

To What Extent Do Psychological Factors Play a Role in Negotiators' Perceptions of the First Offer?

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Abstract: This paper examines the feasibility of using the psychological technique “Door-in-the-face technique” in business negotiation “competitive bargaining.” Through referring to the experiment of psychologists Cialdini et al. on compliance and psychological bias “demand characteristic”, the limitations and the usages of psychological factors were analyzed. By analyzing the feasibility of the psychological factors, which reflect on business is the “first offer” in bargaining, it can be found that psychological influences exist in business negotiation; however, they are not decisive. Negotiators can effectively avoid interference by rationally treating information given by opponents, and focus on data benefits.

1. Introduction

Business and psychology seem to be two unrelated topics, but sometimes they are complementary to each other. For example, there is a market-based pricing strategy called psychological pricing. This pricing strategy charges a price with a number just below or above a high integer because people are more likely to accept a coat that costs \$29.99 than a \$30 one. It can be seen that psychological factors sometimes play a part in the business field. To explore how psychology infiltrates business practice, this research discusses the question of to what extent do psychological factors play a role in negotiators' perceptions of the first offer? Besides, how negotiators can pay attention to these factors to set the first offer or avoid being influenced is also analyzed.

The first offer allows larger space for concessions, and “making multiple, small concessions tells the other party that you are flexible and willing to listen to his needs. Each time you make a concession, you have the opportunity to label it and extract goodwill in return [1].” Therefore, concessions send the rival negotiators a sign of generosity and confidence. Not only do more concessions reduce one's stress, but it also leads to a more harmonious atmosphere and a smoother negotiation process.

In competitive bargaining, many offers are made by both parties after the first offer in order to reach an agreement, but in fact, it is also a way to show respects through giving the counterparties opportunities to bargain (decision-making): “Most negotiators expect that they will trade offers back and forth several times, with each side making multiple concessions before the deal is done [1].” Thus, a suitable first offer provides a friendlier negotiating environment, which is very important in the negotiations that need to build a golden bridge.

Successful business negotiation is fairly important when a company tries to obtain more benefits for itself, as professor Seth Freeman, the adjunct Professor of Negotiation & Conflict Management at NYU's Stern School of Business, wrote, “The skills don't just produce good ‘deals,’ – they foster better leadership, better conversations, better meetings, and better business relationships. Alumni consistently report it's one of the most valuable courses they've taken. But therein lies the problem [2].” In business negotiations, different strategies can work wonders in different circumstances. Among them, competitive bargaining is a common way of negotiation, which usually occurs when both parties target the same interests and have to “divide the pie”; therefore, competitive bargaining is “when parties must allocate shares or divide gains that they may make competitive

moves to secure as much for themselves as they can [3].”

The following will proceed with three psychological factors, through the research about the experiments of psychologists and the understanding of the studies of negotiation experts, the following discussion and analysis will investigate to what extent the psychological influences can affect the way of thinking of negotiators through the first offer, so as to influence the outcome of negotiations.

2. Discussion & Analysis

The feasibility of three different psychological factors (Door-in-the-face technique, demanding characteristics, and anchoring bias) in business negotiations is discussed in this section, through the comparisons to the “first offer” technique.

2.1 Psychological techniques have limited influence on negotiators because of the culture of negotiations

Aristotle, a well-respected Greek philosopher, said, “Man is by nature a social animal; an individual who is unsocial naturally and not accidentally is either beneath our notice or more than human. Society is something that precedes the individual [4].” In psychology, people are believed to be affected by the surrounding society. Under social influences, one type of behavior change is called compliance, which happens when people face direct pressure to respond to requests, they tend to agree even if they do not want to [5]. Reciprocity, also known as “Door-in-the-face technique,” is one of the compliance techniques that take advantage of people’s thinking system: it starts with a request that will be turned down, followed by a request that is more reasonable. People will then be more likely to accept the second request because they feel the opposite party lowered their request and will feel guilty if they refused again.

Psychologists Cialdini et al. experimented to investigate compliance in 1975. He and his team introduced themselves as being with the Country Youth Counseling Program. Under this background, they organized two scenarios. In the first scenario, they stopped university students and asked them to perform as chaperones for a group of juvenile delinquents on a two-hour trip to the zoo [6]. As a result, 83% of the students refused [7]. In scenario two, researchers stopped university students with an extreme request: asked subjects to perform as counselors to juvenile delinquents for at least two years [6]. And once the subjects refused, they took concessions and asked a smaller request, which was asked in the first scenario. This time, 51% of the students accepted the request [7]. This shift in students’ attitudes towards the same request indicates that people are more likely to accept the more reasonable one when comparing two different conditions, even though they do not want to. This is how the “Door-in-the-face technique” is used to induce compliance with a request for a favor [6].

The technique was previously used by door-to-door salesmen. These salesmen would knock on the door with an extreme request (e.g., would you like to donate 10 dollars?) and follow with a softer (smaller) request (e.g., would you like to register our members?) after being refused [7]. In this case, facing pressure, such as the guilt of refusing someone's request twice, and the intention of maintaining a reputation for kindness, people were more likely to accept the second request. Therefore, psychological techniques can be applied to business purposes [7].

