GRA 19502

Master Thesis

How power imbalance affect outcomes in distributive and integrative negotiations

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Master Thesis Report

- How power imbalance affect
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1.0 Introduction

"Like it or not, you are a negotiator"

Fisher, Ury & Patton, (1991)

For many of us the word negotiation might give immediate negative associations related to disagreements and anger, envisioning big contract settlements between billion-dollar companies. The truth is that we all negotiate every day, often without even thinking about it. In family- and everyday life we use negotiation techniques with our spouse and children to settle on where to eat dinner, or which movie to watch. In a organizational context, salary negotiations is often a commonly though arena for negotiations, but the matter of facts is that we this is only one of many settings where negotiation theory come into play (Fisher et al., 1991). For organizations, negotiating successfully both externally with other companies, customers, suppliers, and internally within the organization, has proven crucial to obtain and sustain competitive advantage (Wang & Noe, 2010). It is common to make a distinction between distributive negotiations and integrative negotiations (Walton & McKersie, 1965). The main difference between them being that distributive negotiations focuses more heavily on competition, has a more traditional exchange view, has lower concern for the other party, and is limited to focusing only on one dimension. Integrative negotiations on the other hand, are often more collaborative, has a higher level of concerned for the other party, focuses on future relationship, and tries to create and embed several dimensions into the negotiation. Thus, resulting in differences both in process, outcome, and in regards to power (Fisher et al., 1991; Thompson, 2005; Rognes, 2008).

Rognes (2008) defines negotiations accordingly *"when two or more parties with partly contradicting interests try to reach a common agreement, they negotiate"*. Thompson (2005) defines negotiations as *"an interpersonal decision-making process necessary whenever we cannot achieve our objectives single-handedly"*. Linking these definitions back to an organizational perspective with relevance today, one can think about the ongoing "price-war" in the Norwegian grocery market. Rema 1000, being the smallest of the three wholesalers in the market, have engaged in though negotiations with the suppliers in trying to get prices down. Rema 1000, claim the two other wholesalers (Coop and

NorgesGruppen) get better deals due to their advantage in the majority of their qualitative size. Thus, leading Rema 1000 to create integrative solutions with fewer suppliers, meaning some suppliers will be left out, in order to sustain a competitive advantage. The definitions by Rognes (2008) and Thompson (2005) certainly fit the ongoing "price-war-negotiations", but (naturally) do not include the power imbalance seen in the given example. However, negotiators often have unequal power or alternatives (Wong & Howard, 2016). Power can derive from having a strong BATNA (Best Alternative To Negotiated Agreement) (Wong & Howard, 2016), or the feeling of being powerful (Hong & van der Wijst, 2013)

The power imbalance in these relationships stems from the asymmetry in dependence between the parties, which contributes to an asymmetry in influence between the parties (Emerson 1962). Since the concept of power seems of emergent importance in negotiations, I would like to further focus on this in my Master Thesis with the following research question in mind:

How does having power, either through a stronger BATNA, or feeling powerful through priming, influence outcomes of a negotiation, and how does this differ in distributive and integrative negotiations?

2.0 Literature review

2.1 Negotiation theory

We primarily negotiate in two situations: (1) entering new deals, (2) handling disagreements in existing relations (Brett, 2001).

According to the definition by Thompson (2005) and Rognes (2008), negotiations derive from some level of conflicting interest. The aspect of conflict in negotiations is important, but can be hard to define, according to Rahim (2010) there is no single universally accepted definition of conflict. However, Deutsch (1973, p. 10) defines conflict "whenever incompatible activities occur", and it is common to distinguish between relational-, case-, and process conflicts (Jehn & Mannix, 2001). The type of conflict, and the level of conflict will arguably impact the negotiation process and outcome. Another factor in negotiation theory is the distinction between dyadic negotiations and multiparty negotiations,

(Beersma & De Dreu, 2002), where differences in outcomes on economic and subjective measures has been found between the two (Traavik, 2011).

Furthermore, negotiations can be analyzed in light off process- and/or result-outcomes (Thompson, 2005; Rognes, 2008). This master thesis will be limited to dyadic negotiations, focusing on result-oriented outcomes.

It is common to make the distinction between distributive and integrative negotiations. This classification goes back over half a century, and is based on Walton and McKersie (1965) conceptualization that negotiations are mixed-motive enterprises, such that parties have incentives to cooperate as well as compete. Arguably, very few negotiations are either strictly distributive or strictly integrative. Negotiations are rather unique situations that in regards to the context, relationship and level of conflict, comprises a more distributive or a more integrative character (Rognes, 2008). Nevertheless, negotiation theory tend to separate these two dimensions with regards to differences in techniques used, outcomes, and in regards to power (Fisher et al., 1991; Thompson, 2005; Rognes, 2008).

