

NEGOTIATING SUCCESSFUL AGREEMENTS



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NEBRASKA HOSPITAL ASSOCIATION
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Whenever two or more people confer to reach agreement, the process of negotiation takes place. Within this context, the typical health care manager is negotiating constantly with physicians, Board members, department heads, labor union representatives, fiscal intermediaries, the JCAHO, managed care organizations and many others. It is apparent that the health care manager must possess a superior level of negotiating skill. Whether he or she has this skill or not, is another matter.

Generally, one learns to negotiate from experience. Some are "born" negotiators and develop a high level of skill. Most, however, are not so fortunate. Negotiation for the majority is a "hit or miss" situation sometimes they arrive at a favorable agreement: other times not. What is it that makes some individuals better negotiators than others? Certainly, inherent skill can make a difference. But equally important is the knowledge of the process and technique of negotiation.

Conceptual Framework

Conceptually there are different approaches or schools of thought as to how you can convince your opponent of the merits of your position. We suggest concentrating on the use of logic as the basis for one's negotiating position. We will relate this approach, however, to other approaches, namely those that emphasize the use of intimidation and threats, or the use of psychological techniques.

The purpose of this presentation is to acquaint the health care manager with the process and technique of negotiating and with many of the techniques that can be employed during the negotiating process itself.

The subject matter is divided into three categories:

- Prenegotiation preparation phase
- Formal negotiation phase
- Negotiation techniques

PRENEGOTIATION PREPARATION PHASE

The outcome of a negotiation will largely depend on the thoroughness of the preparations you make during the prenegotiation phase. Consideration must be given to your specific needs and to establishing your negotiating goals. It may also be necessary to acquire the authority to negotiate from your boss or your Board of Trustees or to obtain their approval for your negotiating position. Time should also be spent evaluating your opponent and the possible strategies he may elect to employ. In the same manner, it may be wise to assess the relative bargaining power of your side as well as the opposition. Once having completed these steps, it is necessary to prepare the strategy you expect to follow during the negotiation. Finally, under simulated conditions, you might want to test your strategy and position. All of this should be completed before beginning the negotiation itself.

1. Goal Setting

Before you begin any type of negotiation you must decide upon your goals. In other words, you should be fully cognizant of what you plan to attain at the negotiation table. You should decide upon lofty goals and have high expectations. It is also important to assign priorities regarding what you hope to accomplish.

a. **Determining Needs.** It is mandatory during prenegotiation preparation to identify your specific needs. Needs can be expressed in terms of specifications (written or drawn), services, alternatives, revenue, salaries, operating costs, time schedules, location, contract terms and conditions,

and so on. If needs cannot be expressed in specific terms, your ability to prepare for the negotiation and to conduct a negotiation itself are severely limited.

b. Level of Expectation. What is it that makes one negotiator more successful than another in terms of results? The answer may well deal with their respective levels of expectation. One study of federal government buyers indicated that those negotiators who expected more (i.e. lower prices, better delivery, etc.) tended to get more. Personal experience in bargaining probably verifies this study if you have purchased a house, a car, or have gone shopping in Mexico City.

While the chances for deadlock (i.e. no agreement) are greater if you ask for more, it should be recognized that both parties in negotiations stand to gain through results, and consequently the deadlock is not that common. Once you set a high level of expectation stick to it!

c. Setting Goals. Setting goals is a product of your needs and level of expectations. If your need is for a pathologist's services, your goal should reflect a high level of expectation. For example, you might propose to the pathologist that he accept a straight salary comparable to that paid pathologists at the local HMO. You might also propose that for this salary he would be expected to spend so many hours a week serving as an educator and serving as director of the hospital's Quality Assurance Program.

It is mandatory, of course, that goals be realistic and supportable. Even goals set with a high level of expectation can be supportable, maybe not as supportable as lower goals, but supportable nevertheless. A supportable position is mandatory to pursuing a logical negotiating approach.

2. Fact-finding and Analyzing Opponent's Position

While it is essential to understand your own level of expectations and needs, it is equally important to know your opponent's position. Understanding your opponent's position, analyzing your opponent's actions during previous negotiations and evaluating his or her relative bargaining power can accomplish this.

a. Analyzing Opponent's Position. The opponent's stated goals are those contained in his proposal. Some proposals may be elaborate written documents. Others may be simple oral requests.

b. Analyzing Opponent's Unstated Needs. Recognizing that your opponent's stated goals can be ascertained from their written or verbal proposal, consideration must be given to his unstated needs. These needs include recognition, security, acceptance, a feeling of importance, and so on. Prenegotiation preparation should include consideration of the opponent's unstated needs since the intangible concessions to these needs cost nothing and may strongly influence the outcome of a negotiation.

