



Negotiations

Trust, Emotions, and Implementation

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Today's Lecture

- Negotiation Exercise
- General topics in Negotiations Research
- Presentation of Research in Progress



Negotiation

What is it?

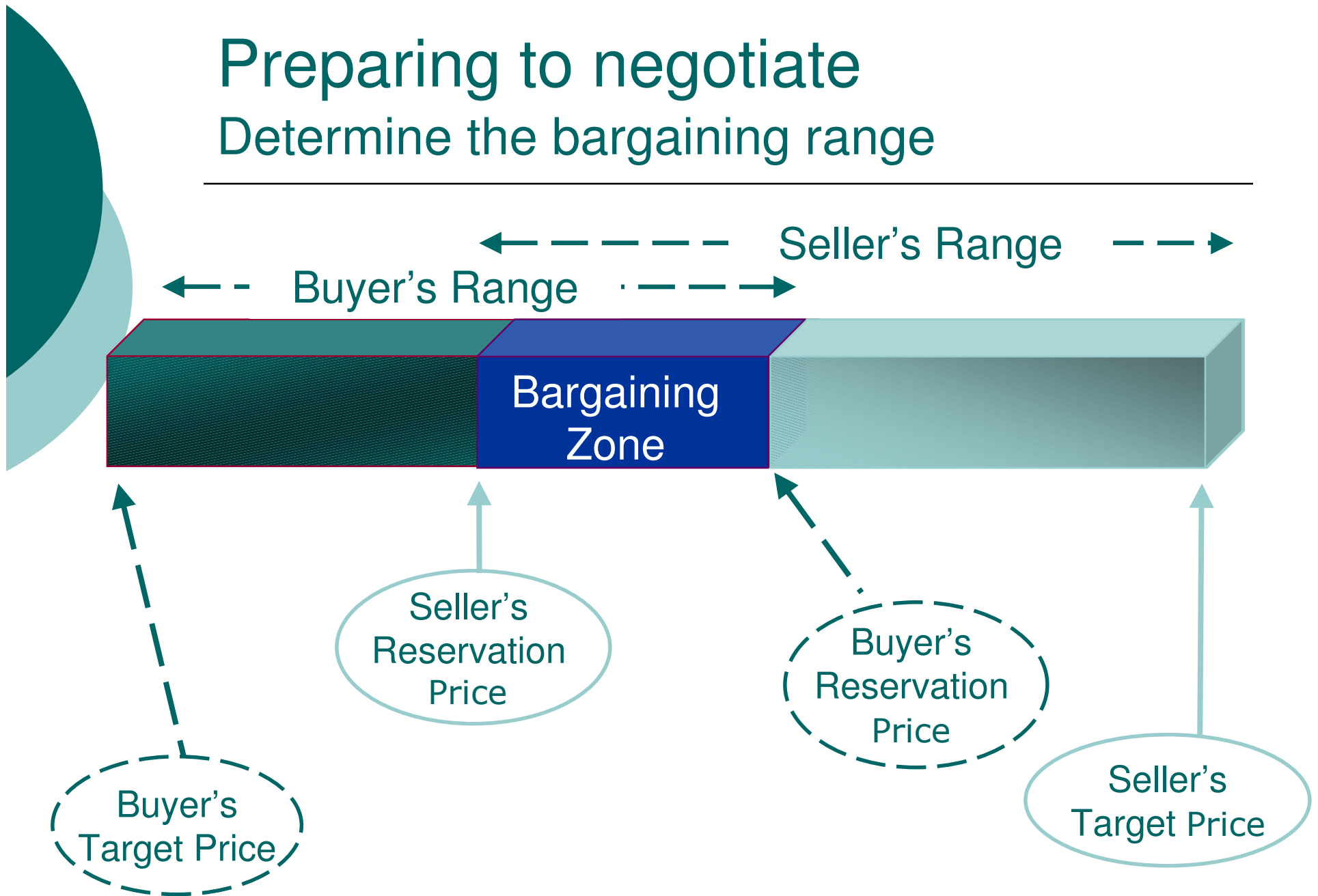
The process by which parties with different preferences reach joint agreements

Why negotiate?

“Sophisticated managers know that the largest part of management is negotiating, not giving orders or unilaterally executing plans.” --Richard G. Darman, Former Deputy Secretary of the United States Treasury

Preparing to negotiate

Determine the bargaining range





Creating Value through agreements

- Negotiation case
 - Two parties
 - Multiple issues



Guidelines for negotiation case

- Stick to your role
- Do not exchange information sheets
- You are *not* required to settle
- A complex negotiation: multiple issues, not just the “lab equipment”
- When finished, post your outcomes on the board



Bargaining Zone Analysis

- Equipment “P300”
- Financing
- Service Contract

Bargaining Zone: Lab Equipment



Price	A	B	C	D	E	F	G	H	I
Buyer	1200	1050	900	750	600	450	300	150	0
Seller	0	150	300	450	600	750	900	1050	1200



Claiming value

- Distributive issues
 - I win/you lose
 - Pie slicing...



Claiming Value:

Strategies for slicing the pie

Preparation

- Define your “Best Alternative To the Negotiated Agreement” (BATNA)
- Define your bottom line and your aspiration level. Be realistic but optimistic.

Bargaining strategy

- Open aggressively. Seller high; Buyer low.
- Make concessions reciprocally not unilaterally



At first blush...

- *Claiming Value*
 - Distributive issues
 - I win/you lose
 - Or are they?