2.2 Distributive negotiations

The classic example of a distributive negotiation setting is the tourist bargaining on a carpet on a local market with a carpet-seller on a stand, or a car-seller tying to reach agreement with the buyer (Fisher et al., 1991; Rognes, 2008). Even if these examples are a bit stereotypical, they inhabit fundamental characteristics of what theory describes as distributive negotiations. Distributive negotiation, also refereed to as zero-sum or fixed-pie negotiations, which by the name indicates two or more parties negotiating over a fix amount, and where an increase in one party's resources means a equal decrease in the resources for the other party (Thompson, 2005). This concept of fix-pie in distributive negotiations is often linked to a one-dimensional focus in the negotiation (e.g. money for the carpet being the one and only dimension of the negotiation).

In distributive negotiations the bargaining zone or zone of possible agreement (ZOPA) is the region between each negotiators reservation point. There is however a negative bargaining zone if the buyer´s reservation point, is below the reservations point of the seller (Lax & Sebenius, 1986). If continuing on our thought negotiation between the car-seller and buyer, the final agreement (if

positive bargaining zone exists) will land somewhere above the the car-seller´s reservation point and below the buyer´s reservation point. This interaction of going back and fourth between offers, concessions and counteroffers is referred to by Raffia (1982) as "the negotiation dance". In this given negotiation, the quality of the outcome at the individual level is measured by how much of the limited resource a party obtains (Lewicki, Barry & Saunders, 2010). For the buyer this would be reflected in the money "saved" by bargaining the price down from 250.000 NOK to 240.000 NOK. The quality of the joint outcome is determined by whether an agreement is reached in cases where there is a positive bargaining zone, and a non-agreement reached when there is a negative bargaining zone (Lewicki, et al., 2010).

Much research has been conducted in distributive negotiations in identifying techniques to use in increasing the quality of the outcome for the individual. Such as first offer anchoring (Tversky & Kahneman, 1974; Galinsky & Mussweiler, 2001), focusing on target points during the negotiation (Galinsky, Mussweiler & Medvec, 2002), being tough or nice (Hüffermeier, Freund, Zerres, Backhaus & Hertel, 2011), making few and small concessions (Siegel & Fouraker, 1960), and setting relative and optimistic aspirations and reservation points (Lax & Sebenius, 1986).

2.3 Integrative negotiations

Where as distributive negotiation is viewed as the traditional pie slicing, where if one gets more of the limited resources, the other will automatically receive less. In integrative negotiation theory the focus and goal is to expand the pie, often referred to ass win-win negotiation. This is possible in negotiations where the interests of the different parties are not unequal or at least not equally weighted throughout a cluster of interests included in the negotiation (Thompson, 2005; Thompson & Leonardelli, 2004). Raiffa (1982) introduces the possibility for an integrative solution with high joint benefit outcomes for both or all parties in the negotiation. However, the idea of higher joint outcomes can be directly linked back to economic theory, such as "the prisoner dilemma" developed by Flood and Dresher back in 1950 (Spaniel, 2012), and Nash equilibrium (Nash, 1950).

From an organizational point of view, many decision situations would characterize as integrative, and most negotiations contain more than one dimension (Thompson, 2005). Since integrative negotiations have the possibility of better outcomes for both (or all) the involved parties, much literature is directed on how to move from a distributive negotiation into an integrative. The book "Getting to Yes" by Fisher et al. (1991) focuses heavily on this "transformation" from distributive to integrative, and introduces four main bullet points of importance in what the authors reefer to as "principled negotiation". Those being: (1) separate people from the problem, (2) focus on interests not on positions, (3) invent the options for mutual gain, and (4) insist on using objective criteria. Other similar and different negotiation techniques are proposed in the literature for obtaining integrative negotiation solutions. Some of them being: include more interests into the negotiation, make package deals, share information about priorities and preferences, using pre- and post settlement strategies (Thompson, 2005; Sebenius & Lax, 2003).

However, people are not rational when making decisions (Simon, 1957), resulting in people sometimes settling for less favorable outcomes even when they realize they have compatible interests, also know as lose-lose agreements (Thompson & Hrebec, 1996).

