Building Bridges: New Dimensions in Negotiation

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How does a master negotiator negotiate? HBS Professor James Sebenius, founder of the school's Negotiation Unit, frames options in such a way that "what you choose in your perceived interest is, in fact, what I want." How does he accomplish this? Through what he calls "three-dimensional negotiation:" persuasion at the bargaining table; delving into the deeper interests that underlie the parties' positions; and a studied determination of whether to take the deal on the table or to walk away.

by Anita M. Harris

From resolving a labor dispute to orchestrating a merger to getting a new company off the ground, negotiation plays a vital role in nearly every facet of business. In response, Professor James Sebenius, founder of the HBS Negotiation Unit (which was responsible for the School's pioneering required MBA course in negotiation as well as advanced dealmaking electives and Executive Education programs), has developed a model with former HBS faculty member David A. Lax called "three-dimensional negotiation."

In a course note titled "Negotiation Analysis: Summary Framework and Examples," Sebenius details how "3-D negotiation" provides practitioners with skills for effective dealmaking that create value on a sustainable basis.

According to Sebenius, the first dimension of negotiation is by far the most familiar and the subject of most academic study, consisting mainly of "interpersonal process and tactical actions at the bargaining table" (whether literally, on the phone, or via some other connection). This can involve setting a positive atmosphere, displaying cultural sensitivity, establishing trust, enhancing communication, fostering creativity, framing an approach attractively, and generally being persuasive. In addition, it can include deciding who should make an opening offer and when, how high or low it should be, and the dynamics of successive counteroffers.

The second dimension, drawing on trade and contracting theories, moves from a pure process focus to substance: the principles of designing agreements that create value and are sustainable. Inexperienced negotiators, says Sebenius, often unconsciously limit themselves to a one-dimensional process of sitting at the bargaining table and concentrating only on matters such as cost or price. They may understand the importance of interpersonal interaction, of setting the atmosphere, and of thinking through offers and counteroffers. But their narrow focus on a battle of bargaining positions at the table can blind them to a richer set of interests at stake.

Two-dimensional negotiators search for the deeper interests that underlie the parties' positions. During a seemingly intractable dispute over the Sinai, Sebenius points out, negotiators concluded that the Israelis cared more about security, while the Egyptians were more concerned about sovereignty. The solution was to establish a demilitarized buffer zone under the Egyptian flag rather than continue a vain zero-sum search over where to draw the boundary line in the sand.

Although shared interests matter, Sebenius says, skilled two-dimensional negotiators realize that the different but complementary interests of each party can be the source of greatest joint gains. In the Sinai case, the two sides probed and found different priorities for security versus sovereignty. In skilled hands, this process of "deal crafting" can generate value not only from differences in the parties' interests but also from differences in their forecasts of future events (such as the profitability of a business being sold), attitudes toward risk and time, tax and regulatory status, market and technological knowledge and access, and so on.

The third dimension of effective negotiation has enormous potential but is far less understood or utilized in practice. It consists of actions to set up and modify the architecture of the negotiation itself — that is, to determine who takes part under what expectations, the sequence in which they are brought into the process, what issues will be brought up and in what order, and what set of no-deal alternatives face the participants. Its most familiar element involves what each party will do if there is no deal — in other words, "the best alternative to negotiated agreement" or BATNA (a term coined by Harvard Law School professor emeritus Roger Fisher and William L. Ury of Harvard's Program on Negotiation).

"BATNAs set the threshold for value that a deal has to exceed," Sebenius notes. "You don't want to get too caught up in the seductive details of a negotiation process when often the better question is, 'Is a deal possible at all?' or 'Might a much more attractive deal be possible with another buyer, investor, supplier, or alliance partner?'" Rather than expend efforts at the table seeking to improve a potential deal, more sophisticated negotiators carefully assess whether those same efforts might be better spent away from the table generating competing offers or involving other parties — that is, enhancing one's BATNA. Of course, a good BATNA may provide added leverage, since there is a great deal of perceived power in a party's willingness or apparent willingness to walk away.

As an example of a complex three-dimensional negotiation, Sebenius cites the case of Kennecott Copper Corporation. Faced with a possible government takeover of its mines in Chile a number of years ago, Kennecott knew it had to renegotiate its long-term, low-royalty agreement. A standard one-dimensional process would mainly have engaged the relevant government ministers at the table in a culturally sensitive process. Instead, the company took innovative actions away from the table that significantly improved its negotiating position. "Kennecott involved a variety of other parties it could count on for support," comments Sebenius, "and it changed the nature of Chile's BATNA in favor of the company." Among other tactics, the company offered to sell a majority of its equity stake to the Chilean government and use the proceeds, along with loans guaranteed by Chile and subject to American law, to expand the mine. Kennecott also arranged for an Export-Import Bank loan plus U.S. political risk insurance. The mine's output would then be sold to North American and European industrial customers under long-term supply contracts, with collection rights presold to a consortium of banks in the United States, Asia, and Europe.

Initially, Kennecott's BATNA was akin to a divorce negotiation that risked the loss of its Chilean holdings. But the company gained leverage by transforming a dicey two-party political situation into a multilateral business deal involving a number of players that had strong and stabilizing connections with various nonmining quarters of Chilean life, including the financial, industrial, and legal sectors. These players' support for Kennecott strengthened its BATNA. In contrast, while Chile¹s BATNA — expropriating the mine — looked appealing at first, the company's efforts ultimately rendered the expropriation option quite unattractive since it would hurt diverse parties on whom Chile would rely in the future. At the same time, Kennecott's proposal for a larger mine with majority Chilean ownership addressed Chile's economic needs for additional revenue and its political interests in maintaining majority control over its natural resources. Although the mine was nationalized in time, Kennecott emerged in much better condition than similar companies that had mainly limited their bargaining strategies to interpersonal tactics at the table.

The language of dimensions, says Sebenius, underscores how these three negotiation aspects are related and cumulative rather than separate. It is not as if the first dimension (interpersonal process at the table) is bad, while the third dimension (setting up the game or changing it away from the table) is good. It is not as if one could sensibly choose substance (the second dimension) over interpersonal process (the first) or moves away from the table over moves at the table. The most effective negotiators often craft mutually reinforcing moves from each dimension. Although a 3-D strategy like Kennecott's often holds the greatest promise, the third dimension is most frequently neglected.

Sebenius emphasizes the "importance of analyzing how each party's interests and BATNA interact to set up a joint problem. A 3-D negotiator solves that problem beautifully by using both process insight and substantive understanding, by taking actions both at and away from the table, and by playing the given 'game' well and changing it advantageously. Options can be framed in such a way," he continues, "that what you choose in your perceived interest is, in fact, what I want. Ideally, I can build an attractive bridge from where you are now to where I would like you to be." And therein lies the essence of the negotiator's skills.

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