Possible contract: Seller “wins”

Issue	Settlement Position	Buyer	Seller
Financing	E	1000	400
Equipment	G	300	900
Service Contract	E	400	1000
	Total	1700	2300



Possible contract: “compromising”

Issue	Settlement Position	Buyer	Seller
Financing	E	1000	400
Equipment	E	600	600
Service Contract	E	400	1000
	Total	2000	2000

Bargaining Zone: Financing



Price	A	B	C	D	E	F	G	H	I
Buyer	2000	1750	1500	1250	1000	750	500	250	0
Seller	0	100	200	300	400	500	600	700	800

Bargaining Zone: Service Contract



Price	A	B	C	D	E	F	G	H	I
Buyer	800	700	600	500	400	300	200	100	0
Seller	0	250	500	750	1000	1250	1500	1750	2000



But.... Seller *could* have done even better...

Issue	Settlement Position	Buyer	Seller
Financing	A	2000	0
Equipment	E	600	600
Service Contract	I	0	2000
	Total	2600	2600



More efficient agreements

- Claiming value (I win, you lose)
- Creating value through:
 - Compatibility
 - Calibration



Creating Value:

Strategies for expanding the pie

Assume value CAN be created

- Search for differences
- Take a cooperative approach
- Trade off what is most important to you for what is most important to them
- Build trust & share information

Construct Multi-issue Proposals

- Make package deals, not single-issue offers
- Make multiple offers simultaneously



Keys to a successful negotiations

Preparation

- Determine the bargaining range
- Identify your alternative - BATNA

Claiming value

- Consider your bargaining strategy

Creating value

- Assume value CAN be created
- Construct Multi-issue Proposals

Skilled negotiators can provide more value to all parties involved



Negotiating Agreements

What other factors contributed to your negotiation outcomes?

- Skill, Motivation, Culture, Norms, Gender
- Relationships
Friends more likely to reach agreement, but less likely to 'claim' less value (McGinn & Keros, 2002)
- Mood
Angry Negotiators claim more value in negotiations (Van Kleef, De Dreu & Manstead, 2004) while happy mood negotiators 'claim' less value (Baron 1990) but 'create' more value (Carnevale & Isen, 1986).



Research on Positive Emotions

Individual Broaden scope of attention (Fredrickson, 1998, 2001; Fredrickson & Branigan, 2005)
Optimistic (Fredrickson et al., 2003)

Social Trusting of others (Dunn & Schweitzer, 2005)
Like others more (Gouaux, 1971; Kaplan, 1991; Veitch & Griffitt, 1976),
Generous and helpful toward others
(e.g. Isen, 1970; Isen & Levin, 1972)
Strengthen and build relationship
(Aron et al., 2000; Lee, 1983)



Looking beyond the agreement...

[The negotiated agreement is] but a fluttering scrap of paper unless it is enforced.

– Georges Clemenceau, Prime Minister of France, describing the Treaty of Versailles, 1919

No agreement is worth much if it is not vigorously implemented and enforced.

– Richard Holbrooke (2008)



After the Deal: Affect, Trust Building, and the Implementation of Negotiated Agreements

Alexandra Mislin, SUNY Buffalo

William Bottom & Rachel Campagna
Washington University in St. Louis



Research Questions...

What motivates a person to implement a negotiated agreement when their behavior cannot be monitored?

Do emotions experienced during/after the negotiation influence the implementation of negotiated agreements?

Economics

- Views implementation as a decision making problem while assuming that choices are made by rational, self interested parties
- Only a variable pay contract based on outcome, not a guaranteed fixed pay, will motivate (Principal-Agency Theory, Milgrom & Roberts, 1991; Salanié, 1997)

Social Psychology

- Positive mood can invoke a broader, longer-term perspective, motivate generosity, increase optimism, spill over to others



Predictions

Field	Emotion	Hypothesis
Economics	All	(1) Emotions don't matter. Only negotiated agreements that present a sufficient incentive payment contingent upon the desired outcome will be vigorously implemented



Test prediction in a lab study

Why a lab study?

- We begin in a simple, controlled setting where we can establish causal links in these relationships and hold constant some complexities of social interactions

Negotiation Task

- Subjects assigned to role of Employer or Employee
- Employer depends on the efforts of the employee to complete a project
- Computer-mediated (control for reputation, friendship effects, etc.)
- Real money at stake (provide incentives)

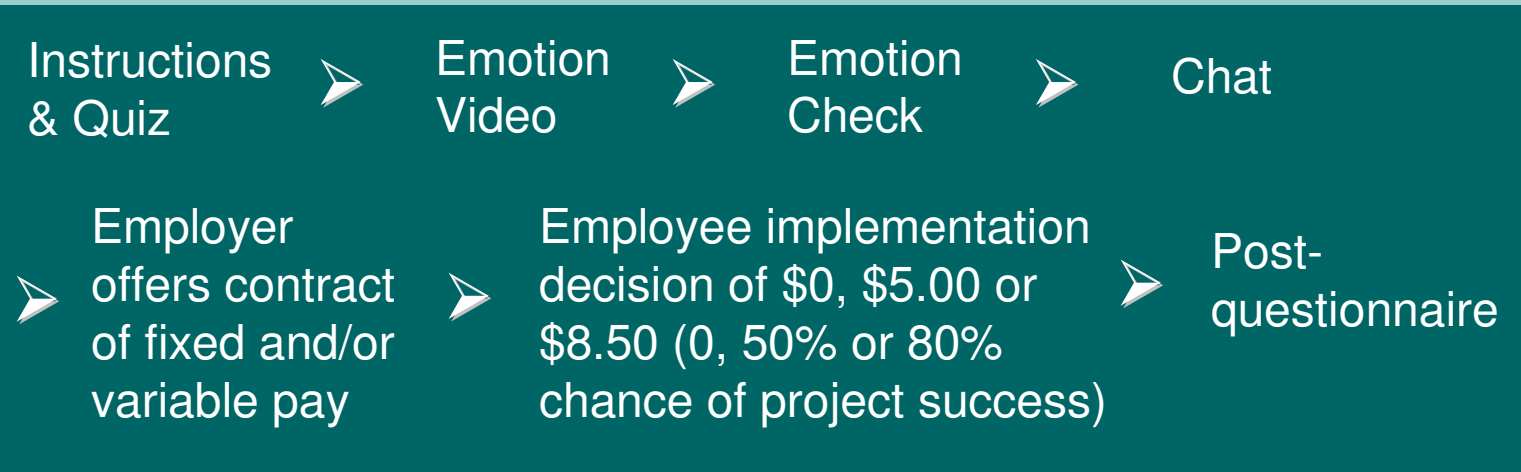
Random Assignment to Controlled Manipulations