2.4 Power in negotiations

"Power tends to corrupt, and absolute power corrupts absolutely"

Lord Acton (1887)

People tend to prefer being more rather than less powerful, and this preference seems to occur consistently across cultures (Winter, 2007). High-power people are expected to obtain higher outcomes (Bruins, 1999; Van Dijke & Poppe, 2003), and having power leads to overall higher outcomes for individual obtaining power (Greer, 2013). The concepts of power and status are often compatible, but not tantamount. When exploring status for negotiation and conflict management, status is defined as the extent to which one is respected and admired by others (Greer, 2013). This respect and admiration only exists in the eyes of others and is voluntarily conferred (Anderson, John, Keltner, & Kring, 2001; Emerson, 1962).

Power on the other hand, is defined as *"the capacity to control one's own and others' resources and outcomes"* (Magee, Galinsky & Gruenfeld, 2008; Magee & Galinsky, 2008; Greer, 2013). Because those who possess power depend less on the resources of the other party than vice versa, the powerful party is more easily able to satisfy his or her own needs and desires (Galinsky, Gruenfeld & Magee, 2003). Said with fewer words power is *"the possibility to influence others"* (Bacharach & Lawler, 1981; Kelley & Thibault, 1978). Notice that in both definitions above, and opposed to the statement by Lord Acton from 1887, the words "capacity" and "possibility" imply that the person(s) with power have the ability to act on their power situation, but neither imply that having power automatically leads to the use of this power.

Chen, Lee-Chai and Bargh (2001) emphasis this further stating *"Power is mentally associated with different goal for individuals with a communal versus an exchange relationship orientation."* (Chen, Lee-Chai & Bargh, 2001, p.173). Here the authors suggest that difference in people's perception will guide their use and misuse of power. Further, certain situations are less vulnerable to the corrupting effects of power than others (Mannix, 1994; Tjosvold, Johnson, & Johnson, 1984). In their article, Howard, Gardner and Thompson (2007) revealed that powerful individuals with an interdependent self-construal may be more generous in resolving their disputes with low-lowered opponents, and more benevolent in their use of power in dyadic conflicts. In a study by Handraaf (2008) participants where given different levels of power in a modified ultimatum game. As expected, the allocators lowered their offers to recipients when power-differences shifted in favor of the allocator. The tendency was such that the lower power the recipients had, the lower offer they got from the allocator. However, when the recipient became completely powerless, offers from the allocator increased, almost to the level of when they where at equal power.

In the theory of negotiations, the concept of power is often linked to having a strong BATNA. Having a stronger BATNA (either through having more or better alternative than the other party, or having an alternative when the other party has none) gives the negotiator power because it makes him/her less dependent on the other party for acquiring desired resources (Fisher et al., 1991; Mannix & Neale, 1993; Pinkley, Neale, & Bennett, 1994). White and Neale (1991) consider the reservation price to be similar to a BATNA, with the

difference stemming from the possible transaction costs of moving to one´s BATNA.

In negotiation research, manipulating the participants BATNA, either strengthening or weakening it, is one of the most commonly used ways of conducting research on power relations in negotiations (Arunachalam, Lytle and Wall, 2001; Galinsky & Mussweiler, 2001; Wong & Howard, 2016).

Another commonly used manipulation tool is to prime participants, making them recollect experiences where they felt powerful, before negotiating. Then see if this primed power would affect the outcome of the negotiation. (Hong & van der Wijst, 2013; Howard et al., 2007; Galinsky et al., 2003). The article by Hong and van der Wijst (2013) tested if primed power before negotiations would affect the outcome in a distributive negotiation setting. The study found a positive affect of primed power for the participating women, but no significant affect on outcome for male participants.

"In negotiation research, a continued debate has existed over whether power differences between high- and low-power partners facilitate or harm conflict resolution" (Greer, 2013. p. 243). The research has provided us with mixed results, where some research has shown that power imbalance benefit joint outcomes (Komorita, Sheposh, & Braver, 1968; Sondak & Bazerman, 1991; Tedeschi, Bonoma, & Novinson, 1970), other research has shown power imbalance harming joint outcomes (McAlister, Bazerman, & Fader, 1986; Pinkley et al., 1994; Wolfe & McGinn, 2005). On a similar vein, Giebels, De Dreu, and Van de Vliert (2000) showed that negotiators with a strong BATNA (the possibility to leave the negotiation) resulted in more distributive and less integrative behaviour. Furthermore, Mannix & Neale (1993) found that equal power dyads achieve higher joint outcomes than unequal power dyads. Tjosvold et al., 1984 found that asymmetric power balance undermine negotiations in a more competitive context (more distributive), whereas this might not be the case when negotiating in an explicitly cooperative (more integrative) context. Likewise, Mannix (1994) found that an interest in continued relationship with the less powerful individual significantly reduced the exploitive behaviour of the high-powered individual.

