, car allowance) • advancement opportunities • geography • company culture • job security	• finding the right candidate (experience, motivation, attitude) • staying within budget/company standards • commitment • flexibility to work overtime • someone to increase profits or decrease costs

Source: Author obtained questionnaire results

As the table shows, there are several items that both parties could bargain for if interests beyond salary were explored. For example, the employee interested in benefits might bargain for more vacation time in exchange for a smaller salary that might meet the interest of the employer to stay within his or her department's budget.

4.1.3 Not Exploring Options

As discussed in section 2.3, one explanation for why there are so few good options on the table is a result of the fixed-pie perspective where the focus is on a single issue and limited amount of resources. Also, using the same findings from section 4.1.1, where 84% of the *employees* did not attempt to negotiate anything beyond salary and where 76% of *employers* answered that they rarely negotiate compensation packages, means that neither side is inventing options. The Conflict Diagnostic Model presented in Table 2 shows that a conflict is easier to resolve if the issue can be divided into smaller issues. With more issues, more options can be explored leading to trade-offs and concessions. The Method of Principled

Negotiation described in Table 3 of section 2.3 states that parties should develop multiple options to choose from.

Lewicki *et al* (2003) argue that those who believe in the mythical fixed-pie assume that the possibility for integrative settlements and mutually beneficial trade-offs doesn't exist, and they suppress efforts to search for such settlements or trade-offs. 68% of the employees in this study did not search for integrative settlements beyond the first offer.

4.1.4 Employer Anchoring

As discussed in section 2.2.1, Lax and Sebenius (1986) argue that people's cognitive deficiencies suggest tactics for claiming value where *claiming* value involves advantageously shaping opponents' perceptions of the bargaining range. Claiming value is distributive in nature in that this tactic is concerned with maximizing one's own outcome as described in Table 1 of section 2.2. As discussed in section 2.1.3.1.3, employers attempt to establish an anchor by making an employee's past salary earnings a big issue because they think it will lower the employee's salary expectations. Dawson (2006) states that employers tend to make offers based on three factors: 1) How much the employee has made in the past, 2) what other companies are paying, and 3) what the company currently pays its employees. In the present study, employers were asked to rank in order of importance these three factors in determining a salary offer. Results show that the primary factor in determining a salary offer is employee salary history as depicted in Table 6 below. Column 3 depicts the percentage of employers who ranked the factors in the depicted order.

Table 6: Factors used in Determining Salary Offers

Factor	Ranking	% of Employers
Employee salary history	1	93%
What the company currently pays its employees	2	90%
What other companies are paying	3	86%

Source: Author obtained questionnaire results

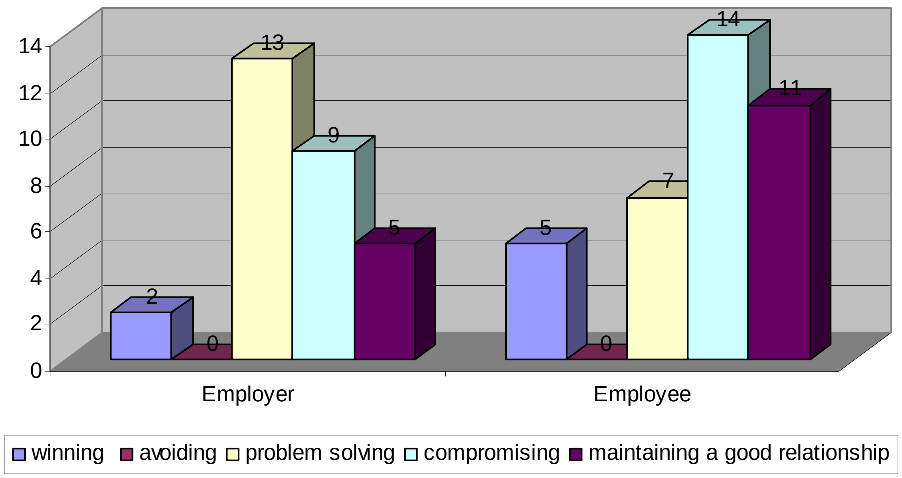
Bazerman and Neale (1992) state that initial positions affect each side's perception of what outcomes are possible and one way to shape these perceptions is by anchoring. This is a common tactic for claiming value as described in section 2.2.1. 93% of the employers in this survey ranked the employee's salary history as the number one factor in determining salary followed by what the company currently offers its employees. The problem here as described in section 2.1.3.1.3 is that using these benchmarks to establish a starting point might not be valid in that the employee may have been under-compensated in the past also, the company may be paying less than what the market is paying thus invalidating the second factor of Table 6.

4.1.5 Inappropriate Strategies

The participants were questioned on their preferred strategy for approaching negotiation which was helpful in examining the often less-than-optimal results the participants tended to achieve in a salary negotiation.

When asked to select the negotiation style they feel is most appropriate in salary negotiations, the questionnaire results varied distinctly based on the participant's position (employer or employee). The results are depicted in Graph 2 below.

Graph 2: Comparison of Employer and Employee Negotiation Styles



Source: Author obtained questionnaire results

As the graph demonstrates, the majority of the 29 employers in the survey describe the best approach towards salary negotiation as one of problem solving followed by a compromising strategy as the second most favored approach. The majority of the 37 employees preferred a compromising approach followed by an approach of maintaining a good relationship as the second most preferred strategy. As discussed in section 2.4, the collaborative, or problem solving, win-win approach, places high concern for one's own outcome and high concern for the relationship and is the most preferred approach. On the other hand, the compromising approach is a result of placing a medium level of concern for both the relationship and the outcome in order to reach a mid-point. The approach of maintaining a good relationship is achieved by placing high concern for the relationship and low concern for one's own outcome.

Considering the fact that of the 25 employees who tended to accept the employer's first offer, 14 felt under-compensated leads to the conclusion that employees' preference for a compromising strategy or a strategy of maintaining a good relationship results in a less than optimal outcome because they must reduce their focus on their own outcome. For the sake of the compromising strategy, this outcome is very much in line with Bazerman's (1983) reasons for bargainers to seek integrative agreements rather than compromises[17] in that; integrative agreements are likely to be more stable; compromises are often unsatisfactory to one or both parties, causing the issue to come up again at a later time; and integrative agreements ordinarily contribute to the welfare of the broader community of which the two parties are members. For example, a firm will usually benefit as a whole if its departments are able to reconcile their differences creatively.

As Table 1 of section 2.2 demonstrates, a characteristic of integrative or collaborative agreements is that the goal of integrative agreements is to have both sides leave the negotiation feeling they had greater value than before. It is clear that considering the level of employee turnover as a result of salary issues, this is not the case in the present study.

