



Bargaining zone distortion in negotiations: The elusive power of multiple alternatives



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ARTICLE INFO

Article history:

Received 20 September 2015

Revised 1 September 2016

Accepted 5 September 2016

Keywords:

Negotiations
 Alternatives
 Multiple alternatives
 BATNA
 Bargaining zone
 First offer
 Power
 Anchoring
 Scale distortion

ABSTRACT

We challenge the assumption that having multiple alternatives is always better than a single alternative by showing that negotiators who have additional alternatives ironically exhibit downward-biased perceptions of their own and their opponent's reservation price, make lower demands, and achieve worse outcomes in distributive negotiations. Five studies demonstrate that the apparent benefits of multiple alternatives are elusive because multiple alternatives led to less ambitious first offers (Studies 1–2) and less profitable agreements (Study 3). This distributive disadvantage emerged because negotiators' perception of the bargaining zone was more distorted when they had additional (less attractive) alternatives than when they only had a single alternative (Studies 1–3). We further found that this multiple-alternatives disadvantage only emerges when negotiators used quantitative (versus qualitative) evaluation standards to gauge the extremity of their offers (Study 4), and when they base their offers on their own numerical alternative(s) versus on opponent information (Study 5).

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1. Introduction

“Get as many offers as you can, then you'll have more negotiation leverage.”

[Pouideh (2005), *Secrets from Graduate School*, p. 205]

“[...] from a purely rational economic maximization perspective, to get more power in the employment marketplace means to collect offers (as many as possible) and keep them valid (for as long as possible).”

[Kurtzberg and Naquin (2011), *The Essentials of Job Negotiations*, p. 16]

The quotes above reflect a central assertion of research on power and negotiations that has become almost a truism: The more alternative offers negotiators can secure, the more leverage they have, and the more they can demand from their opponent. This belief is grounded in a variety of research domains, including economics and psychology. For example, classic economic models have traditionally assumed that humans are driven by their prefer-

ences. According to rational choice theory (Hotelling, 1929; von Neumann & Morgenstern, 1944), more choice alternatives are always better than fewer alternatives because they allow individuals to maximize utility by identifying the best match between their preferences and their alternatives. Similarly, psychological research suggests that – when given a choice – individuals prefer more over fewer alternatives because of the anticipated benefits additional alternatives seem to provide (e.g., Iyengar, Wells, & Schwartz, 2006; Reibstein, Youngblood, & Fromkin, 1975).

Thus, it is not surprising that negotiation scholars and practitioners often recommend obtaining multiple alternative offers because these are assumed to lead to a distributive advantage relative to few alternatives (or a single alternative). This recommendation relies on the idea that “the bargaining partner who has more alternatives is more powerful” (Yan & Gray, 1994, p. 1481) and that negotiators with few alternatives are at a disadvantage because they cannot walk away as easily from the bargaining table (e.g., Mannix & Neale, 1993; McAlister, Bazerman, & Fader, 1986; Pinkley, 1995; for a review see Thompson, Wang, & Gunia, 2010). Indeed, when we asked 55 professionals pursuing a Master of Business Administration (MBA) whether they preferred negotiating a job offer with four alternatives or a single alternative (see Appendix A for details), an overwhelming majority preferred having

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multiple alternatives (85.5%). In addition, these participants expected to negotiate better deals with multiple alternatives than a single alternative ($p < 0.001$). These findings suggest that people prefer multiple alternatives over a single one – likely because of the distributive advantage they anticipate from having additional alternatives.

In contrast to the recommendations made by negotiation scholars and people's preference for more alternatives, we propose that the perceived advantage of multiple alternatives may be elusive and that multiple alternatives can in fact *hurt* a negotiator's performance. In making this prediction, we build on recent anchoring research suggesting that multiple anchors can be more potent than single anchors. The scale distortion theory of anchoring (Frederick & Mochon, 2012; Mochon & Frederick, 2013) argues that anchors exert a scaling effect such that they shift the subjective (or implicit) response scale on which people make judgments, which then results in an assimilation of judgments towards those anchors. For example, people who first estimated the calories in a strawberry subsequently judged medium-sized French fries to be less caloric than people who first estimated the calories in a pizza. Moreover, scale distortion theory suggests that the subsequent assimilation of judgments on objective scales intensifies as the number of anchors increases (Mochon & Frederick, 2013). Building on the scale distortion theory of anchoring and prior findings that negotiation alternatives serve as salient anchors (Schaerer, Swaab, & Galinsky, 2015), we propose that compared to having a single alternative, multiple alternatives can lead to a greater downward distortion of negotiators' perceptions of the bargaining zone, such that they judge their own and their opponent's reservation prices to be lower. Because negotiators use the perceived bargaining zone to gauge their initial demands, we predict that negotiators will construe their first offer as more extreme when they have multiple alternatives (vs. a single alternative), thereby leading to a downward adjustment of the first-offer size (i.e., less ambitious demands) and less profitable agreements.