	DISTRIBUTIVE	INTEGRATIVE	HYPOTHESIS
PRIMED POWER	NEGOTIATION A	NEGOTIATION C	3) A C
BATNA POWER	NEGOTIATION B	NEGOTIATION D	4) B D
HYPOTHESIS	1) A B	2) C D	

(Figure 1)

*Hypothesis 1: ***

*Hypothesis 2: ***

*Hypothesis 3: ***

*Hypothesis 4: ***

* I acknowledge that I at this point in time don´t have enough knowledge within the field of power and negotiations to provide proper and consistent hypothesis for this Master Thesis. However, I recon to have this in place within a short time span.

3.0 Method

I plan on collecting data for this Master Thesis using a laboratory experimental design. A laboratory experiment differs from a field experiment, where the former takes place within a contrived setting, the latter occurs in real-life settings (Bryman & Bell, 2011). Since negotiations happen in real-life and everyday settings, the benefits in regards to external validity of the results if conducting a field experiment for a negotiation study, would be several. However, there are equal or more difficulties and backlashed as well. The obvious would be getting access to live and ongoing negotiations, and the level of manipulation with respect to power would prove challenging. Furthermore, the unmourns variables effecting the outcome would first of all be hard to grasp, secondly hard to categories, and thirdly it would be hard to distinguish causality between independent and dependent variable, causing several issues with measurable- and internal validity.

In a laboratory experiment, I would rule out several important aspects of the negotiation. The level of conflict will be one-dimensional, the aspect of relationship will not be real-life, and the amount of emotions and uncertainty will diminished in laboratory experiments versus real life. According to Bryman and Bell (2011) this interaction of setting and treatment, will likely be unrelated to real-world experience and contexts, hence resulting in quite low external- and ecological validity.

Nevertheless, in a laboratory experiment the measurement- and internal validity will be quite strong and easy to replicate to test for reliability. Hopefully the study will provide some valid data on how power, both primed power and power through a strong BATNA, will influence the outcome in distributive and integrative negotiations. Furthermore, I expect the sample study to be quit homogenous, with an emphasis on students. Thus, further strengthening the internal validity of this study, while weakening the external validity and probability to generalize the findings.

Weighing up the pros and cons, in combination of what is doable in scope of time and resources, I choose to go through with a laboratory experimental design for this master thesis.

Central to the theory regarding experimental design is the use of control groups or reference groups (Bryman & Bell, 2011). However, if the experiments

are properly designed, so that when none of the participants have power (either primed or BATNA), then none of them will have any advantage in regards to which side they are assigned (X or Y). Then, if replicated enough times, the law of large numbers claims that the average of the results obtained should be close to the expected value (Mlodinow, 2008), thus preventing a normal distribution of the outcome, providing a mean outcome score as a reference score.

The study will be conducted by creating 4 different negotiation settings (A, B, C, D), each with a different power manipulation in both distributive and integrated negotiation experiments (see Figure 1, page 8).

For the **distributive negotiations (A, B)** I will be using a case similar to one used by Galinsky and Mussweiler (2001). See Appendix 1

For the **integrated negotiation (C, D)** I will be using a case similar to the one used in Arunachalam et al. (2001). See Appendix 2.

To manipulate **primed power (A, C)** I will be giving the two negotiators identical power in regards to aspiration point, reservation point, and BATNA, and almost identical information regarding the study, with one exception. That is, priming one of the negotiators in a way that will make this participant feel more powerful than the other participant in the experiment, in accordance with the study by Galinsky et al. (2003). See Appendix 3.

To manipulate **BATNA power (B and D)** I will be giving the two negotiators identical information regarding the study, but give one of the participants a stronger BATNA than the other. See Appendix 4.

I recon I need at least 20 negotiations per experiment, resulting in an overall of 80 negotiations, and 160 participants. The data collected from all experiment will need to be analysed using proper statistic tools for analyzing such qualitative data.

4.0 Plan for Master Thesis progression

Timeline 2017	Progression
January	• Continue improving literature review and theory • Establish hypothesis • Provide requisition from NSD
February - May	• Recruit participants to the experiment(s) • Conduct experiment(s)
May - June	• Analyse data
June - July	• Finishing and writing the Master Thesis
August	• Improve of overall Master Thesis • Time-buffer, incase some of the earlier points are more time consuming than estimated

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Appendix 1

A distributive negotiation experiment retrieved from Galinsky and Mussweiler (2001).