4.1.5.1 Excessive Focus on the Relationship

Looking at this problem in the context of the Dual Concerns Model described in section 2.4, the employees' tendency towards compromising and accommodating strategies is a result of placing excessive emphasis on the relationship and not enough emphasis on achieving an optimal outcome for oneself. According to Fisher *et al* (1991), most negotiations take place in the context of an ongoing relationship where it is important to carry on each negotiation in a way that will help future relations and future negotiations but focusing too much on the relationship signifies a soft approach which leads to "giving in" to the other party. Table 3 depicts several characteristics of the soft approach which agree with the results of this study from the employees' perspective such as: being soft on the people and the problem, the goal is agreement, and accepting one-sided losses to reach agreement. Employees appeared to exhibit more cooperative behavior in this study. As discussed in section 2.3, choosing a soft approach to negotiation is not effective and that a more accurate model of negotiation is a mixed-motive decision making enterprise involving both cooperation *and* competition.

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[17] See section 2.2.2

The results of the questionnaire are supported by Pruitt and Carnevale's (1993) findings discussed in section 2.3 in that soft negotiators who give up easily are not likely to explore the integrative potential, and hence are not likely to find the win-win options. As a result, they often achieve poor agreements.

4.2 Prescription

Preparation is the key for every important endeavor and negotiation is no different. People who know what they want, what they are willing to settle for, and what the other side is all about stand a better chance of negotiating a favorable deal for themselves (Harvard Business School Publishing, 2003).

4.2.1 Developing a BATNA

Considering that several of the tactics used in distributive bargaining benefit from an appropriate estimate of the other party's reservation price, obtaining knowledge of one's BATNA and reservation price along with the other side's BATNA and reservation price will make it less likely someone will settle for less than they should. According to Fisher *et al* (1991), BATNA is an acronym for *best alternative to a negotiated agreement* or, the standard against which any proposed agreement should be measured. It determines the point at which the negotiator is prepared to walk away from the bargaining table in the absence of a deal. Dawson (2006), states that projecting that one is prepared to walk away is the number one pressure point to use when negotiating with employers.

Dawson (2006), states that the side that has the best BATNA has the power in a negotiation and when people are negotiating compensation with a new employer, the compensation package can go up dramatically if the person has one or more employers making offers. A BATNA for an employee can be anything from: going back to school full-time, traveling abroad for a year, or obtaining another job offer. An employee should accept any offer that is superior to their BATNA and reject offers that are worse than their BATNA. If their BATNA is strong, they can negotiate more favorable terms, knowing that they have something better to fall back on if a deal cannot be reached. If their BATNA is weak, it is difficult to walk away from a proposal no matter how innapropriate it might be (Harvard Business School Publishing, 2003).

Once the employee has identified his or her BATNA, they can then determine their reservation point based on their BATNA. The reservation price, or walk-away price, is the least favorable point at which one will accept a deal. For example, if an employee's BATNA consists of another job offer for $80,000, which includes stock options and 4 weeks of vacation then, the employee's reservation point should be determined by the value of the combined items to the employee. In other words, what does the present employer have to offer the employee so that it is identical to the offer made by the other company? The reservation point should include not only salary, stock options, and vacation time but also such things as quality of life, location, etc. According to Thompson (2001), a reservation point is a quantification of a negotiator's BATNA. In the present study, the employees may have failed to assess their reservation point leading them to accept the first offer which generally ended up not meeting their needs in the long run.

4.2.1.1 Eliminate Anchoring Potential with BATNA

According to Harvard Business School Publishing (2003), the best safeguard against making an inept anchoring attempt or being influenced by an anchor is preparation prior to negotiations. Lax and Sebenius (1986) state that the choice of an effective opening offer and even the decision whether or not to make or accept the first offer should reflect a negotiator's perception about the counterpart's reservation value.

As this study has shown, the majority of employers tend to anchor their offers based on an employee's salary history while the general tendency is for the employee to accept the employer's first offer. Harvard Business School Publishing (2003) argue that no negotiator is in a weaker position than one with no alternative to a deal. If the employer perceives that the employee has no alternative then he or she is in a stronger bargaining position. In this case, the other party (employer) can dictate the terms and the party with no alternative (employee) becomes a deal *taker*, not a deal *maker.* Developing a strong BATNA should be the employee's first priority as well as figuring out what the employer's BATNA and reservation value is. As discussed in section 1.1, people negotiate salary for one of three reasons. They are applying for a new job, they want to ask for a raise, or they are up for their annual review and want to negotiate a larger compensation package. For the employee negotiating for a new job, knowing if the employer has any other interviews might help him or her better estimate the employer's reservation price. Perhaps the employee finds out the employer does not have any other interviews scheduled which could strengthen the employee's position because the employer might be eager to hire someone quickly and perhaps expand the bargaining range instead of establishing an anchor. If an employee is negotiating a raise or is up for a review, acquiring information on the employer's budget will help determine a relevant range to negotiate in.

As discussed in section 2.1.3.1.3 and considering the phenomenon of "anchoring" as it applies to judgments about reservation values, when many people assess an uncertain quantity, they tend to jump to a point estimate of it and then adjust a bit around it to account for the *uncertainty*. Thus, reducing uncertainty that surrounds the issue by gathering and bringing objective information to the bargaining table, reduces the other side's anchoring power (Harvard Business School Publishing, 2003). According to Lewicki *et al* (1996), if you have planned effectively, you will know what a reasonable anchor is, and can use that to judge the other's offer.

Employers aren't the only one's who can employ distributive bargaining tactics to increase their share of the pie. Studies on negotiation consistently show that people who set clear and aggressive goals achieve more favorable settlements than those who don't. If an employee wants a salary of $80,000 and a total compensation package worth $100,000, they should aim for it by throwing out an anchor worth more than $100,000 and then adjust from that point as necessary.[18] Although it is usually not a good idea to lie to recruiters, some compensation consultants offer one possible exception: if an employee was drastically underpaid in a previous job, it may not hurt to inflate their salary by bringing them up to market[19].

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[18] http://www.resumeedge.com: accessed on 7/27/07
[19] http://www.hirenj.com: accessed on 7/27/07

4.2.2 Gather Objective Information

According to an article entitled, “Tips on Making Your Case for a Raise from the Boss[20],” employees should arm themselves with a variety of information to help them prepare as they seek raises. Compensation consultants say the best way for employees to get the pay package they want from a new employer is to provide ample justification that what they’re asking for is fair and reasonable. The third element of the Method of Principled Negotiation described in section 2.3 involves using objective criteria. It entails bringing standards of fairness, efficiency, or scientific merit to the particular problem.