Making the opponent feel an integral and important part of the operation of the hospital cannot hurt and may, in fact, help sell your position. On the other hand, when the opponent cannot be accommodated as they desire, it is obviously preferable to refute their position on the basis of logic rather than on a personal affront to them as an individual.

Prenegotiation preparation, therefore, should consider how to appeal to the opponent's unstated needs and how to avoid personal conflicts.

c. Analyzing the Opponent's Negotiating Team. An ominous looking negotiation team is nothing more than a collection of individuals with their own ambitions and expectations. A detailed study of the opponent's negotiating team may expose some of their weaknesses.

d. Analyzing Opponent's Past Strategies and Techniques. An examination of your opponent's past strategies and techniques may tell you a lot about the type of negotiator who is sitting across the table from you. To the extent you can, analyze what they have done in the past successfully, and where they has proven vulnerable.

e. Analyzing Relative Bargaining Power. Recently a young assistant administrator attended a seminar on "Managing Hospital Design and Construction Programs." At the outset of the session he said he was attending the seminar to see if he could find a solution to his problem. The problem was how to get rid of his hospital architect who had been involved in every design project at the hospital over the past twenty years and who, in the assistant administrator's opinion, was incompetent, outdated, uncooperative and overpriced. But it was a hard problem to solve, the assistant administrator pointed out, because the architect happened to be a member of his hospital's Board of Trustees. This brought a round of laughter from his fellow seminar participants. Recently we ran into this same young assistant administrator and asked him if he had solved his problem. "Yes, indeed," he said, "the architect Board member got rid of me, I am no longer at that hospital."

Bargaining power, however, is not always one sided. No one ever has ultimate power just as no one is ever totally powerless. It is the expert negotiator who recognizes his bargaining power vis-à-vis the opponent, does something about it if it is not in his favor, and uses whatever elements of power that he possesses to his own advantage. At the same time he will modify his strategy depending on the relative strength of the opponent's power position.

Bargaining power comes in many forms. A world-renowned physician has bargaining power by the very existence of his reputation. At least he has bargaining power with those who perceive his reputation as an element of power. A CEO has bargaining power with his department heads by the very existence of a superior/subordinate relationship. A supplier may have bargaining power because you lack knowledge about the existence of his potential competitors or substitute products, or you do not ask for or aggressively pursue an analysis of the costs of his proposal.

As mentioned previously, everyone has some bargaining power. In any negotiation, both parties have something to offer in terms of rewards for doing business. In other words, having something the opponent wants is bargaining power in itself. But what can you do to enhance your power recognizing that some of your strongest and most powerful opponents are physicians, government agencies, or Board members? Briefly, one or more of the following ideas may help enhance your bargaining position.

- 1) Knowledge. The more you know about the item or service being negotiated, the better off you are.
- 2) Prenegotiation preparation and negotiation skill. The more effort you put into preparing for and supporting your position and in anticipating your opponent's position, the greater your bargaining power.
- 3) Use of quantitative analysis and support. Maybe this is a subset of item 2) above, but it cannot be over emphasized. It is hard for an opponent to refute supportable quantitative facts.
- 4) Generate competition wherever possible. Opponents often make concessions when they know they are facing a competitive situation.
- 5) Bureaucracy, policies, rules, regulations and budgets. If it helps support your position, argue that policies, rules, regulations or budgets do (or do not depending on the situation) support your negotiating positions.
- 6) Time. Patience and the effective use of time is at the heart of good negotiation. One should never be rushed to reach agreement. Furthermore, you should use time to your advantage.
- 7) Firmness. Taking a positive stand with the opponent is bargaining power. It often takes "guts" because if the opponent does not buy your position, you may deadlock.

8) Relations with the opponent. The friendlier the relations between you and your medical staff, you and your Board and staff, you and your rate regulation staff, you and an HMO or PPO, the greater your bargaining position. This form of bargaining power, of course, works both ways when it comes to negotiation.

9) Support or endorsement by other influential people. Your position is enhanced if it is supported by others whom your opponent perceives as having bargaining power or influence. When dealing with an individual physician, the support of your Board and/or other physicians is a form of power.

10) Your own reputation. Your own reputation as an expert, as a professional, as one who gets things done, as one who considers the political ramifications of his actions, all these things, if perceived by the opponent, will enhance your bargaining position.

11) Avoid negotiating with a highly skilled opponent. You should attempt to avoid negotiating with a particularly skillful opponent whenever possible.

12) Count votes. Count votes before calling for a vote, then respond accordingly.

These are but a few of the ways you can gain bargaining power but they are some of the most important ways.

3. Planning Negotiation Strategy

Having established your own goals and having collected the necessary evidence regarding your opponent's demands and possible strategies, you are ready to develop your plan for the negotiation. This includes translating your goals into ranges for settlement, attempting to uncover your opponent's ranges, identifying the areas of agreement and disagreement, preparing support for your position, establishing a timetable for offers and counteroffers, deciding upon which negotiation techniques to use that will give you the greatest advantage, selecting the negotiation site, and preparing the agenda.

a. Translating Goals into Ranges for Settlement. Once having established your goals based on your exact needs and a high level of expectation it becomes necessary to translate them into ranges for settlement. In other words, you should establish your low and high positions.

