

# Pay as much as you can afford: Counterpart's ability to pay and first offers in negotiation

Yossi Maaravi\*

Asya Pazy†

Yoav Ganzach†

## Abstract

Three experiments investigated the relations between buyers' wealth or ability to pay (ATP) and sellers' first offers. Study 1 demonstrated a positive correlation between sellers' first offers and their perceptions of the buyer's ATP as well as its real economic power (indicated by the company's market value). In Study 2, sellers in a field experiment made higher offers to potential buyers of higher ATP. Study 3 examined the relations between buyer's ATP, the perception of its ability to obtain alternatives to a specific deal, and sellers' first offers. We found a positive correlation between sellers' perception of buyers' ATP, real ATP (as indicated by market value), and sellers' perception of buyers' availability of alternatives. As in Study 1, here too, the unit of analysis was the behavior of the individual participant. However, when sellers were primed to concentrate on buyers' alternatives, their first offers were negatively related to perceived buyer's alternatives.

Keywords: negotiation, first offers, power, alternatives, BATNA.

## 1 Introduction

Every negotiation must start with a first offer by one of the negotiating parties. First offers determine the process and outcomes of negotiations (Chertkoff & Conley, 1967; Liebert, Smith, Hill, & Keiffer, 1968) by affecting both counteroffers and settlement prices (Galinsky & Mussweiler, 2001) through a process of anchoring and adjustment (Tversky & Kahneman, 1974). But although first offers have become an important research subject in recent years (e.g., Galinsky & Mussweiler, 2001; Magee, Galinsky & Gruenfeld, 2007), one simple question has not been fully answered: How do initiators decide the amount of their first offer?

Research indicates that negotiators focus on various cues and reference points when deciding the amount of their first offer. The main reference points include market prices (Buelens & Van Poucke, 2004), reservation prices (Pruitt & Carnevale, 1993), aspiration prices (White & Neale, 1991), and own and counterpart's alternatives (Buelens & Van Poucke, 2004; Pinkley, Neale, & Bennett, 1994). Several of these cues might not be readily accessible, and negotiators might have to exert some, or even considerable, effort to find or identify them. On the other hand, easily available cues, such as counterpart's reputation, prestige, power or status, have not been investigated as potential determinants of the initial offers. One important variable is counterpart's wealth, or ability

to pay (ATP). The current article focuses on this variable as a determinant of the amount of the first offer.

Common sense wisdom might lead us to predict a positive correlation between the counterpart's perceived ATP and the first offer that will be presented to him or her. Negotiators will make higher offers to wealthy counterparts because they believe that with greater resources the wealthy can afford to pay more. Common wisdom suggests that this may indeed be the case: A contractor will charge more for fixing your roof if you live in an upscale neighborhood (namely, you are considered to have high ATP), lawyers charge higher fees from richer costumers, and the same mechanical repair will cost you more if you drive an expensive car (which signals high ATP). In legal settings, there is a widely held belief that jurors tend to award higher compensation for "deep pocket" defendants.

On the other hand, though high ATP involves plentiful resources, it is also characterized by attributes that are likely to make the counterpart *less* willing to accept a high offer, leading to a negative ATP effect on first offers. There are two main reasons for this opposite effect. First, the solid economic basis of high ATP negotiators enables them to better search their environment and consequently to find better deals than the one offered. Second, if sellers believe that wealthier buyers are willing to pay more, than it is possible that more sellers would approach high ATP buyers. Taken together, these two reasons suggest that high ATP negotiators have more alternatives for a given deal, and therefore their BATNA (best alternative to a negotiated agreement) would be better than the BATNA of

\*The Leon Recanati Graduate School of Business Administration, Tel Aviv University, Tel Aviv, 69978, Israel. Email: yossi@orgnx.co.il

†Tel Aviv University

low ATP negotiators. With a better BATNA, high ATP negotiators are less inclined to accept high offers.

