

In March 2001, the Internet economy was grinding to a sudden halt. After 2 ½ slow and steady post-collegiate years with Defense Research, Inc., Sven's career had benefited from several 'leapfrog' maneuvers between promising dot-com startups throughout calendar 1998, 1999 and 2000. The first of these entities, Suspicious.com, had secured Sven a 30% pay raise (from \$38K to \$50K per annum), but ceased business (after a series of bankrupt-a-shell-company-then-sell-its-assets-to-a-newly-formed-company claimant investigations) scant months after his hire; the second, Internet Empire LLC, had garnered him another 44% (\$72K per annum) as he rose through the ranks, but was showing signs of instability (customer base receding, cash reserves lasting 10-to-11 months at current burn rates, stock prices less than ¼ of historical highs).

Defense Research	-->	Suspicious.com	-->	Internet Empire	-+-->	??
(\$38K/yr)		(\$50K/yr)		(\$72K/yr)		
(1996)		(1998)		(2000)	`-->	??

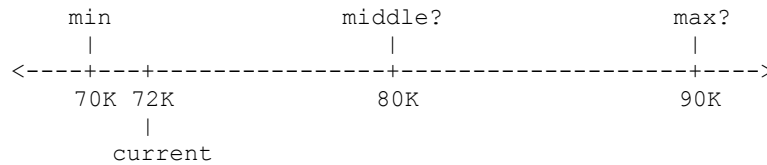
Sven found himself faced with a series of less-than-straightforward choices. Should he ride Internet Empire all the way down to the bottom? Open talks with NewSuspicious.com, a newly-formed (and somewhat questionable) venture by Suspicious.com's former founders, in a neighboring but supposedly-distinct technology area? Or was the time right to escape the private sector, perhaps under Different Defense Research Inc.? Which industry presented the 'best' opportunity? What salary offers could he realistically command in any of these three cases? An equivalent \$72K per year? Might more be possible? Or was a pay cut inevitable?

ZOPA – Internet Empire LLC, NewSuspicious.com, Different Defense Research Inc.

Viable salary ranges were not so easily determined in 2001 as they might otherwise have been in a rock-steady economy. Having put out subtle feelers into neighboring divisions and business units, Sven ascertained that his current earnings (\$72K) were as high as his current employer (Internet Empire) would go, that direct competitors would only just match this figure (\$72K to \$75K, frequently bonus-driven), and that even this figure might come under some scrutiny if he rocked the boat, and/or if reductions became necessary.

A former manager and mentor had once counseled Sven that "You never move for less than a 10% bump, preferably 15% if you can get it." Independent same-title compensation research on www.salary.com seemed to corroborate this figure, suggesting that \$80K might be attainable in New England, with another \$10K (~\$90K total) possible with relocation to New York City or Silicon Valley. Internally, Sven acknowledged that he might be willing to take a small pay cut (to \$70K) if an employer offered superior benefits and/or stability.

Sven's crude zone of possible agreement, then, had the following general structure:



Some “fuzziness” and overlap existed between these numbers, most particularly with benefit packages involving retirement-plan matching (2%, 4%, 6%, etc.) and/or tuition reimbursement (\$5K per year, \$10K, \$15K). As these factors were largely conditional (i.e., educational assistance has little value if the employee does not pursue further education), Sven did not incorporate them directly into the zone of possible outcomes, but rather reserved them to differentiate between offers and/or as points for later-stage negotiations.

Best Alternative to Negotiated Agreement (BATNA) – Internet Empire

Sven's “fallback position” – staying with his current employer (Internet Empire LLC) for \$72K per annum – was not especially strong. The dot-com's aforementioned cash burn rate promised financial difficulties within the next three or four fiscal quarters, if not sooner; Sven anticipated layoffs to be announced by year's end. Additionally, this position, while not solid even at its outset, threatened progressively greater fragility over time. Customers were withdrawing from Internet Empire's data centers by the dozens, citing cost-control measures and/or cessation of their own operations due to bankruptcy. Sven deemed an already-dicey springtime job search to be preferable to an even-shakier market during the holiday season.