The internet has a variety of job-search, salary calculators and other tools to help employees figure out what a competitive wage for their job is. For example, SalaryExpert.com factors in years of experience and some of the skills required for a job in determining an appropriate salary. The site also estimates bonuses and benefits. Customized data factoring in experience, education, company size and industry can also be obtained. According to the article, other places such as the Labor Department’s[21] site publish the average and median wage for hundreds of jobs which can help employees understand whether, and to what extent, they are underpaid and can give a good sense of whether the employer’s salary demands are reasonable or not. Loeb (2006) suggests researching the company’s pay scale, the job’s fair market value, the industry average, and the region the job is located in. Loeb (2006) and Dawson (2006) both state that employee’s should delay salary and benefit discussions until the employer is convinced of the employee’s worth. This provides the employee with more negotiating power and helps them steer the process away from either party establishing an inappropriate anchor which they may commit to. As discussed in section 2.3, whatever form of objective criteria the parties bring, independent standards will increase the level of fairness, can help steer the process away from positional bargaining, and increase the chance of mutual gain.

[20] http://careerjournal.com, The Wall Street Journal Executive Career Site: accessed on 6/29/07
[21] http://www.bls.gov

4.2.3 Collaborating = Problem Solving

Tactic is dictated by the situation and the situation in salary negotiations is finding a mutually beneficial agreement. As discussed in section 2.4, a collaborating strategy is where both parties attempt to maximize their outcomes while at the same time placing high importance on preserving the relationship. As discovered in the present study, employees tend to prefer strategies of compromise and maintaining the relationship as described in section 4.1.5 compared to employers who prefer a collaborating strategy. As discussed in section 2.2.2, compromises produce lower joint benefit and are unsatisfactory to one or both parties, which have been shown to hold true in the present study. Because of the employees' preferred strategies coupled with the low benefit they achieved, employees exhibited a soft approach in that they were soft on the people and the problem and it appears they tended to accept one-sided losses to reach agreement which ended up hurting both them and the employer in the long run.

Problem solving involves an effort to find a *mutually* acceptable agreement, or win-win outcome. Problem solving leads to win-win situations provided that there is integrative potential (Pruitt and Carnevale, 1993). Bazerman and Lewicki (1983), in reference to the Dual Concerns Model, argue that problem solving and high joint benefit where there is integrative potential will arise to the extent that bargainers are concerned about both their own and the other party's outcomes.

Lewicki *et al* (2003), state that those wishing to achieve integrative results find they must manage both the context and the process of the negotiation in order to gain the willing cooperation and commitment of all parties. According to Lewicki *et al* (1996) and Lewicki *et al* (2003), the following processes tend to be central to achieving almost all integrative agreements. The key importance of the collaborative, or integrative, strategy is that both parties need to be committed to understanding the other parties' needs and objectives; providing a free flow of information and, finding the best solutions to meet the needs of both sides. After having committed to these three objectives, the parties can then work towards achieving mutual goals by focusing on four major steps in carrying out a collaborative strategy (Lewicki *et al*, 1996; 2003): Identifying the problem, understanding the problem (underlying interests), generating alternative solutions (options), and choosing a solution. As stated in section 2.1.4, rational models provide a straight forward method for thinking about decisions and a way for choosing among options, which if followed correctly, will produce the best outcome for the chooser, maximizing his or her own preferences.

4.2.3.1 Identify the Problem

In the context of the present study, the problem is that there is a tendency to focus on a single issue, salary and meeting both parties' objectives by focusing on a single issue is difficult to achieve as stated in the Conflict Diagnostic Model in Table 2. In other words, there is a common failure to expand the pie. According to the Conflict Diagnostic Model in Table 2, a conflict is easier to resolve if the issue can be broken up into several pieces. By identifying other issues, the employee and employer can add value to the negotiation.

As discussed in section 2.1.3.1.4, negotiators construct mental representations of the negotiation situation and each one does this differently but, for the integrative strategy to work, the two parties must work closely to find a common view of the problem. Each party may perceive the situation differently and because each has different values and needs, the problem may be perceived from opposing vantage points. Defining the problem as a common goal is imperative. In the context of salary negotiations the employee may perceive the problem simply as; he's not being adequately compensated. The employer's problem may be that she doesn't have the budget to increase or pay a larger salary or, the employer cannot pay more than what the company currently offers its employees in a similar position. Without restating the problem so that it is mutually acceptable, the negotiation can end up in impasse. For positive problem solving to occur, the problem must be stated in neutral terms. One example can be to restate the problem as: "how can the employee receive adequate *compensation* (i.e. beyond salary) while at the same time the employer doesn't compromise her budget and is able to maintain company-wide compensation standards? With both parties' needs tied to this restatement they can begin to develop creative and mutually agreed upon solutions.

The major focus of an integrative agreement is to solve the core problem or problems (Lewicki *et al*, 2003), so it is important to state the problem as clearly as possible with the most important dimensions and elements included. Stating the problem as a goal and identifying the specific obstacles to achieving that goal provides additional direction and momentum. Understanding which obstacles are movable or addressable provides what is negotiable and what is not which will help in the step to create options. Pruitt and Carnevalle (1993) suggest that to understand problem solving, we must grasp the ways in which win-win situations are constructed: *expanding the pie, exchanging concessions on different issues, and solving underlying concerns*. These elements will be described in section 4.2.3.3 below.

4.2.3.2 Clarify the Objectives – Uncover Underlying Interests

To analyze a negotiation, it is necessary to identify all of the parties' interests (Bazerman, 2002). According to Fisher *et al* (1991), interests define the problem and the basic problem in negotiation lies not in conflicting positions, but in the conflict between each side's needs, desires, concerns, and fears.

Identifying what the parties care about more broadly than a fixed position (salary) can lead to several ways to resolve the conflict between competing interests. In almost every negotiation each side will have many interests, not just one (Fisher *et al*, 1991) and compensation should satisfy a range of needs for the employee, not just salary. It's easy to focus on a few, especially when they are easily quantified, such as money, and forget about others such as additional benefits. The boss has needs and concerns as well and in order to persuade him to say yes, the employees' ideas will have to address those things that are important to him.

Although the employees in the present study were most concerned with salary, they were able to list several other interests they were concerned with yet as section 4.1.4 discussed, 84% of the employees did not attempt to negotiate beyond salary and

76% of employers rarely negotiate compensation packages. Table 6 shows several interests which if uncovered by either side, could have been used to create value in the negotiation. According to Loeb (2006), if salary isn't negotiable, an employee may be able to get other perks such as increased vacation days, tuition reimbursement, moving expenses, stock options, or profit sharing. The question is how each party can uncover the other's underlying interests.

Prescriptive negotiation literature (e.g. Fisher *et al*, 1991; Lewicki *et al*, 1996, 2003; Raiffa *et al*, 2002) suggest one basic technique for uncovering underlying interests and that is by asking "why?" Why is this objective or position important to me/you? The presumption is that if both parties understand the factors that motivate the other, they may recognize possible compatibilities in interests that permit them to invent new options that both will endorse (Lewicki *et al*, 2003).