A somewhat parallel reasoning is evident in legal settings. On the one hand, jurors might be biased against wealthy defendants (who can afford to pay) and award them higher compensation. However, “deep pockets” have more resources to fight back (e.g., Bornstein, 1994; MacCoun, 1996). In the case of tort law, “deep pockets” might have to pay out to many more claims, so they will tend to fight harder on an individual lawsuit.

Though considering the counterparts’ viewpoint in a negotiation setting, particularly their alternatives for the present deal, is often recommended to negotiators (Galinsky & Mussweiler, 2001; Thompson, 2005), information about counterpart’s alternatives is often unavailable. Counterpart’s wealth, and therefore its ability to pay (ATP), on the other hand, is typically more available and more visible than its alternatives or its BATNA, so it becomes dominant. We know that decision makers tend to pay attention to a single dominant dimension or attribute of objects they judge (Ganzach, 2000; Gardiner & Edwards, 1975). Examples of this behavior are the prominence effect, namely the tendency to focus solely on the most important, or most prominent, attribute (Tversky, Sattath, & Slovic, 1988), and the halo effect, namely the tendency to construct global impressions on the basis of a single trait and base subsequent judgments on these overall impressions (Thorndike, 1920). Thus, because ATP is a more ready cue than availability of alternatives in the context of negotiation, we expect a positive ATP effect on counterpart’s first offers.

In sum, this article focuses on a straightforward question: Do sellers make different first offers for the same products or services when dealing with costumers of different economic resources? Though this question is simple, as far as we know it has not been empirically examined. This article aims to fill this gap by investigating the relation between counterpart’s economic wealth (and therefore its ATP) and first offers in negotiation. The first two studies provide lab and field tests for this prediction. In the third study we prime respondents to think about the counterpart’s available alternatives to the present deal, in order to ask whether attention to alternatives might counteract or reverse the tendency to assume that wealthy counterparts will pay more.

## 2 Study 1

The first study was designed to test the relation between companies’ economic wealth (both real and perceived) and the first offers that they receive as potential buyers (of service) during negotiation. We hypothesized that sellers will make higher demands to wealthier companies. Sta-

tistically, first offers should be *positively* correlated with evaluations of counterpart’s wealth (or ATP). Moreover, this positive correlation should be accentuated when sellers are primed to focus on their counterparts’ economic resources *before* making the first offer (Magee et al., 2007). Priming is a stimulus that is presented just before an activity is about to occur in order to make certain attributes more dominant. It renders certain schemas or associations in memory more accessible (Higgins, Rholes, & Jones, 1977; Neuberg, 1988).

### 2.1 Method

The first study consisted of a two-phase questionnaire. Participants assumed the role of sellers in a negotiation scenario and were requested to (1) make first offers to 12 companies (listed in the Tel-Aviv stock exchange, TASE), and (2) evaluate (on a different page) the economic strength of these companies as a proxy of their ATPs. A random half of the participants answered the two questions in the above order (Offer-ATP), whereas the other half answered these questions in a reverse order (ATP-Offer).

#### 2.1.1 Participants and procedure

One hundred and fifty pre-college students (20–25 years old) participated in this experiment and had a chance to win six monetary prizes of 200 NIS (approximately \$60) each. All participants played the role of sellers.

They were assumed to be the owners of a software company that specialized in e-learning solutions for organizations. They were told that a certain company had requested their offer for such software. They were further told that they had the exact specifications for the software, and that after consulting with their production team their cost was estimated at 20,000 NIS (approximately \$6,000).

Participants were presented with a list of twelve names of Israeli companies, and were told that each of these companies could be their client. All twelve companies were taken from TASE. The companies were picked according to their market value in order to represent three levels of economic wealth: less than 100 million dollars (4 companies), 100–1,000 million (4 companies), and 1,000–100,000 million (4 companies). The order of the companies in the list was determined randomly.