It is exceedingly important that your low and high positions are supportable by fact and logic. If your positions are not supportable, you lose all credibility with your opponent and the negotiation will turn into a "Turkish marketplace." Negotiation on the basis of fact and logic is the name of the game, not haggling.

b. Uncovering Opponent's Ranges of Settlement. To the extent possible, during prenegotiation preparation, you should try to determine your opponent's ranges of settlement. If you are a buyer, your opponent's proposal contains his high limit. But he has not revealed his low limit, assuming he has thought about such a minimum position.

c. Developing Arguments and Counterarguments. A negotiator with confidence that he is well prepared has a strong bargaining advantage. Supportable positions and strong arguments will give him that confidence.

Arguments and counterarguments. In preparing to reach your goals, it is one thing to prepare arguments supporting your position. It is an entirely different matter to prepare counterarguments against your opponent's position. A common failing on the part of some negotiators is that they prepare arguments supporting their position only. THIS IS ONLY HALF THE JOB! It is mandatory to anticipate your opponent's defense against your arguments and his arguments supporting his own position.

In anticipating your opponent's position and in developing effective counterarguments, you can increase substantially your bargaining power.

d. Identifying Items to be Settled. During prenegotiation preparation, it is important to identify all items to be settled that are relevant to the transaction. You should think through the arrangement you are going to negotiate and list those items that you will want to include in your final agreement and which should be brought up in the negotiation.

e. Identifying Problem Areas. In any negotiation between buyer and seller there will be differences of opinion on a number of issues. These could be price, quality, delivery, performance specifications, and other terms and conditions. At the same time, there will be many areas of agreement, or areas where there is an insignificant difference in position. In preparation for the negotiation, you should identify the major areas of disagreement and devote your principal effort to developing your negotiation position and strategy to resolve these major problems.

f. Timing of Offers and Counteroffers. Prenegotiation planning should include consideration of when to make offers and counteroffers. Generally speaking, you will want your opponent to make the initial concession hopefully on an issue of major importance to you. (You might want to demonstrate your spirit of cooperation by making concessions but make your initial concession on minor points.) Your next counteroffer should be saved until you receive further concessions from your opponent.

g. Using Negotiating Techniques. Prior to the formal negotiation, you should give some thought to the techniques you will employ to sell your position. The decision on which techniques to use will be a product of your assumptions about your opponent's approach to the negotiation, your relative bargaining power, and your expectations and goals. The techniques should be agreed to before hand, but you may want to change during the negotiation if circumstances warrant such a shift.

h. Selecting the Negotiation Site. Just as professional athletes find playing in front of the home crowd conducive to success, so the negotiator will generally find it better to work on his own turf.

i. Preparing the Agenda. Many negotiators never think to establish an agenda for the formal negotiation session itself. If the negotiation involves large sums of money or involves a complex program, you would be advised to get agreement on a formal written agenda with your opponent.

Having completed the prenegotiation phase, it is now time to implement your plans in the formal negotiation session.

FORMAL NEGOTIATION PHASE

The formal negotiation session involves (1) agreement on the agenda and procedures; (2) presentation of each party's position; and (3) negotiation for agreement.

1. Agenda, Procedures and Authority to Commit

The first step in a negotiation is to reach agreement on the agenda and any special procedures. An effort should be made to adopt the agenda you developed during your prenegotiation preparations. If your opponent proposes his own agenda, you should compromise on the final plan. The agenda finally adopted should enable you to follow through on your strategy. This phase should also cover any procedures that you will want to follow, including the daily schedule, use of expert testimony, and so on. You should also determine here whether your opponent has the authority to negotiate and to commit his institution to any agreement you work out.

2. Presenting Each Party's Position

Having agreed on the agenda and procedures, the next step consists of each party presenting his position with respect to each item under discussion. Essentially what you are doing here is gathering facts. Out of this step, you and your opponent should have a good understanding of each other's position. Generally during this step, you do not attempt to reach agreement. Your objective is to get facts and present your position.

a. Understanding the Opponent's Position. By carefully listening to your opponent and by probing with questions, you may be able to get some insight into such significant items as the following: his ranges for settlement; the areas that are important to him and on which you will likely have difficulty in getting him to concede; the areas where he has weak justification or minimum commitment; and the possible techniques and tactics he plans to employ (i.e. use of a deadline, threat to raise prices, etc.).

b. Presenting Your Position. At this stage of the negotiation you are still not bargaining. You are only presenting your position on the matter. If you are buying, you let the supplier know what you like and do not like about various aspects of his proposal. The more powerful your presentation, the lower will be his level of expectations.

