



**PREDICTING THE NEGOTIATED OUTCOME: THE ROLE OF
STRUCTURAL REFERENCE POINTS AND NEGOTIATOR'S 'OFFER
ZONE'**

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Abstract

384 experienced managers participated in 192 simulated seller-buyer negotiations. 57% of the variance in negotiation outcome can be explained by two reference points, namely buyer's and seller's initial offer. We introduce the notion of 'offer zone', which is the difference between aspiration price and initial offer. Offer zone has a significant and consistent influence on the negotiated outcome. Results from 106 participants in a replication study with a different 'no deal' structure confirm our findings.

Negotiation research has a long tradition of identifying factors determining the negotiation outcome (Pruitt & Carnevale, 1993; Thompson, 1998). Negotiation outcome is the ultimate dependent variable (Underdal, 1991; Weiss, 1997). Researchers and practitioners alike want to explain, predict and influence the negotiated result. However, despite an impressive cumulative research effort, we still know surprisingly little about how to predict the negotiated result of a specific negotiation (Blount, Bazerman, & Neale, 1995). It is hardly known to what extent one can predict the result of a concrete negotiation and what factors must be taken into account. In its seemingly endless quest for 'original' contributions and new variables, many researchers seem more interested in new paradigms than in Occam's razor or the quest for parsimony.

Following the predictions of the cognitive information-processing models (Bazerman, 1998; Hogarth, 1987; Neale & Bazerman, 1991), we assume that in their search for explaining, predicting and understanding negotiations, observers can be misled by concrete available information and hence easily overemphasize the highly visible dynamic factors, such as negotiation style, interaction and communication. These so-called interactive or dynamic reference points arise during the negotiation (Blount et al., 1995; Neale & Northcraft, 1991). As a consequence of the availability heuristic (Tversky & Kahneman, 1974) we can also assume that many observers, including some researchers, underestimate the impact of less 'spectacular' situational reference points.

These structural (also called situational or static) reference points are given before the negotiation starts and include factors such as reservation price, aspiration and market prices. The distinction between ‘dynamic’ and ‘static’ reference points is certainly not absolute: ambitions change over the course of a negotiation process, and negotiation style can be fixed before the negotiation starts.

Given the limited capacity of human information processing, we can also assume that negotiators are not capable of processing too many different reference points at the same time. They will use a very restricted number of salient reference points (Kahneman, 1992; Shell, 1999; White & Neale, 1994). At the same time, all the other factors will have significantly less impact. Experienced negotiators and many researchers certainly do not share this view; they spontaneously refer to negotiating as a complex, multi-factorial process. Because negotiation is a heterogeneous and multidimensional process, the central question is not whether or not a multitude of factors play a role in the negotiation process. The central questions that remain largely unanswered are: how important are those factors? How relevant and complete are our models?

If our propositions could be confirmed, it would be possible, given the most important situational reference points, to predict the negotiation outcome with relatively high precision. Our basic assumption reduces the core of negotiation to a rather mechanistic process, dominated by structural reference points: “Tell me what the structural reference points are, and I will tell you the outcome.”

In order to test our basic assumptions, we formulate our central hypothesis:

Only 6 situational reference points explain the majority of the variance in results of a two party single-issue distributive negotiation.

STUDY 1

Research Design

Our research design consists of a simulation of a one-to-one price negotiation. The object of the negotiation is a water treatment plant. Almost all participants lack real external reference points. Out of 384 participants, for example, only two had a vague idea about the market value of such a building. The seller has a clear BATNA: a bid from a interested third party. The buyer's alternative is vague. It is unclear whether or not building a new plant is a viable option.

Participants negotiate after reading their confidential instructions. Before negotiating, they determine privately and individually their initial offer, their aspiration and their reservation price. Reservation price is defined as the 'limit' (i.e., "the lowest/highest price you as a seller/buyer are ready to sell/buy"). Aspiration price is defined as the 'target' (i.e., "the price you would like to obtain; your best price"). Initial offer is defined as the asking price/first offer ("the price you are going to ask/give at the

start of the negotiation; the first price you are going to mention”). It is important to note that initial offer is not the first price actually mentioned, but the mentally prepared initial offer.

Data were collected *before* the actual start of the negotiation. Contrary to most experiments (Ritov, 1996; Thompson, 1995; White et al., 1994), the reservation and aspiration prices were not given, but determined by the negotiators themselves. After the negotiation, participants noted which party first mentioned a price (the initiator), whether or not an agreement was reached, and at what price.