- Emotion: Neutral vs. Happy
 - Using 3min commercial film clips (Gross & Levenson, 1995)
- Negotiation Chat: No Chat vs. Chat
 - 10min, unstructured, computer-mediated messaging before agreement



Experiment Parameters

Protocol



Project Outcome

○ Project Failure = \$10 and Project Success = (\$30 or \$50)

Recruited 256 Undergraduate students (Mean age 21, 36% Female)

○ Employer earnings = (project outcome) – (fixed pay) – (variable pay if project success)

○ Employee earnings = (fixed pay) + (variable pay if project success) – (effort cost)

Measures

Emotion

Pre and post-emotion measure* with an 8-point response scale for each emotion



1. How much **happiness** did you feel?
2. How much **anger** did you feel?
3. How much **anxiety** did you feel?
4. How much **contentment** did you feel?
5. How much **sadness** did you feel?...

Post-Questionnaire

Adapted benevolence/integrity items from Mayer & Davis' (1999) measure of trustworthiness in the workplace

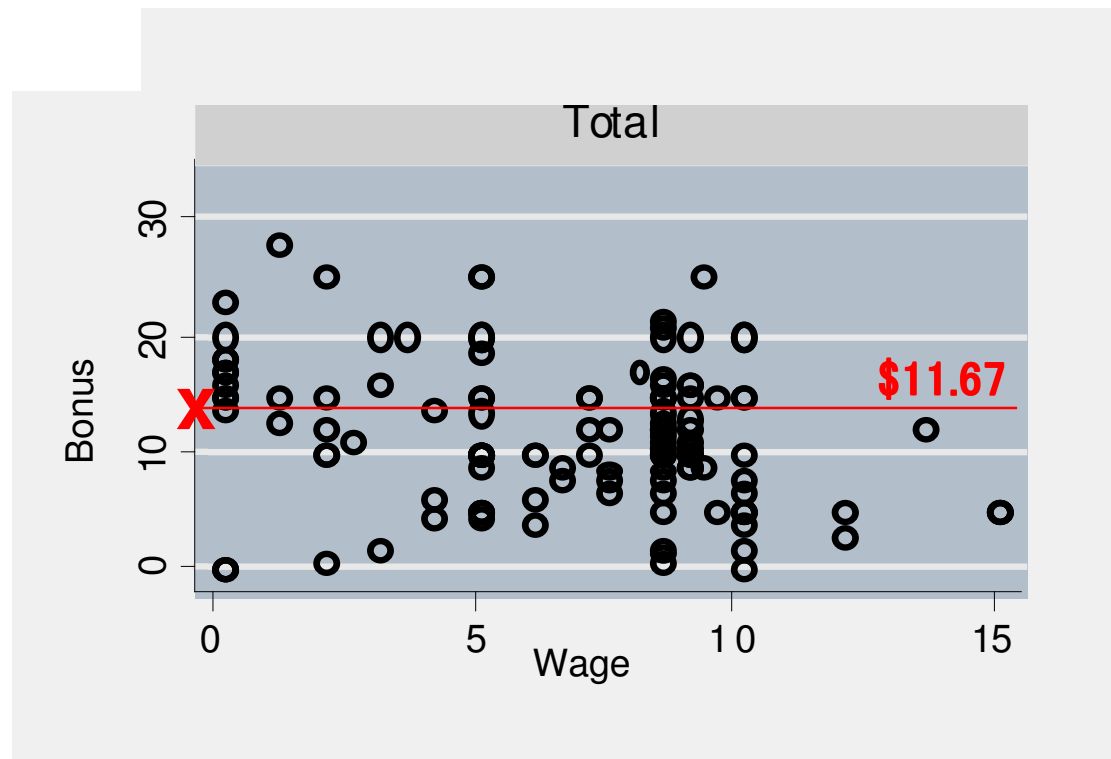
1. The Employer is very concerned about my welfare
2. My needs and desires are very important to the employer
3. I never have to wonder whether the [owner/contractor] will stick to his/her word

...

