

## Exercise 1

# PEMBERTON'S DILEMMA



NEGOTIATION 7e  
LEWICKI • BARRY • SAUNDERS

## Objectives

This is a relatively simple exercise that is best used when participants are just beginning to study negotiations. It presents students with a structured win/lose situation that focuses on the following dynamics:

1. Individual motives among members of a negotiating team, and the consequence of differences in these motives.
2. The negotiating dynamics that occur among members of a team as they prepare to negotiate with their competitors.
3. Ways that participants can increase the bargaining mix (the collection of issues at stake and differences in individual perspectives that aid or block awareness of these possibilities).

**Changes from 6<sup>th</sup> Edition:** No changes other than updating recommended reading assignments given below to match new editions.

### RECOMMENDED READING ASSIGNMENTS TO ACCOMPANY THIS EXERCISE:

#### Reader:

- 1.1 Three Approaches to Resolving Disputes: Interests, Rights and Power
- 1.2 Selecting a Strategy
- 3.5 The High Cost of Low Trust

**Text:** Chapter 1

**Essentials:** Chapter 1

## Operational Needs

**Group Size:** This exercise works nicely with students in teams of two or three – that is, two or three on each management team of Country Market and Corner Store (although it can be done between individuals as well). If there are an odd number of students, some teams can be increased in size or observers can be appointed. It is very helpful to have enough different match ups running (three or four, at a minimum) to create a variety of outcomes for comparison in the debrief. Any size class can be handled provided space is available. For very large classes, some students can be

designated as observers who will manage time keeping and monitor discussions between the teams.

**Time Required:** 60-90 minutes

**Special Materials:** All essential materials are provided here and in the reader. Each student team can also be provided with a pair of signs or index cards that say “open” and “closed” for revealing decisions (or they can be asked to make these themselves).

**Physical Requirements:** To make the exercise run smoothly, it is useful to situate each pair of teams within eyeshot but not earshot of each other. This allows them to conduct their private within-team discussions between rounds, but also to be able to find each other quickly when it is time to make a move for each round. No other particular physical facilities are necessary.

## Advance Preparation

Rehearse the rules yourself so that you can explain them if necessary. This situation is a modification of the "prisoner's dilemma" into an organizational setting. The critical modification involves the increase of profits and losses every fourth weekend (the "long weekends"). This addition changes the dynamics from the traditional prisoner's dilemma and places more pressure on the negotiations immediately before these periods. We do not suggest that the instructor draw attention to these special periods, but allow students to identify them on their own (this yields a payoff for careful negotiation preparation).

## Operating Procedures

1. Break the class into pairs of teams, with each team having two or three students. Each team will role-play either the management team of the Country Market or the management team of the Corner Store. The teams should sit far enough from each other to allow private meetings.
2. Have students read the background information for Pemberton's Dilemma provided in the Reader. Then hand out a sheet that explains the procedure (example included with this teaching note), or explain orally what the procedure will be.
3. Remind students that they will represent their store in discussions with the other store about the hours that each store should open on Sundays. Make sure they understand that the two stores will be making decisions simultaneously, and their profits will be directly affected by these decisions. How well they perform will depend in part on their goals, the other store's goals, and the communication between the two parties.
4. Hand out copies of a form (example included with this note) that students can use to track the progress of the exercise round by round. Make sure they understand that they can communicate with the other store only during those intervals between rounds where communication is expressly permitted.
5. Once the students understand the rules and procedure of the exercise, allow them sufficient time to work out a team strategy before the period 1 decision is made. When they proceed

through the 12 periods of the exercise, try to synchronize the teams so that they all proceed at the same general pace.

### **ADDITIONAL PROCEDURAL SUGGESTIONS:**

It is critical that students have a way to reveal their open/closed decision each period simultaneously with the opposing party (representatives of the other store). We have found it useful to provide students with index cards or signs that say "open" and "closed." Students are instructed, for each period decision, to display one of the two signs to each other on a simultaneous count ("one, two, three.... reveal!") for each move.

Each student team should fill out a running round-by-round outcome chart (an example is appended to this teaching note) as a way to follow progress through the periods of the exercise. However, if you plan to debrief the exercise in the same class period as the rounds are played, a nice option is to give one of the teams in each match up a copy of the outcome tracking chart printed on an overhead transparency or other media that can be displayed to the class. Instruct that team to record each period's activity on the overhead, and turn it in to the instructor when all rounds have been played. Then, during the debrief, when discussing what happened in a particular match up and why, you can project the transparency showing that match up's round-by-round decisions as an aid to the discussion. This lets the whole class follow along with the action that occurred in a match up while you lead a discussion of what happened and why.

### **VARIATIONS:**

None

## **What to Expect**

The exercise frequently starts slowly and then builds momentum as time periods elapse. Sometimes students will approach the instructor and announce that they are familiar with the prisoner's dilemma and know the "right answer". We suggest that you counsel these students to check their assumptions and to continue with the exercise. Those who "know" that the "tit-for-tat" strategy is usually the best one for building cooperation will soon learn that it is not very effective when there are only 12 periods to the exercise and when 3 of these periods have different payoff values.

