"away from the table" may be just as important as tactics "at the table." One is generally in a better negotiating position when one's alternatives improve and one's counterpart's alternatives erode. As Chapter Six elaborates, bargainers employ a variety of tactics to create the reality or impression that this is happening. By changing the no-agreement alternatives in decentralized bargains carried out by others, one can similarly affect the outcomes.

In certain classes of negotiations, many bargainers may tend to overlook and implicitly undervalue their no-agreement alternatives. In such cases, the advice to identify and evaluate alternatives should be helpful. In other situations, negotiators tend to be overconfident about their alternatives, and this often means that the dispute is not "ripe" for settlement. There, negotiators should focus on altering those perceptions so that, by comparison, joint action will appear preferable.

In short, negotiators often pay insufficient attention to their alternatives, which set the lower limits of value that any acceptable agreement must offer. But once they have evaluated their alternatives, the challenge is to find ways of cooperating to do even better. To do "better"—and even to evaluate alternatives—negotiators need yardsticks of value. So far we have discussed creating and claiming value, the *process* of negotiation, and alternatives to agreements, which imply its *limits*. It is now time to delve more deeply into the *measure* of negotiation, the parties' interests that are at stake. It is to interests that we turn in the next chapter.

CHAPTER FOUR

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Interests: The Measure of Negotiation

PEOPLE NEGOTIATE to further their interests. And negotiation advisors urge attention to interests—often solemnly, as if the suggestion were original and surprising. Yet the classic admonition to "know thyself" surely scoops any late twentieth century advice of this sort. So, academic compulsiveness aside, why write a chapter on interests or, more to the point, why read one?

In part, negotiators often focus on interests, but conceive of them too narrowly; we will argue for a more expansive conception. But because interests often conflict, simply listing them without understanding their tradeoffs is a bit like writing out a recipe without including the proportions. Negotiators need ways to assess the relative importance of their various interests; we will try to clarify the logic of assessing tradeoffs.

As hard as it may be to sort out one's own interests, understanding how others see theirs—*their* subjective scheme of values are perceived through *their* peculiar psychological filters—can be extraordinarily difficult. Obviously, suggesting a stretch "in the other person's shoes" is good advice; equally obviously, it is only a starting point. In this chapter, we will try to go further.

An Expansive Conception of a Negotiator's Interests

In evaluating the interests at stake, a typical negotiator might focus on commodities that can be bought and sold or on concrete terms that can be written into a contract or treaty. And negotiators definitely have such interests: the crippled plaintiff desperately wants compensation; a sales manager cares intensely about prices, profit margins, return on investment, and his own compensation. Managers may derive value from seeing their particular product sweep the market or furthering some vision of the public interest.

Throughout this chapter, we assume that a negotiator wants to do well for himself. Of course, "doing well" is only measured with respect to the things he cares about, whether out of direct self-interest or concerns for others' welfare. Thus for a negotiator to do "better" need not imply that he presses for more money or a bigger share. Rather, it means advancing the totality of his interests, which may include money and other tangibles but also fairness, the well-being of his counterparts, and the collegiality of the process. Furthering Robert's interests may mean taking less money to obtain a fair settlement by a friendly process. By the same token, Helen may want only to humiliate her counterpart publicly and extract from him the very biggest check.

Especially in business negotiations, however, a common misconception is that one's counterpart's interests extend only to the bottom line. Yet imagine holding rigidly to this assumption when negotiating with the number two executive in a technical products company from the upper half of the Fortune 500. He echoed his firm's philosophy when he stated.

> Our most important goal is to do a good job. We don't have a specific growth target, but what we want to do is make a contribution. Not just a "me too" thing, but to develop technically superior products. Another goal is to earn our way, to grow from our own resources. A third goal is to make this an interesting and satisfactory place to work. The fourth goal . . . there must be a fourth goal. I mentioned it also in a speech at [a nearby university]. Oh yes, the fourth goal is to make a profit.[1]

Negotiators' interests can go beyond the obvious and tangible; take the simple pleasure one derives from being treated with respect, even in a one-time encounter. Self-esteem and "face" are often latent

[1]Donaldson a[illegible]rsch (1984: 85).

interests; moves that cause loss of face or self-esteem can threaten the whole negotiation or at least make the obvious and tangible interests relatively less important. A stockbroker may want to develop her relationship with a customer for the future business it may bring; the plaintiff may feel anxious at the thought of a trial and may be willing to take a reduced settlement to avoid courtroom trauma. Negotiators have good reasons to be concerned with their reputations. A person who is widely known never to recede once he takes a position may rarely be called on for concessions. Fisher and Ury argue that a negotiator should seek to be known as reaching agreements only by means of "objective" principles; once achieved, among other effects, such a "principled" reputation may reduce the need to haggle.[2]

Beyond such concerns about reputation, relationship, and process, negotiators often care about subtle aspects of precedent. For example, Luther, a product manager in a fast-growing medical devices firm, had for the second time confronted his colleague Françoise with a vigorous demand for priority use of the firm's advertising department—even though Françoise had informally "reserved" this block of the ad department's time for her people. After analyzing her interests in this unexpected negotiation, Françoise balked at a few seemingly reasonable settlements that Luther suggested. Why? Françoise sought to avoid two undesirable precedents: (1) in the *substance* of the issue (her division needed to count absolutely on future ad department reservations) and (2) in the *procedure* set for raising a whole range of similar matters (she wanted to bolster the use of established policies). Concern with both types of precedent abounds in organizations and elsewhere.

Strategic interests are often at stake for managers. By this, we refer to the alignment of a particular decision with the manager's long-term personal or institutional strategy. Suppose that a prompt investment in the capacity to manage mutual funds appears likely to have high short-term potential for a firm whose long-term plan has been to develop expertise in real estate investments. Would a key manager's proposal now to devote substantial energy to mutual funds research and investment be wise? Recourse to strategic rather than short-term financial analysis may unravel the firm's best interests in this case.

