

Too precise to pursue: How precise first offers create barriers-to-entry in negotiations and markets

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ARTICLE INFO

Keywords:

Anchor precision
Negotiation entry
Barriers-to-entry
First offers
Social attribution
Decision making

ABSTRACT

Prior research shows that precise first offers strongly anchor negotiation outcomes. This precision advantage, however, has been documented only when the parties were already in a negotiation. We introduce the concept of *negotiation entry*, i.e., the decision to enter a negotiation with a particular party. We predict that precise prices create barriers-to-entry, reducing a counterpart's likelihood of entering a negotiation. Six studies ($N = 1580$) and one archival analysis of real estate data ($N = 11,203$) support our barrier-to-entry prediction: Potential negotiators were less likely to enter a negotiation with precise- versus round-offer makers. Using both statistical mediation and experimental-causal-chain analyses, we establish that perceptions of offer-maker inflexibility underlie the precision barrier. Furthermore, we demonstrate that the precision mechanism (inflexibility) is distinct from the extremity mechanism (being offended) that produces barriers-to-entry from extreme first offers. The discussion theoretically integrates research on first-offer precision and extremity by offering the Precision-Extremity Model of First Offers.

1. Introduction

A few years ago, one of us recommended to a colleague who was selling his condominium that he might leverage recently published research on the anchoring effect of precise numbers. That research had found that precise offers (e.g., \$4998) serve as more potent anchors than round offers (\$5000; Janiszewski & Uy, 2008). Heeding this advice, our colleague listed his condominium for a very precise price—something like \$454,963. Much to his and our chagrin, the condominium received no offers with this precise list price—not a single buyer expressed an interest in it, despite the fact that the list price was well within market value at the time.

At first blush, the colleague's poor outcome seems surprising given the growing body of evidence that precise offers can secure a distributive advantage in negotiations (Backus, Blake, & Tadelis, 2018; Loschelder, Stuppi, & Troetschel, 2014; Mason, Lee, Wiley, & Ames, 2013). This literature suggests that precise first offers—those with fewer trailing zeros (e.g., \$454,963)—produce better outcomes than

round offers (e.g., \$450,000) because precise offers serve as particularly potent anchors. That is, recipients make counteroffers that are less adjusted from precise first offers as compared to round first offers.

Prior studies that have demonstrated a precision advantage have operated under the premise that the involved parties have already decided to negotiate. In many real-world negotiations, however, first offers are presented *before* the involved parties agree to negotiate—first offers precede negotiation entry. Individuals choose whether to enter a negotiation only after considering the first offer (e.g., a list price). Just consider the growing number of online marketplaces (e.g., eBay, Craigslist, Zillow) where buyers can evaluate numerous offers before entering a negotiation with one of the many available sellers.

We expect that the discrepancy between our colleague's experience and the evidence for a precision advantage can be reconciled by considering the concept of negotiation entry. The current research proposes that precision does not always produce a negotiation advantage. Instead, first-offer precision can create a *barrier-to-entry*,¹ reducing individuals' willingness to enter a negotiation. We propose that social

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¹ The term barrier-to-entry comes from the economics literature and has been traditionally used to describe strategic actions taken by firms to prevent new competitors from easily entering an industry (Bain, 1956; Demsetz, 1982). Ku, Galinsky, and Murnighan (2006) extended the application of the term to sellers who unwittingly prevent potential buyers from entering an auction by listing starting prices that are too high. Similarly, we consider how first-offer precision can unwittingly prevent potential negotiators from making counteroffers and entering a negotiation.