In a simple example, an employee might ask for a $10,000 increase in salary. The employer responds that she can only allow for a $6,000 increase. The positions have been established. The employer might ask "why did you decide on a $10,000 increase?" The employee might respond that because he wants to live close to his job downtown where rent is significantly more expensive and, he also needs to pay for his tuition to complete his bachelor degree. This new information can allow the employer to create options such as offering the employee a participation in the company sponsored program that assists employees financially by providing rent subsidies as well as a program that provides tuition reimbursements. In this example, both parties' interests can be met by simply divulging underlying interests behind the positions.

Using a specific example from the interests uncovered in this study listed in Table 6, if the employer discloses to the employee that she wants someone to commit for at least five years and the employer refuses to pay more than a $6,000 increase in salary, the employee might use this information to propose a contingency agreement which binds him or her to the company for five years and in return, receives an annual bonus of an agreed-upon amount to compensate for the $4,000 difference in positions.

Bazerman and Neale (1985), state that unless negotiators are able to take their opponent's perspective, they are likely to underestimate the value of their opponent's position. As stated in section 2.1.3.1.4, the purpose of perspective taking is an attempt to get at the underlying interests of the other party's position which can open up doors for generating alternatives. Seeing things from the perspective of the boss is important because employees will have greater success negotiating a raise if they are mindful of the demands facing their superiors[22]. One way employees can look at it is, "you are here to make your boss successful, not yourself." If an employee has figured out that the employer is concerned with cutting costs, increasing sales revenue, or increasing productivity, the employee can use a positive frame to express how his or her actions will recoup the extra amount they are seeking – through cost cutting or revenue generating strategies. This way, the employee may be able to influence the employers risk preference by lowering their perceived risk and ultimately affecting their decision to give the increase in salary or other compensating factor important to the employee.

4.2.3.3 Generate Alternative Solutions - Options

Bazerman and Lewicki (1983), Lewicki *et al* (1996; 2003), and Thompson (2001) describe several methods for achieving integrative, or win-win agreements. These are the means by which parties' initially opposing demands can be transformed into alternatives that reconcile their interests.

This is the creative phase of integrative negotiations. Once the parties have agreed on a common definition of the problem and understood each other's interests, they can generate a variety of solutions (Lewicki *et al*, 2003). Bazerman and Lewicki (1983) and Pruitt and Carnevale (1993), state that when conflicts hinge on a resource shortage, integrative agreements can be devised by expanding or reallocating the available resources so that each party can obtain their desired end. This is what's called expanding the pie. The objective is to create a list of options or possible

[22] Taken from: CareerJournal.com, *Tips on Making Your Case for a Raise from the Boss*.

solutions to the problem; evaluating and selecting from among those options will be the task in the final phase described in section 4.2.3.4.

As described in section 2.2.2, integrative bargaining involves joint consideration of *two or more* options or potential agreements. What is interesting about this process is that both parties engage in trying to solve the other party's problem as much as their own (Lewicki *et al*, 1996). In Fisher *et al* (1991) terms, this step can be referred to as *inventing options for mutual gain* as described in section 2.3. For example, one simple yet creative solution for an employee asking for a $10,000 raise and the employer countering with a $6,000 raise due to current budget constraints might be for the employee and employer to agree spreading the raise out over time into the upcoming quarters where the budget may be more flexible. Each quarter of the year the employee may receive a raise of $1,500 so by the end of the year the entire $6,000 will be accounted for.

One method for creating options is through joint *brainstorming* whereby the participants generate as many possible solutions to the problem as they can in order to find ideas that satisfy everyone's interests. The participants should be spontaneous making sure not to sensor anyone's ideas including their own. The participants should not discuss or evaluate any solution as it is proposed because criticism inhibits the creative thinking process. Lewicki *et al* (2003) state that brainstorming processes are often constrained because the parties take ownership of preferred solutions and alternatives and often it is not possible to attack the problem without attacking the person who owns it. The aim here is not be soft on the people and the problem, or hard on the people and the problem, but to separate the people from the problem and focus on the problem itself as discussed in section 2.3.

The following matrix describes a scenario of several possible options an employee and employer can brainstorm to negotiate compensation and meet both their interests. The options were generated based on the responses provided by the participants in the present study as to their underlying interests in a negotiation as presented in Table 6 of section 4.1.2.

Table 7: Compensation Options

	Employee Based Interests			Employer Based Interests		
Option/Int	**Salary**	**Vacation days**	**Stock options**	**Commit**	**Over time**	**Decrease Dept. Costs**
Option 1	$100,000	10 days	2,000 shares	6 year commit	12 hours per month	15% over 6 years
Option 2	$94,000	15 days	5,000 shares	5 year commit	10 hours per month	10% over 5 years
Option 3	$90,000	20 days	5,500 shares	4 year commit	6 hours per month	5% over 2 years

Source: Author created from questionnaire results, Table 6.

The advantage of the various options from Table 7 is that it takes into consideration both the employee and employer's underlying issues making it possible for the parties to reach a mutually beneficial joint agreement. Taking option 2 as an example, an employee may initially want a $100,000 salary yet the employer's salary budget only allows for $94,000. The employee may be willing to accept $94,000 if he is able to receive 15 vacation days per year and 5,000 shares in the employee stock option plan. The employer might accept these terms on condition that the employee make a 5 year commitment to the company, work 12 hours of overtime per month, and decrease the department's costs by 10% over a two year period. In option 1 for example, the employee may receive the salary he wants at the sacrifice of vacation time and stock options. Also, he would have to make a longer commitment, work more overtime, and have a greater obligation to decrease costs. If the employer would prefer to pay out more stock options than salary he can frame his proposal in a positive way. For example, he can say that the employee may be cash-rich today, so he will try to move the employee to a more equity-based plan which will generate more income for the employee in the long-run.

Some refocusing questions both parties can ask themselves include: How can both parties get what they want? Does the conflict hinge on a resource shortage? How can the critical resource be expanded?

4.2.3.3.1 Concession Making

Bargainers can often discover integrative potential in a situation if they are willing to engage in logrolling, which involves the development of tradeoffs or, exchanges of concessions on issues of differing importance, to the parties (Druckman, 1977). Logrolling is possible where several issues are under consideration and the parties have differing priorities among these issues (Bazerman, 1983). Each party yields or concedes on issues of low priority in exchange for concessions on issues of high priority to itself (Bazerman and Lewicki, 1983; Pruitt and Carnevale, 1993). Each party gets that part of its demands that it finds most important. Exchange of information about the two parties' priorities is essential so that these tradeoffs can be identified. According to Pruitt and Carnevale (1993), moderate concession making combined with active problem solving is likely to lead to win-win solutions that provide added benefit to both sides.