Through her actions in one negotiation, a manager may have an interest in reducing the cost of later encounters and in affecting their outcomes. A manager may thus strive to instill in subord[illegible]es the

[2]Fisher and Ury (1981).

impression that explicit bargaining is impossible and that her commands must be obeyed. Perhaps the back-and-forth process has become too costly and inefficient for the task at hand. In such cases, paradoxically, a prime managerial interest in routine dealings may actually be to drive out future overt bargaining. It is exceedingly ironic that a powerful interest to be achieved through a determined pattern of negotiation may be to establish an impregnable image of rigid hierarchy, potent command, and iron control—that brooks *no* conscious negotiation. Especially in early encounters, say, between a freshly hired vice president and others in the firm, the new officer may see her central interest as establishing a pattern of deference by others to her "suggestions." Or she may strongly weigh the effects on her perceived track record or esteem as an expert so that others may be more likely to defer to her in the future.

Comparing obvious, "bottom line" interests with "others"—reputation, precedent, relationships, and the like—a very detailed study of corporate resource allocation in a multidivisional chemical company noted:

> These are the dimensions a manager takes into account when he makes his decisions. In some instances they far outweigh the importance of the substantive issues in his assessment of decision-making priorities.
>
> It is worth pausing to emphasize this point. There is a very strong tendency in financial or decision-making treatments of capital budgeting to regard the personal status of managers as noise, "a source of bias". . . . Theoreticians do not consider the problem a rational manager faces as he considers committing himself to a project over time. He has made other commitments in the past, other projects are competing for funds and engineering at the division level, and other managers are competing for the jobs he seeks. At the same time those same managers are his peers and friends. Whatever he does, he is more than likely going to have to live with those same men for a decade or more. While only some projects are technically or economically independent, all are organizationally interdependent.[3]

It is not always easy to know how to evaluate interests; sometimes they may derive from interactions too complex to understand directly. In such cases, carefully chosen proxy interests may help. For example, the President of the United States cannot possibly predict the effects of any particular negotiated outcome on all of his substan-

[3]Bower (1972: 302).

tive interests over the course of his term or beyond. Taking account of this, Richard Neustadt, in his classic bargaining manual, *Presidental Power*, counsels him to evaluate his dealings in terms of three particular interests.[4] The first is obvious: his interest in the substance of the immediate issue. Second, the President's professional reputation can heavily affect the reactions of important Washingtonians to his later concerns and actions. The President needs the resources and cooperation of these Washingtonians to carry out his programs. Thus, beyond the substance of the issue, Neustadt suggests, the effect of the current negotiation on the President's professional reputation among Washingtonians should be a proxy interest reflecting, in part, his ability to get the Washingtonians to act in accord with his subsequent desires. Third, Neustadt argues that the President should evaluate the effect of his actions on his popular prestige. High prestige reflects the strength of his mandate and influences Washingtonians. It is, in part, a proxy interest; actions that enhance his public prestige improve his chances favorably to influence subsequent outcomes of direct concern. A President may also value popular prestige for its own sake. As a negotiator, the President may well have to trade these interests off against each other; for example, he may yield somewhat on his substantive interest in the immediate issue to enhance his reputation and prestige elsewhere.

In many positions less complex than that of the President, negotiators' interests are difficult to enumerate because the link between actions and eventual outcomes is hazy. In such cases, a negotiator may benefit by finding proxies that indicate the negotiator's subsequent influence on outcomes of concern.

Some interests are latent in most negotiators. Negotiators' self-esteem and "face" are typically at stake. Tactics such as take-it-or-leave-it offers, forced linkages, commitment moves, threats, and preemptive moves are likely to induce loss of face if a negotiator attributes concessions to his weakness and his counterpart's strength. The newly included interests can sometimes swamp the ones previously felt to be at stake and begin a destructive cycle of hostile moves as the conflict escalates. Such moves are less likely to induce such a reaction if the negotiator can attribute his concessions instead to forces beyond the control of the negotiating parties.[5]

[4]Neustadt (1980).

[5]See Deutsch and Krauss (1962); Tedeschi, Schlenker, and Bonoma (1973); and Rubin and Brown (1975).

In short, interests include anything that the negotiator cares about, any concerns that are evoked by the issues discussed. Clarifying interests, however, can sometimes be difficult. We have often found that two distinctions can help.

INTERESTS, ISSUES, AND POSITIONS

Negotiators seek to reach agreement on specific *positions* on a specific set of *issues*. For example, a potential employee may initially demand $36,000 (her position) for her salary (the issue). Her underlying *interests* may be in financial security, enhanced lifestyle, organizational status, and advanced career prospects. Or, recall the last chapter's discussion of how the desire of a midwestern electric utility company to build a dam collided with farmers' needs for water and environmentalists' concern for the downstream habitat of endangered whooping cranes. Increased economic return, irrigated crops, and preserved species were the relevant *interests*; the parties conflicted over the *issue* of the dam's construction, and took *positions* for and against it.

interests. Of course, many different sets of issues may reflect the same interests: a country might seek to serve its interest in mineral development through negotiations with the same company over issues as varied as simple royalty concessions, joint ventures, or service contracts. Conceivably, the country's interest could be equally satisfied by different terms on each of these alternative issues. The issue at hand, however, may be only a proxy for imperfectly related interests. In the Paris peace talks the United States may have insisted on a round table and the North Vietnamese a rectangular one. The relevant compromise would hardly have been oval. The real interests were far from the rectangular versus round issue. Instead, they involved underlying questions of diplomatic standing and national resolve.

Many negotiators retard creativity by failing to distinguish the issues under discussion from their underlying interests. When the issues under discussion poorly match the interests at stake, modifications of the issues sometimes enable all parties to satisfy their interests better. For example, let us again refer to the conflict between the midwestern utility company that hoped to build a dam, the farmers concerned with downstream water flow, and the environmentalists who cared about the whooping crane habitat. After several years of costly and embittering litigation, the parties came to a resolution by a shift to issues that matched their underlying interests

in a more fruitful manner. By moving from positions ("yes" and "no") on the issue of the dam's construction to discussions about the nature of downstream water guarantees, the amount of a trust fund to protect the whooping crane habitat, and the size of the dam, the parties reached an agreement that left all of them better off.

