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BY DEEPAK MALHOTRA

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Risky Business: Trust in Negotiations

To maximize the joint gain created by a deal, both sides need to take risks.
Here's how negotiators can establish the necessary trust.

BY DEEPAK MALHOTRA

WHAT BEGAN AS A MISUNDERSTANDING about specifications and deadlines between a manager at RLX, a software development firm, and a manager at Impress, one of its clients, had escalated into a conflict charged with growing mistrust. Both RLX and Impress had money to lose if the partnership ended, but in the heat of conflict this became a secondary concern. Just two weeks after the first flare-up, Impress announced that it would be taking its business elsewhere.

Kristen worked in a division of RLX that had few dealings with Impress, but she nevertheless approached her manager, who was also the VP of the division that had lost the account, to ask if she could try to win it back. After all, RLX had nothing to lose by letting her try, she argued, and she had her own reasons for taking on this formidable task—as part of her work toward an MBA, she was taking a class in negotiation and mediation, and “negotiate something in the real world” was her current assignment. The VP eventually agreed to put her in touch with the Impress representative. After a number of meetings and a lot of negotiation, Impress agreed to re-sign with RLX, and Kristen saved her firm more than \$25 million in annual revenues. How did Kristen pull it off?

She realized that to win back the account, she had to win back their trust—and fast. So before the first meeting took place, she took several critical steps:

- She became an expert on Impress and its needs. This included talking to the RLX manager who had handled the account to find out the concerns Impress had had before the conflict escalated.
- She arranged to offer Impress a few perks in a new contract as a show of good faith.
- She asked the president of another RLX client, who knew people at Impress, to speak with the partner at Impress about her own positive experiences with RLX.

While the RLX-Impress negotiation was particularly tricky to get off the ground, establishing trust is critical to achieving success in any negotiation, because all negotiations involve some level of risk. Negotiators usually say that they're prepared to bargain in good faith, yet talks sometimes collapse because each side lacks trust in the other's competence and good intentions. One party might want to make a concession or share sensitive information in the hope of inspiring disclosures and compromises in return, but there's always a risk that the other side will refuse to budge, or even worse, exploit the information to their own advantage. Trust is particularly elusive in high-stress, high-stakes conditions, as when you're negotiating with strangers, facing deadlines, coping with differences in power and status, or hammering out unenforceable contracts.

Trust may develop naturally over time, but negotiators rarely have the luxury of letting nature take its course. Thus it sometimes seems easiest to play it safe with cautious deals involving few tradeoffs, few concessions, and little information sharing between parties. But avoiding risk can mean missing out on significant opportunities. For this reason, fostering trust on the fly is a critical skill for managers. As Kristen knew, the first step to inspiring trust is to demonstrate trustworthiness. All negotiators can apply the six strategies that follow to influence others' perceptions of their trustworthiness at the bargaining table.

1. Speak their language

Some years ago, an airline that was seeking to go high-tech with its ticketing process invited a number of consulting firms to bid on the project. At the kickoff meeting with prospective consultants, the airline's executives described the limitations of their current system and gave an overview of their needs and expectations. After the presentation, a dialogue opened up between the executives and the prospective bidders. Representatives from consulting firm X, who had never worked for an airline before, noticed that everyone was throwing around the word *lifts*. Feeling lost, they nominated one of their members to raise his hand and ask for a definition. Almost everyone in the

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room, including the airline execs they were trying to impress, stared at the group from firm X in amazement. How could they not know that airlines' paper tickets were called lifts? By failing to understand this industry-specific term, firm X had committed a major gaffe. One innocent question, and the company was suddenly out of the running.

It's important for negotiators to speak one another's language. This principle goes beyond understanding technical terms and lingo. It also means catching the nuances and cultural implications behind what's being said, and noticing how the other side uses words to convey ideas. By taking the time to understand the other party's history, culture, and perspective, you send the message that you're committed to the negotiation and the relationship—an integral step in trust building. This fluency also signals your readiness to follow through on your negotiated settlement.

And if you happen to make a gaffe, some early preparation—before the negotiation even gets under way—can lessen its impact. State at the outset of talks that you have worked to understand the other party's perspective, needs, and interests, but that you recognize—and hope that they do, too—that a lot of learning will take place as the negotiation moves forward and the relationship builds. Express the hope that when a mistake or misunderstanding occurs, as some inevitably will, both sides will see it as a natural part of the learning process and redouble efforts to reach an understanding of the other's point of view.

2. Manage your reputation

In negotiation, as in all aspects of life, your reputation precedes you. A bad reputation can be a deal killer from the start, while a great one can help transcend an impasse. Effective negotiators realize that their reputation is not just a backdrop, but a tool. How can you make your reputation a factor in negotiation? You might provide references from mutually trusted third parties that vouch for your character and competence. If appropriate, a third party could communicate with the other side prior to the negotiation—as in the RLX example—or even serve as an intermediary during it. You can also offer other forms of evidence of past success in similar relationships, such as media or trade reports.