A random half (Offer-ATP) of the participants was requested to write down the first offer they would make to each of these twelve companies. They were next asked to estimate (on a separate page) each company’s economic power on a 7-point Likert-type scale ranging from (7) very high to (1) very low. The other half (ATP-Offer) answered the same questionnaire in reverse order. The

latter group served as the priming condition. It was hypothesized that if indeed ATP was used as a determinant of the first offers, then making the participants concentrate on companies' economic resources *before* they decided the amount of the first offer would yield a stronger correlation between the two variables.

### 2.1.2 Measures

*aATP* (actual Ability To Pay) represents the market value (in millions of dollars) of each company, as taken from TASE data.<sup>1</sup> It is based on the premise that market value indicates the wealth of a company, or its ATP. *pATP* (perceived Ability To Pay) represents participants' estimations of companies' economic resources on a 1–7 scale. *FO* (First Offer) represents the amount of the first offer (in NIS) that participants presented to the different companies.

For each participant separately (within-subjects), the correlations between all possible pairs of the above three variables were computed. This yielded three correlations for each participant:  $r_{aATP-pATP}$ ,  $r_{pATP-FO}$ , and  $r_{aATP-FO}$ . These correlations were used as our dependant variables (between-subjects).  $r_{pATP-FO}$  was our most important variable since we were mainly interested in the way perceived ATP was associated with first offers. The two other correlations examined the relationships between perceived and real ATP.

For each condition (Offer-ATP vs. ATP-Offer) and for each correlation, we examined whether the average correlation across all participants was significantly different from zero. We also investigated whether these average correlations differed between the two conditions.

## 2.2 Results and discussion

Table 1 presents means and standard deviations of  $r_{aATP-pATP}$ ,  $r_{pATP-FO}$ , and  $r_{aATP-FO}$  for Offer-ATP and ATP-Offer.<sup>2</sup> In addition, it includes the results of six one-sample t-tests that were computed for each condition separately. These six one-sample t-tests were computed in order to explore whether each correlation was *positive* and differed from zero. Finally, Table 1 presents the t values and Cohen's *d* for effect size (in brackets) of three independent one-sided t-tests that were used to compare the two conditions (Offer-ATP vs. ATP-Offer).

<sup>1</sup>Data are updated to June 2007, when the experiment was conducted.

<sup>2</sup>When comparing and averaging correlations, it is sometimes better to transform the Pearson *r*'s into Z scores using Fisher's *r* to Z transformation. Here, running the same analyses on the Z scores instead of the raw *r* yielded the same significance levels for all 9 t tests (both the one-sample t-tests and the independent t-tests). Since this was the case, and because we wanted to show the level of correlation in a meaningful way, Table 1 presents only Pearson *r*.

$r_{aATP-pATP}$  was significantly positive for both Offer-ATP and ATP-Offer. In addition, the two correlations did not differ significantly.

$r_{pATP-FO}$  was also significantly larger than zero for the two conditions. This result indicates that the wealthier a company is perceived by sellers, the higher the first offers it will make. But, when participants were primed to think of economic power before they made their first offers (ATP-Offer), this correlation was significantly stronger than in the Offer-ATP condition. This finding lends support to the idea that it was indeed perceived economic wealth that affected first offers.

Computing the correlations of ATP and first offers by using market value as an indicator of a *actual* ability to pay (*aATP*), instead of *perceived* ability to pay (*pATP*), yielded similar results. The correlations for each condition separately were significantly positive, and the correlation in the priming condition (ATP-Offer) was significantly *stronger* than that of the other condition.

In summary, the results of Study 1 indicate a clear pattern: The wealthier a company is perceived to be, the higher the first offers that sellers will present to this company.

## 3 Study 2

Study 2 was a field experiment designed to address several limitations of Study 1. One limitation of Study 1 relates to its design. Participants made twelve first offers to twelve companies. It may be argued that in reality a first offer is made to a single counterpart at a given time, and that our setting called for a demand characteristic that led participants to make *different* first offers to different companies. This limitation seems to be of minor importance, as it is equally possible that participants thought they should appear consistent by making *equal* first offers to all companies.