Negotiators who mistakenly see their interests as perfectly aligned with their positions on issues may be less likely to shift issues creatively. They might even suspiciously oppose proposals to modify the issues. Indeed, in attempting to protect their perceived interests, such negotiators may dig their heels in hard to avoid budging from their desired positions. In the above conflict over "dam versus no dam," positions could have hardened to a point where the grim determination of each side to prevail over the other—whatever the cost—would have ruled out any real search for preferable options. At a minimum, such rigid dealings can be frustrating and time-consuming; impasses or poor agreements often result.

The prevalence of hard-fought, time-consuming, unimaginative "positional" negotiations led Fisher and Ury to propose a general rule: "Focus on interests, not positions."[6] While we think that negotiators should always keep the distinction clearly in mind, focusing exclusively on interests may not always be wise. When the parties have deep and conflicting ideological differences, for example, satisfactory agreements on "smaller" issues may only be possible if ideological concerns do not arise. In such cases, the negotiations should focus on the issues or a much narrower set of interests—not the full set of underlying interests. For example, two hostile but neighboring countries may be embroiled in tribal, religious, or ideological conflict, but they may successfully settle a sewage problem on their common border by dealing only with this more limited issue. Or leftist guerilla leaders, each with an underlying interest in ruling the country, might unite on the issue of overthrowing the rightist dictator; an agreement that attempted to reconcile their underlying interests would likely be more difficult to achieve.

Moreover, a negotiator may choose to focus on an issue that, for legal or other reasons, provides greater leverage than do discussions of underlying interests. The nature-loving group that has an abiding interest in preventing land development may develop a sudden attachment to the issue of wetlands protection if the Wetlands Preser-

[6]Fisher and Ury (1981).

vation Act provides the strongest grounds for negotiating with and deterring developers.

At times, a tenacious focus on positions may yield desirable results. With a group of landowners, the CEO of a major mining company had negotiated the general outlines of a contract along with a few critical particulars. Then he turned the rest of the negotiations over to a company lawyer to finish in short order—before a hard-to-obtain environmental permit expired. One provision that the second group of negotiators inherited had not been extensively debated before. Yet its tentative resolution, while barely acceptable to the landowners, clearly would confer great benefits on the company. Though the landowners' representatives sought to focus on "interests" and "fairness" in order to undo the provision, the company's lawyer made a powerful commitment to it and turned a completely deaf ear to all argument, urging instead that they get on with "unresolved" matters. Though this tactic risked negative repercussions on the other issues, the lawyer's firm commitment to a position was an effective means of claiming value in this instance.

Thus interests should be distinguished from issues and positions.[7] Focusing on interests can help one develop a better understanding of mutual problems and invent creative solutions. But such a focus may not always be desirable when, for example, underlying interests are diametrically opposed or when a focus on particular issues or positions provides leverage. Whatever the focus, however, interests measure the value of any position or agreement.

INTRINSIC AND INSTRUMENTAL INTERESTS

It should be clear that negotiators may have many kinds of interests: in money and financial security, in a particular conception of

[7]More technically minded readers may find the following formulation helpful. Let u represent a negotiator's multiattribute utility function: the attributes of u are the negotiator's interests. Let p be a vector of positions taken on the issue vector i (.). Let f be a vector-valued function that reflects the negotiator's beliefs about how well an agreement with positions p on issues i advances his interests. Thus, an agreement p gives the negotiator utility $u(f(i(p)))$. Typically, of course, he will be uncertain about the relationship between issues and interests, which we might model by letting w represent the random variable reflecting relevant uncertain events and letting $f(i(p), w)$ reflect his beliefs about the relationship between issues and interests conditional on w. Thus, we might say that he wants to choose p to maximize $E_w[u(f(i(p), w))]$, where E_w is the expectation over the negotiator's subjective beliefs about w.

the public interest, in the quality of products, in enhancing a reputation as a skilled bargainer, in maintaining a working relationship, in precedents, and so on. However, one distinction—between intrinsic and instrumental interests—can provide an economical way to capture some important qualities of interests, call negotiators' attention to often-overlooked, sometimes subtle interests, and lead to improved agreements.

One's interest in an issue is instrumental if favorable terms on the issue are valued because of their effect on subsequent dealings. One's interest in an issue is intrinsic if one values favorable terms of settlement on the issue independent of any subsequent dealings. Thus, a divorcing parent's interest in gaining custody of his or her child, the farmer's interest in water rights, and a country's interest in secure borders can usefully be thought of as intrinsic interests. Such interests need not have any obvious or agreed-upon economic value. For example, a sixty-year-old venture capitalist was negotiating the dissolution of a strikingly successful technology partnership with a young, somewhat standoffish woman whom he had brought on as a partner two years before. At first he bargained very hard over the financial terms because, as it turned out, he saw them as indicating who had really contributed important ideas and skills to the venture's success. When the young woman belatedly acknowledged her genuine respect for his ideas and contributions, he became much less demanding on the financial issues. In this instance, it happened that the venture capitalist had a strong intrinsic interest in psychic gratification from acknowledgment of his role as mentor and father-figure.

Most issues affect both intrinsic and instrumental interests. Dealings with a subordinate who wants to hire an assistant can arouse an intrinsic interest in the overall size of the budget as well as concern with the perceived precedent this sets for the support his peers may expect—an instrumental interest. Recognizing the distinction may lead to improved agreements; the subordinate who can create a justifiable device to prevent decisions about his staff support from setting precedents may well receive authorization to hire a new assistant.

One of the central reasons we focus on the intrinsic-instrumental distinction is for the light it sheds on three often-misunderstood aspects of negotiation: interests in the process, in relationships, and in principles.