Pharmaceutical Plant Negotiation Details

General information (common to both negotiators):
1. Plant purchased by current owner 2 years ago for $15 million. The seller at that time was facing bankruptcy.
2. Plant appraised for $19 million 2 years ago.
3. Similar plant, although newer, sold for $26 million 9 months ago.

Buyer information:
1. Best alternative to this negotiated agreement: $25 million it would cost to build a new plant. Given perfect conditions, the plant would take at least a year to be fully operational with Food and Drug Administration approval.

Seller information:
1. Best alternative to this negotiated agreement: $17 million from stripping plant and selling its parts and equipment separately.

Appendix 2

An integrative negotiation experiment retrieved from Arunachalam, Lytle and Wall (2001).

A. Negotiator's profit schedule for Period 1

Component 1		Component 2		Component 3		Component 4	
Price	Profit	Price	Profit	Price	Profit	Price	Profit
A	4,800	A	1,200	A	1,200	A	300
B	6,000	B	1,800	B	1,500	B	100
C	3,600	C	3,000	C	300	C	200
D	1,200	D	600	D	900	D	400
E	2,400	E	2,400	E	600	E	500

BATNA = 0
Maximum total points (D, D, C, E) = 11,000
Compromise point value (C, B, D, A) = 6,600
Integrative solution (B, B, C, E) = 8,600

B. Opposing negotiator's profit schedule for Period 1

A	600	A	2,400	A	2,400	A	300
B	300	B	1,800	B	1,200	B	100
C	900	C	600	C	6,000	C	200
D	1,500	D	3,000	D	3,600	D	400
E	1,200	E	1,200	E	4,800	E	500

BATNA = 0
Maximum total points (D, D, C, E) = 11,000
Compromise point value (C, B, D, A) = 6,600
Integrative solution (B, B, C, E) = 8,600

Appendix 3

Primed power manipulation by Galinsky, Gruenfeld and Magee (2003)

Those participants assigned to the high-power condition were instructed as follows:

Please recall a particular incident in which you had power over another individual or individuals. By power, we mean a situation in which you controlled the ability of another person or persons to get something they wanted, or were in a position to evaluate those individuals. Please describe this situation in which you had power— what happened, how you felt, etc.

Those participants assigned to the low-power condition were instructed as follows:

Please recall a particular incident in which someone else had power over you. By power, we mean a situation in which someone had control over your ability to get something you wanted, or was in a position to evaluate you. Please describe this situation in which you did not have power—what happened, how you felt, etc.

Appendix 4

BATNA has been manipulated and differs from those in Appendix 1 and 2

A. Negotiator's profit schedule for Period 1

Component 1		Component 2		Component 3		Component 4	
Price	Profit	Price	Profit	Price	Profit	Price	Profit
A	7,200	A	1,800	A	1,800	A	450
B	9,000	B	2,700	B	2,250	B	150
C	5,400	C	4,500	C	450	C	300
D	1,800	D	900	D	1,350	D	600
E	3,600	E	3,600	E	900	E	750

BATNA = 6,600
Maximum total points (D, D, C, E) = 16,500
Compromise point value (C, B, D, A) = 9,900
Integrative solution (B, B, C, E) = 12,900

B. Opposing negotiator's profit schedule for Period 1

A	300	A	1,200	A	1,200	A	150
B	150	B	900	B	600	B	50
C	450	C	300	C	3,000	C	100
D	750	D	1,500	D	1,800	D	200
E	600	E	600	E	2,400	E	250

BATNA = 0
Maximum total points (D, D, C, E) = 5,500
Compromise point value (C, B, D, A) = 3,300
Integrative solution (B, B, C, E) = 4,300

Pharmaceutical Plant Negotiation Details

General information (common to both negotiators):
1. Plant purchased by current owner 2 years ago for $15 million. The seller at that time was facing bankruptcy.
2. Plant appraised for $19 million 2 years ago.
3. Similar plant, although newer, sold for $26 million 9 months ago.

Buyer information:
1. Best alternative to this negotiated agreement: $25 million it would cost to build a new plant. Given perfect conditions, the plant would take at least a year to be fully operational with Food and Drug Administration approval.

Seller information:
1. Best alternative to this negotiated agreement: $19 million from stripping plant and selling its parts and equipment separately.