Our research makes several contributions to the negotiation, anchoring, and decision-making literatures. First, it extends our understanding of the impact of alternatives on negotiation outcomes. Theories on negotiation and power have generally assumed that more alternatives *help* rather than *hurt* negotiators. However, our research tests for the first time a counterintuitive and detrimental effect of multiple alternatives on negotiation outcomes. Second, we contribute to the “anchoring in negotiation” literature which has primarily relied on the anchoring-and-adjustment framework (Epley & Gilovich, 2006) and the selective accessibility model (Strack & Mussweiler, 1997) – neither of which currently provides an explanation for why multiple alternatives would bias negotiators more strongly than a single alternative. We argue that scale distortion theory provides such an explanation. In addition, we illuminate the underlying processes and boundary conditions of scaling effects and show that distortion is a pervasive phenomenon with profound implications for competitive social interactions. Third, this research puts forward a parsimonious account of how alternatives affect first-offer magnitude and negotiation outcomes through perceptions of the bargaining zone. Contrary to research that often provides negotiators with a pre-determined bargaining zone (e.g., Galinsky & Mussweiler, 2001; Larrick & Wu, 2007), we show that the focal negotiator's construal of the bargaining zone is *malleable* and subject to contextual influences. Finally, this research is the first to examine the perceived bargaining zone as a key antecedent of first offers. This is an important contribution because past research has primarily focused on the consequences of the first offer and largely ignored its antecedents.

2. Bargaining zone distortion in negotiations

The bargaining zone is a fundamental concept in negotiation research and refers to the distance between two negotiators' reservation prices—the price at which individual parties prefer an impasse to an agreement (see Raiffa, 1982). For example, if a seller is willing to accept any price above \$8 and a buyer is willing to accept any price below \$12, the bargaining zone lies between those two reservation prices (\$8–\$12).

Past research has generally treated the bargaining zone as fixed (e.g., Blount, Thomas-Hunt, & Neale, 1996; Galinsky & Mussweiler, 2001; Kim & Fragale, 2005; Larrick & Wu, 2007; Pinkley, 1995; Pinkley, Neale, & Bennett, 1994; White & Neale, 1994; Wolfe & McGinn, 2005). For example, Galinsky and Mussweiler (2001) provided negotiators with pre-determined reservation prices in the task materials. Other research manipulated the size of the bargaining zone as an independent variable (e.g., Larrick & Wu, 2007), or assumed that negotiators gradually form an understanding of the bargaining zone *during* the negotiation (e.g., Pinkley et al., 1994). Extending this research, we argue that in the eyes of a negotiator the bargaining zone is *malleable* and can be affected by contextual cues before the negotiation has even started. One important contextual cue lies in the alternatives that parties have available to a negotiated agreement. Alternatives are often represented numerically and can act as salient anchors that influence negotiators' first offers and final agreements (Schaerer et al., 2015) – even when additional reference points are available (Blount et al., 1996) and even when negotiators are highly experienced (Northcraft & Neale, 1987).

Given the critical role of anchors in negotiations, we propose that numerically represented alternatives shape a negotiator's implicit perception of the bargaining zone. This hypothesis builds on the scale distortion theory of anchoring (Frederick & Mochon, 2012; Mochon & Frederick, 2013). This theory suggests that the perceived magnitude of a number can be influenced by other numeric values on the same objective scale. To test their theory, Frederick and Mochon (2012) asked one group of participants to estimate the weight of a small animal on an objective numerical scale (e.g., a raccoon, which weighs 20 lb). Another group was not asked to make such an estimate. Then, all participants assessed the weight of a much larger animal using the same scale (e.g., “How many pounds does a giraffe weigh?”). Frederick and Mochon found that participants reported lower numbers for the giraffe's weight when they were first exposed to the weight of the raccoon than when they did not make this comparison. This anchoring effect occurs because prior exposure to the lower raccoon weight causes people to subsequently estimate the giraffe's weight as lower, not because people believe the giraffe is lighter, but rather because they operate on a distorted response scale to communicate their unchanged mental representation of the giraffe. Whereas a 1000-lb giraffe might have seemed like a reasonable response in the absence of an anchor, this number seems too large when contrasted with the 20 lb the raccoon weighs. Moreover, this distortion of the weight scale does not affect related estimates such as the height of the giraffe or how many lions a giraffe might feed, and only emerges when comparisons are made on the exact same scale (e.g., distortion is less likely to occur when the giraffe's weight is expressed in tons rather than pounds).

Scale distortion theory has important implications for the impact of multiple anchors on subsequent judgments. If numeric anchors affect the representation of scales, it is likely that such an effect is amplified as people are exposed to a greater number of anchors prior to making an overt judgment. In support of this prediction, Mochon and Frederick (2013, Study 2) found that people estimated the price of a television as lower when they were

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