"Process" Interests—Intrinsic and Instrumental Analysts often assume that negotiators evaluate agreements by measuring the value

obtained from the outcome. Yet, negotiators may care about the process of bargaining as well. Even with no prospect of further interaction, some would prefer a negotiated outcome reached by pleasant, cooperative discussion to the same outcome reached by abusive, threat-filled dealings. Others might derive value from a strident process that gives them the satisfied feeling of having extracted something from their opponents. Either way, negotiators can have intrinsic interests in the character of the negotiation process itself.

Beyond such intrinsic valuation, an unpleasant process can dramatically affect future dealings; the supplier who is berated and threatened may be unresponsive when his later cooperation would help. Indeed, negotiators often have strong instrumental interests in building trust and confidence early in the negotiation process in order to facilitate jointly beneficial agreements.

"Relationship" Interests—Intrinsic and Instrumental Negotiators often stress the value of their relationships; this interest sometimes achieves an almost transcendent status. For example, Fisher and Ury say that "every negotiator has two interests: in the substance and in the relationship."[8] Many negotiators derive intrinsic value from developing or furthering a pleasant relationship. Moreover, when repeated dealings are likely, most negotiators perceive the instrumental value of developing an effective working relationship. After studying hundreds of managers in many settings, John Kotter sensibly concluded that:

> Good working relationships based on some combination of respect, admiration, perceived need, obligation, and friendship are a critical source of power in helping to get things done. Without these relationships, even the best possible idea could be rejected or resisted in an environment where diversity breeds suspicion and interdependence precludes giving orders to most of the relevant players. Furthermore, since these relationships serve as important information channels, without them one may never be able to establish the information one needs to operate effectively.[9]

Of course, in the dissolution of a partnership or the divorce of a childless couple with few assets, the parties may find no instrumental value in furthering their relationship; that is, the parties would not be willing to trade substantive gains on, say, financial terms, to enhance

8Fisher and Ury (1981).

9Kotter ([illegible]: 40).

their future dealings. In fact, a bitter divorcing couple may actually prefer a financial outcome that requires absolutely no future contact between them over another that is better for both in tax terms, say, but requires them to deal with each other in the future. Similarly, a division head with two valuable but constantly warring employees may have a keen interest in separating them organizationally, in effect to prevent any active relationship between them. And when dealing with an obnoxious salesperson who has come to the door or by the office, one's interest in the "relationship" may mainly be to terminate it.

Interests In "Principles"—Intrinsic and Instrumental Negotiators may discover shared norms or principles relevant to their bargaining problem. Such norms may include "equal division," more complex distributive judgments, historical or ethical rationales, objective or accepted standards, as well as notions that simply seem "fair" or are represented as such.[10] Acting in accord with such a norm or principle may be of intrinsic interest to one or more of the parties; for example, a settlement of $532 arrived at in accord with the mutually acknowledged principle, say, that each party should be paid in proportion to time worked, may be quite differently valued than the same dollar figure reached by haggling. Of course, an acknowledged norm need not be an absolute value in a negotiation: it may be partly or fully traded off against other interests.

Even when none of the parties derives intrinsic value from acting in accord with a particular principle, it may still guide agreement. Principles and simple notions often serve as focal points for choosing one settlement within the range of possible outcomes.[11] Equal division of a windfall may seem so irresistibly natural to the partners in a small firm that they would scarcely consider overt negotiation over who should get more.

The principles that guide agreement in the first of many related disputes may set a powerful precedent. Thus, negotiators may work hard to settle the first dispute on the basis of principles that they believe will yield favorable outcomes in subsequent disputes. They may take a loss with respect to intrinsic interests in the first negotiation in order to satisfy their instrumental interests in the principles used to guide the agreement.

10See Gulliver (1979) and Fisher and Ury (1981).

11Schelling (1960).

In short, with many less tangible interests such as process, relationships, or fairness, a negotiator should ask why they are valued. Distinguishing between their instrumental and intrinsic components can help. But even with these components sorted out, how can a negotiator go about assessing their relative importance? More generally, what logic guides setting priorities among conflicting interests?

Thinking About Tradeoffs

Listing one's interests as well as a best guess at those of others helps. But, difficult questions tend to arise in negotiations that force one to make sacrifices on some interests in order to gain on others. How much of a trade is desirable? In buying a seller-financed house, how should Ralph evaluate higher purchase prices compared to lower mortgage interest rates? How much more should a manufacturer be willing to pay for the next quality grade of components? How much should the sales manager trade on price for the prospects of a better relationship? How much should a manager be willing to give up on substance to secure a favorable precedent?

Thinking about tradeoffs is often excruciatingly difficult and done very badly. Yet, whether or not negotiators choose to ponder priorities, they effectively make tradeoffs by their choices and agreements in negotiation. We believe that negotiators benefit by being self-conscious and reflective about their interests and the tradeoffs they are willing to make among them. We therefore discuss several methods to illuminate tradeoffs. These methods draw primarily on judgment about interests, not about negotiating. The methods we consider help to convert developed substantive judgments into forms useful for analysis and practice. Finally, although these techniques have formal origins rooted in management science and technical economics,[12] we find that their prime value comes in their contribution to clear thinking rather than from their potential for quantification. While negotiators may often choose not to quantify their tradeoffs, they may benefit greatly by employing the same style of thought in comparing interests.

Certain tradeoffs are easy to specify. The present value or total cost of a loan is a well-known mathematical function of the amount and duration of the loan and the interest rate. Thus, beginning with a

[12]For example, see Raiffa (1982), Keeney and Raiffa (1976), Barclay and Peterson (1976), or Greenhalgh and Neslin (1981).

given price and interest rate for the self-financed home, Ralph can calculate precisely the benefit of a 1 percent decrease in the interest rate and how much of a price increase he would be willing to accept before he became indifferent to the original price and interest rate. Yet other tradeoffs may seem much harder to think about, especially ones that involve "intangibles" such as principles, anxiety about a process, or the relationship.