Over a six-year period the following data were systematically collected for 384 participants (or 192 negotiations): the seller’s and buyer’s gender, reservation price, aspiration price and initial offer; the initiator (buyer or seller) and the negotiation result. Negotiations took place in Dutch, English or French. The currency was Belgian Francs (1 Euro = 40 BEF; at the time of the study one US Dollar equaled about one Euro).

Participants’ ages ranged from 28 to 55 years, with an estimated median age of 38 years (exact age data were not completely available). Most participants had several years of negotiation experience, but almost none had formal training in negotiation. The simulation, therefore, was the first exercise (before any teaching had taken place) in an introductory training. Forty-nine (12.8%) participants were female.

Our research design enabled us to test our central hypothesis, but also many

classic hypotheses: Do ambitious negotiators perform better? Is there a consistent initiator effect? Do sellers outperform buyers? Is there a consistent gender effect?

Results

Nine negotiations led to a non-agreement, mostly because of a (perceived) negative bargaining zone. Hence, the further analysis is based on 366 participants in 183 negotiations. Table 1 shows the mean, standard deviation and Pearson product-moment correlation coefficient of the six reference points and the final result.

Insert table 1 about here

The standard deviation of the seller's reservation price is much smaller than the standard deviation of the buyer's reservation price, reflecting their different BATNA-structures.

The correlation coefficients between aspiration price and initial offer are $>.80$ (see table 1). This could cause problems of multicollinearity if we use both variables together in a multiple regression analysis (Kleinbaum, Kupper, & Muller, 1988).

It can be observed from table 1 that most classic hypotheses on reservation prices, aspiration prices and initial offers can be confirmed as higher (perceived) reservation

prices, higher aspiration prices and higher initial offers leading to higher negotiated results (Bartos, 1974; Benton, Kelley, & Liebling, 1972; Chertkoff & Conley, 1967; Donohue, 1981; Huber & Neale, 1986, 1987; Kimmel, Pruitt, Magenau, Konar-Goldband, & Carnevale, 1980; Liebert, Smith, Hill, & Kieffer, 1968; Lim, 1997; Pruitt, 1981; Pruitt et al., 1993; Pruitt & Rubin, 1986; Thompson, 1995; White et al., 1994; Yukl, 1974). Buyers outperform sellers (Bazerman, 1998; Neale, Huber, & Northcraft, 1987): the correlations with the negotiated outcome are systematically higher for buyers than for sellers. Contrary to Ritov, (1996), however, we could not establish a significant initiator effect: when buyers initiate, they buy 1% cheaper; when sellers initiate, they sell 3.5% dearer, but those differences did not reach marginal significance in our study. We also did not find a statistically significant gender effect.

Testing of the Central Hypothesis

If our hypothesis is confirmed, a simultaneous multiple linear regression analysis with the negotiated price as a dependent variable and six reference points as independent variables should show that a significant amount of the variance in the results can be explained by those reference points. Results of this multiple regression analysis (see table 2) clearly confirm our hypothesis: R^2 (adj.) amounts to .596. Up to 60% of the differences in the negotiation results can be explained by the multiple structural reference points. The conclusion is straightforward: a very simple linear model explains 60% of the variance and only leaves 40% for relationships, communication, values, negotiation style, persuasive skills, error-variance etc.

Insert table 2 about here

Our hypothesis also refers to the number of reference points we need to predict a negotiation outcome. If we restrict ourselves to only one reference point per negotiator, namely the (mentally prepared) initial offer (i.e., the reference point with the strongest predictive validity), we see the predictive power only drops to .571 (i.e., it drops to .543 for aspiration prices and to .213 for reservation prices). Hence, 57% of the variability in results can be explained by only one reference point per negotiator.

As the negotiation literature has focused primarily on aspiration prices, it is interesting to know what the contribution of mentally prepared initial offers can be. Multicollinearity is not a problem in the testing process of our central hypothesis, but it might be in determining the relative weights of initial offer and aspiration price in table 2. In order to examine whether or not the mentally prepared initial offer has a distinct effect (i.e., different from aspiration price), we introduce the notion of 'offer zone', which is the absolute value of the difference between initial offer and aspiration price. This notion can be compared to aspiration zone, which is defined as the difference between reservation price and aspiration price (Walton & McKersie, 1965; White et al., 1994).

Some negotiators have a large offer zone: they intend to open far from their

aspiration price. Others have a small offer zone: their initial offer is close to their aspiration price. Some even have a negative offer zone: they do not dare to show their ambition and open somewhere between aspiration price and reservation price.