Another limitation of Study 1 is that the companies differed not only in their economic strength but also in their familiarity. We believe that this problem is not major for two main reasons. First, according to the recognition heuristic, decision makers are expected to see a positive correlation between familiarity and economic wealth: "If one of two objects is recognized and the other is not, then infer that the recognized object has the higher value with respect to the criterion" (Goldstein & Gigerenzer, 1999, p. 41). In our case the criterion was the economic resources (and therefore the ATP) of the different companies. Second, our results indicated a significant correlation between *actual* wealth (market value) and *perceived* wealth (participants' answers to the economic strength question in the questionnaire).

Table 1: Summary of Study 1 results (N=75). S.d. in parentheses.

Variable	Offer-ATP	ATP-Offer	t
$r_{aATP-pATP}$	0.37 (0.24) $p = 0.001$	0.43 (0.16) $p = 0.0001$	1.64 ( $d = -0.29$ ) $p = 0.060$
$r_{pATP-FO}$	0.37 (0.54) $p = 0.001$	0.57 (0.53) $p < 0.0001$	2.27 ( $d = -0.37$ ) $p = 0.013$
$r_{aATP-FO}$	0.23 (0.31) $p = 0.047$	0.34 (0.32) $p = 0.003$	2.26 ( $d = -0.35$ ) $p = 0.013$

Finally, it is possible that the behavior that is described in Study 1 is exclusive to laboratory experiments, where there is no risk of losing a potential client (and especially a wealthy one) due to an overly extreme first offer.

Study 2 was designed to overcome these limitations. It addresses the first limitation by examining negotiators' first offers in a fully *between-subjects* design. The second limitation is overcome by letting negotiators make first offers to *fictional* companies, which are described as having different economic resources. And it deals with the third limitation by using a field experiment.

Study 2 involved a field experiment in which real maintenance companies were requested to make an offer to a single company (a hobby center for building model aircraft, or an attorney's office specializing in large-scale mergers and acquisitions). It was predicted that the first offers presented to the former will be significantly lower than those made to the latter.

### 3.1 Method

#### 3.1.1 Participants and procedure

Participants were sales representatives of 90 maintenance companies that had been randomly picked from the Israeli Yellow Pages list of several hundreds such companies. A research assistant blind to the research question and predictions called each company and told its sales person that he was working for either a low-budget hobby center (low-ATP), or for an attorney's office that specialized in large scale mergers and acquisitions (high-ATP). He said that he was calling to receive their offer for maintenance services, and that it was impossible for them to visit the office since it was being renovated. Instead, he said that he would send them the plan of the office, together with the exact specifications of the required maintenance work via email. All 90 companies received exactly the same materials, except from the description of the potential client (hobby center/attorney's office).<sup>3</sup>

<sup>3</sup>Study 2 was approved by the appropriate Helsinki Committee for Research Involving Human Subjects at Tel Aviv University. The demands on the agents' time was found to be minimal.

### 3.2 Results and discussion

Thirty-four companies (37%) replied with monetary first offers. The remaining 56 companies did not answer the phone calls, were not willing to make offers via email, or promised to send their offers but failed to do so. There was no difference between the response rates to low-ATP (36%) or high-ATP (39%) companies:  $X^2(1, 88) = 0.11$ ,  $p = 0.74$ .<sup>4</sup>

Sales representatives made higher offers to companies of higher ATP compared with low ATP companies: 3,743 NIS (SD = 1,356) vs. 2,936 NIS (SD = 1,024), respectively (one company, from the low ATP condition, was removed from the analysis since its offer was more than 2.5 standard deviations from the average). Since our hypothesis was that the sales persons would make higher first offers to high ATP companies (and given the results of Study 1), a one-sided t-test was used. This analysis does yield a significant result:  $t(1, 31) = 1.91$ ,  $p = .03$ .