Assessing Tradeoffs Among Seemingly Intangible Interests Seemingly intangible tradeoffs can also be dealt with in analogous ways. The plaintiff crippled in a car accident wishes to negotiate an out-of-court settlement with an insurance company that is better than her alternative of a full court trial. Suppose that only taking trial uncertainties and legal fees into account, she would be willing to accept a settlement of $300,000. But, this analysis leaves her uncomfortable. The trial would cause her great anxiety. Yet her analysis so far does not take this anxiety into account. How should she take this into account in her preparation for negotiation? Perhaps she should lower her minimum requirements, but by how much? How can she even think about this?

After several anxious, inconclusive struggles with this assessment, someone asks her to vividly imagine the anxiety she would feel during a trial. He then asks her to imagine that a pharmacist offered to sell her a magic potion that would completely eliminate the feeling of anxiety from court proceedings. What would be the most she would pay for the potion before the trial? Would she pay $10? "That's silly. Of course." Would she pay $100? "Sure." $100,000? "Certainly not, that's one-third of my minimum settlement!" What about $50,000? "Probably not." $1000. "I think so." $10,000? "Well, that's a tough one. But, if push came to shove, the trial would be an awful experience so, probably yes." $25,000? "Maybe not, but I'm not sure." . . . And so on.

We want to stress our opinion that the important point in making such assessments is not quantitative precision. An absolutely precise cutoff would seem artificial. What is important is to get a sense of the order of magnitude of the value she places on avoiding anxiety. Here we see that she would pay between $10,000 and $25,000 or a little more to eliminate the anxiety. Thus, she should be willing to reduce her minimum settlement requirements by that amount because a negotiated settlement would avoid the anxiety. She should, of course, strive for more, but she can feel more comfortable knowing that her minimum requirements now roughly reflect her interest in avoiding trial anxiety.

Similarly, the insurance company executive may feel that going to trial against a plaintiff who evokes such sympathy will harm the firm's reputation. Yet how should he value this reputation damage and how should it affect his approach to the negotiation? As described in this thumbnail sketch, in comparing the court alternative to possible negotiated agreements, the executive sees two interests at stake—money and reputation. He could try to value the reputation damage directly by estimating the number of present and future customers he would lose and the financial loss this would create. If he finds such direct assessment difficult, he could attempt, like the plaintiff, to monetize the "intangible" interest. What is the most he would be willing to pay a public relations firm to completely undo the reputation damage? If at most he would be willing to pay $20,000, he could modify his maximum acceptable settlement and take this into account when negotiating with the plaintiff.

In some instances, concerns with precedent, prestige, anxiety, reputation, and similar interests loom large; negotiators focus on them and, finding them difficult to weigh, feel paralyzed with respect to their choices as a negotiator. After fretting inconclusively, the negotiator may ask himself how much he would be willing to pay to have the prestige conferred upon him by other means. He might discover that he values the prestige possibilities little relative to possible substantive gains. Or, by similar analytical introspection, he might discover that he would be willing to pay only a small sum to avoid an undesirable precedent. In such cases, the negotiator would have learned a great deal. First, the intangible interest is a second or third order concern rather than a first order one as he originally feared; he can now feel freer to make concessions on the less important interest if necessary. Second, unless the choice between packages becomes close, he may need to pay little attention to this interest. In short, much of the purpose of such assessments is more to discover the relative importance of different interests than to be painstakingly precise about monetary or other valuations.

In other instances, interests in precedent or reputation turn out on reflection to overwhelm the possible improvements in substantive outcome. Suppose that a lawyer working on a highly publicized class action suit against a corporation has an interest in his financial compensation and in the reputation he might develop by exceeding expectations for h[illegible]avorable a settlement he can get for his clients. Even

if he finds the range of possible financial compensation paltry, he may see that his interest in enhancing his reputation and political ambitions is extremely well-served by every increment he can obtain in the settlement. Thus, he may bargain tenaciously on his clients' behalf. In this case, the monetary interest was not the first-order concern. In other instances, simple self-assessment may suggest that the monetary and nonmonetary issues are roughly comparable concerns or, of course, that the monetary aspects predominate.

A More General Approach for Assessing Tradeoffs The judgment that one "cares more about quality than price" cannot be made independently of the range of possible values of quality and price. That is, in the abstract, the manufacturer may say that he cares more about quality than about price. However, the total increment in technologically feasible quality may well be small; the price differential necessary to achieve it may well be undesirably high. Relative to the feasible range of qualities, the manufacturer actually places greater weight on price. Similarly, the management negotiator who thinks that she cares more about obtaining productivity-enhancing changes in work rules than about wages must analyze the ranges of work rules and wages that are possible outcomes of this negotiation. Suppose wages could range from a minimum of $10 an hour to a maximum of $13 an hour—and that this increment would have a significant impact on her firm's competitiveness. Yet if the increment from the worst to best possible work rules was small and would only marginally affect her firm's competitiveness, she should give greater weight or importance to wages in this negotiation. Her rate of tradeoff should follow from comparing her valuation of the wage increment between $10 and $13 with her valuation of the benefit of moving from the worst to best work rules and not from the judgment that she "cares more" about one or the other issue in general.

This leads to a straightforward method for such assessments. Like the preceding examples, the purpose of this method is to help organize one's subjective judgments to get a clearer sense of the relative importance of various interests. Again, we are concerned with orders of magnitude rather than precise quantification. To illustrate the central elements of this approach, we shall work through the thought process in a highly stylized, simplified example and then discuss the more general lessons for thinking about tradeoffs.

ASSESSING LISA'S INTERESTS. Consider Lisa, a thirty-four year-old second-level manager who has been offered a position i[illegible]other division of her firm as the supervisor of a soon-to-be-created department. She must soon negotiate with William, a long-time engineer who moved into senior management ranks seven years ago and has cautiously but steadily improved his division's results. Lisa has narrowed the issues she will have to negotiate to three: the salary, vacation time, and the number of staff for the new department. We will ask her to analyze her interests and then draw on her subjective judgment to assign 100 points to the issues in a way that reflects their relative importance to her.[13] To begin, she should assess the range of possibilities for each issue. Based on a variety of discussions with William and with others in the firm, and on the results of numerous feelers, Lisa has concluded that the salary could plausibly run from $32,000 to $40,000, the vacation from two weeks to four weeks, and the staff size from ten to twenty. Suppose that her current job pays her $32,000, gives her four weeks of vacation, and assigns her a staff of 10. (See Table 4.1.)

