Negotiations

*Trust, Emotions, and Implementation*

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Visiting Scholar, George Mason University ICES
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

Buyer’s Range

Seller’s Range

Bargaining Zone

Buyer’s Target Price

Seller’s Reservation Price

Buyer’s Reservation Price

Seller’s Target Price
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

#### Chart Details:
- **Buyer's Range:** 1200 to 0
- **Seller's Range:** 1200 to 0
- **Bargaining Zone:** Overlapping ranges between Buyer and Seller.

#### Price Breakdown:

<table>
<thead>
<tr>
<th>Price</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyer</td>
<td>1200</td>
<td>1050</td>
<td>900</td>
<td>750</td>
<td>600</td>
<td>450</td>
<td>300</td>
<td>150</td>
<td>0</td>
</tr>
<tr>
<td>Seller</td>
<td>0</td>
<td>150</td>
<td>300</td>
<td>450</td>
<td>600</td>
<td>750</td>
<td>900</td>
<td>1050</td>
<td>1200</td>
</tr>
</tbody>
</table>
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”

<table>
<thead>
<tr>
<th>Issue</th>
<th>Settlement Position</th>
<th>Buyer</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing</td>
<td>E</td>
<td>1000</td>
<td>400</td>
</tr>
<tr>
<td>Equipment</td>
<td>G</td>
<td>300</td>
<td>900</td>
</tr>
<tr>
<td>Service Contract</td>
<td>E</td>
<td>400</td>
<td>1000</td>
</tr>
</tbody>
</table>

Total 1700 2300
Possible contract: “compromising”

<table>
<thead>
<tr>
<th>Issue</th>
<th>Settlement Position</th>
<th>Buyer</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing</td>
<td>E</td>
<td>1000</td>
<td>400</td>
</tr>
<tr>
<td>Equipment</td>
<td>E</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Service Contract</td>
<td>E</td>
<td>400</td>
<td>1000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>2000</td>
<td>2000</td>
</tr>
</tbody>
</table>
Bargaining Zone: Financing

<table>
<thead>
<tr>
<th>Price</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyer</td>
<td>2000</td>
<td>1750</td>
<td>1500</td>
<td>1250</td>
<td>1000</td>
<td>750</td>
<td>500</td>
<td>250</td>
<td>0</td>
</tr>
<tr>
<td>Seller</td>
<td>0</td>
<td>100</td>
<td>200</td>
<td>300</td>
<td>400</td>
<td>500</td>
<td>600</td>
<td>700</td>
<td>800</td>
</tr>
</tbody>
</table>
Bargaining Zone: Service Contract

<table>
<thead>
<tr>
<th>Price</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyer</td>
<td>800</td>
<td>700</td>
<td>600</td>
<td>500</td>
<td>400</td>
<td>300</td>
<td>200</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Seller</td>
<td>0</td>
<td>250</td>
<td>500</td>
<td>750</td>
<td>1000</td>
<td>1250</td>
<td>1500</td>
<td>1750</td>
<td>2000</td>
</tr>
</tbody>
</table>
But…. Seller *could* have done even better…

<table>
<thead>
<tr>
<th>Issue</th>
<th>Settlement Position</th>
<th>Buyer</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing</td>
<td>A</td>
<td>2000</td>
<td>0</td>
</tr>
<tr>
<td>Equipment</td>
<td>E</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Service Contract</td>
<td>I</td>
<td>0</td>
<td>2000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>2600</td>
<td>2600</td>
</tr>
</tbody>
</table>
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.
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

<table>
<thead>
<tr>
<th>Field</th>
<th>Emotion</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economics</td>
<td>All</td>
<td>(1) Emotions don’t matter. Only negotiated agreements that present a sufficient incentive payment contingent upon the desired outcome will be vigorously implemented</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Instructions &amp; Quiz</th>
<th>Emotion Video</th>
<th>Emotion Check</th>
<th>Chat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer offers contract of fixed and/or variable pay</td>
<td>Employee implementation decision of $0, $5.00 or $8.50 (0, 50% or 80% chance of project success)</td>
<td></td>
<td>Post-questionnaire</td>
</tr>
</tbody>
</table>