The optimal presentation, whether buying or selling, is one that is hardhitting, direct, and loaded with quantitative and other factual data. Your presentation should also be arranged so that your strongest arguments are at the beginning and the end (recency-primacy effect). One other aspect that will add force to your position is presenting both sides of the issue. (This is done in anticipation of your opponent's rebuttal.) Finally, you might want to raise a large number of issues or points so that your opponent is faced with what appears to be a large gap between your respective positions. While these issues may not be that important to you, they may come in handy later as concessions which, in essence, have cost you nothing.

At this point, armed with the latest information provided by your opponent, you might want to call a recess to modify the position developed during your prenegotiation preparations.

3. **Negotiating for Agreement**

Generally the most difficult and time consuming part of the formal negotiation phase will be negotiating for agreement. This is where the action is. And this is where your preparation and your skill in bargaining will pay off.

Here the procedure is to identify and lay aside those items of the transaction on which you can agree. Next, where you disagree, you should attempt to resolve the differences so you both gain an advantage. Where you cannot resolve the differences, then you pursue agreement through the process of give and take bargaining.

Finally, a written agreement must be drawn up, reviewed, and approved by both parties.

a. Separating Areas of Agreement from Areas of Disagreement. After you and your opponent have had the opportunity to present your respective positions, it will be apparent that there are a number of areas upon which you can agree.

b. Sequence of Negotiating Areas of Disagreement. There are different schools of thought on the sequence of negotiating areas of disagreement. Some believe it is best to start by negotiating those issues which are of greatest importance to you. Others disagree with this approach. They believe it is best to start negotiating your secondary issues first. Since it will be easier to reach agreement on these less important areas, you are creating a climate of success and cooperation. Yet, a third school of thought suggests that you negotiate your opponent's demands first. By first making concessions on items important to the opponent, the advocates of this approach believe you strengthen your ability to get concessions subsequently on items of importance to you.

The fact that each of these approaches is followed suggests that no one approach is necessarily better than another. It would appear that the most suitable approach would depend on the issues being negotiated and on the characteristics of the opponent.

c. Reaching Agreement Through Mutual Problem Solving. The initial approach to resolving areas of disagreement is to see if you and your opponent can solve a problem that divides you. Mutual problem solving should always take precedence over bargaining.

d. Reaching Agreement Through Bargaining. As you proceed down the list of issues separating you and your opponent, you will find some issues that you can resolve through problem solving. Other issues, however, will involve differences on which you cannot agree. On these remaining issues, you will have to attempt to reach agreement through the process of bargaining.

The process of bargaining takes place when you have exhausted all other alternatives to resolving your differences. While you feel you can support your position with logic and fact, your opponent feels that his position is equally defensible. Bargaining involves making concessions. One side will make a concession. This is usually followed by the other side making a concession. As mentioned earlier, a concession made on one issue may be traded off by getting the opposite party to concede on a different issue.

e. Preparing the Memorandum of Understanding (MOU). During the negotiation, you should keep a careful record of each agreement reached with your opponent. When agreement is reached on each item, time should be allowed for a "recorder" to write or type out the exact wording of the agreement and have it approved by the opponent before moving on to the next item.

After you have settled all issues, the final step in the negotiation process is to prepare a written Memorandum of Understanding (MOU). This serves two purposes: a summary of your agreements on all issues, and a basis for the final written contract.

NEGOTIATION TECHNIQUES

Skilled negotiators frequently make use of any or all of the negotiating techniques described below. You should be acquainted with all of them and be prepared to use any of them in any situation where their use will improve or enhance your negotiating position or capability. Your opponent will likely use these same techniques.

1. **Emphasizing Mutual Interest**

Throughout the negotiation it is desirable constantly to remind the opponent that the objective is to achieve an agreement that is in the best possible interest of both parties. This continues to remind the opponent that he cannot always have what he wants, that he must take into account your position, that you are trying to take into account his needs and that concessions must be made in a way that both parties consummate a mutually beneficial arrangement. Continual reference to the need to work out the best arrangement for both parties will also add to the positive tone of the negotiation session and tend to keep the discussions moving along in a productive way.

2. **Use of Questions**

The frequent use of questions is probably the most common negotiating technique. Probably the most important use of questions is to "fact find" to obtain information about your opponent's position and to aid in determining his acceptable settlement range. Here, a direct question seeking a specific

response is used. Examples of direct questions are, "How do you support your estimate of costs?" and "What is the best you can do for us?"

3. Silence or "Say Nothing" Technique

During a negotiating session, being silent and just listening can be an effective technique. It is surprising how often an opponent, particularly one who is an inexperienced negotiator, will feel obligated to talk when you are deliberately silent.