Thus, consistent with our prediction, although participants in both groups made offers regarding identical projects, their responses were different, depending upon the client's ATP. Thus, this field experiment overcomes all three major limitations of Study 1 and strengthens the validity (both internal and external) of our results.

## 4 Study 3

Thus far, we have demonstrated that sellers and suppliers use customers' wealth or ability to pay (ATP) as a determinant of the amount of the first offer. While this variable has not received scientific attention, negotiators' BATNA (Best Alternative to The Negotiated Agreement) is at the center of the negotiation research. Negotiators' alternatives are considered a key source of power in negotiations (Fisher, Ury, & Patton, 1991; Raiffa, Richardson, & Metcalfe, 2002; Thompson, 2005), and indeed empirical studies tend to use BATNA to manipulate negotiators' power (Bacharach & Lawler, 1981; Magee et al.,

<sup>4</sup>The fact that the response rates for the two conditions were similar is intriguing, as it may be hypothesized a higher response rate in the high-ATP condition. It may be argued that the salesmen would be more willing to make a first offers to clients with higher economic resources, presumably because they can make more money from them.

2007; Mannix & Neale, 1993; Pinkley et al., 1994). Research has further demonstrated that BATNA was one of the most salient determinants of first offers (Buelens & Van Poucke, 2004).

However, since counterparts' BATNAs are typically unknown to the negotiators who make the first offers, the latter use more accessible information in order to decide the amount of the first offer. We suggested above that ATP is such information. But although information regarding counterparts' BATNA is usually unavailable, scholars continue to advise negotiators to focus on and think about their opponents' alternatives as a tool to improve results (Galinsky & Mussweiler, 2001; Thompson, 2005). In this context it is interesting to investigate the relation between economic resources and perceived power in a specific negotiation. While economic resources and BATNA-based-power are two distinct constructs (Thompson, 2005), lay negotiators might see a positive relation between the two. Thus, when negotiators follow the advice to focus on their counterparts' alternatives, it may reverse the pattern that was illustrated in Studies 1 and 2 above. If initiators are primed to focus on counterparts' alternatives, and if they believe that wealthier companies have more alternatives, we can expect a *negative* correlation between ATP and the amount of first offers.

Study 3 was designed to examine the relationships between economic resources and the perceived ability-to-obtain-alternatives and their implications regarding first offers. The design was identical to that of Study 1, except that here participants were asked to evaluate their counterparts' availability of attractive alternatives instead of their economic wealth. We examined the correlations between companies' ATP (using market value), the perceived ability to obtain alternatives, and the first offers they receive. Participants made the first offers and then evaluated counterparts' alternatives (Offer-Alternatives), or the other way around (Alternatives-Offer).

This design was used to examine the relationship between actual ATP and the perceived ability to obtain alternatives. More importantly, it was used in order to investigate the relationship between alternatives and first offers. Given people's tendency to concentrate on a single attribute (Ganzach, 2000; Gardiner & Edwards, 1975; Thorndike, 1920; Tversky, Sattath, & Slovic, 1988), it is possible that the participants in Study 1 did not think of counterpart's alternatives when formulating their first offers, but instead focused on its monetary resources. But if lay negotiators indeed see a positive relation between counterpart's economic resources and its alternatives, priming them to focus on counterpart's ability to obtain alternatives may yield different results. Thus, we predicted (a) a *positive* correlation between ATP and the perceived ability to obtain alternatives, which would not

differ between the two conditions; (b) a *positive* correlation between the perceived ability to obtain alternatives and first offers when alternatives are *not* primed (Offer-Alternatives); and (c) a *negative* correlation between the perceived ability to obtain alternatives and first offers when alternatives *are* made salient by asking about alternatives before participants decide their first offers (Alternatives-Offer).

## 4.1 Method

Similar to Study 1, Study 3 consisted of a two-phase questionnaire. As in Study 1, participants playing the role of sellers in an identical scenario were requested to (1) make first offers to 12 companies, all taken from TASE; and (2) evaluate these companies' ability to obtain alternatives.