### 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)
Yes. Employers who had the chance to chat offered more financially lucrative contracts...
What about implementation behavior?
Distribution of Implementation Actions

![Graphs illustrating the distribution of implementation actions for different wages. The graphs show a scatter plot with bonus on the y-axis and wage on the x-axis for wages of $5.00 and $8.50. Each graph has a horizontal line at 11.67, indicating a significant number of points.]
Distribution of Implementation Actions

What is motivating implementation behavior?
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

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coeff.</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee’s Post- Neg. Emotion</td>
<td>0.054</td>
<td>0.036</td>
</tr>
<tr>
<td>Benevolence &amp; Integrity Perception of Employer</td>
<td>0.062</td>
<td>0.028</td>
</tr>
</tbody>
</table>

Log-likelihood  
Wald $\chi^2$  
N

Analyzed Chat: Threats and small talk during the chat period

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

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

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff.</td>
<td>SE</td>
</tr>
<tr>
<td>Wage</td>
<td>0.047</td>
<td>0.066</td>
</tr>
<tr>
<td>Bonus</td>
<td>0.233</td>
<td>0.045</td>
</tr>
<tr>
<td>Agent’s Post-Neg. Affect</td>
<td>0.054</td>
<td>0.036</td>
</tr>
<tr>
<td>Agent’s perceptions of Principal Trustworthiness</td>
<td>0.062</td>
<td>0.028</td>
</tr>
<tr>
<td>Log-likelihood</td>
<td>-77.623</td>
<td></td>
</tr>
<tr>
<td>Wald $\chi^2$</td>
<td>8.49</td>
<td>**</td>
</tr>
<tr>
<td>N</td>
<td>114</td>
<td>114</td>
</tr>
</tbody>
</table>
Models Predicting Agent Effort Choice

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model 1 Coeff.</th>
<th>Model 2 Coeff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus</td>
<td>0.421</td>
<td>0.913*</td>
</tr>
<tr>
<td>Happy</td>
<td>-0.048</td>
<td>0.416</td>
</tr>
<tr>
<td>Bonus*Happy</td>
<td></td>
<td>-0.974*</td>
</tr>
<tr>
<td>Constant</td>
<td>3.513**</td>
<td>3.267**</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.013</td>
<td>0.0597</td>
</tr>
<tr>
<td>F( )</td>
<td>1.41</td>
<td>2.27†</td>
</tr>
<tr>
<td>N</td>
<td>61</td>
<td>61</td>
</tr>
</tbody>
</table>
Interaction between Contract and Emotion Manipulation

![Graph showing the interaction between effort choice and contract type. The graph plots effort choice against contract type (fixed pay vs. variable pay) for two conditions: Sticks and Penguins. The Sticks condition shows a positive correlation between fixed pay and effort choice, while the Penguins condition shows a positive correlation between variable pay and effort choice.]]
## Models Predicting Amount Sent by Agent in Stage 2

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model 4 Coeff.</th>
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</thead>
<tbody>
<tr>
<td>Contract</td>
<td>2.076†</td>
</tr>
<tr>
<td>Video</td>
<td>-0.698</td>
</tr>
<tr>
<td>Contract*Video</td>
<td>-1.814</td>
</tr>
<tr>
<td>Benevolence</td>
<td>0.484**</td>
</tr>
<tr>
<td>Constant</td>
<td>0.462</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.172</td>
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<tr>
<td>F( )</td>
<td>4.11**</td>
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<tr>
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</table>
Predicting Agent Perceptions of Principal Benevolence

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model 3 Coeff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract</td>
<td>-3.596**</td>
</tr>
<tr>
<td>Talk</td>
<td>0.053</td>
</tr>
<tr>
<td>Video</td>
<td>2.010**</td>
</tr>
<tr>
<td>Constant</td>
<td>14.126**</td>
</tr>
</tbody>
</table>

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)*Bonus[$11.67] = $3.51

→ Expected Benefit ($3.51) > Cost ($3.50)
→ Invest high ($8.50)