*Adapted by Fredrickson (2005) from Ekman, Friesen, & Ancoli, 1980

Results:

Distribution of Contracts Offered



→ Agency Theory predicts \$11.67 Bonus-only contract to motivate highest implementation action and maximize employer earnings (cost of high action \$3.50 < expected gains from high action \$3.51)

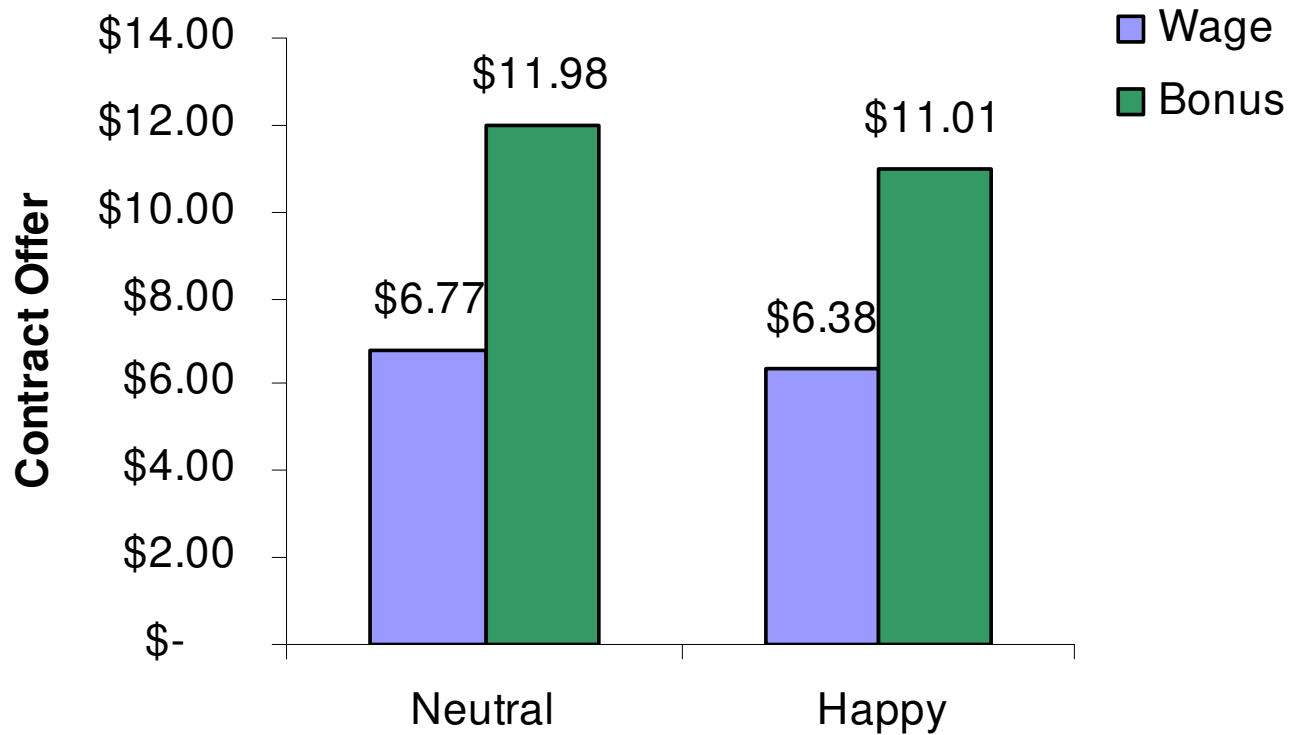


Distribution of Contracts Offered

What else is motivating
these contract offers?

Mood?

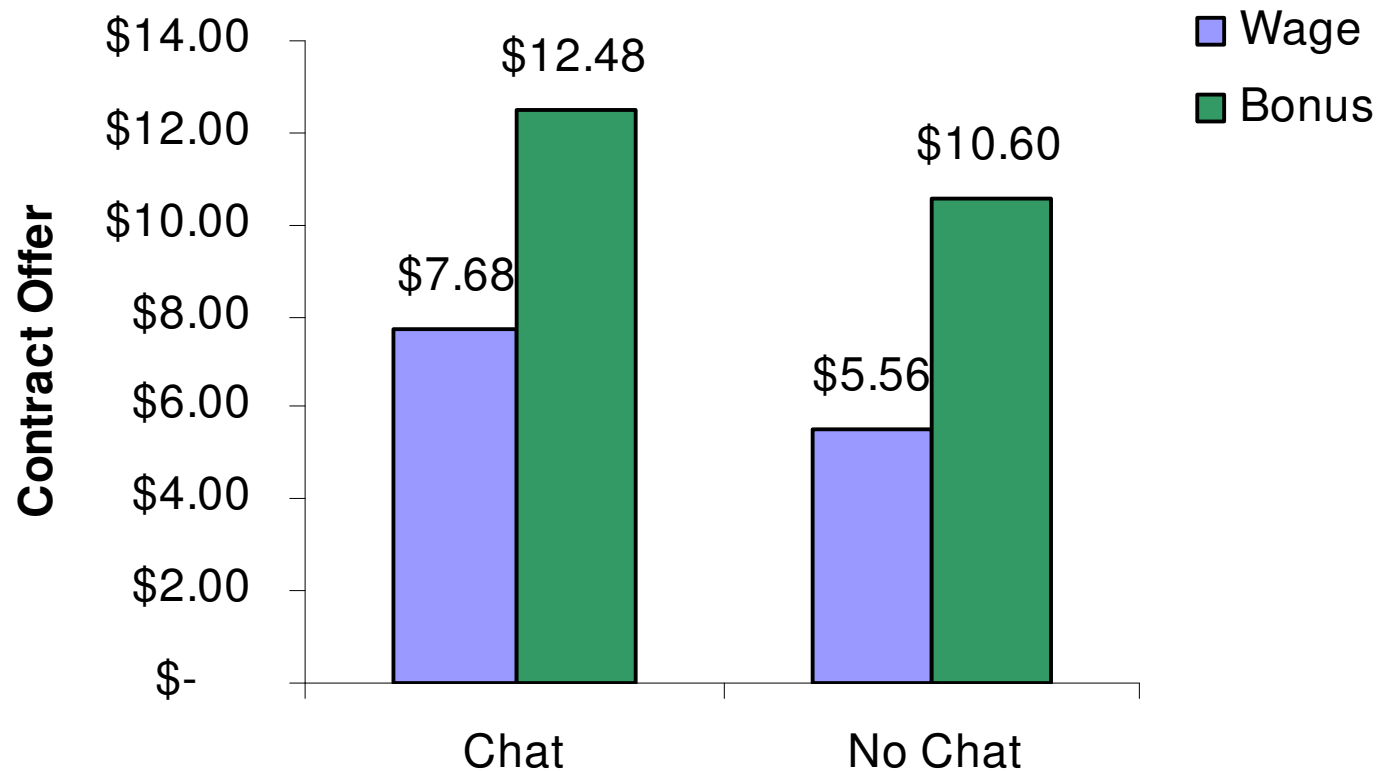
Contract Offers by Employer Emotion



→ No. Contracts offered did not differ by pre-negotiation employer mood (Contradicts previous findings in the literature)

The opportunity to Chat?

