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All-In: Conducting Effective Negotiations for Better Relationships and Results

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All-In: Conducting Effective Negotiations for Better Relationships and Results

Abstract

This is the second article in a two-part series on developing effective negotiation skills.

Negotiations are at the heart of our daily interactions. The ability to negotiate effectively may have never been so important as during the COVID pandemic. Whether renegotiating business deals with vendors, landlords, employees or shareholders (including family members), the COVID pandemic has presented challenges and opportunities for retail owners to thrive by being creative and strategic in negotiation planning and execution. The first of two articles (November/December 2020 issue) focused on preparing for successful negotiations. This second article focuses on strategies for effective negotiation meetings. While this article focuses on negotiating with family business stakeholders, the strategies apply to all stakeholders in the retailing realm.

Disciplines

Business

Comments

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All-In: Conducting Effective Negotiations for Better Relationships and Results

DR. DAVID KUNSCH AND DR. CAROL WITTMAYER

This is the second article in a two-part series on developing effective negotiation skills.

Negotiations are at the heart of our daily interactions. The ability to negotiate effectively may have never been so important as during the COVID pandemic. Whether re-negotiating business deals with vendors, landlords, employees or shareholders (including family members), the COVID pandemic has presented challenges and opportunities for retail owners to thrive by being creative and strategic in negotiation planning and execution. The first of two articles (November-December 2020 issue) focused on preparing for successful negotiations. This second article focuses on strategies for effective negotiation meetings. While this article focuses on negotiating with family business stakeholders, the strategies apply to all stakeholders in the retailing realm.

Once you have prepared for the negotiation, including the important step of having empathy for the other side, the next step is how to conduct the negotiation assuming you decide to proceed. As preliminary matters you need to decide when and where you wish the negotiations to take place. In the current pandemic, another consideration is if it can be done in person or will have to happen virtually. A time when the other party can focus is opportune, for example trying to negotiate about family dividends at the Family Annual New Year's Dinner Party or in the middle of

"busy" season would be ill advised. You also want to be in a place where there are a minimal number of distractions, including muting cell phones, and both parties are comfortable. We suggest



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somewhere out of the office. Once you have worked out these preliminary matters you will be faced with two major decisions. The first is whether you wish

to start the negotiations (as opposed to the other party), and, if so, with what issue would you like to lead off. There is no "right" way to start or even conduct the negotiation, but there are some points in the process where you should pause to think about how you wish to proceed.

Who Starts: Anchoring and Asymmetry Trade-Offs

As for who starts, your considerations usually boil down to the concept of anchoring – if you begin, or information imbalance if the other side begins. First, **anchoring**, this is the human tendency to take the first bit of information we receive and use that as an "anchor" around which subsequent evaluations of new information are made as to the offers on the table and whether they are fair or good or bad. This is why in some negotiations related to contract deals or redos, the opening party makes a seemingly outlandish bid, even though they do not have any hope of the other side agreeing – what it does do is anchors the perception of what is fair (good/bad) to the initial outlandish bid and shifts the "fairness" towards the anchor. This is one reason why you may wish to go first.

The other reason you may wish to go first is to control the issues to be dealt with first – more on that below. For example, a landlord may wish to go first and put out an offer where they ask for rent that is absurdly high and in no relation to comparable spaces. The landlord

has no expectation of getting this rent, but now the lessee has that number in her mind and will consider fair a number that is below the outrageous landlord opening bid but above what she was otherwise hoping to pay and internally thinks, “Well, I got a pretty good deal as it is far below the landlord’s initial offer,” even though it ended up be above the landlord’s expectation and rich considering comparable space.

One experiment asked participants to randomly focus on the numbers 10 and 65 then guess what percentage of African nations belonged to the United Nations. In a similar experiment run by one of the authors, those that focused on 65 guessed 47.7% of African nations were in the UN which was significantly higher than those that focused on the number 10 and guessed only 26.8 % of African nations were in the UN. Anchoring operates at the subconscious level in all of us. Now that you are aware of it you can use it to your advantage or alternatively, not let it affect you as much.

In the case of family firms, the “Next Gen” may need to go first to attempt to bring up issues that the “Now Gen” does not want to discuss and often-times have very different motivation levels to pursue. These may include overall long-term succession planning, performance feedback or a path for the Next Gen to progress in the management and ownership structures. Those issues often overlap and may be difficult to separate. They may be so hard to bring up that it may be appropriate to start with negotiating what issues should be addressed and who can help work towards win-win.

The downside of going first, and the reason you may want to go second, is what we call information **asymmetry**. The person who goes first naturally divulges more information about their bargaining position than the other side has – since the other side has as yet said nothing. In negotiations, information is power. Therefore, despite the advantages of anchoring, going first gives

the other side power as they now have more information about your position than you do about theirs – at this point you have no information about their position.

For example in a lease negotiation – the landlord may go first and put in an offer that was below what the lessee was hoping to pay in the best case – thereby resulting in a great deal and far

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exceeding the lessee’s expectation and budget. The lessee got what she thinks is a great deal and she did not even have to open her mouth. So, there are pros and cons as to whether you wish to go first or not. In our experience, the split between those who wish to go first and those who do not is about 50/50.

Sometimes it may not be realistic to plan to go first due to structure and power. That is very relevant to family firms as often times the elder generation goes first due to rank if you will. If it is not possible to set the stage or go first, which is often the case in family firms, then understanding anchoring and asymmetry and being prepared are very important to success.

Deciding on Which Issue to Start With

The second consideration at the beginning of negotiations is which issue to start with – assuming there are multiple issues to be negotiated on. There are two basic approaches which we will cover. You can start with the most contentious issue or you can start with the least contentious issue. This decision

comes down to momentum.

If you start with the least contentious issues you likely will be agreeing with each other for the most part – it will seem easy and some trust will have been built up between the two parties. Therefore, you will have built up some positive momentum that you hope will carry on as the issues you deal with become more contentious – the inten-

tion being that the positive momentum will be enough to satisfactorily overcome any impasse on these more difficult issues.

The other approach is to start with the most contentious issue first. The hope in that approach is that if the parties can solve the most difficult issue then there will be positive momentum to deal with all the other issues as they will not seem such a big deal once the difficult issue is dealt with. For example, back to the lease negotiation – usually the most contentious issue will be rent. The other issues such as duration, upgrades, utilities, etc., we will assume not to be as contentious. You can deal with all of these less contentious issues first to develop momentum and trust before you get to the thorny issue of rent or you may try and get the rent issue out of the way and then all the other issues seem much less contentious than they otherwise might be. In our experience, the majority of people, around 70%, prefer to deal with less thorny issues first – sometimes this is by design and sometimes it is conflict aversion – either way

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that appears to be the preference. You will have to decide for yourself which way to proceed and to calculate in the personalities, relationship and power dynamics to see whether it is best to tackle difficult issues at the front end or back end of the negotiation.

Do No Harm

There are times that even well-planned out negotiations start to become contentious. In those situations, considering a break and even discussing the assistance of outside advisors can be helpful to keep negotiations proceeding and relationships intact. ■

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