4. Use of Alternative Positions

Alternative positions, offered during a negotiation, have three purposes: to obtain information, to solve a problem, and to break an impasse.

5. Use of Concessions and Their Timing

Concessions can be used to break an impasse, to win a corresponding concession from your opponent, or to conclude an agreement. Concessions should be used sparingly. They should be made only after careful consideration, not impulsively. (It may be wise to call a caucus or recess to give you and your team the opportunity to examine the implications of a concession that you had not previously considered.)

6. Making Your Opponent Appear Unreasonable

Occasionally, one side of a negotiation may obtain an advantage by making the other party appear unreasonable. After granting several small and insignificant concessions, one party to the negotiation might claim, "We want to be cooperative and we've made a number of substantial concessions; now, isn't it your turn?"

7. Use of Deadlines

A deadline or threat of a deadline occasionally enhances a negotiator's position. How many times have we heard the car salesman say, "If you order it today, I can get it for you at such and such a price. The sales manager won't make the same deal tomorrow." This technique of using a deadline is often used to "stampede" one of the parties into a quick and possibly unfavorable agreement. In many instances, deadline dates are more imaginary than real. Where they are real, often they can be extended.

An essential part of prenegotiation preparation is to determine your opponent's deadlines, as well as those restricting you or your organization. Once armed with this information, you can plan your defense against this technique or employ it yourself in the right circumstances.

Another point that is somewhat obvious concerns the reality of a deadline. You should not use the threat of a deadline unless it is real and you can substantiate it. The use of a fictitious deadline as a ploy will probably be exposed sooner or later and cause your opponent to stiffen his attitude and general posture now or the next time he negotiates with you.

8. The "Straw Issue" Technique

This technique involves fabricating issues or taking minor issues, blowing them out of proportion, and then conceding after a lengthy discussion. The ultimate use, and success, of this technique occurs when one party is able to trade its concession on a "straw issue" for the other party's concession on a real issue of substance and worth.

9. The "Good Guy - Bad Guy" Technique

This technique involves roleplaying by members of the negotiating team. One member of the team takes the "good guy" role and another takes the "bad guy" role. The "bad guy" takes an extreme position, a position that might involve a serious threat to the opponent. The "good guy" takes a more moderate and reasonable position, a position toward which the team is actually striving. By disagreeing with the "bad guy," by suggesting a more moderate position, and even by supporting the opponent, the "good guy" attempts to win the confidence of the opponent and to increase the chance of securing agreement to the "good guy's" middle ground position.

10. The Use of Humor and Other Diversions

As in all other human contact, humor has a valuable place in a negotiation. Its best use is to relax tensions and to avoid confrontations on a personal basis. A well-told story or joke, or even a wry "one-liner," can be very useful in "clearing the air." More importantly, humor can also divert an opponent who might be "boring in" with very searching questions or arguments that you are not prepared to answer except through concession.

11. Use of Threats

Most skilled negotiators agree that threats are risky and incur a high cost in the long run. They agree that there are better ways, less risky and costly, to achieve your objectives. In other words, it is generally preferable to use supporting data and logic rather than threats to sell a position.

12. Use of Caucuses

A caucus (or recess) should be called under a number of different circumstances. A caucus should be used to give you the opportunity to evaluate your opponent's position in light of additional information or arguments that have been presented, or that you had not anticipated.

13. Use of Walkouts and Deadlocks

On occasion, walkouts or the threat of walkouts may be used to advantage during negotiations, but not without some risk. The risk is that it may be very difficult to get the negotiations started again and back on track. If your walkout or threat to walk out leads your opponent to make a compromise, it is a successful technique. If the walkout fails, however, reconciliation between you and your opponent will be difficult and your position will be weakened because an extreme technique did not work.

Closely related to walkouts is the deadlock, or threat of a deadlock, and the termination of a negotiation without agreement. Frequently, a deadlock, or the threat of a deadlock, will result in a concession or in the disclosure of information about the opponent's limit for final settlement. A deadlock, therefore, can be most useful as a negotiating technique if you have the patience to let it work and the support of your organization to back you up on its use. The technique, however, should be used with the awareness of your relative bargaining power at that moment.

14. Closing

When you are confident that you and your opponent have reached agreement on all points at issue, you should move to close the arrangement to wrap it up. A wavering opponent who is not quite sure that all is in his best interest may be swayed by assurances such as, "What we've agreed to is in our mutual interests, and I'm confident that we've both got a good deal." If your opponent is still reluctant to say, "It's a deal," then you might begin talking about the wording of the contract or agreement. Getting his attention on the fact of your intent to enter into an agreement may provide the push needed for final acceptance or capitulation. A discussion about the terms of the agreement could also be combined with some questions

about starting the project or program. A question like, "When would you like to begin work," might provide the catalyst you seek to achieve final agreement. The art of closing is based on one presumption: You want to get agreement at this point and your whole attitude says it. The whole purpose of the negotiation was to get to this point. When it has arrived, seize it and exhibit your conviction that the "agreement is in the best interests of both of us." To keep your opponent from developing second thoughts at the last moment, keep this attitude up until the Memorandum of Understanding is signed.