Contract Offers by Chat

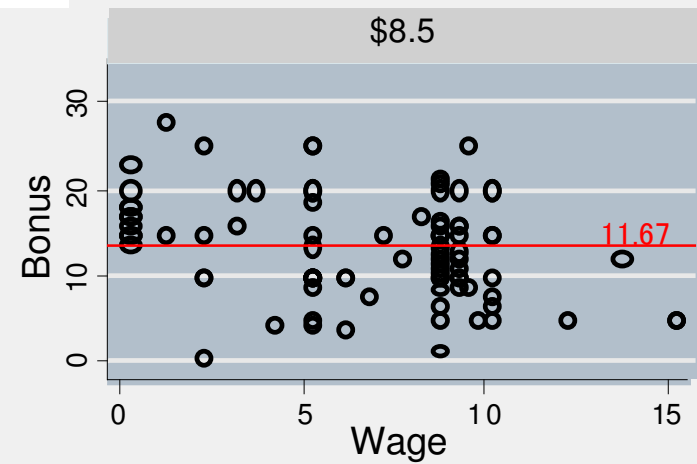
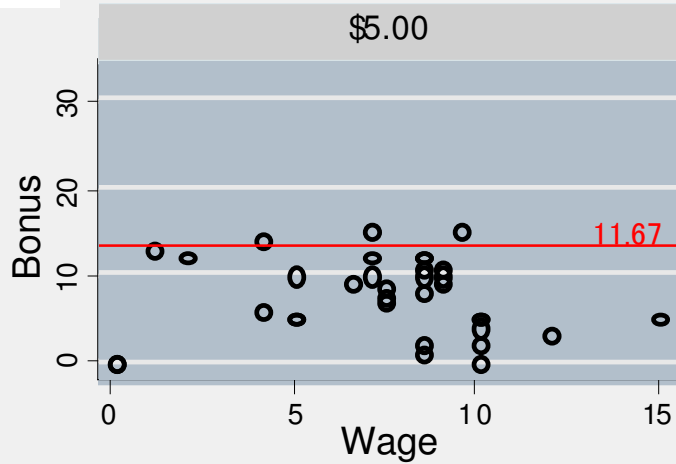


→ Yes. Employers who had the chance to chat offered more financially lucrative contracts...



What about
implementation behavior?