She should start by imagining the least appealing scenario: $32,000, two weeks of vacation, and a staff of ten. Lisa's next task is to assess her relative preferences on each issue. To do this, she must decide which one of the three incremental improvements she values most. That is, would she feel best with (1) $40,000 salary but only two weeks' vacation and ten subordinates; with (2) four weeks' vacation but only $32,000 salary and ten subordinates; or with (3) twenty subordinates but only $32,000 salary and two weeks of vacation? In making this evaluation, she examines her interests in money and the effects of a higher salary on her satisfaction, as well as the peace of mind and pleasure from longer vacations. On further reflection, she realizes that she must also consider her ability to do her job effectively and thus to improve her subsequent career prospects. A bigger staff could help her effectiveness directly; enhanced organizational status from a big staff and high salary may independently bolster her job prospects as well as add to her effectiveness. Suppose that after contemplating her interests in this way, Lisa decides that she prefers the salary increment to the other two increments, and, of the other two, she prefers the staff increment to the vacation possibilities.

Now comes a harder part. She must allocate 100 points—importance weights—among the three increments in a way that reflects her underlying subjective feelings. Would she prefer the package with the largest salary increment but minimum vacation and staff to the package with the lowest salary but maximum staff and vacation? If so, she should allocate more than 50 points to the salary increment. If she is indifferent between the two packages, she should allocate exactly 50 points to the salary increment.

Lisa decides that she slightly prefers the salary increment and assigns an importance weight of 60 points to the salary increment. Now, she can either assign importance weights to the staff and vacation increments or she can think about the relative value she places on each of the possible salaries. She begins with the latter and again compares ranges. How does she compare the salary increment from $32,000 to $35,000 with the increment between $35,000 and $40,000? The first increment would improve her housing and thus enhance her life in direct and important ways; the second increment, although larger, would go toward luxuries and saving. She thus feels indifferent between the first, smaller increment and the second, larger increment. In other words, she gives 30 of the 60 importance points to the increment between $32,000 and $35,000 and 30 to the remaining increment. Table 4.2 presents importance scores that reflect Lisa's preferences for salary; Figure 4.1 shows a plot of them. Interpreting this assessment, she would get no points if she received a salary of

[13]The following example contains certain technical aspects that need not be mastered to understand the logic of assessing tradeoffs. As such, some readers may wish to skim this section and turn to the next section, "Assessing William's Interests."

TABLE 4.1
Lisa's Negotiation

ISSUES	RANGE
Salary	$32,000–40,000
Vacation	2–4 weeks
Staff	10–20 people

TABLE 4.2
Lisa's Assessment of the Value of Different Salaries

SALARY	IMPORTANCE POINTS
$32,000	0
$33,000	10
$34,000	20
$35,000	30
$36,000	36
$37,000	42
$38,000	48
$39,000	54
$40,000	60

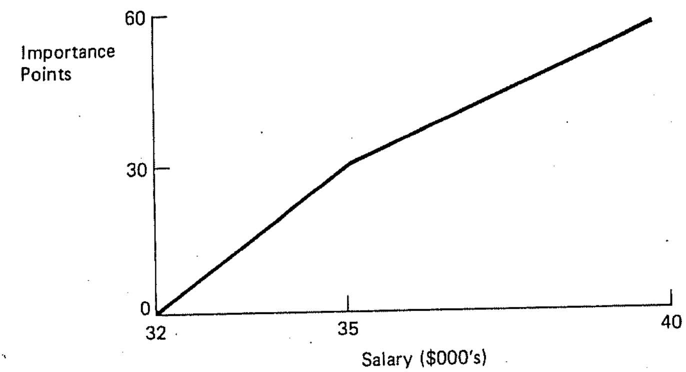

FIGURE 4.1: **Lisa's Assessment of the Value of Different Salary Levels**

$32,000. If she managed to receive $35,000, she would receive 30 points, and she could move all the way up to 60 points if she were able to get a salary of $40,000. She must now assign points reflecting her comparative valuations of the vacation and staff increments. Naturally, making an assessment like this can feel like comparing apples and oranges—but Lisa will end up doing it either explicitly or implicitly.

She can assess her valuations of the other two issues by comparing their increments directly or by comparing one of the increments with her salary assessments. For example, how does the increment from ten to twenty subordinates compare with the salary increment from $32,000 to $35,000? If she is indifferent, she should assign 30 importance points to the staff increment and, thus, the remaining 10 points to the vacation increment.[14] She decides and continues in this manner, finishing the assessment by assigning 20 of the 30 importance points to the increment between ten and fifteen subordinates and 10 points to the remaining increment. Lastly, she assigns 8 of the 10 vacation points to getting the third week of vacation and 2 to the remaining week.

Table 4.3 shows a scoring system that reflects this assessment. From the table, a $35,000 salary, three weeks of vacation, and fifteen subordinates would be valued at $30+8+20=58$ points, whereas a salary of $37,500, two weeks of vacation and sixteen subordinates would be valued at $45+0+22=67$ points. If Lisa is comfortable with this assessment and the scoring system, she can use it as a shorthand

[14]To ga[illegible]nfidence in the assessment, she might also compare the value of the vacation i[illegible]ent with the values of various staff and salary increments and be sure that the assigned points are consistent with her actual preferences.

TABLE 4.3
Lisa's Assessment of the Importance of Salary, Vacation, and Staff Size

SALARY ($000)	IMPORTANCE POINTS	WEEKS OF VACATION	IMPORTANCE POINTS	STAFF SIZE	IMPORTANCE POINTS
32	0	2	0	10	0
33	10	3	8	15	20
34	20	4	10	20	30
35	30				
36	36				
37	42				
38	48				
39	54				
40	60				

means of evaluating and designing possible proposals and counterproposals while preparing for and carrying out the negotiation.