CASE EXAMPLES

Case Example #1

Mr. William Boyle, Administrator at Buttonwillow Hospital, recognized that a "1/10 Net/30" discount from a supplier was equivalent to an 18% annual rate of return. Because the cash position at his hospital allowed him to take these discounts, it was his policy to do so. It bothered him, however, that probably not more than 30% of his suppliers offered discounts. Taking supplier discounts provided far higher return on hospital cash resources than investing in Certificates of Deposit, savings accounts, and other short-term securities.

To take advantage of the opportunity to increase the hospital's return on the operating cash account, Mr. Boyle sent a letter to all hospital suppliers who did not offer discounts informing them of the hospital's new "prompt payment" discount policy. (Some 280 suppliers, many of whom were only casual suppliers, received notice of the new policy.) The letter read as follows:

"This is to notify you formally that beginning next month, Buttonwillow Hospital will pay all supplier invoices within 10 days of receipt. In recognition of this prompt payment policy, the hospital will take a 1% discount off the invoice amount."

Of the hospital suppliers who received the notification, about 200 of them refused to grant a discount. All others continued to supply the hospital and made no objection to the hospital's new prompt payment/discount policy.

:: Does Mr. Boyle's action represent the process of negotiation?

Case Example #2

The administrator at Hoffman Hospital received a complaint over the telephone from a longtime supplier who had just cancelled the hospital as an account. The supplier contended that the hospital's new purchasing agent was using questionable business practices, and consequently he did not wish to continue a business relationship with the institution.

The administrator thanked the supplier for his call and advised him that she would look into the matter.

Following the phone call, the administrator summoned the new purchasing agent into her office and told him of her conversation with the supplier. Then she asked the purchasing agent, "Just how do you handle suppliers?"

The purchasing agent replied, "Well, first of all, I know they'll pull every trick in the book to get what they can out of us. I take every advantage of them I possibly can."

"Can you be specific," asked the administrator.

"Let me give you an example," said the purchasing agent. "Our contract with the wholesale drug company that supplies us with I.V. solutions expires May 31st. Consequently, I invited that company and two other suppliers to submit bids to provide us with specific solutions for a one year period beginning June 1. The manufacturers of these solutions each publish a catalogue that categorizes the solutions, states the packing quantities and sizes, and quotes list prices for each solution within a category. In my bid instructions I specifically asked the three suppliers to use the Acme Chemical Company catalogue published in January 1993 as the basis for their bids. I also asked them to give me a bid specifying a percentage discount off the published list price. The discount was to be applied to the purchase of three categories of solutions. The categories were I.V. solutions, irrigating solutions and special solutions. The other day I received bids from the three suppliers. The highest bid was 45% discount off the published list price. The other bids were 49% and 53% off list. I wanted to do business with the highest bidder because I knew his delivery was more reliable. So I called him and said, 'Look, I can give you faster payment than provided in our Bid Request. Now, if you want my business, you'll have to do better than your competitor's bid of 55% off list.' He came back with a bid of 58% off list and I gave him a purchase order."

:: What do you like and dislike about the purchasing agent's actions in dealing with suppliers?

Case Example #3

The following conversation took place over lunch between Ms. Fran Hawley and Mr. Jim Morley, both administrators from the same community.

"You know, Jim," Ms. Hawley said, "we literally negotiate to reach agreement with all kinds of people both inside and outside the hospital. And I'm convinced we don't plan too well for many of these negotiations. If we planned more completely, I think we'd end up with a lot better deals on the whole."

"Do you think we can really plan any strategy before we actually sit down at a face-to-face meeting?" Mr. Morley asked.

"Sure we can, Jim," Ms. Hawley replied. "And what's more, we've got to do it. To me, reaching agreement with anybody is just like selling. You've got to know your product that requires fact finding and analysis and then you've got to know how to sell it. That involves planning the strategy to use. If you don't plan to sell your position, you won't sell it. It's as simple as that."

"Well, Fran, I've got to disagree with you. I believe that selling any position is a product of many factors: logic, common sense, the ability to think fast and speak clearly, and so forth, none of which can be preplanned. Sure, you've got to have the facts as you say, to know what you're selling but that's as far as you can go. If you dream up some detailed strategy based on what you think the opponent will do or say, the first thing you know, he'll do something else. And you'll be knocked into a cocked hat."

:: Evaluate the observations made by Ms. Hawley and Mr. Morley.