In our study, three buyers and three sellers (1.6%) had a negative offer zone, two buyers (1,1%) and five sellers (2.7%) had zero offer zones. A multiple linear regression analysis using offer zone as a predictor variable instead of initial offer has, by definition, the same overall predictive value. However, we avoided multicollinearity because the correlation between offer zone and aspiration price was only .17 for the seller and .47 for the buyer. It follows from linear regression theory, that all parameters for global results, reservation price and t-values for initial offer/offer zone will be the same as in table 2. However, with offer zone instead of initial offer, the separate contribution of initial offer can be made visible and is easier to interpret. For the buyer, the lower the initial offer, the lower (i.e., the better) the result, leading to a negative t-value for 'buyer's offer zone'. For the seller we can expect a positive t-value.

A simultaneous multiple regression analysis of reservation price, aspiration price and offer zone clearly shows the separate roles of reservation price, aspiration price and initial offer (see table 3).

Insert table 3 about here

Results of table 3 are interesting for each of the three variables: reservation prices are not significantly associated with result ($p = .74$ and $.71$). In other words, all relevant

information present in the variation of the reservation prices is also present in aspiration price and offer zone. If negotiators were to follow negotiation theory, they would all derive their reservation price from their BATNA and reservation price would not show variance. This is largely the case for the seller, who has a clear BATNA, and where the variance in reservation price is less than 25% of the variance in initial offer. This is certainly not the case for the buyer: the variance in reservation price is even higher than variance in initial offer. However, it certainly is not reservation price that plays the central role in determining the negotiated outcome.

Aspiration price is very significantly associated with the negotiated outcome (seller: $t = 6.68^{**}$, $p < 0.001$; buyer: $t = 9.15^{**}$, $p < 0.001$). This finding corroborates almost forty years of research. However, our point of interest lies with the results for offer zone. For the first time, to our knowledge, it has been clearly demonstrated that the mentally prepared initial offer has a significant (seller: $t = 3.33^{**}$, $p < 0.01$; buyer: $t = -4.01^{**}$, $p < 0.001$) and independent contribution to the prediction of negotiation results. Negotiator's offer zone (i.e., the relative, not absolute, positioning of the initial offer) contributes consistently and significantly to the prediction of the negotiated result.

Aspiration and offer zone taken together define 'negotiator's scope': that is, the distance between reservation price and initial offer. As could be expected, 'negotiator's scope' is even more strongly associated with the negotiated outcome than 'offer zone'. A multiple regression analysis with result as the dependent variable and reservation price together with scope as the independent variables shows that buyer's scope ($t = -9.406$, $p <$

0.001) and seller's scope ($t = 7.937$, $p < 0.001$) are very strong predictors of negotiation outcome.

Discussion

Our central hypothesis has been clearly confirmed. In a single-issue distributive transaction, not the interactive but the situational reference points have the greatest effect. One reference point per negotiator, the (mentally prepared) initial offer, explains the majority of the variation in negotiation outcome. Initial offer conveys the most information. It seems to capture all information present in aspiration price and to add information *sui generis*. Negotiators who demonstrate their ambition in the initial offer obtain better results than negotiators who restrict themselves in this transaction. Some negotiators set ambitious targets and prepare bold initial offers: they show 'large scope'. In a two-person single-issue distributive negotiation, they largely outperform the more hesitant.

STUDY 2

Although results from study one were clear, it remained unclear as to what degree the introduction of different BATNA-structures for buyer and seller had influenced our results. We decided, therefore, to replicate the study, placing both parties in a more symmetrical situation.

Research Design

Our research design consisted of the simulation of the same one-to-one price negotiation. The buyer's BATNA remained vague: it remained unclear whether or not building a new plant was a viable option. We made the seller's BATNA also vague: the only alternative was dismantling the plant at an unknown cost.

The rest of the procedure remained unchanged.

The same data as for study 1 were systematically collected for 106 participants (or 53 negotiations): the seller's gender, reservation price, aspiration price and asking price (initial offer); and seller's reservation price, aspiration price and first offer (initial offer), result and initiator. Negotiations took place in Dutch. The currency was also Belgian Francs (1 Euro = 40 BEF). Thirteen (12.2%) participants were women.

Results and Discussion

Five negotiations led to a non-agreement, leaving 96 participants in 48 negotiations to provide the data for analysis.

Table 4 show the mean, standard deviation and intercorrelations of the six reference points and the final result.