Intangibles and Extrinsic Values – NewSuspicious.com

This decision was not purely quantitative in nature. While happy with the 30% pay raise he had received upon signing with Suspicious.com, Sven harbored some feelings of betrayal and resentment at their questionable business practices – most particularly, their “stringing him along” under false pretenses, filing for bankruptcy weeks later, and terminating all employees with a single day's notice and eight hours of severance pay.

Sven could not put an exact dollar figure on this distaste, but, rather, decided to treat these historical issues as tiebreakers. In cases of equivalent (or nearly-equivalent) salary offers, he would go with another employer over NewSuspicious.com. Similarly, if/when feelings of acrimony or contention arose at the negotiating table, he would opt to “burn his bridges” with NewSuspicious in the interests of preserving relations with another prospective employer.

Contingent Contracts – Third Dot Com, LLC

An earlier series of negotiations (late 2000) had involved Marlborough-based Third Dot Com, LLC. These arrangements had come to numerical terms similar in nature to Internet Empire's own compensation structure (\$72K to \$75K), but incorporating a greater bonus-driven component (approx. \$10K of the aforementioned as a performance-based incentive) of total remuneration, with additional monies awarded under high-performance circumstances.

Although briefly tempted by such open-ended rewards, Sven ultimately declined these contingent-compensatory schemes as increasingly untenable in an economic downturn. Reasoning that "a bird in the hand" [guaranteed salary-term pay] was preferable to "two in the bush" [the promise of additional rewards in case of XYZ], Sven resolved not to pursue such sliding systems in his future negotiations.

Favors and Ledgers – NewSuspicious.com

Sven's first round of interviews with NewSuspicious.com went surprisingly well. A small number of friends and former coworkers (including the CTO, whom Sven had favorably impressed during the good old days at Suspicious.com) greeted him in the lobby; a general feeling of "we really liked having you around, we feel bad that things ended the way they did with the 1998 bankruptcy, we're willing to make it up to you" became palpable, though never explicitly voiced in conversation.

Picking up on this unspoken regret, Sven began making similarly-themed references to "having done great things" during his short tenure with the Suspicious.com crew, and his sense that "even more could have been accomplished" had just a little more time been made available. The day's end brought a pair of telling revelations – the CTO told Sven the job was his if he wanted it, and, without prompting, assured Sven that "this time we've got a new [technology] industry, and a lock on it so tight we're bulletproof from lawsuits or regulations."

Sven received an offer letter for \$76K/year, and (after asking) was given one week to respond.

Reactivity, Silence, and Unreciprocated Offers – Different Defense Research, Inc.

Sven's discussions with Different Defense Research were also positive, though not to the same extremes as with NewSuspicious.com. Senior engineers and managers were impressed with his technical repertoire, eloquence, and serious well-grounded demeanor; at day's end, a department head called Sven into his office for a final meeting and asked "Would you like a position here?" Sven readily gave his assent to move forward.

Sven exhibited polite interest during salary discussions, committing several details of the Different Defense Research benefits package to memory for later reference. The HR staffer let slip two key factoids during these (telephone) discussions: firstly, that Sven's level of hire would likely be "at the top of Senior (Level 3), or at a very low entry-point for Lead (Level 4)" [possibly requiring later adjustment and/or promotion], and, secondly, that the hiring manager had put forth "a number somewhere in the mid-seventies."

Trying a never-before-used gambit, Sven remained silent and expressionless for a space of five or six seconds. The HR staffer hurriedly chimed in, breaking the silence: "...but I'm thinking something more like the low eighties seems appropriate." Sven agreed that a low-eighties figure seemed 'in the ballpark,' and promised five-day response after receipt of a formal offer letter.