There are several questions each party can ask themselves to help in making concessions. Questions for developing solutions by logrolling include: Which issues are of higher and lower priority to myself? Which issues are of higher priority to the other party? Are some of my high-priority issues of low-priority to the other party and vice versa?

Dawson (2006), states that an employee shouldn't make any concession to the employer unless they get something in return. If an employee makes a concession and doesn't receive anything in return then they have cut their price and discounted the perceived value of their employment. In the present study, one of the biggest problems was the general tendency of the employee to accept the first offer perhaps conceding prematurely *and* not receiving anything in return.

The key ingredient in concession making is to have identified several issues and multiple alternatives within each issue such as in Table 7, which provides the negotiator with a variety of terms under which he can be equally happy. The issues and the alternatives should be prioritized in order of most important to least important with the aim of making concessions on those issues of less importance first. Table 8 describes such a scenario.

Table 8: Employee/Employer List of Prioritized Issues

Priority Level	Employee Issues	Employer Issues
High	Salary	Salary
	Vacation time	Commitment
	Advancement opportunity	Stock options
	Health benefits	Overtime
Low	Stock options	Vacation time
	Commitment	Health benefits

Source: Author obtained questionnaire results

For example, the scenario in Table 8 identifies several issues for the employee and employer categorized into high-priority and low-priority. If an employee's low-priority issue is stock options and his high-priority issue is salary, he can offer to concede on the number of options he requires from 5,000 shares to 2,000 shares in exchange for a larger salary from the employer. Since the employer values salary and stock options equally as a high-priority, he may be happy with the employee's concession on stock options yet require a larger concession from the employee in order to agree on salary. This concession may come in the form of less vacation time offered (a high-priority issue for the employee), or perhaps with the employee agreeing to work more overtime (a non-issue for the employee but high-priority issue for the employer), or the employee making a commitment to stay at the company for 5 years (a low-priority issue for the employee and high-priority issue for the employer). Considering a different scenario, if the employer's primary focus is on maintaining his or her budget, they may offer to concede on vacation time and offer the employee 4 weeks instead of 2 weeks if the employee agrees to concede on salary from say, $94,000 to $90,000. Here the employee must make a trade-off between two of his high-priority issues, salary and vacation time in order to reach an agreement.

As one can see, there is a variety of concessions and trade-offs that could be made with the list of issues from Table 8. One distributive bargaining tactic is to create issues that are expendable and place them on the bargaining table in order to trade-off for issues one is most concerned with. By asking for perks that are less important, a negotiator is giving themselves bargaining room. If the employer perceives that the employee is making concessions, it helps them feel better about meeting the employee's other demands. The aim is to focus on those things that are really important and be flexible with the rest. This tactic can work as well for the employer. For example, Table 8 lists stock options as a high-priority item for the employer. For a very large publicly-traded company, using stock options as compensation might be common practice. The employer may state that it is a high-priority for the company to keep tight control of stock options even though this is not true. In this case, the employer may concede on this issue and give a significant amount of stock options to the employee if the employee concedes on salary. The point of this tactic is to obtain a bigger slice of the pie, or the bargaining range.

At the Caltech Career Development Center, they argue that concessions should be accompanied by a rationale which should be constructed in terms of benefits to the other party[23]. Thompson (1996) states that one should present a rationale that appears to be objective and invites the opponent to buy in to the rationale. Proposals that are labeled "compromises" carry lots of impact. As discussed in section 2.1.3.1.2, the positive/negative framing process is very important in concession making because negotiations in which the outcomes are negatively framed tend to produce fewer concessions and reach fewer agreements. For example, if the employer is requesting a salary concession from the employee, the request might be made with a frame that emphasizes financial constraints and the company's desire to ensure job security and higher future outcomes. On the other hand, if the employee

[23] http://www.career.caltech.edu, article entitled, *Principles for Negotiating Salary and Employment Packages.*

does not want to concede on the issue of salary he may state his argument in a way so as to ensure the employer that the requested salary will make the employee more productive and ensure of meeting the employer's cost reduction requirements. The employer may not want to take a risk and agree to the employee's request for a larger salary when the employee might not end up achieving the cost cutting goals the employer has requested. Often a major obstacle to reaching negotiated agreements concerns negotiators' beliefs about some future event or outcome (Lax and Sebenius, 1986).

In this case the employer can invent an option to protect himself. For example, using option 1 from Table 7 above as an example, the employer may agree to pay the employee a $100,000 salary if he agrees to cut costs by 15% over a six year period. The employee has nothing to lose if he doesn't achieve this objective. He still gets his salary plus other agreed upon benefits. The employer faces an obvious risk and that is the employee not achieving his cost-cutting goals. To mitigate the risk and share it with the employee, the employer can draw up a *contingency contract*. He can agree to pay the employee a salary of $60,000 per year with an annual bonus of $40,000 paid at year end for a total salary compensation of $100,000. He can then set milestones each quarter where the employer must cut costs by 2% to 3% each year. If the employee doesn't meet this objective he does not receive that year's bonus. Thompson (2001) suggests six benefits of contingent contracts: 1) contingent contracts allow negotiators to build on their differences rather than argue over them, 2) contingent contracts allow negotiators to manage decision-making biases such as overconfidence, 3) contingent contracts allow negotiators to solve problems of trust, 4) contingent contracts allow negotiators to diagnose the honesty of the other party when that party makes a claim that is difficult to believe, 5) contingency contracts allow negotiators to reduce risk through risk sharing, and 6) contingent contracts allow negotiators to increase the incentive of the parties to perform at or above contractually specified levels.

Thompson (2001) states that there are two things to consider when formulating counter-offers and concessions: the pattern of concessions and the degree of concessions. The pattern of concessions basically means that negotiators should not offer more than a single concession at a time and that they should wait for a concession on the opponent's part before making any further concessions. The second consideration when making concessions involves the degree of concessions, or how much to concede. When negotiating salary, Dawson (2006), suggests tapering down the size of the concessions. For example, an employee goes into a salary negotiation with a price of $100,000 but their reservation point is $90,000. The way in which he gives away the difference of $10,000 is critical.

Dawson (2006) identifies several mistakes to avoid when making concessions: making equal-sized concessions, making the final concession a big one, giving it all away up front, and giving a small concession to test the waters. The problem with making equal-sized concessions is that if an employee concedes $10,000 in four equal amounts ($2,500), the employer might continue pushing for a concession knowing that the employee will give another $2,500. The problem with making the final concession a big one is that the employer might believe they can squeeze out another more small concession. For example, an employee concedes $6,000 followed by a $4,000 concession and then states that he can not concede any further. The employer would compare the first concession of 6,000 with the second concession of $4,000 and believe there might be room for another concession of $2,000, $1,000 or even $500. The third problem involves giving it all away up front and as has been shown in the present study, giving it all away up front can lead to employee dissatisfaction resulting in a high level of employee turnover for the company. The final problem involves giving a small concession to test the waters. Initially the employee may give a concession of $1,000. The employer might reject this offer so the employee gives a larger concession of $2,000. The employer may reject again so the employee might then increase the concession by another $3,000. The danger of starting with a small concession is that there is a tendency to build up further concessions in an attempt to reach agreement quickly exhausting the bargaining range and reaching or exceeding one's reservation point. All of these problems create a pattern of expectations in the employer's mind.

