Negotiating for the Minimum?

WORK IN PROGRESS

Abstract

Negotiation theory asserts that in bargaining situations a focal negotiator should set a reservation point that is a minimum price needed, or a maximum price they will pay to accept an agreement. Theory prescribes negotiators ought to set a target point or aspirant. This study examines whether focal negotiators' final agreements are closer to their reservation point than their target point. The study also examines factors that may explain and correlate with negotiators' results.

Negotiation theory asserts that in bargaining situations a focal negotiator should set a reservation point that is a minimum price needed or a maximum price they will pay to accept an agreement. For a buyer it can be the most they will pay, for a seller it can be the least they will accept. The focal negotiator should also set a target price and negotiate toward achieving that target price, understanding that if they want to achieve their target they should open above their target and make adjustments. After watching many dyads negotiating in a classroom exercise, we observed that often individuals negotiate toward their reservation point or minimally acceptable benchmark, even after being instructed and trained by a previous case to avoid the effect of anchors in determining their negotiation outcomes, and after being reminded and instructed to negotiate toward their target point. From a psychological point of view individuals seem to be more comfortable using rationales that defend a factual minimum rather than an aspirant. This finding is consistent with prospect theory where Kahneman and Tversky (1984) find that individuals prefer sure gains and unsure losses. Therefore, the downward focus of negotiators toward clear gains above the reservation point are more favored than the attempt to reach a target point. This paper contributes to the literature on negotiation by challenging the notion that negotiators strive to achieve their target points. Figure 1 depicts the intended contribution from this study.

(Need research to support these hypotheses)

H1: A focal negotiator's aspiration gap will be higher than their settlement gap.

H2: A female negotiator will have a higher settlement gap than a male negotiator.

H3: High Self-Confident Negotiators will score closer to their target values than Low Self-Confident negotiators.

H4: High Mach Negotiators will score closer to their target values than Low Mach

negotiators.

H5: Negotiators who score high on a self-esteem instrument will set higher target points than those that score low.

H6: Female negotiators will set higher target points than male negotiators.

Method

Participants

The participants were seventy-five students from undergraduate and graduate classes in Negotiation Strategy taught by one of the authors. There were 33 females and 41 males. The ages ranged from 20 years old to 49 years old (median = 22). The median work experience was 5 years. Although all students in the classes participated in the negotiation, a procedure was developed so that students who did not wish to be participants could do so without notice to the teacher or classmates. This procedure involved distributing the study scales and the negotiation exercise materials to all students, along with an envelope. Students not wishing to participate in the study could return blank scales in the envelope. Students were randomly assigned to pairs for the negotiation. Identification numbers were also randomly assigned to the student groups so that the members of each group could not be identified during the data analysis.

Procedure

The participants were asked first to fill out a survey using previously published scales (including self-esteem, Machiavellianism, and negotiation confidence), as well as demographic information (gender, year in school, years of work experience, and number of previous negotiations). The participants then participated in a negotiation for which they had prepared as a regular assignment for a Negotiation Strategy class. (Although a student may not be a participant in the study, the case is regularly used to demonstrate negotiation skills to all students each

semester in that class.) At the completion of the negotiation exercise all students received an additional survey questionnaire related to their specific role in the exercise. The investigator once again left the room while the forms were completed. Students were asked to put the additional form in the envelope. At the completion of the exercise students were asked to put *both* forms (the pre- and post-questionnaires) into an envelope. All students, participating and non-participating, returned their surveys in the sealed envelope.

The negotiation exercise is called, The Player. In this exercise one student is assigned the role of Producer and the other is assigned the role of Director. The participants are asked to come to an agreement on eleven issues important for the production of an upcoming movie. The negotiation takes approximated 60 minutes. For each agreement, points are assigned to the Producer and the Director. For the complete negotiation, the minimum possible points a participant could receive is 3000. The maximum possible points is 8,000.

After students completed the negotiation, they were asked to record the outcomes of their negotiation, including their agreements on eleven issues. Each student was given a score on each agreement, depending on the student's role in the negotiation. Students were also asked about how they had perceived they had performed in the negotiation. The study design was approved by the Institutional Review Board.