### 4.1.1 Participants and procedure

One hundred and twenty five undergraduates from the Tel Aviv University Business School participated in the experiment to fulfill a class requirement. Six monetary prizes of 200 NIS (approximately \$60) were promised to randomly picked participants. All of the participants played the role of sellers and received the same scenario, which was identical to that of Study 1.

A random half (Offer-Alternatives) of the participants were first requested to write down the first offer they would make to each of these twelve companies. They were next asked to estimate each company's ability to obtain attractive alternatives to the current negotiation using a 7-point Likert-type scale ranging from (7) very high to (1) very low. The phrasing was: "Please indicate, for each company, the extent to which this company is able to obtain other attractive offers for such software other than your own offer." The other half (Alternatives-Offer) answered the same questionnaires in a reverse order. The latter group served as the priming condition

### 4.1.2 Measures

*aATP* (actual Ability To Pay) represents the market value in millions of dollars for each company, as taken from TASE data<sup>5</sup>. *pALT* (perceived Alternatives) represents participants' estimations of the companies' ability to obtain other attractive offers on a 1–7 scale. *FO* (First Offer) represents the amount of the first offer (in NIS) that participants presented to the different companies.

The same analysis as in Study 1 was used except that here the three correlations that were analyzed as the study's dependent variables were  $r_{aATP-pALT}$ ,  $r_{pALT-FO}$ ,

<sup>5</sup>Data are updated to June 2007, when the experiment was conducted.

and  $r_{aATP-FO}$ . We examined whether the average correlation across all participants was significantly different from zero for each condition (Offer-Alternatives and Alternatives-Offer) and for each correlation ( $r_{aATP-pALT}$ ,  $r_{pALT-FO}$ , and  $r_{aATP-FO}$ ). Finally, we tested whether these average correlations differed between the two conditions.

## 4.2 Results and discussion

Table 2 presents means and standard deviations of the three variables:  $r_{aATP-pALT}$ ,  $r_{pALT-FO}$ , and  $r_{aATP-FO}$  for Offer-Alternatives vs. Alternatives-Offer.<sup>6</sup> The same statistical tests that were run in Study 1 were also run here: six one-sample t-tests were computed for each condition separately, and three independent t-tests compared the two conditions (Cohen's  $d$  for effect size is in brackets).

$r_{aATP-pALT}$  was significantly positive for both Offer-Alternatives and Alternatives-Offer. This result supports our hypothesis that although economic resources and alternatives-based-power are two distinct constructs, lay negotiators see a positive relation between the two. Similar to Study 1, these two correlations did not differ significantly, indicating that the perceived ability to obtain alternatives was affected by the companies' economic wealth.

$r_{pALT-FO}$  was significantly different from zero for the two groups. However, whereas this correlation was *positive* for the Offer-Alternatives condition, it was *negative* for the Alternatives-Offer condition. As in Study 1, when sellers were initially requested to make first offers, they made higher offers the wealthier they perceived the companies to be. But when sellers were instructed to focus on counterparts' alternatives *before* presenting their first offers, this pattern reversed, yielding a significantly *negative* correlation between alternatives and first offers. The two correlations were significantly different. These results suggest that (a) when no information regarding alternatives is available, negotiators focus on counterparts' ATP, not on counterparts' alternatives, to decide the amount of the first offer; and (b) lay negotiators believe that the wealthier a company is, the more it can obtain attractive alternatives, and consequently should receive a more competitive first offer.

Similar patterns were obtained for the correlations of first offers and actual wealth (using market value as a proxy. See:  $r_{aATP-FO}$ ): the strong positive correlation in the Offer-Alternatives condition disappeared (i.e., did not differ from zero) when participants were asked about alternatives before making their first offers. These results support the notion that people see a positive relation between the economic wealth (ATP) of a company and its ability to obtain attractive alternatives to a given deal.