Case Example #4

Dr. Arthur Thompson was head of the five-member pathology group at Unity Hospital. He was a well-respected member of the medical staff. One day, without advance notice, he approached the administrator with two verbal requests. First, the pathologist group, which was on a separate billing arrangement for professional services, wanted a substantial increase in their \$30,000 monthly charge for performance of administrative services in the laboratory and for certain clinical duties. Their contract came up for renegotiation next month. Dr. Thompson's second request was for the hospital's endorsement to establish, by himself, a commercial laboratory in the community. There was no clause in the pathologists' current contract to prohibit his involvement in a commercial laboratory venture.

Both of Dr. Thompson's requests were presented for discussion to the trustees by the administrator. The trustees established an ad hoc committee to pursue negotiations. One of the Trustees, Mr. Lonnie Warwick, was appointed ad hoc committee chairman and team leader. Mr. Warwick was the Vice President - Industrial Relations of a large, heavily unionized manufacturing firm. The other trustee was a wealthy real estate investor. Both were very knowledgeable trustees and had served the hospital well for many years.

When the negotiation session between the ad hoc committee and Dr. Thompson took place, the matter of an increased charge for administrative and clinical duties for the physicians was resolved quickly. Dr. Thompson agreed to an increase of 10% above that which the group was currently receiving.

The matter of Dr. Thompson's commercial laboratory venture evolved into a heated discussion between the pathologist and Mr. Warwick. Mr. Warwick, accustomed to negotiating with unions on a regular basis, maintained that a conflict of interest would exist if Dr. Thompson were to be involved in the commercial venture. Dr. Thompson, on the other hand, stated that many of his colleagues who were based at other hospitals had financial interests in commercial laboratories and he saw no reason why he should not be allowed to do the same. During the discussions, Mr. Warwick implied that Dr. Thompson was motivated solely by self-interest. He stated once, "You don't care anything about the hospital. All you want to do is make money for yourself." In addition, he used foul language and was insulting to Dr. Thompson.

Before the meeting concluded, the pathologist agreed not to become involved in the commercial lab venture.

At the next trustees meeting, Mr. Warwick, conveying great personal satisfaction, reported that the negotiations with the pathologist were favorable to the hospital and that Dr. Thompson would not get involved in a commercial lab. Word of Mr. Warwick's remarks to Dr. Thompson during the negotiations, however, had already reached the President of the Board. The President of the Board, who happened to be a physician, chastised Mr. Warwick for his language and general conduct as a trustee in dealing with the hospital's pathologist.

A week after the trustees meeting, the administrator received the resignation of Dr. Thompson. The pathologist stated his reason for resigning was a failure to reach a resolution with the administrator and the trustees of the hospital.

At the next Board meeting, the president of the trustees announced Dr. Thompson's resignation. At this time, Mr. Warwick made a few more derogatory remarks about Dr. Thompson. Following these remarks the President of the Board along with other trustees took Mr. Warwick to task for his attitude and language.

After the verbal censure was over, Mr. Warwick announced his resignation and walked out of the room.

:: What are the lessons learned from this situation?

Case Example #5

Gable Hospital was a 350-bed community hospital. The purchasing policy for committing dollars on behalf of the hospital was established by the administrator and had been in effect for over five years. Except for capital equipment purchases, goods and services could be acquired so long as the approved operating budgets for appropriate departments of the hospital were not exceeded.

When the policy was established, the administrator either implied or expressed the authority to make expenditures for the hospital to twelve individuals in addition to himself. These individuals were the associate administrator, the assistant administrator, the controller, the assistant controller, the director of material, the food service manager, the director of pharmacy, the director of engineering, the chief laboratory supervisor, the chief radiological technician, the director of development, and the personnel director. In each case, the individual could directly place an order by telephone or by a written purchase order with the supplier. (These purchase orders did not go through the office of the director of material.) Aside from the director of material, none of the individuals authorized to commit funds on behalf of the hospital had any formal training in purchasing or in negotiating prices, terms and conditions of contracts.

Upon his return from a seminar on the subject of negotiating, the administrator wondered how the established policy for committing hospital funds should be modified.

:: Evaluate the hospital's policy for the expenditure of funds for supplies and services. How would you change it?

Case Example #6

Phoebus Hospital, a 350bed community institution, was located in the outskirts of a major metropolitan community. Several other hospitals were located within a five-mile radius of Phoebus Hospital. Among these competing institutions were a 600bed university teaching hospital and a very prestigious Catholic hospital, the latter located two blocks from Phoebus Hospital.

Phoebus Hospital had an active emergency department which was operated under contract by a physician group. The department accounted for nearly 35 percent of the hospital's total admissions.

A problem had recently arisen with respect to emergency neurosurgical backup services. According to the most recent twelve-month statistics, 836 emergency patients required neurological evaluations. Of these, 66% were evaluated and sent home. One third, or 278 were admitted. Of the admitted emergency patients, 21 required surgery.