Measures

Participants completed three scales measuring personality variables. These scales included the Negotiation Confidence Measure from Brown and Baer (2011), the Self-Esteem Scale (Robinson & Shaver, 1973), and the New Machiavellianism Scale from Dahling, Whitaker, and Levy (2009). The Negotiation Confidence Measure is a three-item survey measuring items on a scale from 1 (Strongly Agree) to 7 (Strongly Disagree). The Self-Esteem Scale is a 20-item

survey (10 items reversed-scored) measuring items from 1 (Very Often) to 5 (Practically Never). The New Machiavellianism Scale is a 16-item scale measuring items from 1 (Strongly Disagree) to 5 (Strongly Agree).

The outcomes of the negotiations led to another set of variables. Target was the number of points students aspired to achieving in the negotiation. The Reservation was the minimal acceptable number of points a student would accept. Settlement was the actual number of points achieved by a student. Two other variables were calculated from the data. Settlement Gap was calculated as the difference between a student's Settlement score and Reservation score. A high value on Settlement Gap indicates that the student's settlement was high above the Reservation point. The Aspiration Gap was calculated as the difference between the Target and the Settlement. A high score on this variable indicates that the settlement was far from the Target score.

Results

The study hoped to addresses gender differences in negotiation, personality differences in negotiation, and aspiration differences in negotiation. The first hypothesis considered whether focal negotiators' Aspiration Gap will be higher than their Settlement Gap. The assumption we made was that students seem to be focused more on their reserve point than on their target. Using a paired-sample t-test, we found that there was a significantly greater difference (mean = 3532.4 points, $t = 4.51$, $p < .001$, one-tailed test) between the Reservation point and the Settlement (the Settlement Gap), than between the Target and the Settlement (the Aspiration Gap).

Hypothesis 2, that female negotiators will have a higher Settlement Gap than male negotiators, was supported by the data. Using an independent samples t-test, we found that female participants had a moderately significant, greater Settlement Gap (mean = 866.99 points, *t*

= 1.54, p = .075, one-tailed test), than male participants. This finding contradicts earlier studies that females are weaker negotiators than males.

To test hypotheses 3 through 5, we built multiple regression models regressing the Aspiration Gap on Negotiation Confidence, Self Esteem, and Machiavellianism. Age was included as a control variable. We found that none of the independent variables had a significant effect on the Aspiration Gap.

We then explored whether gender had an effect on the setting of Target points by negotiators. For hypothesis 6 we found that, contrary to the negotiation literature, that there was no difference between males and females with respect to the setting of Targets. The aspirations of men and women were equal.

As a result of the finding that females had a higher Settlement Gap than males, we decided to analyze males and females separately. Using multiple regression models, we regressed the dependent variables of Target and Settlement Gap on personality variables for the male and female subgroups separately. For the female subgroups, we found no significant relationships between the independent and dependent variables. We did, however, find that in the male subgroup, some of the personality variables had a significant relationship with the Target and Settlement Gap variables (see Tables 1 and 2).

With Target as the dependent variable, we found that Machiavellianism had a significant *negative* effect on male Target setting (β = -.41, p < .05). Males high in Machiavellianism set lower Targets than males low in Machiavellianism, contrary to expectations.

With Settlement Gap as the dependent variable, we found that Negotiation Confidence (β = -.55, p < .05) and Self Esteem (β = .49, p < .05) were significant predictors. It was expected that both independent variables would have a positive effect on the Settlement Gap. It is

surprising that Negotiation Confidence has a negative effect on the Settlement Gap (i.e., that men with lower confidence in their negotiating skills settle for agreements farther away from their reservation point than men who have higher confidence).

Discussion

Our findings our inconsistent with more commonly accepted assumptions about behavior in negotiations, and about the differences in negotiations between men and women. Many believe that negotiators strive to achieve their target or aspiration point. It would be expected, consistent with that belief, that settlements would closer to that target than to the reservation point. Our findings, however, show that students tend to settle much closer to the reserve point than to the target point. One explanation may be that striving for the target point may be viewed as risky by the students. They may prefer, instead, a more certain outcome that is closer to the reserve.