Insert table 4 about here

When we compare means and standard deviations of studies one and two, we can notice that, as expected, the standard deviation of the seller's reservation price has dramatically increased. We did not expect the drastic drop in standard deviation for the buyer's aspiration price and particularly for the buyer's initial offer.

In a simultaneous multiple regression analysis with the six reference points we obtain $R^2(\text{adj.})$ of .490**, a drop of almost 10% compared to study 1, almost completely caused by a minor role for buyer's aspiration price and initial offer. However, the conclusions of study one remain valid.

If we restrict ourselves to only one reference point per negotiator, namely the (mentally prepared) initial offer, i.e. the reference point with the strongest predictive validity, our predictive power only drops to .479 (it drops to .301 for aspiration prices and to .178 for reservation prices). Only one reference point per negotiator explains almost as much variance as three, namely almost 50%. The difference between the predictive power for initial offers and for aspiration prices is now 17.8%, compared to a modest 2.8% in study 1.

This conclusion is further illustrated in a multiple regression analysis with reservation price, aspiration price and offer zone as independent variables (see table 5). For the seller, offer zone has now become even more important than aspiration price. For

the buyer, offer zone is less important than aspiration price, and is only of marginal significance.

Insert table 5 about here

The importance of ‘negotiator’s scope’ can be illustrated by the results of a multiple regression analysis. Together with reservation prices, buyer’s scope ($t = -3.505$, $p = 0.001$) and seller’s scope ($t = 3.672$, $p = 0.001$) are strong predictors of the negotiated outcome. Once again, it becomes clear that mentally prepared initial offers have a contribution *sui generis* to the prediction of the negotiation outcome.

Under certain circumstances, optimistic negotiators seem to perform better than the pessimistic negotiators. Because of the generous bargaining zone, our study falls under the conditions favorable to a positive impact for optimism (Riley & Robinson, 1999). Could ‘optimism’ explain the stronger impact of mentally prepared initial offers? Riley and Robinson (1999) measure negotiators’ optimism based on their ambition, as expressed in their aspiration price. Could it be that an initial offer is an even better measurement of ‘optimism’ than aspiration price? A principal components analysis of reservation price, aspiration price and initial offer points to the opposite explanation: in the four cases (separate analyses for buyer and seller in two studies), one dominant factor emerges that explains between 71.7% and 84.6% of the variance. Following Riley and Robinson (1999), we could certainly call this factor ‘optimism’. In all four cases,

aspiration price has the highest loading and reservation price has the lowest. Aspiration price loads between .942 and .977; initial offer loads between .848 and .905; reservation price loads between .717 and .846. A multiple regression with the factor scores of this principal component 'optimism' analysis, explains 55.9% in study one and 37.9% in study 2 (i.e., lower, respectively). We found 57.1% and 47.9% for initial offer, but these were higher than the 54.3% and 30.1%, respectively, that we found for aspiration prices.

GENERAL DISCUSSION

We can conclude that both initial offers are the best predictors of the negotiation result. We know from earlier research on negotiation success that very ambitious negotiators, identified by their aspiration prices, obtain better results than less ambitious negotiators. However, one has to add that they obtain even better results if they can express this ambition in their mental preparation of the initial offer. This supremacy of 'initial offer' over 'aspiration price' has been almost totally neglected in the current negotiation literature, although practitioners generally are much more concerned about their initial offer than about their aspiration price.

Mentally prepared initial offers determine two zones, both very strongly associated with the final result: offer zone and negotiator's scope. Some negotiators have a narrow view of the bargaining zone; they are cautious, hesitant and self-effacing. Others take the 'big view': the distance between (perceived) limit and initial offer is

large. In a generous bargaining zone, negotiators with large scope outperform even ambitious opponents, who do not link ambition to initial offer.

Only one reference point per negotiator is needed to explain 50% of the variance in outcome. Does this mean that personality, communication style and so forth are unimportant? We certainly did not. We only showed that, compared to dynamic reference points under well-defined conditions, the effect of situational reference points is by far the strongest. It is unclear whether or not personality factors have a direct or indirect effect on the final result. Personality could influence the outcome indirectly by influencing the process of target setting and preparation of the initial offer. Personality factors could also work more directly by affecting the way aspiration or initial offers shape the negotiation outcome. We could speculate on processes such as consistency, self-confidence, positive illusions, self-efficacy, and so on, but the question remains largely open as to what factors are translating ambition or preparation of the initial offer into better results.