One aggressive request followed by a softer one is related to a term in competitive bargaining: the first offer. According to Adam D. Galinsky, a social psychologist known for his research on negotiations, wrote, “the first offer provides preliminary insight into the bargaining zone and range of possible agreements [8].” As Professor Galinsky wrote, “first offers should be quite aggressive but not absurdly” the first offer in business negotiation is usually higher than the negotiator’s best target.

“Door-in-the-face technique” takes advantage of people’s guilt when seeing concessions, but in business negotiations, negotiators take concessions as a manner or a necessary process in competitive bargaining, so it is less likely for them to be influenced.

2.2 Mental preparations limit the usage of psychological technique

In psychology, there is a participant bias called “demanding characteristics,” which occurs when participants deliberately perform towards researchers’ expectations. This mostly happens when the participants are vaguely aware of the research purpose. This psychological phenomenon also suggests that once the participants understand researchers' intentions, psychological techniques are no longer effective to them.

Similarly, when the counterparty's negotiators perceive the intentions of lowering the price, they would adopt a more rational way of thinking. Especially in the business field, negotiators of both parties would keep alert and focus on the quantity of the benefits. In this case, the success rate of psychological hints would be very limited. Moreover, competitive bargaining is a process of mutual concessions. Most negotiators expect a concession: according to the study of professor Amos Tversky, professor and Nobel laureate Daniel Kahneman, “while most of us prefer to get bad news all at once, we prefer to get good news in installments [9].” Thus, through discussion and bargaining, negotiators will grind the first offer into a price that suits both parties better. The mapping for this situation in psychology is that participants are aware of the researcher's intentions and are less likely to be influenced unconsciously. Thus, psychological factors are not as effective in rigorous scenarios.

The “first offer” is usually figured higher than the target [8], which suggests that negotiators regard concessions as an indispensable part of the negotiation process; with this in mind, the psychological technique (starting with an aggressive request, followed by a smaller one, and gaining people's approval through concessions) is not feasible since lowering prices is expected by both parts. As a result, the “Door-in-the-face technique” works less effectively in a rational state of mind.

2.3 Anchoring bias influence negotiators’ perspectives on the first offer

Anchoring bias is when people make estimates and expectations based on the initial value used as a reference for comparison and judgment. For example, when we see a \$2,000 piece of clothing, which is discounted to \$200, we might think this price is low, but if we look at the \$200 price alone, we realize that 200 is not a small number. When anchoring bias applies to negotiation, the first offer becomes the \$2,000 negotiators initially see, leading to bias thinking.

Amos Tversky and Daniel Kahneman conducted a lab experiment in 1974 to investigate the anchoring effect in intuitive estimations. They divided participants into two groups and made them estimate the product of 1 to 8 and 8 to 1, respectively, within 5 seconds. The average estimation of the group of participants who estimated 1 to 8 was 512, and another group showed an average estimation of 2,250 [10]. The experiment result showed that when people see a series of numbers starting with small numbers, they intuitively assume the result would be small; instead, they estimate the result to be larger.

Tversky and Kahneman’s experiment demonstrated that people could take in anchoring bias unconsciously. This subconscious influence also works even when negotiators have mental preparations and think logically.

“By making the first offer, you will anchor the negotiation in your favor.” Professor Galinsky wrote. Galinsky and Mussweiler conducted a study and found that the first offer promoted a bargaining advantage in negotiations; for example, the outcome of negotiations could be influenced by the person who set forth the first offer at their preference [8] because anchoring bias could influence negotiators’ expectations about the outcome and then the result.

In professor Gary Goodpaster’s study about competitive bargaining, he wrote, “For a first offer, which was ideally made only after the other party made its offer, the competitive negotiator states an extreme demand, which is beyond or at the far margin of the range of credible or reasonable offers. This has the effect of setting the perceived or apparent bargaining range [3].” This demonstrates that the first offer is sometimes used by rival negotiators to measure or estimate the bargaining range. Once negotiators accept a high first offer, their estimates about the final deal rise and consider a higher transaction price to be reasonable. This is how “the

competitor's high opener draws the other party's opener in its direction [3]”.

3. Conclusion

Business negotiations have their own culture, which provides negotiators a more rational environment to negotiate. For example, the “Door-in-the-face technique” that can be unitized in real life by taking advantage of people’s guilt cannot be applied to the negotiation environment since negotiators take concessions as a normal procedure in competitive bargaining.

Psychological factors sometimes do not work when people have mental preparations. For example, people are less likely to feel guilty because of compliance (door in the face technique) when the counterparties make big concessions (a gesture of generosity) due to their high first offer. Thus, concessions in competitive bargaining would not influence counter negotiators’ thinking but can only make them appreciate and form a friendlier negotiation environment.

On the other hand, people can be influenced by anchoring bias brought by the first offer even during negotiations. Counter negotiators’ expectations of the final outcomes can get close to the first offer since they will unconsciously use the first offer as references.

Therefore, psychological factors play a role in negotiators’ perceptions of the first offer to some extent.

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