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Importance of Negotiation Skills for Managers

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Abstract
Negotiation skills are crucial for managers to achieve their objectives, build relationships, make strategic decisions, and deal with complex situations in the business world. This research paper emphasizes the importance of negotiation skills for managers and explores how these skills contribute to their effectiveness. The paper discusses the role of negotiation skills in various managerial contexts, including building and maintaining relationships, strategic decision making, achieving win-win outcomes, and dealing with complex situations. Effective negotiation skills enable managers to establish trust, communicate effectively, understand perspectives, make strategic decisions, achieve win-win outcomes, and maintain positive relationships with stakeholders, contributing to their overall effectiveness in the workplace.

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I. Introduction

Negotiation is a fundamental aspect of human interaction and is particularly crucial in the business world. Managers, in particular, rely heavily on effective negotiation skills to achieve their objectives and drive organizational success. The ability to negotiate effectively is critical in various managerial contexts, including dealing with employees, clients, suppliers, and other stakeholders. Negotiation skills encompass a range of competencies, including communication, persuasion, problem-solving, and relationship management. These skills enable managers to navigate complex situations, reach favorable outcomes, and maintain positive relationships with stakeholders.

What is Negotiation?
Negotiation is a method by which people settle differences. It is a process by which compromise or agreement is reached while avoiding argument and dispute.
In any disagreement, individuals understandably aim to achieve the best possible outcome for their position (or perhaps an organisation they represent). However, the principles of fairness, seeking mutual benefit and maintaining a relationship are the keys to a successful outcome.

Types of Negotiation
1. Principled negotiation
Principled negotiation is a type of bargaining that uses the parties' principles and interests to reach an agreement. This type of negotiation often focuses on conflict resolution. This type of bargaining uses an integrative negotiation approach to serve the interests of both parties. There are four elements to a principled negotiation:

- Mutual gain: The integrative approach to a principled negotiation invites parties to focus on finding mutually beneficial outcomes through bargaining.
- Focus on interests: Negotiators can identify and communicate their motivations, interests and needs in principled negotiation.
- Separate emotions from issues: In principled negotiation, parties can reduce emotional responses and personality conflicts by focusing on the issues rather than how the problems make them feel.
- Objectivity: Parties in a principled negotiation can agree to using objective criteria as a baseline for negotiations. Examples of objective criteria in negotiations include market rates, expert opinions, laws and industry standards.

For example, the leaders of two departments for a large company often argue over the resources for each department. The two leaders enter a principled negotiation to discuss solutions. They listen to each other's positions and decide to base resource allocation on the percentage of revenue each department generates for the company. The department leader who receives more resources agrees to support the other department's functions, and the two leaders reach a compromise.

2. Team negotiation

In a team negotiation, multiple people bargain toward an agreement on each side of the negotiation. Team negotiations are common with large business deals. There are several personality roles on a negotiation team. In some cases, one person may perform more than one role. Here are some common roles on negotiation teams:

- Leader: Members of each team in a negotiation usually appoint a leader to make the final decisions during negotiations.
- Observer: The observer pays attention to the other party's team during a negotiation, discussing their observations with the leader.
- Relater: A relater on a negotiation team works on building relationships with the other team members during bargaining.
- Recorder: A recorder on a negotiating team can take notes on the discussions of a negotiation meeting.
- Critic: While this may sound like a negative role, having a critic on the team during negotiations can help you understand an agreement's concessions and other negative results.
- Builder: A builder on a negotiation team creates the deal or package for a bargaining team. They can perform financial functions during negotiations, calculating the cost of an agreement.

3. Multiparty negotiation

A multiparty negotiation is a type of bargaining where more than two parties negotiate toward an agreement. An example of a multiparty negotiation is bargaining between multiple department leaders in a large company. Here are a few of the challenges of multiparty negotiations:

- Fluctuating BATNAs: BATNA stands for best alternative to a negotiated agreement. With multiple parties in a negotiation, each party's BATNA is more likely to change, making it harder for parties to agree. Each party can evaluate its BATNA at each negotiation stage to understand the results of a proposed agreement.
- Coalition formation: Another challenge of multiparty negotiations is the possibility for different parties to form coalitions or alliances. These alliances can add to the complexity of bargaining. Coalitions can agree to a specific set of terms to help all parties reach an agreement.
- Process-management issues: Managing the negotiation process between multiple parties can lead to a lack of governance and miscommunications. People in multiparty negotiations can avoid these issues by choosing a leader willing to collaborate with others toward an agreement.