## **Debriefing the Exercise**

1. Review the outcomes of the various groups from the profit charts. Create a summary table (see the example below) on the board or flipchart, an overhead transparency, or an electronic spreadsheet, and ask the students to add the applicable information for their match up to the chart.
2. Compare the winnings. Select pairs with:
  - a. both high and positive scores (usually a strongly cooperative pair)

- b. both moderate scores (often a group that learned to cooperate)
- c. both low scores (usually a competitive pair)
- d. groups with large differences between scores  
(usually a pair where one group took advantage of the other)

If you had students provide an overhead transparency of the round-by-round decisions in their match up (discussed above under “Operating Procedure”), project these for individual match ups as they are discussed. Invite students in the match up to explain what they were thinking when they made cooperative and competitive choices in particular periods.

- 3. Many instructors will recognize the basic paradigm of the exercise as the Prisoner's Dilemma. The basic prisoner's dilemma is as follows:

Two men suspected of committing a crime are arrested by the police and placed in separate cells. Each is told that he may either confess to the crime or remain silent. Each is told that if he confesses and his partner does not, the one who confesses turns state's evidence against the other and goes free while the other will go the jail for a long time (e.g., 10 years); if both confess, they both go to jail for a moderate term (e.g. 5 years); but, if neither confesses, then the police will have them found guilty of a lesser charge - - carrying concealed weapons - - and sent to jail for 1 year.

Students should be invited to speculate about what the prisoners should do, and why. Parallels may then be drawn between the organizational exercise and the prisoner's dilemma.

- 4. Since this exercise is often used at the beginning of a course when students are still getting acquainted with the negotiating process, it is often useful to probe their reaction to the experience. In closing, students can be asked to comment on the following:
  - a. How adequately did the negotiators handle their own management team's interests in the negotiations?
  - b. How difficult (or simple) did the teams find it to set objectives and to negotiate the team strategies?
  - c. How did students feel about the other side, who were also negotiating to maximize their self-interest?
  - d. How many teams built up trust with the other side? Why did this occur? What happened when trust was broken?

### Summary Table of Pemberton's Dilemma Results

<u>Country Market</u>		<u>Corner Store</u>	
Team Names	Profit/Loss	Team Names	Profit/Loss
1			
2			
3			

### Discussion Questions

1. What were your basic objectives and strategy when you started the exercise? Did they change? What outcomes did you achieve as a result of these plans?
2. What did you talk about during the first round of negotiation?
3. Did the content of your negotiating discussion change? Why?
4. What were the most important things that led to the outcome of the exercise?
5. If cooperating in this exercise is a matter of trust, can you build and enforce trust between the parties representing the two stores?
6. What is the "rational" move on the last round of the exercise? Why? What was your thinking as you prepared to make your decision for the last round?

### References

<http://www.gametheory.net>

Myerson, R.B. 2013. *Game Theory*. Harvard University Press.

## PEMBERTON'S DILEMMA

### Instructions for Participants

#### Getting Ready to Play

1. Your goal in this exercise is to **MAXIMIZE YOUR TEAM'S OUTCOMES**.
2. Your instructor will provide you with your role/team assignments.
3. Choose a meeting place for your team that is **within eyeshot (but not earshot)** of the team you will be competing with. Talk only with members of your team. You have **5 minutes** to prepare for the first round.

#### Procedure for the Game

4. There will be 12 rounds played. Each round represents a "week" for your store. For each round, your team decides whether to be OPEN or CLOSED on Sunday of that week.
5. There is a **2-minute** planning period between each round. Then your team must make its decision for that week (round).
6. You execute your decision by revealing to the other team the appropriate card ("open" or "closed") **at the same time** that the other team is revealing their card to you.
7. Except as noted below, there are to be **NO conversations or negotiations** between teams. You simultaneously reveal your decisions to each other, record them, and go back to your team.
8. Weeks 4, 8, and 12 involve long weekends; hence profits for these weekends only are multiplied as shown on the score sheet. **The two teams may, if they so desire, negotiate with each other for 3 minutes IMMEDIATELY FOLLOWING WEEKS 4 AND 8 ONLY.**

**PEMBERTON'S DILEMMA  
ROUND-BY-ROUND SCORESHEET**

Match up # \_\_\_\_\_

<u>Week #</u>	<u>Corner Store's Choice</u>	<u>Country Market's Choice</u>	<u>Corner Store's PROFIT</u>	<u>Country Market's PROFIT</u>
<i>[5 minute planning period]</i>				
#1	_____	_____	\$ _____	\$ _____
#2	_____	_____	\$ _____	\$ _____
#3	_____	_____	\$ _____	\$ _____
#4 -- profits double (this round only)	_____	_____	\$ _____	\$ _____
<i>[optional negotiation period]</i>				
#5	_____	_____	\$ _____	\$ _____
#6	_____	_____	\$ _____	\$ _____
#7	_____	_____	\$ _____	\$ _____
#8 -- profits triple (this round only)	_____	_____	\$ _____	\$ _____
<i>[optional negotiation period]</i>				
#9	_____	_____	\$ _____	\$ _____
#10	_____	_____	\$ _____	\$ _____
#11	_____	_____	\$ _____	\$ _____
#12 -- profits quadruple (this round only)	_____	_____	\$ _____	\$ _____
			<b>NET PROFIT: \$ _____</b>	<b>\$ _____</b>

**scoring:**

- both closed: both profit +20K
- both open: both lose -20K
- one open, one closed: open store profits +40K; closed store loses -40K