On December 8, Mr. Philip Walker, Administrator at Phoebus Hospital, met with his chief of staff, chief of neurosurgery, and the head of his emergency room contracting physician group to discuss the problem of on call emergency neurosurgical services. The problem involved the unwillingness of the seven active staff neurosurgeons to continue providing on call inpatient and outpatient emergency services. The neurosurgeons' position was based on several factors including their increased malpractice exposure in treating emergency patients, the bad debt experience of ER patients, their reluctance to deal with the families of ER patients, and the inconvenience of night calls. Of all these factors, malpractice exposure was the principal concern stated by the physicians. (Malpractice premiums were approximately \$40,000 per year per physician.)

Following a discussion of the problem at the December 8 meeting, the chief of neurosurgery agreed to use his influence to provide on call neurosurgical backup for emergency cases through December 31. He indicated, however, that beyond December 31, it would be unrealistic to expect further cooperation by the neurosurgeons. Recognizing the problem, the chief of staff, the chief of neurosurgery, and the head of the ER physician group and Mr. Walker, the Administrator, considered a number of alternatives. Two alternatives emerged which the group agreed were practical. These were:

1. Attract young neurosurgeons to the community who would like emergency patients to build a private practice, and
2. Contract with neurosurgeons to provide some or all of the backup neurosurgery coverage in the emergency room.

Mr. Walker was encouraged to take action immediately on these alternatives.

On December 9, the chief of neurosurgery reported back to Mr. Walker that he and two other neurosurgeons would provide on call backup service to the ER on a rotating basis through December 31 only. The other four active neurosurgeons refused to participate.

On December 16, Mr. Walker met with Dr. Richards, a highly qualified neurosurgeon, who had recently moved to the community and who was willing to contract for the provision of backup neurosurgical coverage on a halftime basis. Dr. Richards had been in the community for four months and, because she had no malpractice insurance, had confined her practice to office visits. She was interested in getting back into surgery, however, and was willing to discuss with Mr. Walker the possibility of providing backup neurosurgical coverage if the hospital would guarantee payment of her malpractice insurance. Mr. Walker, on the other hand, was somewhat reluctant to provide malpractice insurance for Dr. Richards because it could establish a precedent which might be misconstrued by the private practicing members of his staff as available to all of them. (The ER group provided their own malpractice insurance.) Mr. Walker, however, agreed to think it over.

At a second meeting on December 23, Mr. Walker and Dr. Richards discussed a number of alternatives. One of the alternatives was for Dr. Richards to be employed by or to subcontract her services to the ER group and come under their malpractice coverage. Dr. Richards would have to work this out with the ER group. Other possibilities were discussed. The two individuals agreed to think over the situation and meet again on January 5.

In the meantime, the agreement with the chief of neurosurgery and his two colleagues to provide on call coverage for emergency patients was to terminate on December 31. Recognizing this deadline and the fact that he had the possibility of a contract with Dr. Richards for only halftime coverage, Mr. Walker arranged a meeting on December 28 with the seven active neurosurgeons on his staff to discuss the problem of ER coverage. Since the neurosurgeons had been given several days notice of this meeting, Mr. Walker anticipated they would all attend.

Mr. Walker was somewhat concerned with the approach he should take at the meeting recognizing the December 31 deadline. He felt that the hospital must maintain neurosurgical coverage in order to avoid being put on an ambulance "bypass" list for all emergency cases involving head trauma. Mr. Walker also recognized that his bargaining position with the neurosurgeons was relatively weak particularly since they all had active or courtesy staff privileges at neighboring hospitals.

The only reference in Phoebe Hospital's medical staff bylaws to the obligation of physicians to provide backup services read as follows: "Physicians will support outpatient services."

:: Specifically, what should Mr. Walker do to increase his bargaining power with the neurosurgeons?

:: What course of action should Mr. Walker take immediately to maintain ER coverage by his neurosurgical staff beyond the December 31 deadline?

Case Example #7

The hospital needed approximately \$50,000 worth of linen. The purchasing agent and his preferred linen supplier were \$4,000 apart in their negotiations. The supplier's terms were net 30 days. Both men agreed to make new offers at their next meeting.

Before the meeting, the purchasing agent had a purchase order prepared and check written to the supplier's company for an amount equal to \$600 above the purchasing agent's previous offer.

When the supplier arrived, the purchasing agent passed him the purchase order and the check and said, "There, that is my final offer."

:: Evaluate the purchasing agent's actions.

Case Example #8

One morning the Vice President of Acme Health Plan came rushing into the Manager for Network Development's office, "We haven't received a counter proposal from Downtown Rehabilitation Hospital yet. We made them an offer over a month ago. Shouldn't we have heard something from them by now?"

"Be patient," the manager responded, "and we're likely to come out with a better deal."

"What is our patience likely to accomplish for us?" asked the vice president.

:: How would you answer the vice president's question?