



Reports

Starting high and ending with nothing: The role of anchors and power in negotiations

Martin Schweinsberg^{a,*}, Gillian Ku^a, Cynthia S. Wang^{b,c}, Madan M. Pillutla^a^a London Business School, UK^b University of Michigan, National Center for Institutional Diversity and Ross School of Business, USA^c National University of Singapore, NUS Business School, Singapore

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ABSTRACT

Most research suggests that negotiators gain value by making first offers in negotiations. The current research examines the proposition that extreme first offers offend their recipients and cause them to walk away, resulting in an impasse. Results across two experiments support this proposition. As a result, extreme offers can be risky: even though they can anchor counteroffers and final outcomes, bringing benefit to the offerer, they only do so when impasses are avoided. In addition, we find support for the proposition that power moderates the relationship between extreme offers and impasses: although low- and high-power negotiators are equally offended by extreme offers, it is the low-power negotiators who walk away from the negotiation.

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Introduction

Negotiations research has repeatedly shown that final prices are positively correlated with first offers – the more a seller asks for, the higher the final price; the less a buyer offers, the lower the final price (Chertkoff & Conley, 1967; Galinsky & Mussweiler, 2001). As a result, negotiators are often advised to make aggressive first offers i.e., high for sellers and low for buyers (Thompson, 2008).

However, practitioners often refrain from making extreme offers (i.e., unreasonably high for sellers and unreasonably low for buyers) because they are concerned that such offers will offend counterparts and cause them to walk away. These intuitions are consistent with findings showing that impasses are not uncommon, especially if one party is offended by the other (c.f., Pillutla & Murnighan, 1996; Van Kleef, 2010). In the current research, we empirically examine the proposition that extreme first offers will result in more impasses. Additionally, we explore how negotiators' relative power may affect their reactions to first offers by examining whether low- or high-power negotiators are more likely to walk away from extreme offers and why.

First offers in negotiations

A well-established explanation for the positive correlation between first offers and final negotiation outcomes is the anchoring and insufficient adjustment heuristic (Tversky & Kahneman, 1974), which

suggests that individuals make estimations by starting with an initial value (the anchor) and adjusting (insufficiently) away from it until a final estimate is reached. Thus, when sellers make aggressive first offers, buyers anchor on the high offers and adjust their value estimations insufficiently (Mussweiler & Strack, 1999), leading to higher counteroffers and final outcomes than if the sellers had made lower first offers (Galinsky & Mussweiler, 2001).

The effect of anchors on judgments and behavior is extensive and robust, extending from numerical estimates (Northcraft & Neale, 1987; Tversky & Kahneman, 1974) to judicial verdicts (Englich & Mussweiler, 2001) and self-perceptions (Gilovich, Medvec, & Savitsky, 2000). Anchors affect judgments even when individuals know that the anchor is randomly-generated (e.g., Tversky & Kahneman, 1974) and implausibly low or high. For instance, when asked to estimate Gandhi's age at his death, participants were biased by the anchors of 9 and 140 years, even though these fantastic anchors were clearly implausible (Strack & Mussweiler, 1997).

Extrapolating these findings to negotiations is problematic because judgments and behaviors made in interpersonal contexts such as negotiations may differ from the impersonal contexts examined in earlier studies. In negotiations, extreme offers may offend recipients because they violate norms of appropriate behavior (c.f., Pillutla & Murnighan, 1996) and may provoke recipients to walk away from the negotiation (c.f., Brooks & Schweitzer, 2011). Extreme anchors may therefore decrease value to negotiators if their counterparts walk away, leaving the negotiator without a deal.

Previous research (e.g., Galinsky & Mussweiler, 2001) has failed to examine impasses caused by first offers, probably because the typical negotiation experiment conceals the risk of impasses and artificially inflates agreement rates (Galinsky, Ku, & Mussweiler, 2009).

* Corresponding author at: Organisational Behaviour Department, London Business School, Regent's Park, London NW1 4SA, UK.

E-mail address: martins.phd2008@london.edu (M. Schweinsberg).

Participants are typically assigned to one negotiation partner and are never given the opportunity to negotiate with an alternate counterpart if they are unsatisfied with their current negotiation. As such, participants may implicitly feel pressured to come to a deal. This tendency may be further exacerbated if participants are students in a negotiation class. Indeed, impasses are rare in negotiation studies and are typically excluded from statistical analyses. By using a market simulation where participants could choose to negotiate with others, we created an ecologically-valid negotiation that allowed us to examine the impact of extreme offers on impasses.

First offers and power in negotiations

Although we assume that extreme offers are generally offensive and result in impasses, we also believe that a negotiator's relative power, which we define as one party's relative dependence on the other (Thibaut & Kelley, 1959), may affect how offers are experienced and/or acted upon. In particular, two explanations suggest how a negotiator's power may affect the relationships among extreme offers, offense, and impasses.