4. Adversarial negotiation

An adversarial negotiation is a distributive approach in which the most aggressive party in a negotiation achieves an agreement that serves their interests. Here are a few examples of adversarial negotiation tactics:

- Hard bargaining: Hard bargaining is a strategy in which one party refuses to compromise in an agreement.
- Future promise: A person using this tactic can promise the other party a future benefit in exchange for current concessions. You can counteract this tactic by asking for the future promise in writing.
- Loss of interest: Another adversarial negotiation tactic is loss of interest, in which one party pretends they've lost interest in pursuing an agreement. (Indeed Editorial Team, 2023)

Stages of Negotiation

1. Preparation

Before any negotiation takes place, a decision needs to be taken as to when and where a meeting will take place to discuss the problem and who will attend. Setting a limited time-scale can also be helpful to prevent the disagreement continuing. This stage involves ensuring all the pertinent facts of the situation are known in order to clarify your own position. Undertaking preparation before discussing the disagreement will help to avoid further conflict and unnecessarily wasting time during the meeting.

2. Discussion

During this stage, individuals or members of each side put forward the case as they see it, i.e. their understanding of the situation.

Key skills during this stage include questioning, listening and clarifying.

Sometimes it is helpful to take notes during the discussion stage to record all points put forward in case there is need for further clarification. It is extremely important to listen, as when disagreement takes place it is easy to make the mistake of saying too much and listening too little. Each side should have an equal opportunity to present their case.

3. Clarifying Goals

From the discussion, the goals, interests and viewpoints of both sides of the disagreement need to be clarified.

It is helpful to list these factors in order of priority. Through this clarification it is often possible to identify or establish some common ground. Clarification is an essential part of the negotiation process, without it misunderstandings are likely to occur which may cause problems and barriers to reaching a beneficial outcome.

4. Negotiate Towards a Win-Win Outcome

A win-win outcome is usually the best result. Although this may not always be possible, through negotiation, it should be the ultimate goal. This stage focuses on what is termed a 'win-win' outcome where both sides feel they have gained something positive through the process of negotiation and both sides feel their point of view has been taken into consideration.

5. Agreement

It is essential to for everybody involved to keep an open mind in order to achieve an acceptable solution. Any agreement needs to be made perfectly clear so that both sides know what has been decided. Agreement can be achieved once understanding of both sides' viewpoints and interests have been considered.

6. Implementing a Course of Action

From the agreement, a course of action has to be implemented to carry through the decision.

7. Failure to Agree

If the process of negotiation breaks down and agreement cannot be reached, then re-scheduling a further meeting is called for. This avoids all parties becoming embroiled in heated discussion or argument, which not only wastes time but can also damage future relationships.

At the subsequent meeting, the stages of negotiation should be repeated. Any new ideas or interests should be taken into account and the situation looked at afresh. At this stage it may also be helpful to look at other alternative solutions or bring in another person to mediate. (skillsyouneed , n.d.)

Tactics used by managers for having successful business negotiations

1. Listen and understand the other party's issues and point of view

Some of the worst negotiators are the ones who do all the talking, seeming to want to control the conversation and expound endlessly on the merits of their position. The best negotiators tend to be the ones who truly listen to the other side, understand their key issues and hot buttons, and then formulate an appropriate response. Try to gain an understanding about what is important to the other side, what limitations they may have, and where they may have flexibility. Refrain from talking too much.

2. Be prepared

Being prepared entails a whole host of things you may need to do, such as:

- Review and understand thoroughly the business of the other party by reviewing their website, their press releases, articles written about their company, and so forth.
- Review the background of the person you are negotiating with by reviewing any bio on the company's site, the person's LinkedIn profile, and by doing a Web search etc.
- Review what similar deals have been completed by the other side, and the terms thereof. For public companies, some of their prior agreements may be filed with the SEC.
- Understand the offerings and pricings from competitors of the party you are negotiating with.

3. Keep the negotiations professional and courteous

This is also known as the "don't be an asshole rule." Nobody really wants to do business with a difficult or abusive personality. After all, even after the negotiations are concluded, you may want to do business with this person again, or the transaction may require ongoing involvement with the representative of the other side. Establishing a good long-term relationship should be one of the goals in the negotiation. A collaborative, positive tone in negotiations is more likely to result in progress to a closing.