It is worth noting that all the scoring is relative to an arbitrarily chosen zero point. That is, the "worst" agreement—$32,000, two weeks' vacation, and ten subordinates, the bottom of the range for each issue—receives a score of zero. All other possible agreements are scored relative to this "worst" agreement. The important comparison, though, is with her current job which, at a salary of $32,000, four weeks' vacation, and ten subordinates is valued at 10 points. Although any such scoring system is necessarily rough, Lisa can use it to evaluate possible agreements and to understand the tradeoffs she may have to make.

Comparing different increments can be difficult but a few tricks can sometimes facilitate the process. For example, Lisa might construct one package, say, of $32,000, two weeks' vacation, and twenty subordinates and another of $32,000, four weeks' vacation, and ten subordinates. But, how to compare them? Lisa might imagine that the phone rings and the call eliminates one of the options. Which option would feel worse to lose? Or, suppose that a coin flip will determine the choice of packages. Is a fifty-fifty chance of losing each appropriate? Or, would she prefer sixty-forty chances favoring one of the packages?

In helping Lisa construct this scoring system, we assumed that the value of an increment on one issue did not depend on how other issues were resolved; thus, scoring a package simply involves adding the points obtained on each issue. In some situations, [illegible]ough, the value of the outcome on one issue depends on how other [illegible]es are resolved.[15] For example, suppose that with a high salary Lisa would like a larger number of subordinates. With a low salary, however, she might feel aggrieved; a larger staff would mean more responsibility for which she was not compensated. Thus, how she values staff size could depend on her salary level. Such interdependent preferences could be assessed using more elaborate techniques, but the general logic of defining and comparing increments would remain roughly analogous.

ASSESSING WILLIAM'S INTERESTS. As Lisa firms up the assessment of her own interests, she must, of course, do the same for her negotiating counterpart and potential supervisor, William. Her preliminary investigations had fairly confidently bounded the ranges of the issues, but now the question becomes how he sees his real interests in them. Tentative discussions with William left Lisa little doubt that he would prefer to pay less, allow shorter vacations, and get by with as few new staff as possible—in fact, in a meeting enthusiastically offering her the spot "in principle," William sketched the terms he felt were appropriate. There he said "a bit over $30,000, a few weeks' vacation, and only the staff she really needs." More than a little daunted by this less than forthcoming stance, Lisa feels a strong need to develop a much deeper understanding of his interests.

Asking around, she discovers that William is generally not at ease with "personnel" matters and that he tends to seek out whatever firm "policy" he can find for guidance. Fortunately for Lisa, little in the firm would be directly comparable to the new department she would head. But a few discreet inquiries turn up the fact that the supervisor of the firm's largest department makes around $39,000. Since the new department is an important endeavor, Lisa feels fairly certain that salary money will not be too tight, but that the other supervisor's compensation will make any salary above $39,000 very uncomfortable for William to consider.

Trying to ferret out his feelings about vacation, Lisa discovers that he has been a hard worker, seldom taking more than a few days or a week each year. Also he has mentioned the extreme importance of dedication and long hours during the uncertain startup of this new organizational unit. Lisa infers that the prospect of her taking extended vacations early on, while not at all uncommon elsewhere in the firm, would not sit at all well with William.

[15]The "additive scoring rule" constructed in this example is a simple case of multiattribute value or utility function. When interdependencies exist, non-additive, multi-attribute utility functions can be used in the assessment. (See Keeney and Raiffa, 1976.)

Finally, on the matter of staffing, Lisa thinks back to some comments William made during a long lunch they had together to explore the possibilities of her heading the new department. In the course of their conversation, he had mentioned two significant incidents from his career. First he recalled extreme pressure on the engineering group some years ago to come up with a new design. The group was simply too small to produce the needed results in time. Quality of work and quality of life "needlessly suffered" and, to William's mind, that kind of "economizing" makes no business or personal sense. Yet William also recounted an agonizing experience some years later when the engineering group had greatly expanded. A mild economic downturn and the loss of a major customer had forced him to lay off nearly a quarter of the group's engineers. Recalling the pain of that experience, he lamented that things would have been much better if most of those let go had never been hired, and instead, the others had worked somewhat longer hours. To Lisa, the implications of these incidents seemed obvious: William would have little problem giving her the staff that he believed she really needed but would be allergic to any perceived excess.

Lisa could then make this assessment much more precise, estimating importance weights for William. Already, however, the contours of a possible approach have begun to emerge as she considers her interests (recall Table 4.3) together with her insights into William's concerns. Lisa expects to press fairly hard for a salary toward the $39,000 range, perhaps conceding some vacation time for the last few thousand dollars. This makes sense because money is valuable to her and relatively "cheap" to him. Moreover, he cares a great deal about avoiding too much time being taken off and two extra weeks of vacation are not crucial to her. From her analysis so far of the new department's mission, Lisa has become increasingly sure that the job can be done with fifteen people, though twenty would certainly be nice. She plans to devote a great deal of time to developing and presenting a rock-solid justification of the need for fifteen.

We will not go further in exploring how William's interests might be more formally assessed or how his and Lisa's preferences could be better dovetailed.[16] And, of course, this rough assessment of an artificially simplified set of issues only starts the process. As Lisa learns more, relative valuations may be revised, issues may be reformulated, and new options invented. For example, her interests in "sal-

[16]Or for that matter, how to take the twin scoring systems for Lisa and William's values to produce a Pareto frontier. For a discussion of how to do this, see Raiffa (1982) or Barclay and Peterson (1976).

ary'' could be expanded to include stock options, bonuses, and fringe and in-kind benefits. ''Vacation'' might encompass time to be taken in later years, a generous policy of accumulating unused vacation or turning it into salary, or leaves for various purposes like education. ''Staff'' may mean direct employees of various backgrounds and levels, ''loans'' from other departments, consultants, temporary help, or equipment to enhance the productivity of a given number of staff. But throughout, constant probing of each party's interests is the sine qua non of creating value by designing good negotiated agreements.