3. Make dependence a factor

The more dependent you are on someone, the more willing you'll be to trust her. This phenomenon plays out to the extreme in the Stockholm syndrome, in which hostages become so psychologically dependent on their captors that they will trust their captors' statements and demands more than those of the officials who are attempting to negotiate their release. We tend to cope with the psychological discomfort associated with dependence by

believing in the trustworthiness of those upon whom we depend. In negotiation, when both parties believe that they need each other to achieve their individual goals and that other options are limited, trust between parties will increase. As a negotiator, you can trigger this trust-building process by highlighting the unique benefits you can provide and by emphasizing the damage that might result from an impasse. This technique can be particularly useful when a stalemate looms large and alternatives to agreement appear painful or costly. In such situations, a negotiator who senses he has no other recourse may come to trust even his "enemy."

4. Make unilateral concessions

Negotiations with strangers and enemies tend to be calculative, with both parties carefully measuring what they're gaining with each concession made by the other side. By contrast, negotiations based on long-term relationships are usually less focused on tallying up wins and losses. A carefully crafted unilateral concession can work wonders for trust, for it conveys to the other party that you consider the relationship to be a friendly one, with the potential for mutual gain and trust over time.

A true unilateral concession requires no commitment or concession from the other side. Such concessions must come at little cost or risk to the provider, but be of high benefit to the recipient. In addition to establishing trust, carefully crafted unilateral concessions also demonstrate your competence by portraying you as someone who understands what the other side values.

5. Label your concessions

Actions may speak louder than words, but actions in negotiation are often ambiguous. Concessions, unilateral or otherwise, are only influential in building trust or encouraging reciprocity if the receiver views them as concessions. Parties are often motivated to discount and devalue each other's concessions and contributions, because doing so relieves them of the obligation to reciprocate. As a result, many concessions go unnoticed or unacknowledged. This may lead to confusion, resentment, or an escalation of hardball tactics and unaccommodating behavior by the slighted party.

In their 1991 book, *A Behavioral Theory of Labor Negotiations* (ILR Press), Richard E. Walton and Robert B. McKersie recount such a scenario. After a string of long, protracted contract negotiations with his employees' union, a manufacturer was fed up. He decided to start off the next round of talks with a take-it-or-leave-it offer and then refuse to haggle. He opened with an extremely generous offer—a wage that was almost certainly higher than

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what the union would have reasonably expected even after another week of bargaining. But instead of seeming delighted, the union's chief negotiator responded: "We'd like to caucus to consider your offer." The manufacturer was shocked by his opponent's caution. But should he have been? The union, expecting another drawn-out battle, presumably reasoned that if the opening offer was this good, another week of haggling would bring huge payoffs. This difference in perspective between the manufacturer's and the union's negotiating styles resulted in a strike.

In negotiation, there's no reason to let actions speak for themselves. When you've made a significant concession, be sure to communicate exactly how much you've given away and what the sacrifice means to you. By doing so, you'll not only affect the other party's perceptions of your goodwill but trigger your partner's desire to reciprocate, and increase the level of mutual trust.

6. Explain your demands

Unfortunately, when you start a negotiation with someone new, you can expect that he will assume the worst about your motives and intentions. If you hold out for a better offer, he might think that you're greedy, that you like to see him suffer, or that you're simply unfair. In reality, of course, it could be that you're representing a constituency that will not accept the deal on the table, or budget constraints might be forcing you to stand firm.

Psychologists have found that people tend to view themselves in the best possible light and others in a much less positive light—especially those with whom they're in conflict. For this reason, it's especially important that you make a strong case for your moves in a negotiation and provide the other party with explanations of your de-

mands. An opening offer, if viewed by the other side as extreme, can diminish and even destroy trust. An offer that is explained and justified will probably preserve trust, and may enhance it.

Consider the case of an author negotiating with a literary agent over the right to sell his book. The agent mentions that her commission is higher for profits received in international deals than in domestic ones. At first, the author is annoyed. The higher international rate sounds arbitrary, just a sneaky way to squeeze more money out of him. But the agent goes on to explain that she charges a higher commission for an international deal because she has to split her percentage with the agent in the foreign country. Her net commission is actually lower for international deals than for domestic ones. Though this explanation has no effect on the writer's bottom line, it smoothes his ruffled feathers and makes him like the agent—and trust her—even more.

Maximizing joint gain

Believing that the other party is competent and has character allows negotiators to take the risks that are necessary to achieve negotiated outcomes, and to implement agreements in ever-changing social, economic, and political environments. When profit, security, or peace depend upon the motives and actions of another party, trust becomes essential. Fortunately, as these strategies suggest, negotiators can build the trust that's necessary for a negotiation to yield maximum joint gain. ♦

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