<sup>6</sup>As in Study 1, we present Pearson  $r$  and not  $z$  scores. Running the same analyses on the  $Z$  scores yielded exactly the same significance levels for all 9 t tests.

In summary, the results of Study 3 show that negotiators positively associated the economic wealth of a company with its power in the negotiation, defined as its ability to obtain alternatives, but also that they ignore it when making first offers unless primed to focus on it.

## General discussion

In the present research we demonstrated how counterparts' ATP affected the amount of the first offers that negotiators made. Our results indicated three patterns. First, a player's ATP was positively correlated with the amounts of first offer it received. This pattern remained the same both when the ability to pay was assessed objectively, by using companies' market value as an indicator of their economic wealth, and subjectively, by using participants' own estimations of companies' economic strength. The same results were obtained in a field experiment with sales representatives of real companies. Second, negotiators saw a positive relation between companies' wealth and their ability to obtain alternatives, which was seemingly an indication of their power in the specific negotiation. Finally, companies' ATP was a more dominant attribute in determining the first offer that they received in negotiations than their ability to obtain alternatives.

As opposed to negotiators' behavior in Studies 1 and 2, it is possible that wealthier clients should receive *lower* first offers as they have better alternatives. Indeed, many other sellers may be willing to present competitive offers to such clients since they seem more economically stable, have a larger network of affiliates to whom they can recommend the suppliers' services, and serve as a signal to other clients about the suppliers' quality of services ("if  $x$  chose this supplier, it must be good..."). That is, the fact that negotiators did not think about the possible relation between economic wealth and the availability of alternatives (unless primed to) may lead to more rejections of their first offers and impair their economic results.

It is important to note that, although information regarding counterparts' alternatives (or BATNA) is usually unavailable, scholars still advise negotiators to think about and explore their opponents' alternatives as a tool to improve results (Galinsky & Mussweiler, 2001; Thompson, 2005). For example, Galinsky and Mussweiler (2001) demonstrated that merely thinking about counterparts' alternatives (and without any new information) helped negotiators to overcome the anchoring effect of first offers and eventually close better deals.

Future research should investigate the influence of ATP on first offers in more complex scenarios, where multiple reference points are available. For example, it was demonstrated that counterpart's BATNA is a more dom-

Table 2: Summary of Study 3 results. S.d. in parentheses.

Variable	Offer-Alternatives	Alternatives -Offer	T
$r_{\text{aATP-pALT}}$	0.33 (0.28) 56 $p = 0.013$	0.33 (0.24) 61 $p = 0.009$	0.120 ( $d = 0$ ) $p = 0.905$
$r_{\text{pALT-FO}}$	0.58 (0.54) 45 $p < 0.0001$	-0.30 (0.84) 59 $p = 0.02$	6.15 ( $d = 1.25$ ) $p < 0.0001$
$r_{\text{aATP-FO}}$	0.38 (0.32) 48 $p = 0.008$	0.04 (0.46) 60 $p = 0.76$	5.26 ( $d = 0.86$ ) $p < 0.0001$

inant determinant of the first offer than other salient reference points, such as reservation price, market information and aspiration (Buelens & Van Poucke, 2004). In the current article participants had nothing to cling on but counterparts' economic wealth. It is possible that when more information is available other reference points (and particularly, counterpart's BATNA) are more dominant.

Another important variable that should be investigated in future research is the motivation of the counterpart to accept the offer. By telling Study 1 participants that their counterpart was interested in receiving an offer, we might have led them to believe that the counterpart was highly motivated (or ready) to accept their offer and close the deal. While they may have erred to infer such high motivation, it is highly unlikely that the professional sales representatives in Study 2 made the same inaccurate inference. Nevertheless, future research should measure participants' beliefs regarding counterparts' motivation to accept an offer and investigate the relation between these beliefs and the extremity of the first offers.