Another finding that was inconsistent with prior studies is that females will aim lower than males in negotiations. We found, however, that it was males that stayed closer to the reserve point than females. Again, our suspicion is that males "play it safe" and don't risk their negotiation reputations by not striving to achieve their targets.

We had expected that personality would play a significant role in the setting of targets and of settlements, but our analyses found that not be the case. The differences we did find between males and females led us to consider whether personality plays a different role for males than for females. We divided the subgroups into males and females and performed our regression analyses on the subgroups separately. We found that some personality variables could predict negotiation outcomes, but only for the male subgroup. We have no explanation for why this might be the case. Among the male subgroup, we also found results that challenged our

expectations. We found that, in this subgroup, Machiavellianism had a negative effect on the setting of targets by males. As those high in Machiavellianism are seen as ends-oriented, and manipulative, it would be expected that they would be confident in setting higher targets. One explanation might be that in this classroom setting, scoring the most points is not the desired outcome of high Machiavellians. Their focus instead might be on the *process* of negotiation (manipulating the other negotiator) rather than the end result.

We also found, contrary to expectations, that males with greater confidence in their negotiations had settlements closer to their reserve points than males with lower confidence (i.e, they had a *lower* Settlement Gap). We expected that the Settlement Gap would be greater for those with greater confidence in their negotiation skills. The finding that self-esteem had a positive effect on Settlement Gap was expected. Those males with higher self-esteem had settlements that were farther from their reserve points than males with lower self-esteem.

Limitations. The most significant limitation to our study might be the use of students as participants. Students may lack the experience in negotiations of consequence that require skill to be successful. Prior studies of negotiations, using adults with more experience negotiating jobs, automobiles, and houses, could be expected to have results different from our study with undergraduate and graduate students.

Future directions. Future studies should focus on measuring the satisfaction with the outcome. More insights into negotiation behavior might be found by using matched pairs and examining which partner was closer to the aspiration point, and how satisfied the partners are with the process. One hypothesis might be that negotiators who are exhaustive and very unyielding and exploratory, may get closer to their target. However, the process may feel less easy and, therefore, they may be less satisfied, even though they did better than the other

negotiator who had a relatively easy negotiation process, yet was closer to his or her reservation point because their negotiation was exhaustive. Another study could use focus on just the integrative issues in this negotiation exercise (as opposed to the distributive issues), to see whether personality variables had an effect on the team's desire to explore the integrative potential of those issues.

References

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Figure 1

Do individuals bargain toward a set minimum rather than toward an aspirant? Why?

Theory and Construct Definitions

Focal negotiators ought to identify a minimum and should negotiate toward a target point.

- **TARGET**
  - "ideal" settlement price
- **RP**
  - **R**eservation **P**rice
  - Monetary "walk-away" point in a negotiation
  - Quantification of your BATNA
    - Buyer: most you are willing to spend
    - Seller: least you can accept
- **ZOPA**
  - **Z**one **O**f **P**ossible **Agreements**
  - The ZOPA is the range between the buyer's reservation price and the seller's reservation price

Scope of the Study

Do individuals bargain toward reservation point rather than an target/aspirant?

In a range where 0 is minimum, 3000 is reservation point, and half of 16,200 points is focal negotiator's of the pie, What is the ideal settlement for a focal negotiator?

Reservation point is usually a stronger motivator than target. (even after careful explanation and instruction)

Why?

Table 1

Regression of Target Value on Personality Variables for Males (R^2=.18).

	Standardized ß	*t*	*p*
Age	-.03	-.19	.854
Negotiation Confidence	-.08	-.37	.715
Machiavellianism	**-.41**	**-2.32**	**.028**
Self-Esteem	.08	.38	.707
Constant		2.34	.027

N=33

Table 2

Regression of Settlement Gap Value on Personality Variables for Males (R^2=.29).

	Standardized ß	*t*	*p*
Age	.24	1.35	.187
Negotiation Confidence	**-.55**	**-2.58**	**.016**
Machiavellianism	-.16	-.92	.364
Self-Esteem	**.48**	**2.27**	**.032**
Constant		-.52	.605

N=31