Legitimacy and Timing – NewSuspicious.com

Sven resumed negotiations with NewSuspicious.com on the fourth day of his promised week, informing its CTO that "a comparable offer from Different Defense Research" had been received, and that the defense corporation's benefits package (notably retirement and tuition) surpassed NewSuspicious' own portfolio by nearly \$10K, requiring additional monies from NewSuspicious to even the gap. Sven offered to make hard-copies of the offer letter available to NewSuspicious if/as requested. The startup did not take him up on this offer of substantiation (which worked out fortuitously, as Sven's high-seventies/low-eighties offer letter had not yet arrived at time of this conversation).

Two days later (day six of the promised week), NewSuspicious' CTO responded to Sven via email, assuring that "OK, bucko... after multiple conversations with our chief exec, I have secured you a \$85K offer with ten thousand pre-IPO stock options, I assured him you were well worth going the extra mile for, I hope you're satisfied." Rather than responding to this email, Sven immediately phoned Different Defense Research for a final round of discussions.

Information Asymmetry and "Just One More Thing" – Different Defense Research, Inc.

Different Defense Research's HR staffer apologized for not having followed up sooner, and assured Sven that a FedEx offer letter was "sitting on his desk right now" and "would go out via next-day mail that same afternoon." The offer letter amounted to \$77K per annum, with (superior) benefits, including tuition-reimbursement.

Sven tried the five-second silence a second time, and was met with the HR staffer asking, "So what do you think about that?" Sven responded, "I think it sounds a little low." The HR staffer countered, somewhat heatedly, "What does *THAT* mean?" Sven responded, "It means I would not be inclined to accept your offer as written at this time. I have another offer letter in hand, from NewSuspicious.com, for \$85K plus stock options. I can share a copy of their offer letter with you if necessary."

Copies of the NewSuspicious.com letter were not requested, and did not prove necessary. Sven reached final agreement with Different Defense Research for \$84K per annum (a 16% pay-raise from his previous position), with superior retirement and tuition benefits, and gave two weeks' notice of resignation at Internet Empire LLC.

Outcome(s) and Aftermath

Internet Empire LLC accepted Sven's resignation, making no attempt to counter-offer or otherwise retain him. Internet Empire announced a first round of layoffs six months later (September 2001), with successive layoffs in 2002 and 2003, closing Sven's (e-commerce) business unit entirely and absorbing its few survivors into "customer service operations."

No further communications ensued between NewSuspicious.com and Sven, in either direction. NewSuspicious has been headquartered in Lowell, Massachusetts since its 1999 inception, and still exists today, albeit in a slower/smaller capacity than its Suspicious.com predecessor (tens of employees, rather than hundreds). NewSuspicious claimed "recurring revenue profitability" in fiscal 2007, though, being privately held, the numerical basis for such claims remains unclear.

Sven has remained (and arguably flourished) with Different Defense Research Inc. from 2001 to the present. He was promoted (from "Senior (Level 3)" to "Lead (Level 4)") in 2002, and completed a second master's degree (costing \$60K, almost wholly employer-reimbursed) in 2009. His earning power has increased ~XX% year-over-year.

Postmortem Negotiating Analysis

The variant communications media used herein (telephone, email) may have aided discussions on one or both sides (e.g., fewer verbal or body-language cues for Sven). Further, bluffing and/or threatening behaviors seem to have infiltrated to a greater extent than may have occurred with face-to-face verbal communications. *[McGinn and Wilson, 2004]*

Although precise ZOPA figures remain unknown (perhaps one or both companies might have paid \$90K), subsequent job-class data suggest \$85K-to-\$88K as a probable industry maximum for the category/title in question. Four closely-corroborating salary values (\$72K, \$75K, \$76K and \$77K, respectively) suggest a legitimate value and/or range for this domain; these values may represent an initial attempt by corporate HR to anchor numeric discussions. *[Lax and Sebenius, 2004]* As proven by late-2001 layoffs, Sven's BATNA was not very strong.