Distribution of Implementation Actions



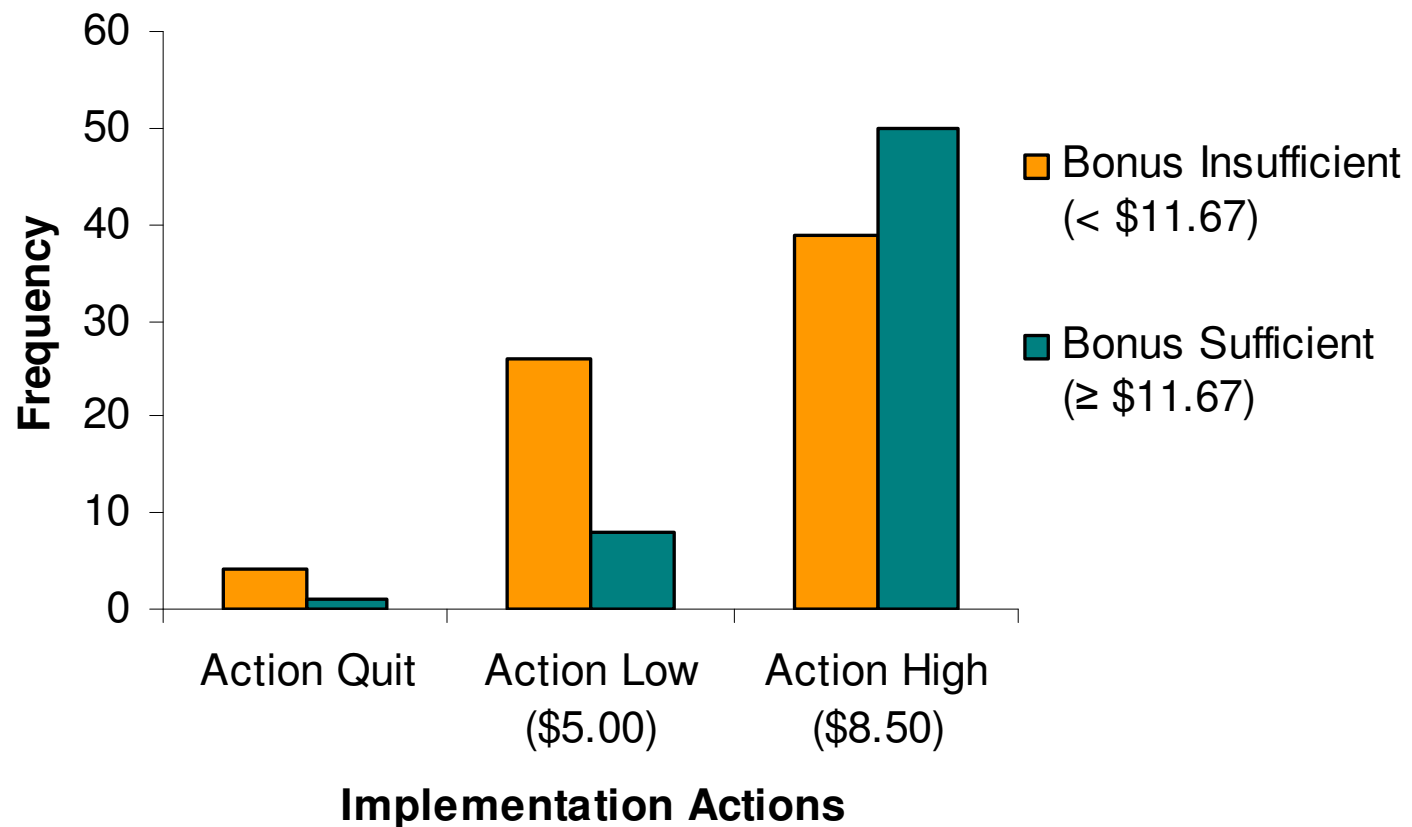


Distribution of Implementation Actions

What is motivating
implementation behavior?

Sufficient Bonus?

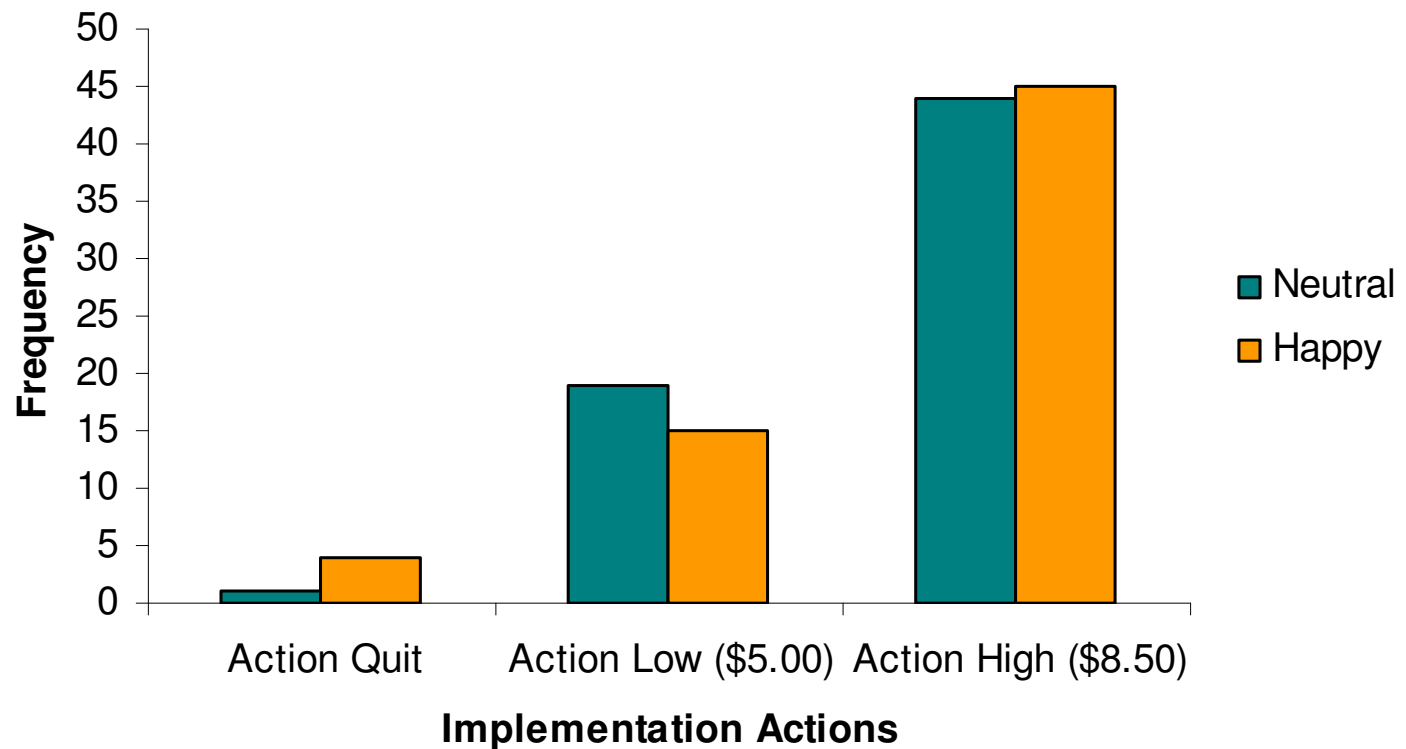
Implementation Actions by Bonus



→ Yes. Sufficient Bonus did motivate some implementation choices (support for Hypothesis 1)...but clearly not the only motivating factor

Employer's Pre-Negotiation Mood?