General Lessons for Assessing Interests

The most important lessons from this kind of assessment are those that help one think more clearly about the qualitative judgments that negotiators implicitly make all the time. Such evaluations are often made with respect to nominal issues rather than directly on underlying interests. Lisa's interests in money, lifestyle, peace of mind, career prospects, and organizational status are not perfectly aligned with the issues of salary, vacation limits, and staff size. When thinking about how well different packages satisfy her interests, the negotiator may discover reformulations that align more closely with her interests. If some of these ''new'' issues are easier to grant, they may form the basis for a better agreement.

During the process, the negotiator may learn about and change her perceptions about how well different positions on the issues serve her interests. As she learns, the relative importance of the increments on the issues may shift. If so, she should modify her assessments.

In contrast to the apparent crispness of the issues, interests are often vaguer. There may be no apparent scale with which to measure say, precedent or organizational status. Yet the same logic that is useful for making issue tradeoffs can apply to assuring the relative impact of interests. The generic steps are as follows:

- Identify the interests that may be at stake.
- For each interest, imagine the possible packages that serve it best and worst; for example, imagine the range of precedents that might follow from the negotiation. This roughly defines the increment of value associated with each interest.
- As wit[illegible]a's job negotiations, the importance of each interest depen[illegible] the relative importance of its increment compared to those of the other interests; for example, how does the gain from the worst to the best possible precedent compare with the gain from the worst to the best possible monetary outcome?

The currency of negotiation generally involves positions on issues but the results are measured by how well underlying interests are furthered. As such, it is helpful constantly to shuttle back and forth between abstract interests and more specific issues, both to check for consistency and to keep real concerns uppermost in mind.

Assessing the Interests of Others Finally, it goes almost without saying that a negotiator should constantly assess his counterparts' interests and preferences. Obviously, careful listening and clear communication help this process. Uninvolved third parties can render insights not suspected by partisans wrapped up in the negotiation. Some negotiators find that, as part of preparing for the process, actually playing the other party's role can offer deepened perspectives. In various management programs at Harvard, for example, senior industrialists have been assigned the parts of environmentalists and vice versa. To simulate arms talks, high-level U.S. military officers and diplomats have been assigned to play Russian negotiators. Palestinians and Israelis have had to swap places. After some initial discomfort and reluctance, the most common reaction of participants in these exercises is surprise at how greatly such role playing enhances their understanding of each side's interests, of why others may seem intransigent, and of unexpected possibilities for agreement.

Beyond various ways of trying to put oneself in the other's shoes, assessment of another's interests may be improved by investigating:

- Past behavior in related settings, both in style and substance.
- Training and professional affiliation: engineers and financial analysts will often have quite difference modes of perception and approaches to potential conflict from, say, lawyers and insurance adjusters.
- Organizational position and affiliation. Those in the production department will often see long, predictable manufacturing runs as the company's dominant interest while marketers will opt for individual tailoring to customer specs and deep inventories for rapid deliveries. This is another example of the old and wise expression ''where you stand depends on where you sit.''
- Whom they admire, whose advice carries weight, ar[illegible] whom they tend to defer on the kind of issues at stake.

In the end, interests are bound up with psychology and culture. Some settings breed rivalry; others instill group loyalty. Some people are altruists; others sociopaths. To some, ego looms large; to others, substance is all. Popular psychology designates Jungle Fighters, Appeasers, Win-Winners, and Win-Losers. Professionals label personality Types A and B along with victims of cathected libido. Others have spun out such classes, sometimes wisely, but for now we stress that perceived interests matter, that perceptions are subjective, and, thus, to assess interests is to probe psyches.

Summary

As a means of summarizing the main observations of this chapter, we have converted them into the following prescriptive checklist for analysts and practitioners:

ASSESSING WHICH INTERESTS ARE AT STAKE

- Beyond the obvious tangible interests that may be affected by issues to be discussed, consider subtler interests in reputation, precedent, relationships, strategy, fairness, and the like.
- Distinguish underlying interests from the issues under discussion and the positions taken on them.
- Distinguish between intrinsic and instrumental reasons for valuing interests, especially some of the subtler ones.
- In seeking to understand others' interests, remember that interests depend on perceptions, that perceptions are subjective, and thus that to assess interests is to probe psyches. This process can be aided by clear communication, the advice of third parties, role playing, and taking into account past behavior, training, professional affiliation, organizational position, as well as those to whom the others defer.
- Keep in mind that interests and issues can change on purpose or accidentally as the parties learn, events occur, or certain tactics are employed.

ASSESSING TRADEOFFS

- Tradeoffs are as important to interests as proportions are to recipes.
- To assess tradeoffs among intangible interests, it is sometimes helpful to imagine services one could buy otherwise to satisfy the same interests.

- To assess tradeoffs among issues:
  - —Specify the worst and best possible outcomes on each issue to define the possible increments.
  - —Compare the increments by thinking hard about underlying interests and which increments are most valued.
  - —Break the increments into smaller pieces and similarly compare their relative valuation.
  - —Change assessments as more is learned about how different positions on the issues affect interests.
  - —Assess interest tradeoffs using the same logic.

WHEN TO FOCUS ON INTERESTS AND WHEN ON ISSUES

- Focus the negotiation on interests to enhance creativity and break impasses by reformulating issues to align better with underlying interests.
- Focus the negotiation on positions, issues, or a narrower set of interests when underlying conflicts of ideology make agreement difficult or when a restricted focus is more advantageous for claiming value.

Negotiation is a process of potentially opportunistic interaction in which two or more parties with some apparently conflicting interests seek to do better by jointly decided action than they could otherwise. For evaluating alternatives and creating agreements, interests are the measure and raw material. The alternatives to negotiated agreement or what the parties could each do alone define the threshold of value that any agreement must exceed. The potential of negotiation is bounded only by the quality of the agreements that can be devised. The processes of negotiation are creating and claiming value. We can now focus more detailed attention on the first of these, namely, how value can be created from the parties' interests. In other words, we look hard at the real bases of joint gains.