4. Understand the deal dynamics.

Understanding the deal dynamics is crucial in any negotiation. So be prepared to determine the following:

- Who has the leverage in the negotiation? Who wants the deal more?
- What timing constraints is the other side under?
- What alternatives does the other side have?
- Is the other side going to be getting a significant payment from you? If so, the leverage will tend to be on your side.

5. Always draft the first version of the agreement

An absolutely fundamental principle of almost any negotiation is that you (or your lawyers) should prepare the first draft of the proposed contract. This lets you frame how the deal should be structured, implement key points that you want that haven't been discussed, and gets momentum on your side. The other party will be reluctant to make extensive changes to your document (unless it is absurdly one sided), and therefore you will have already won part of the battle by starting off with your preferred terms. Having said that, you want to avoid starting the negotiations with an agreement that the other side will never agree to. Balance is key here.

6. Be prepared to "play poker" and be ready to walk away
You must be able to play poker with the other side, and be able to walk away if the terms of the deal aren't up to your liking. This is easier said than done, but is sometimes critical to get to an end game. Know before you start what your target price or walkaway price is. Be prepared with market data to back up why your price is reasonable, and if you are confronted with an ultimatum that you absolutely can't live with, be prepared to walk away.
7. Keep in mind that time is the enemy of many deals
You have to understand that the longer a deal takes to get completed, the more likely that something will occur to derail it. So be prompt at responding, get your lawyer to turn documents around quickly, and keep the deal momentum moving. However, that doesn't mean you should rush through negotiations and make concessions that you don't need to make. Understand when time is on your side and when time could be your real enemy.
8. Don't fixate on the deal in front of you and ignore alternatives
In many situations you want to have competitive alternatives. This can enhance your negotiating position and allow you to make the best decision as to how to proceed. For example, if you are engaging in a process to sell your company, the best thing you can do is to have several potential bidders at the table. You want to avoid being locked up into exclusive negotiations with one bidder until you have reached a meeting of the minds as to the best price and terms available. Similarly, if you are looking to buy a product, lease office space, or acquire a loan for your business, you will often be better off if you have alternatives—and the other party knows it has viable competitors. By negotiating simultaneously with two or more parties, you can often obtain better pricing or better contractual terms.
9. Don't get hung up on one issue
You want to avoid getting stuck on a seemingly intractable issue. Sometimes it's best to suggest that an issue be set aside for the moment and both parties move on to make progress on other issues. A creative solution may come to you later outside the heat of the negotiation.
10. Never accept the first offer
It's often a mistake to accept the first offer from the other side. For example, if you are selling your home and you receive an offer, consider countering at a higher price or better terms (even if there are no other offers). If you don't counter, the other party will be concerned that they offered too much and may end up with buyer's remorse and attempt to get out of the deal. And buyers expect that there will be a counter as they expect that their first offer will likely be rejected. Most buyers will leave room in their first offer to go up by at least 5%-15% in price, depending on the situation. Counter-offers and some back-and-forth negotiation will most likely lead to the two parties being satisfied that they struck the best deal they could, and thus be more committed to closing the deal.
11. Ask the right questions
Don't be afraid to ask the other party many questions. The answers can be informative for the negotiations. Depending on the type of deal, you could ask:

- Is this the best pricing or offer you can give me?
- What assurances do I get that your product or solution will actually work for me?
- Who are your competitors? How do their products compare?
- What else can you throw in to the deal without cost to us? (A particularly useful question to ask car dealers.)
- What is your desired timing for the deal?
- How does our deal benefit you?
- We want to avoid unreasonable forms of contracts or unreasonable lawyers on your end. How do we ensure that?

12. Prepare a Letter of Intent or Term Sheet to reflect your deal
It is often helpful, at the appropriate time, to prepare a Letter of Intent or Term Sheet to reflect your view of the key terms of a deal. This can help expedite getting to an agreement, save on legal costs, and continue the momentum for a deal. It is more informal than a definitive agreement and easier to reach agreement on. For example, Letters of Intent are often prepared and agreed to in connection with mergers and acquisitions (see Negotiating an Acquisition Letter of Intent). And here are some good sample forms to review that can help you draft such a document:

- A letter of intent for a joint venture
- A term sheet for leasing office space
- A venture capital term sheet
- A term sheet for investment by a strategic investor
- A term sheet for selling the company, favorable to the seller
- An acquisition letter of intent, favorable to the buyer