The first explanation suggests that power moderates the extent to which extreme first offers are experienced as offensive. On one hand, research which finds that high-power people experience more positive affect than low-power individuals and that low-power individuals experience more negative affect than high-power individuals (Keltner, Gruenfeld, & Anderson, 2003) suggests that low-power individuals may take greater offense (a type of negative affect) than high-power individuals. On the other hand, high-power individuals may interpret extreme offers as a signal of disrespect and challenge to their position (Kim, Smith, & Brigham, 1998), suggesting that high-power individuals may take greater offense than low-power individuals. Thus, power may affect the relationships among extreme offers, offense, and impasses by influencing the degree to which an extreme offer causes offense.

The second explanation suggests that power could affect the relationship among extreme offers, offense, and impasses by modifying how people react to offense; all negotiators may feel offended by an extreme offer, but low- and high-power negotiators may react differently to this offense. Emotions act as a guide to action (Cannon, 1927; Keltner & Haidt, 1999), including situations that require a "fight or flight" decision (Damasio, 1994; Lang, 1995). Thus, the offense that follows the receipt of extreme offers may function as a signal to act, whether acting is withdrawing and fleeing to another negotiation or persisting and fighting in the current one. High-power individuals, who have internalized beliefs that their (many) resources can be harnessed to ameliorate any negative situation (c.f., Inesi, 2010), may be less likely to flee even if they are offended. In contrast, low-power individuals are generally more aware of physical and social constraints (Galinsky, Magee, Gruenfeld, Whitson, & Liljenquist, 2008) and are less persistent in goal pursuit (Guinote, 2007b). For them, the offense experienced on account of an extreme opening offer may be a cue to flee and seek goal satisfaction elsewhere. Accordingly, power may affect the relationships among extreme offers, offense, and impasses by influencing the degree to which offense influences impasses.

Thus, we examine two possible explanations by which negotiator power might moderate the relationship between first offers and impasses, and in so doing, reveal the psychological processes by which extreme offers affect impasses.

Overview of experiments

We conducted two experiments to examine the impact of extreme offers and power on impasses. **Experiment 1** examined the impact of extreme offers and the relative power of negotiators on impasses, counteroffers, and final outcomes. We operationalized power by

varying how many alternatives the parties had because power in negotiations is often operationalized as the negotiators' best alternatives to a negotiated agreement (BATNAs; Pinkley, 1995). **Experiment 2** sought to replicate the effect of extreme offers on impasses while modifying our operationalization of power. Instead of manipulating the negotiators' alternatives, we manipulated participants' psychological experience of power.

Experiment 1

Experiment 1 established a market of renters and landlords where participants assumed the role of renters who were negotiating for the lowest possible rent from several landlords. Renters had the opportunity to walk away from the focal negotiation and negotiate with a new counterpart.

Pretest

To determine what constituted extreme vs. less extreme offers in our rental context, 14 participants were asked to imagine renting a room in London. As in the main experiment, pretest participants expected to pay £85–£140 in weekly rent. Moderate first offers (£140) corresponded to the upper limit of participants' price expectations and extreme first offers (£280) were twice as high.

Participants rated how reasonable these offers were (from 1 = not at all to 7 = very much so). Participants judged the extreme offer as less reasonable ($M = 1.29$; $SD = .47$) than the moderate offer ($M = 3.64$; $SD = 1.34$), $t(13) = -7.26$, $p < .01$. Additionally, participants rated the extreme offer as significantly below the midpoint of the reasonableness scale, $t(13) = -21.66$, $p < .01$, and the moderate offer as no different from the midpoint of the reasonableness scale, $t(13) = -1.00$, $p = .34$.

Method

Participants and experimental design

One hundred and sixty participants (41.3% men, mean age: 23.11 years, $SD = 3.84$) from London Business School's participant pool received £10 for participation and were randomly assigned to a 2 (first offer: extreme vs. moderate) \times 2 (power: low vs. high) between-participants design. To increase involvement in the negotiation, three participants who negotiated the lowest rent received a £25 Amazon.co.uk voucher.

Rental negotiation simulation

Participants played the role of renters and negotiated with landlords who, unbeknown to participants, were played by a computer program. Participants were instructed to negotiate for the lowest possible rent. They were told that they had identified several rooms of similar size and quality and that they should expect to pay the same amount (£85–140/week) for each room because of their similarity.

Participants were informed that after being randomly assigned to a landlord, the landlord would make the first offer and the participant could react in one of three ways: by making a counteroffer, by seeing how many other rooms were available and deciding whether to negotiate with a new landlord (or return to the current negotiation), or by accepting the landlord's offer.

If participants made a counteroffer, the landlord accepted the renter's offer if it was equal to or higher than the landlord's next pre-determined offer. Otherwise, the negotiation proceeded to the next round and the landlord's pre-determined offer. The landlord's offers decreased according to a payoff schedule that was an intermediate between a cooperative and competitive strategy (e.g., De Dreu & Van Lange, 1995).

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