Has optimism (or any other personality factor such as locus of control) a direct or indirect effect on the negotiated outcome? The evidence seems to point to an indirect effect. A strong ambition effect on the final outcome is also found in studies manipulating the ambition level. If optimism had to explain both ambition and a mysterious process leading – at a given level of optimism - to better results, we would certainly be asking a great deal of this concept and its role. A direct test of the role of optimism would imply independent measures of optimism, negotiator's ambition and

negotiation result. Our prediction is that optimism would only influence ambition.

Can our results be explained by the nature of the research setting? Are communication styles, gender, argumentation, etc. more relevant in real life? Compared to so many other studies we invested heavily in external validity. We did not use undergraduates, but experienced managers; we used a rich simulation rather than a formalized pay-off matrix. One can reasonably argue that our experimental task sets limits on behaviors. However, so does the real world. We do not negotiate with our neighbors the way we do in a foreign country. We have more freedom to start risky proposals in the laboratory than in our personal lives. On the other hand, all trainers know that emotions can run very high in a simulation or role-play. Many people experience more emotions in a social skills training session than on the work floor. Real life is different from a lab experiment. Nevertheless, real life is not very clear in its messages. If real life were unambiguous and if we could fully understand it, then we would also fully understand the differences between real and simulated. However, we do not fully understand the real world. That is why we do research.

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TABLE 1
Descriptive Statistics of Study 1^a

Variables	Mean	s.d.	1	2	3	4	5	6
1. Reservation price seller	6,488	2,125						
2. Aspiration price seller	10,593	3,162	.53**					
3. Initial offer seller	14,133	4,333	.37**	.83**				
4. Reservation price buyer	15,119	5,027	-.06	.04	.08			
5. Aspiration price buyer	10,054	3,696	-.04	.09	.10	.75**		
6. Initial offer buyer	6,771	3,294	.03	.12	.10	.49**	.82**	
7. Negotiated result	9,844	3,050	.18*	.47**	.49	.43	.63**	.63**

^a N = 183

* $p < .05$.

** $p < .01$.

*** $p < .001$

TABLE 2
Results of Simultaneous Multiple Regression Analysis with Six Reference Points in
Study 1^a

	Beta	t
Reservation price seller	-.02	-0.33
Aspiration price seller	.18	1.91
Initial offer seller	.28**	3.33**
Reservation price buyer	.03	0.37
Aspiration price buyer	.26*	2.21*
Initial offer buyer	.36**	4.01**
R	.781**	F= 45.81
R ²	.610**	
R ² (adj.)	.596**	

^a N = 183

* $p < .05$.

** $p < .01$.

*** $p < .001$

TABLE 3

Summary of Simultaneous Multiple Regression Analysis with Reservation Prices, Aspiration Prices, and ‘Offer Zone’ as Independent Variables in Study 1^a

	Beta	t
Reservation price seller	-.02	-0.33
Aspiration price seller	.38**	6.68**
Offer zone seller	.16**	3.33**
Reservation price buyer	.03	0.37
Aspiration price buyer	.66**	9.15**
Offer zone buyer	-.23**	-4.01**
R	.78**	F= 45.81
R ²	.61**	
R ² (adj.)	.60**	
df	182	

^a N = 183

*p < .05.

**p < .01.

***p < .001

TABLE 4
Descriptive Statistics of Study 2^a

Variables	Mean	s.d.	1	2	3	4	5	6
1. Reservation price seller	5,745	3,897						
2. Aspiration price seller	10,835	3,952	.59**					
3. Initial offer seller	15,448	4,554	.33**	.78**				
4. Reservation price buyer	12,717	3,863	-.22	-.13	-.02			
5. Aspiration price buyer	8,608	3,179	.02	.01	.06	.81**		
6. Initial offer buyer	5,713	2,558	.13	.04	.06	.61**	.88**	
7. Negotiated result	8,700	3,101	.21	.24	.45**	.35*	.53**	.57**

^a N = 48

* $p < .05$

** $p < .01$

*** $p < .001$

TABLE 5

Results of Simultaneous Multiple Regression Analysis with Reservation Prices, Aspiration Prices, and Offer Zone as Independent Variable in Study 2^a

	Beta	t
Reservation price seller	.19	1.32
Aspiration price seller	.17	1.32
Offer zone seller	.45**	4.09**
Reservation price buyer	.01	0.05
Aspiration price buyer	.64**	3.30**
Offer zone buyer	-.44	-1.85
R	.75**	F= 8.53
R ²	.56**	
R ² (adj.)	.49**	

^a N = 48

* $p < .05$

** $p < .01$

*** $p < .001$

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