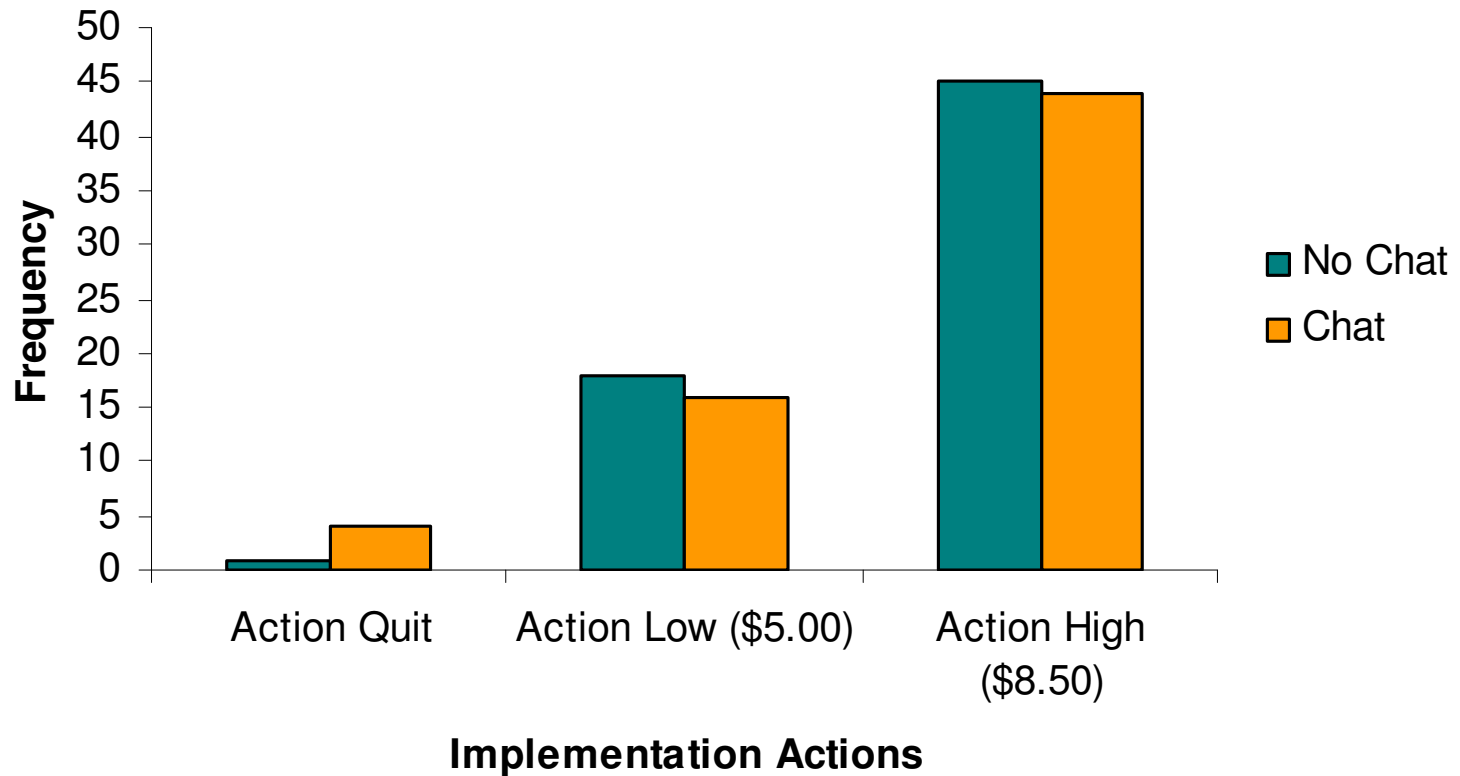
Implementation Actions by Emotion



→ No. Employer mood didn't directly motivate implementation choices (Employee emotion didn't spill over to employer and Hypothesis 2 fails)

Chat?

Implementation Actions by Chat



→ No. Chat did not directly motivate implementation choices

Post-questionnaire variables?

Employee post-negotiation mood and perceptions of employer

Model 1

Independent Variable	Coeff.	SE	
Wage			
Bonus			
Employee's Post- Neg. Emotion	0.054	0.036	*
Benevolence & Integrity Perception of Employer	0.062	0.028	**
Log-likelihood	-77.623		
Wald χ^2	8.49		**
N	114		

Analyzed Chat: Threats and small talk during the chat period

Ordered Logistic Regressions with Huber White Robust S.E.; ***/**/* indicates significance at 1%/5%/10% level for two-tailed t-tests

→ Yes. Post-neg emotions motivated implementation choices (H3 supported)



Key Findings from Study 1

Negotiated Agreements

- Contracts with optimal pecuniary incentives are more vigorously implemented

Post-negotiation Emotions and Perceptions

- Employee's emotion after the contracting and employee's perception of employer benevolence and integrity also matter

The negotiation process, not just outcome, matters

- Threats and small talk used during the chat contribute to post-negotiation mood and perceptions



Study 2

- Employee emotion manipulation
- Test direct effect of small talk
- More refined measure of implementation action
- Examine post-implementation behaviors to test if cooperation continues after the contract?



Key Findings from Study 2

Emotions and incentives matter for implementation, but...

- Sufficient bonus contracts don't motivate higher implementation actions when people are happy

The negotiation process also matters for subsequent cooperative behavior...

- Small talk and perceptions of benevolence/integrity motivate subsequent cooperative exchange behavior



Theoretical and Practical Implications

- Factors predicting negotiated agreements are not necessarily the same as those predicting the implementation
- Emotions are critical part of understanding how social factors influence negotiations
- We must consider the complete social interaction and how different parts contribute to creating not only an efficient negotiated agreement, but one that will be vigorously implemented and promote future cooperative behaviors



Ongoing Research Extensions

- Negotiation Experiments
 - Strategic use of emotions in negotiations
 - How do past interactions influence future negotiations
 - Gender differences in relational accounting
- Trust/Social Exchange Experiments
 - Can emotions or financial incentives motivate trust behavior?
 - Does introducing the option to cheat reduce trust?
- Field Study of Negotiations
 - Longitudinal study of the evolution of relational accounts and negotiations between college roommates
 - Cross-section study of 14 automobile dealerships examining the role of emotions on negotiated car prices



Additional Questions?

Thank you!