A better approach for concession making is to taper down the concessions. This gives the impression that one is approaching their reservation point and there is no more room to negotiate. For example, if an employee has $10,000 of bargaining room they may concede initially with $4,000. This concession seems reasonable and may stop there but if the employer requests more concessions the employee might then concede another $2,000 which gives the impression that the employee might not be able to go any further.

4.2.3.4 Select a Solution

The solutions generated in the previous step should be evaluated on the basis of quality and acceptability considering the opinions and interests of both parties. This list should be prioritized in order of most important to least important and before beginning the selection process, it is important to establish *objective criteria* for evaluating the alternatives. In their description for invoking objective criteria, Raiffa *et al* (2002) propose the question, “What arguments would appeal to a neutral outsider, concerned with fairness and with what is ethically right?” Fisher *et al* (1991) argue that the more the parties bring standards of fairness, efficiency, or scientific merit to the particular issue, the more likely the negotiation will reach a wise and fair outcome. As discussed in section 4.2.2, there are several places to locate objective compensation information such as the U.S. Department of Labor website where one can obtain average wage information or other internet sites that factor in years of experience and some of the skills required for a job as well as bonuses and benefits. Loeb (2006) suggests researching the company’s pay scale, the job’s fair market value, the industry average, and the region the job is located in. The parties must agree to the criteria in advance of evaluating the options and then use the criteria to narrow the choice of options down to a single alternative. For example, the alternatives generated in Table 7, option 2, might be the fairest form of compensation to both parties based on the objective criteria used to evaluate each of the alternatives individually and as a whole package.

4.2.4 Information Exchange

Information is the life force of negotiation and is a crucial element of joint-problem solving. The more you can learn about the other party’s values, resistance point, motives, feelings of confidence, and so on, the more able you will be to strike a favorable agreement (Lewicki *et al*, 2003). Both laboratory and field studies have confirmed that information exchange and joint problem solving are useful ways to achieve win-win agreements (Pruitt and Carnevale, 1993, Zubek *et al*, 1992).

Information exchange requires a high level of trust in the other party, which is often not available in negotiation. Without trust negotiators become skeptical that the other party will misuse the information and hence are reluctant to divulge information. Dawson (2006) states that the more information the employee can learn about the employer and the situation, the better insight the employee will have into the employer's real motivation for hiring someone. So how can negotiators who don't trust each other obtain information about the party's goals, values, and priorities that is needed to develop an integrative solution? Neale and Bazerman (1991) propose three solutions:

1. Ask lots of questions – From the employees perspective, the questions they ask should be concerned with how long they have been looking at applicants, when they need the position filled by, what happened to the person previously doing the job, how many qualified people have applied for the job, or what would disqualify an applicant. Any bit of information the employee learns could potentially lead to a creative win-win solution and will help the employee improve their bargaining power. Dawson (2006) suggests employees ask open-ended questions to make the employer more relaxed and keep them talking. Such questions might include: How flexible are you on your offer? How did you arrive at your offer? What makes your offer fair? Why is salary important to you? What's the most vacation time earned by one employee at this company? Does your budget allow for hiring more than one person? As disclosed in section 4.1.2, 76% of employers aimed at uncovering the needs, wants, and motivations of the other party compared to only 46% of employees.

2. Give away some information. – Negotiation literature states that negotiators tend to reciprocate most forms of behavior including the giving of information. The employer might disclose some of his preferences such as the need for a

long term commitment and the employee might reciprocate with a preference of his own such as his love of travel which can help discover the option of extended vacation time. Hence, it may be possible to start a cycle of information exchange by first disclosing a bit of information about one's own interests.

3. Ask for preferences among proposals - An employee might state to the employer that he would like to ensure the employer obtains his or her goals thus, the employee might simply ask the employer about his or her preferences of issues.

One very effective way to obtain information about the other party's preferences without asking questions was disclosed in section 4.2.3.3. Creating packages of options such as in Table 7 and presenting those packages to the employer will provide the employee with information on the employer's interests depending on how the employer responds to the different packages of options. The employee can then learn the employer's preferences and what they are most concerned with. The employer may also propose similar packages in order to gauge the employee's response.

According to Harvard Business School Publishing (2003), in the negotiator's dilemma, a party puts itself at risk by being the first to disclose important information; it stands to benefit most by keeping its mouth shut and encouraging the other side to open up. But, if both sides remain silent, both sides will lose. *Creating* value requires openness, communication, learning, ingenuity, joint problem solving, and preventing conflict escalation while *claiming* value involves advantageously shaping opponents' perceptions of the bargaining range, often by manipulating alternatives and aspirations, making commitments, holding prime values hostage, and misleading (Lax and Sebenius, 1986). Harvard Business School Publishing (2003) suggests cautious, mutual, and incremental information sharing.

4.3 Index of Assessments

For a salary negotiation to be mutually beneficial, the process should include both integrative tactics (creating value and problem solving with specific trade-offs and information exchange) as well as distributive tactics (claiming value such as using exaggerated trade-offs, persuasive arguments, and possibly sharing some false information about salary history to avoid anchoring).

4.3.1 Rationality

Negotiators must be logical and rational in their thinking, not confusing people with problems, analyze the issues objectively, and manage difficult situations calmly and deliberately. Both parties should follow the models of rational behavior which provide an ideal outcome by making clear and definitive statements regarding the superiority of some decisions over others, such that the course of the negotiator's actions guarantees they will maximize their own interests.

Game theoretic rationality states that each outcome in a negotiation situation may be identified in terms of its utility, or satisfaction, for each party. The two key issues concerning rationality at the negotiation table pertain to pie slicing and pie expansion. People should not agree to a utility payoff smaller than their reservation point and negotiators should not agree on an outcome if another outcome exists that is more preferable to one party and does not decrease utility for the other party. Models of rationality do not tell negotiators how they should divide the pie, but rather tell negotiators they should make the pie as big as possible before dividing it. On the other hand, Nash's bargaining theory specifies how negotiators should divide the pie by making a specific point prediction of the outcome of negotiation if negotiators behave rationally (Thompson, 2001). In essence, no portion of the total amount of resources should be left unallocated and the bargaining process should not yield any outcome that both parties find less desirable than some other feasible outcome.

