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The four horsemen of power at the bargaining table

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Abstract

Purpose

This paper aims to identify and discuss four major sources of power in negotiations.

Findings

The four sources of power are alternatives, information, status and social capital. Each of these sources of power can enhance a negotiator's likelihood of obtaining their ideal outcome because power allows negotiators to be more confident and proactive, and it shields them from the bargaining tactics of their opponents.

Practical implications

The paper discusses how negotiators can utilize each source of power to improve their negotiation outcomes.

Originality/value

The paper provides a parsimonious definition of power in negotiations, identifies the four major sources of negotiator powers and highlights two pathways by which power affects negotiation outcomes.

Keywords

Power, negotiating

Introduction

Success at the bargaining table often comes down to one simple factor: power. Even when not explicitly identified, power is frequently the precipitating and driving force of negotiation processes and outcomes.

Yet, power is a multifaceted construct that can take many forms and be derived from a variety of sources. In this article, we identify four important sources of power at the bargaining table: alternatives, information, status and social capital. We first provide a formal definition of power in negotiations that integrates and goes beyond how past research has conceptualized this critical construct. Building on this definition, we then discuss how each of the four sources of power help negotiators achieve their goals. Finally, we discuss the psychological and behavioral consequences of power in a negotiation.

Defining power in negotiations

A review of the literature on power and negotiations reveals two surprising facts: first, despite the sizeable body of research on the effects of power in negotiations (for reviews see Brett and Thompson, 2016; Kim et al., 2005; Thompson et al., 2010), there is currently no parsimonious definition of what power means for negotiators at the bargaining table. Second, when power is studied in negotiations, it is most often conceptualized around a negotiator's best alternative to a negotiated agreement or BATNA (Fisher and Ury, 1991). However, this conceptualization is too narrow to capture the full range of power in negotiations. We argue that power in negotiations goes beyond the alternatives a party has and can include other important sources. Thus, a more general conceptualization of power in negotiations is needed to reflect the fact that power can emerge from a variety of factors.

Power outside of negotiations has been defined as “asymmetric control over valued resources in social relations” (Magee and Galinsky, 2008, p. 361). Our interest is in the power that negotiators wield to achieve success at the bargaining table. Although alternatives, information, status and social capital can be conceptualized as resources, in negotiations the definition of power needs to connect to the eventual outcome.

We define power in negotiations as the probability that a negotiator will influence a negotiation outcome in the direction of his or her ideal outcome.¹ Thus, the more power one has, the higher the probability that a negotiator will achieve his or her goals at the bargaining table. For example, an employee who is negotiating a salary increase with her boss and has a strong alternative offer from another firm (i.e. an attractive BATNA) has a higher probability of getting a raise than if she had a weak outside offer or no offer at all. If she lets that BATNA go, her power diminishes; she no longer has that source of leverage. One advantage of our definition is that it not only includes economic sources of power (BATNA) but also encompasses other personal and social characteristics that can serve as sources of power. For example, when a negotiator has reliable information about their counterparty's willingness to pay, they can leverage that information to increase the probability of realizing their aspirations.

Our definition also implies that in negotiations, power is a relative concept. Indeed, negotiations involve at least two parties. For example, although a negotiator with a strong BATNA will have a higher likelihood of obtaining their ideal outcome at the bargaining table than a negotiator with a weak BATNA, a strong BATNA will be relatively less valuable if one's counterpart also has a strong BATNA. Thus, the

¹ Although negotiators often strive to maximize their own profits, a negotiator's ideal outcome might be to cooperate or to be generous towards the other side (Handgraaf et al., 2008). As a result, when the powerful feel responsible for the other side, they might make more concessions and be more generous (Chen et al., 2001).

probability of a favorable outcome depends not only on one negotiator's alternatives, information, status and social capital but also on their counterpart's sources of power.

The four horsemen of power at the bargaining table

Having defined power in a negotiation and outlined its dynamic nature, we now turn to outlining four common and important sources of power at the bargaining table.

The first horseman of power: alternatives (BATNA)

The strength of one's alternatives is often considered the most important source of power in negotiations because it so clearly determines one's dependence on a given negotiation. When individuals have a strong BATNA going into a negotiation, they are less dependent on the opposing party to reach their goals than when they have a weak alternative or no alternative at all (Emerson, 1962; Pinkley et al., 1994; Schaerer et al., 2015).

Negotiators have greater power when they have more, and more valuable, alternatives. A valuable outside offer allows a negotiator to put pressure on the opponent, for example, by threatening to leave the bargaining table if the value of one's BATNA is not met. Even if the value of any one alternative is not particularly high, power can also come from having multiple alternatives. Indeed, negotiators who have multiple rather than a single alternative feel more powerful (Schaerer et al., 2016). Furthermore, in markets characterized by high demand (i.e. with many potential transaction partners), negotiators receive better outcomes than in markets with low demand (McAlister et al., 1986). Thus, having multiple negotiation alternatives, particularly if at least one of them is highly attractive, can be an important source of power for negotiators.