13. Get the help of the best advisors and lawyers
If it's a big or complicated deal, you want real expertise on your side helping you in the negotiations and drafting the contract. For example, if you are selling your company, it is usually worth the money to hire an investment

banker who knows your industry and has relationships with prospective buyers. If you are doing a real estate deal, you want an experienced real estate attorney who has done many deals like the one you are working on (and not a general practitioner lawyer). If you are doing an M&A transaction, you want a lawyer that has done 50 or 100 M&A deals (and not a general business lawyer). These advisors don't come cheap, but are worth it if you get the right one. (Harroch, 2016)

Key challenges to a proper negotiation

1. Rushing

You need enough time to negotiate effectively. Sealing a deal in a hurry is a cardinal sin in procurement. Analyze the product and its value, hear the supplier out, make an offer and justify it to the supplier's satisfaction. Never rush to buy or to seal a deal.

2. Lack of information and proper planning

You win half the battle in the preparation stage. Conduct thorough background research on the product and the supplier, have all important details at your fingertips including the supplier's operational facilities, company history, management profile, their major clients, development plans, and history of performance; and prepare answers for all hard questions the supplier might have. Suppliers do their homework. Don't be caught flatfooted. Like Abraham Lincoln, if you have eight hours to chop down a tree, spend six sharpening your ax.

3. Closed mind

Remembering both of you want a favorable deal is key in effective procurement negotiation. Flexibility begets the same. Have your non-negotiable demands but don't be so rigid with other things that you're only looking at the extra dollar a product will cost, without paying attention to any unique properties or value the product might have or a special deal that's tied to it. Listen, think, and ask questions.

4. Poor communication

Communication is a three-step process: encoding, decoding, reply. You speak, supplier understands, and then responds, and the wheel keeps rolling. If either of you does not listen, or understand, negotiation will stall. You might have little to no control over how the supplier communicates, but be clear on your end to save the situation.

5. Overthinking the power dynamics

As a rule of thumb, never be in awe of the supplier, however big they are. You have what they want however small it is. You might not even know what's important to them—it might NOT be money. If they didn't want to have you on their list of clients, they would not be at the negotiating table with you. Be well versed with the product, understand the market, and stick to your non-negotiable demands, your company's bottom line, and the walk-away figure. Ask questions too and shoot for the best deal. If the offer on the table doesn't work for you, it is what it is. Move on.

6. Using short-term negotiation tactics with long-term suppliers

It is one thing to want a product real fast and cheap, and another to want the same—great—product for a long-term supply, at the same price. Giving a supplier a thin margin when you have to, is okay, but if you're looking to establish a cordial long-term relationship, make better offers. Your supplier will stay in business and you'll be on the priority list. (Lares, n.d.)

The 4 C strategies of Negotiation.

Compelling: In this strategy negotiating party insists that the supplier meets their terms exactly which means that the negotiating party insists on their own preferred price without any revision even when the supplier tries to convince to pay more.

Collaborating: In this strategy when the supplier does not agree to pay the preferred price of the negotiating party the supplier is asked to collaborate on creating the value that is sought via the preferred price and non-price items.

Compromising: In this strategy each party has to compromise a little to reach an agreement. Even after collaborating strategy is used and the negotiating party still can achieve better pricing than what supplier has on the table then a compromise has to be reached at near the middle of the negotiating party's preferred price and the supplier's last price.

Caving-in: In this strategy the negotiating party has to accept what the supplier has last proposed. If the first three strategies did not get the negotiating party where they want to be the supplier might leave them an option of accepting its price or not doing the deal. This means that the first three strategies of negotiation has resulted in getting the most out of the supplier and it is advisable to accept the last proposed price of the supplier when the deal is profitable for the organisation. (S, 2017)

II. Conclusion

In today's competitive business landscape, negotiation skills are crucial for managers to achieve their objectives, build and maintain relationships, make strategic decisions, achieve win-win outcomes, and deal with complex situations. Effective negotiation skills contribute to the success of managers and the organizations they lead. Organizations should invest in training and developing negotiation skills in their managers to enhance their leadership effectiveness and drive organizational success. Further research and practice in the area of negotiation skills for managers can contribute to a better understanding of the subject and provide insights into best practices for improving negotiation effectiveness.

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