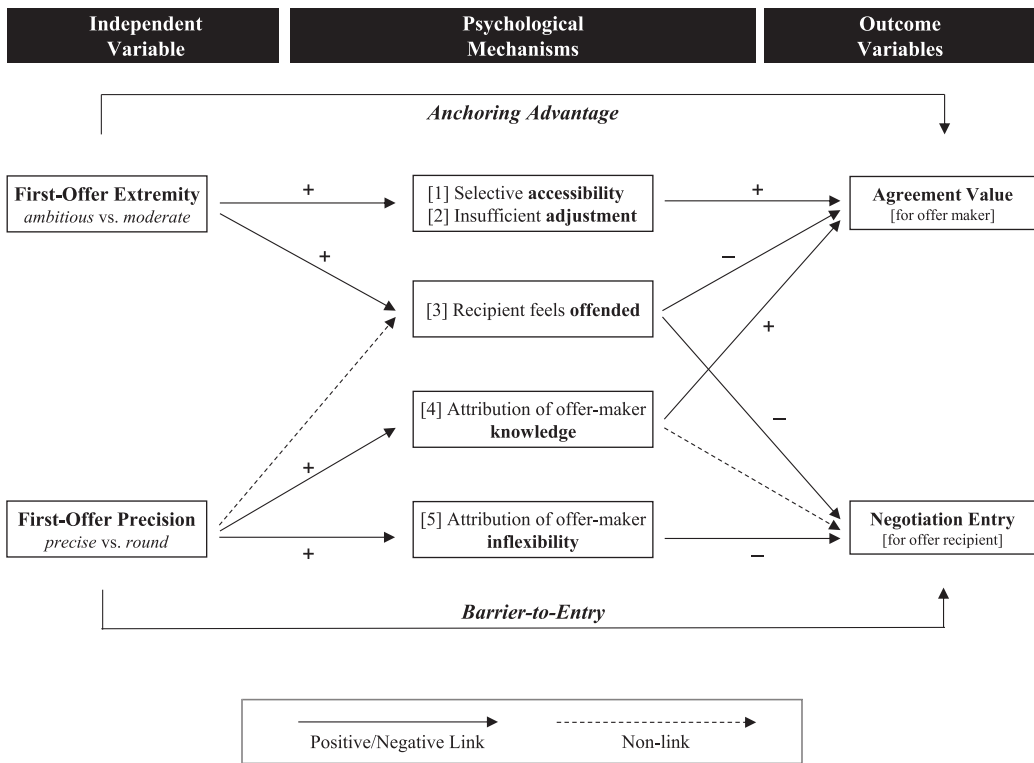


Fig. 1. The Precision-Extremity Model of First Offers (PEMFO). Mechanisms 1, 2 and 4 have been established in previous studies. Mechanisms 3 and 5 are empirically tested in the present experiments. Whereas the extremity barrier is mediated through offense, the precision barrier is mediated through attributions of inflexibility. The social attribution of knowledge that mediates the effect of precision on agreement value does not mediate the effect of precision on negotiation entry.

attribution processes account for this barrier-to-entry effect. Overall, our core proposition is that offer precision affects negotiation entry, with precise first offers creating a barrier-to-entry because recipients infer that precise-offer makers are more inflexible.

We begin by introducing a new construct: negotiation entry. After reviewing the literatures on anchoring, first offers, and anchor precision, we articulate the theoretical reasoning behind our prediction that precise first offers can reduce negotiation entry. Furthermore, we articulate why the mechanism behind the barrier-to-entry created by first-offer precision differs from the barrier-to-entry mechanism caused by ambitious first offers (i.e., anchor extremity). We then present six studies and an archival analysis of real-world data that test the empirical foundation of our barrier-to-entry effect of price precision. In the discussion, we introduce the Precision-Extremity Model of First Offers (PEMFO), which theoretically integrates the distinct effects of anchor precision and extremity across current and past findings (see Fig. 1).

1.1. Negotiation entry

One notable aspect of past research on negotiations is that the literature has predominantly focused on the effect of first offers *after* a negotiation has commenced (e.g., individuals had already begun interacting). However, prior work has paid very little attention to the pre-negotiation phase leading up to the decision to enter a negotiation. We view negotiation entry as a decision to enter a negotiation with a particular offer maker. Specifically, adopting the definition of a negotiation as “a discussion between two or more parties with the apparent aim of resolving a divergence of interests” (Pruitt & Carnevale, 1993, p. 2), we define negotiation entry as *the decision to engage in an exchange (e.g., dialogue, numeric offers) with a particular party with the intention to ask for something other than the stated offer*. Negotiation entry is distinct from *negotiation impasse*, when one person enters into a negotiation but walks away from the table without consummating a deal (Tripp & Sondak, 1992; Yip & Schweinsberg, 2017). Whereas an impasse is one of many potential outcomes once a negotiation has begun, negotiation entry is the decision to enter into a negotiation or not in the first place.

There is an existing term in the literature that relates to negotiation

entry: *negotiation initiation*. We chose to use the term negotiation entry for the following reasons. First, negotiation initiation has only been studied in a very specific context: A person has an offer and their choice is to accept that offer or to negotiate and ask for more. Sometimes this has been studied after a task has already been completed and a person receives their payment (Small, Gelfand, Babcock, & Gettman, 2007); other times it has been studied in surveys that ask people in current jobs whether they accepted the offer from their current employer or asked for more compensation (Babcock & Laschever, 2009). Negotiation entry, on the other hand, refers to someone’s decision whether and with whom to negotiate in a marketplace. In considering the best term, we chose negotiation entry because it is more general than negotiation initiation as it can include a current relationship (similar to how negotiation initiation has been studied) but extends beyond it. Furthermore, its roots in economics capture the market context and extend it to consumer contexts and decision making more generally.

We believe it is critical to identify the factors that influence negotiation entry. After all, the psychological processes at play when individuals evaluate the actions of a negotiation partner may be distinct from those processes at play when individuals are evaluating the actions of a *potential* negotiation partner. In fact, discussing the processes that occur during a negotiation is moot without negotiation entry. Examining the factors that shape negotiation entry is necessary to understand how people decide with whom to negotiate and whether to negotiate at all.

1.2. Anchoring in negotiations: First-offer extremity

Study after study has established that first offers matter in negotiations (see Galinsky, Ku, & Mussweiler, 2009 for a review). First offers are highly predictive of deal terms, often accounting for 30–50% of the variance in final outcomes (Galinsky et al., 2009). Overall, past findings demonstrate that more ambitious first offers produce more favorable outcomes for oneself compared to less ambitious first offers (see Mechanisms 1 and 2 in Fig. 1).

However, making the first offer is not always advantageous (see Loschelder, Swaab, Troetschel, & Galinsky, 2014; Loschelder, Troetschel,

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