EXTRA SLIDES



Predicting Implementation (Details)

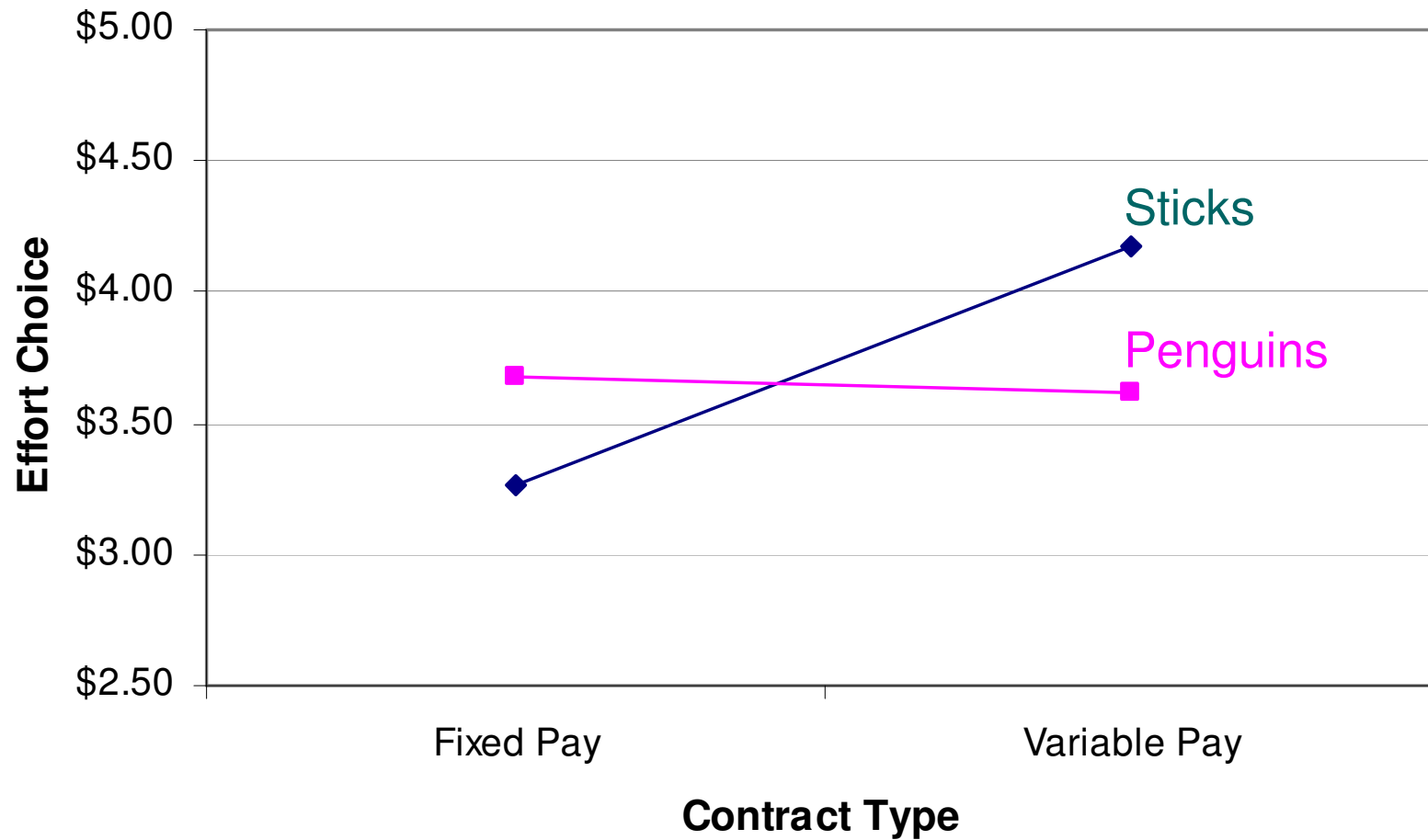
Independent Variable	Model 1		Model 2	
	Coeff.	SE	Coeff.	SE
Wage			0.047	0.066
Bonus			0.233	0.045 ***
Agent's Post-Neg. Affect	0.054	0.036 *	0.046	0.039
Agent's perceptions of Principal Trustworthiness	0.062	0.028 **	0.031	0.035
Log-likelihood	-77.623		-64.113	
Wald χ^2	8.49 **		32.18 ***	
N	114		114	



Models Predicting Agent Effort Choice

Independent Variable	Model 1 Coeff.	Model 2 Coeff.
Bonus	0.421	0.913*
Happy	-0.048	0.416
Bonus*Happy		-0.974*
Constant	3.513**	3.267**
Adjusted R ²	0.013	0.0597
F()	1.41	2.27†
N	61	61

Interaction between Contract and Emotion Manipulation





Models Predicting Amount Sent by Agent in Stage 2

Independent Variable	Model 4 Coeff.
Contract	2.076 [†]
Video	-0.698
Contract*Video	-1.814
Benevolence	0.484 ^{**}
Constant	0.462
Adjusted R ²	0.172
F()	4.11 ^{**}
N	61



Predicting Agent Perceptions of Principal Benevolence

Independent Variable	Model 3 Coeff.
Contract	-3.596**
Talk	0.053
Video	2.010**
Constant	14.126**
Adjusted R ²	0.305
F()	9.76**
N	61



Principal Agent Theory Prediction

Marginal cost high effort

- $(\$8.50 - \$5.00) = \$3.50$

Expected marginal benefit high effort

- $(.8 - .5) * \text{Bonus}[\$11.67] = \$3.51$

→ Expected Benefit (\$3.51) > Cost (\$3.50)

→ *Invest high (\$8.50)*