INTEGRATIVE BARGAINING IN A COMPETITIVE MARKET

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Integrative Bargaining in a Competitive Market[1]

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Abstract

The behavioral decision theory literature was used to identify the determinants of negotiation success in an integrative bargaining, free market exercise. This study provides a novel methodology for studying negotiation. Specifically, buyers and sellers were allowed to engage in negotiation with as many competitors as possible in a fixed time period. The results suggest that integrative bargaining behavior increases and the market converges towards a Nash equilibrium as negotiators gain experience. In addition, the results suggest that (1) positively framed negotiators ("what will be my net profit from the transaction?") complete more transactions than negatively framed negotiators ("what will be my expenses on this transaction?"), (2) negotiators who are given moderately difficult profit constraints in order to be allowed to complete a transaction achieve more profitable transactions that negotiators without such constraints, and (3) both framing and the existence of constraints affect the total profitability of the negotiator.

The investigation of negotiation has occupied a central position in labor relations (Walton and McKersie, 1965; Kochan, 1980) and social psychology (Rubin and Brown, 1975; Rubin, 1980; Pruitt, 1981). More recently, the study of negotiation has emerged as a concern of organizational scholars as they try to understand such phenomena as budgeting, transfer pricing, and market transactions (Bazerman and Lewicki, 1983). One of the primary topics of negotiation research concerns the processes that lead to the development of integrative agreements. An agreement is said to be integrative when the negotiators locate and adopt options that incorporate the needs of both parties and produce solutions of high joint benefit. This study is based on the behavioral decision theory literature and identifies the determinants of integrative behavior in a free market simulation.

Integrative agreements are solutions to conflict that reconcile the parties' interests and yield joint benefits higher than those created by a simple compromise. This is illustrated by the story of the two sisters who fought over an orange (Follett, 1940). The two sisters agreed to split the orange in half -- a compromise -- allowing one sister to use her portion for juice and the other sister to use the peel of her half for a cake. The two parties in this conflict overlooked the integrative agreement of giving one sister all the juice and the other sister all the peel.

Walton and McKersie (1965) proposed two contrasting models of the bargaining process. The distributive model views negotiation as a procedure for dividing a fixed-pie of resources --"How much of the orange does each sister receive?" According to this model, what one side gains, the other side loses. In contrast, Walton and McKersie's integrative bargaining model views negotiation as a means by which parties can make trade-offs or jointly solve problems to the mutual benefit of both parties -- "How can the orange be divided to maximize the joint benefit of the two sisters?" According to this model, the success of the two sisters at joint problem solving will determine the size of the pie of resources to be distributed.

Pruitt (cf. 1983) has conducted extensive experimental work on the determinants of integrative bargaining behavior. In his studies, subjects engaged in a single negotiation with a single opponent. He found that negotiators who had an incentive to compromise and high aspiration levels were far more likely to behave integratively than were negotiators without an incentive to compromise and low aspiration levels. In addition, he found that when negotiators had a positive relationship with the other party and were highly accountable to a constituency, integrative behavior was more likely to occur (Ben Yoav and Pruitt, in press).

In contrast to Pruitt's work on a single transaction, single opponent task, the research presented here examines negotiator behavior in a free market context in which negotiators can make transactions with multiple opponents in a fixed amount of time. Thus, the same high aspiration level that creates a higher likelihood of an integrative agreement in Pruitt's single transaction (without a specified time limit) may prove to be a costly time drain in the simulated market. In addition, Pruitt's research suggests that negotiators deviate significantly from achieving the fully integrative (and pareto optimal) agreements that exist. The current research explores whether this is a permanent effect or whether this effect is limited to Pruitt's one trial, one opponent methodology. Plott and Agha (1983) propose the alternative hypothesis that markets converge to an equilibrium, implying that negotiators will learn to become integrative over time.

This research explores the determinants of integrative behavior and success for the negotiator. While integrative behavior and success are conceptually related, success is determined by both the quality of transactions (which are affected by the integrative nature of the agreement) and the quantity of transactions. The specific variables that are examined as determinants of integrative behavior and success in a free market are (1) the frame (positive versus negative) of the negotiators and (2) the existence of limit setting (constraints) on negotiators. Each of these is explored in the sections that follow.