4.3.2 Equity

Compensation is one indicator that contributes to an overall feeling of career success for the employee. For a successful salary negotiation there should be an equitable distribution of resources such that what one party receives does not diminish the outcome of the other. There should be mutual feelings of fairness in that the decisions made, options explored, criteria considered, and outcomes reached were mutually acceptable and met both party's interests. The employee must feel that he received fair compensation while the employer must feel that he didn't pay more or less than he should have. For the employee to receive fair and equitable compensation his pay should be based on objective criteria such as market rates, experience, education, and contributions towards achieving the companies' goals. On the other hand, equity for the employer means paying out a fair compensation based on market rates, the employee's education and experience and the overall contribution the employee makes to the efficiency and profitability of the company. Equity for both might also mean being paid a similar compensation as other employees in the company only if the company pays its employees based on fair standards such as market rates.

4.3.3 Sustainability

The agreements reached in salary negotiations must be sustainable. If all parties' interests have been met, if all parties maximized their expected utility, and if all parties feel a mutual sense of fairness, than the outcome should be sustainable. The employer's employee turnover ratio should decrease significantly because there is no need for an employee to quit due to compensation issues. Employee productivity and performance should be improved if they perceive having received adequate compensation thus giving the employer no reason to fire the employee. A successful negotiated outcome can also be gauged in terms of the relationship between the parties. Not only must it be maintained, but also sustained throughout the course of the employment.

5 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

Results of this study showed that there is a general tendency for employees to walk out of salary negotiations with too little. To support this claim the study uncovered: 1) a general tendency of employees (68%) to accept the first offer in salary negotiations, 2) a large portion of employees (38%) felt they were being under-compensated for their work, and 3) 84% of employees did not attempt to negotiate anything beyond salary which is supported by the Society for Human Resource Management's research that discovered few job seekers actually ask for more.

Several possible reasons were discovered as to why employees walk away with too little. The fixed-pie perspective seems to be the prevalent theme in salary negotiations. Employee bargaining behavior and the resulting outcomes could be explained in that 68% of employees considered the most appropriate approaches for salary negotiations to be one of compromising followed by one of maintaining the relationship. Research has shown that compromises are reached when parties concede to some middle ground which usually produces lower joint-benefit, causing the issue to come up again at a later time. As the Dual Concerns Model claims, this middle ground is achieved not by placing a high concern for one's own outcome and for the relationship, but by reducing the focus on both. The importance of employee earnings as a method of survival should dictate them to maintain high concern for their outcome while the importance of maintaining strong relationships in the workplace should dictate placing high concern on the relationship. As theory suggest, high concern for both should lead negotiators towards a collaborating, or problem-solving, strategy where both parties attempt to maximize their outcome while at the same time maintaining the relationship. On the other hand, the employees who preferred a strategy of maintaining the relationship may focus too much on the relationship giving little importance to their own outcome. Negotiation theory calls this an "accommodating" strategy and suggests that in order to maintain or not harm the relationship, anyone employing this strategy may back off or give up his outcome in part or in whole.

Employee outcomes could also be explained in that Fisher *et al* (1991) suggest, people find themselves in a dilemma because they see only two ways of negotiating; soft or hard and each involves an attempted trade-off between getting what you want and getting along with people. Thompson (2001) suggests that soft bargainers resign themselves to "give in" to the other side. Pruitt and Carnevale (1993) suggest that soft negotiators who give up easily are not likely to explore the integrative potential, and hence are not likely to find win-win options. As a result, they often achieve poor agreements.

The employee also tended to exhibit irrational decision making in accepting the employer's first offer. Theories of rationality suggest people should strive for maximizing their own outcome or utility but as was the case here, employees did not do so. Playing a major role was the fixed-pie mentality which assumes that the possibilities for integrative settlements and mutually beneficial trade-offs don't exist. According to Bazerman (2005), psychological barriers arise in negotiation because the parties are subject to psychological processes that render them unable to recognize as advantageous (or unwilling to accept despite their advantages) settlement terms that appear to meet the requirements of rational self-interest.

The poor agreements the employees tended to achieve can also be explained by the distributive tactics used by the employer. Although employers tended to prefer strategies of problem-solving and were more willing to uncover underlying interests, which is a good sign of integrative potential, 76% of employers stated that they rarely negotiate compensation packages such as vacation time, bonuses, or gym memberships. Compounding the poor outcome achieved by many of the employees was the fact that 93% of the employers use the employee's salary history as a reference point in determining what salary to offer. As Dawson's (2006) research has shown, employers make an employee's past salary earnings a big issue because they believe it will lower the employee's salary expectations. As Bazerman and Neale (1992) state, initial positions affect each side's perception of what outcomes are possible. Lewicki et al (1996) warn that people tend to use their first offer, or accept the other's first offer, as an anchor from which everything else will be judged but if the other's offer is extreme or irrational, it is a poor measure by which to judge more reasonable offers.

The generally poor negotiated outcomes not only affected the employee, but the employer as well. An obvious place to look was the employer's voluntary employee turnover ratio. Taking the combined results of the five companies surveyed, of the average 18% annual employee turnover, 12% was a result of employee dissatisfaction with their compensation. This means that out of a combined total of 309 employees leaving these five companies each year, 199 of them are unhappy with their compensation.

One of the most popular areas of conflict management research and practice has been to define the different ways that the parties themselves can manage conflict (Lewicki *et al*, 2003). In general, negotiations tend to go much better if both sides perceive they are in a win-win situation where they can create value and satisfy both their needs and the other's needs. The chances of a good outcome are often better if both parties agree to play by the same rules and take on a collaborative, or joint-problem solving approach (Lewicki *et al*, 1996).

This study has treated the distributive (win-lose) and integrative (win-win) as relatively incompatible. The implication is that it is hard for an individual to embrace both simultaneously. Strategies involving openness and variety (i.e. exploring options, sharing information), does not mix with those involving efforts to become committed to options highly favorable to oneself (anchoring). Since in most bargaining situations there are incentives for both competition and cooperation, bargainers often experience a dilemma because it is psychologically difficult to be both hard and soft at the same time (Druckman, 1977). To underline the importance of this paper in aiming at processes for achieving joint-successful outcomes, it is useful to identify the benefits of integrative agreements as described by Bazerman *et al* (1985) which underscore the importance of the relationship and the outcome as they pertain to the study of salary negotiation:

1. Integrative agreements maximize the joint benefit of the two parties.
2. If high aspirations exist on both sides, it may not be possible to resolve a conflict unless a way can be found to integrate the two parties' interests.
3. Because integrative agreements are mutually rewarding, they tend to strengthen the relationship between the parties which facilitates future interaction between them.
4. Integrative agreements often contribute to the welfare of a broader community of which the two parties are members.

