



The pursuit of value

In the second article of a three-part series, INSEAD Professor Horacio Falcao tells INSEAD Knowledge editor Stuart Pallister about strategies for creating and claiming value in negotiations.

It's all too easy, if you have the upper hand in negotiations – whether it be through information asymmetry or generally a more favourable position – to make full use of a power play in negotiations to get what you want, with the winner taking all and the loser walking away empty-handed, says INSEAD Professor Horacio Falcao. But instead, negotiators should be looking to develop 'win-win' strategies that allow all parties to capture some of the value, or at least feel that they were being treated fairly in the negotiations.

“The difference between ‘win-lose’ and ‘win-win’ is basically the choice of the use of power, or at least the demonstration of power in negotiations,” Falcao told INSEAD Knowledge in an interview. “We need to try to persuade the other person of the potential outcome without the need for power.”

“There's always the temptation to go back to power because it's such an easy tool to some extent. It's very powerful ... but also very destructive in its use.” There would be trade-offs and the costs involved can be high.

The problem is that if you resort to the use of power – or information asymmetry – to get what you want, your counterpart may try to do the same, and that's likely to result in resistance and blockages. “Therefore more power doesn't necessarily

translate into value”.

As soon as we try to extract more than our fair share, that of course would generate resistance. People will see this as trying to take advantage of the process, a potential power move, so they will resist and we're going to get into a battle - so all that exercise that we had before to build a good value negotiation process can be thrown away in a split second.

Instead, Falcao recommends that value negotiators don't just focus on power but, instead, try to make power irrelevant.

“Of course, it will be there but make it so that the negotiation produces so much value because you're making a straight line towards it. Every focus you have is going towards building more value thus you don't have to worry about power. The other person doesn't have to feel afraid and defend themselves and therefore build an arms race against you. Instead of wasting all of these energy and resources, we now can invest them in creating more value. So that's the principle.”

A risky phase of negotiation

Falcao argues that, as negotiators, we should be focusing on the pursuit of value, a complex and risky phase of negotiation, which can be divided into

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three parts:

- Value discovery (exploring interests)
- Value creation (generating options)
- Value claiming (discussing legitimacy)

It is not necessarily a linear progression from one stage to the next, he says, but the discovery phase, if carried out well, should lead to improved value creation, which in turn should help the claiming exercise.

Value creation 'enemies'

Value creation, he says, is not so much about creativity but, rather, good value discovery and generation, which happen if the parties manage to overcome some obstacles to value creation. Value creation is indeed harder because of the complexity of managing too many options and the temptation to commit early to secure value. Besides, the internal and external 'enemies' of value creation can lead one party to believe that the counterparty is competing for value in negotiations, or that no value can be created. The internal enemies, which could obstruct value creation, include power distance, information asymmetry and mixing relationship with substance, while the external enemies are resource constraints, artificial limits and the narrow scope of negotiations, which would restrict the options on the table.

Further, Falcao cautions, a balanced approach needs to be taken regarding value creation and value capturing or claiming. "If I create a lot of value and I don't take any of it home I've failed," Falcao says. "And if I tried to take value home and the other person's more powerful, I wind up taking little or nothing as well. Also, if I don't create enough value, the chance I'll be able to take enough value for myself is also limited, so it's all interconnected."

"Value claiming then is very important because a lot of people will go into the win-win (mode). They get so excited with the idea of value creation that they tend to forget value claiming. So in the sense that value claiming is important we believe that we should be positive but not naive. We should always be positive to try to seek something that is our fair share."

If negotiators do indeed adopt a 'win-win' perspective, which is at the heart of the value negotiation concept, they should be focusing on negotiating meaning or value, rather than concentrating on numbers and price. Bargaining tricks 'reduce value claiming to numbers only,' Falcao writes in his textbook. 'And yet numbers can mean a variety of things', depending on the situation.

A price without the right rationale behind it, he says, is "always a bad price, but what seems to be a bad price at first can become the right price, if backed by good meaning or value." After all, if negotiations were all about price, computers could negotiate for us. However, it is the meaning behind numbers that require humans to decide if a price is indeed good or bad.

"So I actually believe that value claiming is extremely important because this is the most dangerous moment of our negotiations from my perspective, because it is so close to bargaining, it's so similar to a win-lose process that if you don't have some key principles in mind, it becomes very easy and tempting to just go back to our default approach that for years we used which is the normal bargaining back and forth."

Solutions

For good value creation, we need to manage complexity and avoid the temptation for early commitment, says Falcao. One simple solution to handle both obstacles is to develop the package systematically. In other words, we do not agree to any one idea in isolation, but rather a coherent package or system of options. By developing the package analytically, we would be unlikely to commit early to any isolated and disconnected option. It also manages the complexity of having several options as it creates a rationale that links and balances them together.

In addition, seeing the internal and external value creation enemies as the true negotiation enemies helps to unite the parties against them. So direct your counterparties' attention to the value-limiting factors in your negotiations and invite them to come up with solutions to overcome these enemies or obstacles.

As for value claiming, make sure that whenever numbers are discussed, do not just say 'yes' or 'no' to the number. Instead, ask: "Where does this number come from?" to help the parties discuss the rationale, meaning and thus value of each number to the parties. This will move the parties from bargaining positions to engaging in a joint exercise of finding the number that has the right meaning and value for all involved, and so increase the chances that each of the parties will be able to claim their fair share.

'Value negotiation: how to finally get the win-win right' is published by Prentice Hall/Pearson. For more on the book go to www.valuenegotiation.com.

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