Contingent-contractual compensation (i.e., bonus) was attempted by one party, but proved ineffectual, perhaps due to a rapidly-weakening economy (less chance of sales quota being made and bonus actually given) and/or inflexibility of terms. Another party's stock-option offer similarly fell on deaf ears and was largely discarded. A "would you like X or Y" menu for selection might have worked better, though it is unclear to what extent. *[Malhotra 2006]*

Information asymmetry was used to great effect in these negotiations. Although Sven's offer numbers had some legitimacy (backed by formal offer-letter documentation in most, if not all, circumstances), the assumptions and criteria used to determine said numbers varied widely ("apples-to-oranges") from case to case. In the final two rounds of discussion, Bidder X (NewSuspicious) and Bidder Y (Different Defense Research) had their secondary (benefits-adjusted) offers used as ammunition for tertiary counter-offers against one another. [Mnookin, Peppet, Tulumello, 2000]

Though mostly above-board, certain "hard-bargaining" tactics were plied (by Sven, and by the defense-research corporation) in the later stages of discussion. Sven's carefully-chosen seconds of silence (which successfully solicited a new unreciprocated offer) seem to have slightly sweetened the pot (by \$5000, or ~6.7%); similarly, the HR staffer's eventual offer letter (advertising \$77K instead of \$80K) constitutes a partially-renege commitment. [Ury, 1993] A less-easily-quantified sense of "we owe Sven a favor" was cultivated with the dot-com bidder, and heavily exploited; it is unclear how far this might have been stretched over the fullness of time, as the bridge has by now been irrevocably burned. [Patton, 2005] The defense HR staffer's escalation in tone ("What does *THAT* mean?") might qualify as an attempt at intimidation, though mild almost to the point of not meriting mention herein.

Finally, and perhaps most importantly, several intangibles ("non-purely rational strategies") entered play even before negotiations commenced. Sven's residual layoff bitterness gave rise to clearly-evident 'milk-em-for-whatever-you-can-get' vindictive behaviors toward NewSuspicious.com; similarly, implied preferences for job stability (to avoid future layoffs) and superior benefits (such as tuition reimbursement) make it less likely that Sven would have entertained the dot-com's offer seriously, if at all. [Bazerman and Shonk, 2005] Sven seems to have reaped tangible value from at least one of his intangible interests; his second graduate (MBA) degree represents an employer-subsidized investment amounting to \$60K, or \$7500 (6% to 9% of salary) per annum.

Valediction

Was this a successful negotiation?

Although numeric results seem to indicate a 'win,' Sven has almost certainly spoiled one working relationship (with NewSuspicious), came close to souring another (with Different Defense's HR representative), and could have been called on the carpet at any time ("please show us the offer letter, with a line-by-line benefits valuation"), significantly damaging his legitimacy and resultant position. Further ethical 'damages' might also have followed.

This inverse Prisoner's Dilemma worked to Sven's advantage in 2001, but might not play out so favorably a second time. Had either party declined to counter-offer ("No, it's our policy to only make a single offer, we will not re-negotiate"), or, worse, short-circuited the overlapping timetables ("Your request for a week to consider is unacceptable, we won't give you fuel for a counter-offer, please respond within 24 hrs"), the resultant gains would have shrunk considerably (\$76K or \$77K instead of \$84K or \$85K, nearly an 11% loss). [Hofstadter, 1985]

APPENDIX A – Diagram of Sven’s Negotiation with Employers

(This is a “Two-Party” Negotiation, as only two were involved at a time)

Sven -----> NewSuspicious.com
“more
than
72K”

Sven <----- NewSuspicious.com
“76K”

Sven -----> Different Defense Research
(no
initial
number
given)

Sven <----- Different Defense Research
“77K”

Sven -----> NewSuspicious.com
“other
offer
has 10K
better
benefits”

Sven <----- NewSuspicious.com
“85K
plus
stock
options”

Sven -----> Different Defense Research
“other
offer
is 85K”

Sven <----- Different Defense Research
“84K”

Sven -----> Different Defense Research
“yes”