## References

- Bacharach, S. B., & Lawler, E. J. (1981). *Bargaining: Power, tactics, and outcomes*. San Francisco: Jossey-Bass.
- Bornstein, B. H. (1996). David, Goliath, and reverend Bayes: Prior beliefs about defendants' status in personal injury cases. *Applied Cognitive Psychology, 8*, 233–258
- Buelens M., & Van Poucke D. (2004). Determinants of a negotiator's initial opening offer. *Journal of Business and Psychology, 19*, 23–35.
- Chertkoff, J. M., & Conley, M. (1967). Opening offer and frequency of concession as bargaining strategies. *Journal of Personality and Social Psychology, 7*, 181–185.
- Fisher, R., Ury, W., & Patton, B. (1991). *Getting to yes: Negotiating an agreement without giving in*. London: Century Business.
- Galinsky, A. D., & Mussweiler, T. (2001). First offers as anchors: The role of perspective-taking and negotiator focus. *Journal of Personality and Social Psychology, 81*, 657–669.
- Ganzach, Y. (2000). Judging risk and return of financial assets. *Organizational Behavior and Human Decision Processes, 83*, 353–370.
- Gardiner, P., & Edwards, W. (1975). Public values: Multiattribute utility measurement for social decision making. In: M.F. Kaplan, & S. Schwartz (Eds.), *Human judgment and decision processes*. New York: Academic Press.
- Goldstein, D. G., & Gigerenzer, G. (1999). The recognition heuristic: How ignorance makes us smart. In: G. Gigerenzer, & P. M. Todd, (Eds.). *Simple heuristics that make us smart*. Oxford: Oxford University Press.
- Higgins, E. T., Rholes, W. S., & Jones, C. R. (1977). Category accessibility and impression formation. *Journal of Experimental Social Psychology, 13*, 141–154.
- Liebert, R. M., Smith, W. P., Hill, J. H., & Keiffer, M. (1968). The effects of information and magnitude of initial offer on interpersonal negotiation. *Journal of Experimental Social Psychology, 4*, 431–441.
- MacCoun, R. J. (1996). Differential treatment of corporate defendants by juries: An examination of the "Deep-Pockets" hypothesis. *Law and Society, 30*, 121–162.
- Magee, J. C., Galinsky, A. D., & Gruenfeld, D. H. (2007). Power, propensity to negotiate, and moving first in competitive interactions. *Personality and Social Psychology Bulletin, 33*, 200–212
- Mannix, E. A., & Neale, M. A. (1993). Power imbalance and the pattern of exchange in dyadic negotiation. *Group Decision and Negotiation, 2*, 119–133.
- Neuberg, S. L. (1988). Behavioral implications of information presented outside of conscious awareness: The effect of subliminal presentation of trait information on behavior in the prisoner's dilemma game. *Social Cognition, 6*, 207–230.
- Pinkley, R. L., Neale, M. A., & Bennett, R. J. (1994). The impact of alternatives to settlement in dyadic negotiation. *Organizational Behavior and Human Decision Processes, 57*, 97–116.
- Pruitt, D. G., & Carnevale, P. J. (1993). *Negotiation in social conflict*. Buckingham: Open University Press.
- Raiffa, H., Richardson, J., & Metcalfe, D. (2002). *Negotiation analysis: The science and art of collaborative decision making*. Cambridge MA: The Belknap of Harvard University Press.

- Thompson, L. (2005). *The mind and heart of the negotiator*. Upper Saddle River, NJ: Prentice Hall.
- Thorndike, E. L. (1920). A constant error in psychological ratings. *Journal of Applied Psychology*, 4, 469–477.
- Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 185, 1124–1130.
- Tversky, A., Sattath, S., & Slovic, P. (1988). Contingent weighting in judgment and choice. *Psychological Review*, 95, 371–384.
- White, S. B., & Neale, M. A. (1991). Reservation prices, resistance points, and BATNAs: Determining the parameters of acceptable negotiated outcomes. *Negotiation Journal*, 7, 379–388.