This paper discussed major phenomena which have emerged from the cognitive analysis of individual judgment and decision making. At every stage of the decision making process, misperceptions, biases, and other tricks of the mind can influence the choices people make (Hammond *et al*, 2006). The biases described in the paper do not exhaust the list of psychological barriers to the successful resolution of interpersonal conflict but they provide useful insight to the negotiator in that they may recognize that either themselves, the other party, or both are not behaving to the standard rules of rational behavior and thus; may display a fixed-pie perspective or anchoring tendencies by utilizing only readily available information in their decision making. As discussed, these phenomena represent serious obstacles that often stand in the way of successful negotiation. All of the biases covered here can work in isolation but as explained, sometimes they work in tandem which can make it very difficult to achieve a joint-successful outcome, if even an outcome at all.

Harvard Business School Publishing (2003) state that given the role of negotiations in people's personal and professional lives, it's important to improve negotiating skills because even a modest improvement can yield a sizeable payoff such as more effective working arrangements in the office, a better deal on a home purchase, or a *larger pay raise*.

One area of future research is to analyze salary negotiations considering the effect of a number of factors such as: strength of the economy, the size and vitality of the company, and the supply of job candidates, and how various levels of these factors affect the process of negotiations. Given that economies are not always constant; a deeper analysis considering these factors might generate helpful prescriptive advice for employees in their approach to future salary negotiations.

Further research on gender differences within the specific context of salary negotiation would serve as an enhancement to the negotiation literature. Thompson (1990) states that although there is no clear evidence suggesting that men are more or less effective negotiators than are women, men may perceive conflict differently than women. Many women are not very good at asking for more, or when they are made an offer, they tend to think that they have to say yes or no where as men tend to think of it as the beginning of the negotiation experience[24]. The primary data used in this research consisted of obtaining information from both men and women yet this factor was beyond the scope of this work and not taken into consideration in analyzing the negotiated outcomes between employee and employer in a salary negotiation.

Another area of further research involves cross-cultural salary negotiation which is commonplace considering the number of multinational companies in the world. One aim of the course of Master in International Management at FGV in Rio de Janeiro is to provide its students with the knowledge and opportunity to work abroad. This means, at one point or another, international students negotiating salary with a person from a different culture. The present study analyzed salary negotiation within the United States, a collectivist culture concerned with the pursuit of happiness and regard for personal welfare where there is a high priority in achieving personal goals even when they conflict with goals of family, work groups, or country. Individual happiness and expression are valued more than collective and group needs. As Thompson (2001) states, people who are more self-interested are motivated to use more tactics that increase their bargaining power. Research into salary negotiations between a highly individualistic culture such as the U.S. and collectivist cultures such as Brazil, who share their resources with in-group members, might shed some interesting light on conflict management as it pertains to salary negotiations.

[24] http://www.monster.com

Overall, regardless of where in the world one works, salary offers and pay packages must account for many variables beyond just salary. They must consider market value, education, experience, geographic location, long vs. short-term needs, organizational size and growth, industry standards, the economy, etc. Considering the number of variables involved in the context of salary negotiations and the importance of the outcome and the relationship, a collaborative, problem-solving approach should dictate the process because in the end, employers need good employees to stay and be productive while employees need fair and equitable compensation which contributes to their overall feeling of career success. The objective is win-win.

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7 ANNEX – SURVEY QUESTIONS

EMPLOYEE QUESTIONNAIRE

The following questionnaire is aimed at uncovering information in the context of salary negotiations from your perspective and experience. It is important that you are as honest as possible in answering these questions.

<u>Participant information</u>
Male or female:
Job function (title):
College graduate?:

1. How many salary negotiations do you estimate you have engaged in during your professional career?

2. Have you ever taken a negotiation course or attended a negotiation seminar?

3. The negotiation style you feel is most appropriate when negotiating salary is concerned with (circle one):

    a. winning
    b. avoiding conflict
    c. problem solving
    d. compromising
    e. creating/maintaining good relationships
    f. other

4. List 3 - 5 values that declare what is important to you in a position beyond the work performed? Include both financial concerns as well as *any* other intangible interests. Rank in order of importance.

5. During your most recent salary negotiation did you make an offer?

6. During your most recent salary negotiation did you:

    a. accept the employer’s first offer
    b. negotiate a higher salary

7. If you answered a to question number 6, was the first offer:

    a. less than you wanted
    b. exactly what you wanted

c. more than you wanted

8. In your most recent salary negotiation, did you negotiate anything else beyond salary? If yes, please list what else you negotiated.

9. Do you believe you are currently:

    a. under compensated
    b. adequately compensated
    c. overcompensated

Yes or No

10. I recognize the power of strategies and tactics and use them frequently.
11. I aim to uncover the needs, wants, and motivations of the employer.
12. I am willing to compromise when necessary to solve problems.
13. I work to see the issues from my counterpart's point of view.
14. I am willing to ask as many questions as it takes to get the information needed to make the best decision.
15. I am able to clearly identify my bottom line in every situation. (If I go below a certain point I will walk away)
16. Your primary goal is to get the best salary possible. (if answered no, please state your goal)
17. I tend to overstate my opening position
18. Do you believe it is ok to give misleading information if it is going to help you get what you want from salary negotiations?

EMPLOYER QUESTIONNAIRE

The following questionnaire is aimed at uncovering information in the context of salary negotiations from your perspective and experience. It is important that you are as honest as possible in answering these questions.

Participant Information
Are you male or female?
What is your job function (title)?
How many employees at your company?

1. How many salary negotiations do you estimate you have engaged in during your professional career?

2. Have you ever taken a negotiation course or attended a negotiation seminar?

3. The negotiation style you employ most often is concerned with (circle one):

    a. winning
    b. avoiding conflict
    c. problem solving
    d. compromising
    e. creating/maintaining good relationships
    f. other

4. List 3 - 5 values that declare what is important to you in a position beyond the work performed? Include both financial concerns as well as *any* other intangible interests. Rank in order of importance.

5. What is your annual voluntary employee turnover rate?

6. Estimate the % of employee turnover at your company as a result of compensation issues.

7. How often do you negotiate compensation packages along with salary? (compensation packages can include vacation time, bonuses, gym memberships)

    never rarely frequently always

8. Choose one. In salary negotiations…

    a. I leave room in the first offer to negotiate
    b. My first offer is final

9. Rank the following three factors in order of importance when making an offer:

    ____ what other companies are paying
    ____ the employee's salary history
    ____ what your company currently pays its employees

Yes or No

10. I recognize the power of strategies and tactics and use them frequently.
11. I aim to uncover the needs, wants, and motivations of the employee.
12. I am willing to compromise when necessary to solve problems.
13. I work to see the issues from my counterpart's point of view.

14. I am willing to ask as many questions as it takes to get the information needed to make the best decision.
15. I am able to clearly identify my bottom line in every situation. (If I go below a certain point I will walk away)
16. Do you believe it is ok to give misleading information if it is going to help you get what you want from salary negotiations?