Alternatives, however, can hurt one's outcomes when they anchor negotiators or lead them to satisfice on inferior outcomes. For example, having a weak alternative can be worse than having no alternatives at all because unattractive alternatives serve as low anchors that depress one's first offers (Schaerer et al., 2015). Similarly, having multiple alternatives can backfire when negotiators use these alternatives as reference points when determining their offers. In one study, negotiators who had two alternatives (e.g. \$80 and \$90) made less ambitious first offers than negotiators who had only one of the two alternatives (e.g. \$80 or \$90) because multiple alternatives anchored negotiators more strongly than a single one (Schaerer et al., 2016). Having fallback options can also negatively affect people's motivation and persistence in striving for their ideal targets (Shin and Milkman, 2016). To the extent that negotiators are willing to accept their fallback option, having a "just good enough" alternative can cause a negotiator to leave value on the table.

In sum, alternatives are a major source of power in negotiation, used as leverage to influence a negotiation toward one's ideal outcome. Negotiators, however, should not embrace any alternative, as they need to be aware of potential side-effects of too weak or too many modest alternatives.

The second horseman of power: information

A second source of power comes from having negotiation-relevant information. For example, it is very valuable to have information about the other side's preferences or reservation price. If a negotiator learns

the other side's reservation price, they can simply make an offer that is only marginally better than that reservation price. As we mentioned earlier, power in a negotiation is relative, so having information about the other side's sources of power, particularly their alternatives, is a key to successful negotiating (Pinkley, 1995). Overall, having market information, knowledge of cultural practices, insight into a counterparty's anxieties or general expertise in negotiations can increase the probability that one achieves an ideal outcome (Brett, 2000).

All of these types of information are sources of power because they offer clear strategic advantages. When a negotiator learns about the preferences and priorities of the other side, they can leverage that information. For example, sometimes both negotiators want the same outcome on an issue (e.g. both a recruiter and a candidate want the candidate to be in a particular city). The first negotiator to reveal their preference and thus the fact that the issue is a compatible, one puts themselves in a low-power position; the other side can then pretend that they have a different preference to extract concessions on other issues (Loschelder et al., 2014). Similarly, knowing that a salesperson needs a sale to get an year-end commission bonus or that a company needs to reduce inventory to lower their tax rate can be leveraged to secure a lower price.

Negotiators can gain information in three ways. First, they can do their homework and due diligence, seeking out information prior to the negotiation. Sometimes, however, information about a negotiation counterpart is difficult to obtain without asking the counterpart directly (Srivastava et al., 2000; Thompson, 2011). Thus, a second method is to ask questions during the negotiation: Why do you want to buy this object? What are your preferences on this issue? Third, negotiators can engage in perspective-taking (Galinsky and Mussweiler, 2001; Galinsky et al., 2008a, 2008b) by trying to make educated guesses about the counterpart's priorities and goals.

As one example, consider the information one of the authors had when he purchased a condominium. First, he knew about the other side's alternatives or the lack of alternatives in this case, as the owner of the condo had received no other offers. Second, he knew the owner was sitting on two mortgages and that the price of the new place was double the value of the condo being sold. These two pieces of information helped him appreciate the seller was feeling pressure to sell the condo. Third, he knew how much the owner had originally paid for the condo that was being sold. Fourth, he knew comparable selling prices of other units in the building that had the same floor plan. These pieces of information allowed him to make an offer that was far below the asking price but one that would still give the seller a reasonable profit and thus make it likely that a negotiated agreement would be reached.

The third horseman of power: status

The third horseman of power in negotiations is status – the extent to which a negotiator is respected by the other side (Brett and Thompson, 2016; Magee and Galinsky, 2008). Although status hierarchies are subjective (Blau, 1964; Goldhamer and Shils, 1939), there tends to be a high degree of consensus about who does and does not have high status (Anderson et al., 2006; Devine, 1989).

Low-status individuals tend to defer to their higher-status counterparts (Berger et al., 1972; Berger and Zelditch, 1985). In negotiations, this means that the equivalent demands would be more likely to be granted to a high-status negotiator than a low-status negotiator. High-status actors are also viewed as more competent than lower status actors (Rivera, 2011, 2015), get compensated more (Belliveau et al., 1996) and are favored as interaction partners (Hardy and Van Vugt, 2006; Podolny, 2005). These effects of high status all suggest that status provides access to valuable opportunities and assets (Baum and

Oliver, 1992; Phillips, 2001). In fact, people tend to put more trust into high-status actors (for a review, see Sauder et al., 2012). Thus, status can be a valuable asset when there are few other players in the market to negotiate with. As a result of these processes, high-status negotiators can generally ask for more value for the same offering than can low-status negotiators (Benjamin and Podolny, 1999).

The fourth horseman of power: social capital

The fourth horseman of power is social capital. Power in a negotiation can come from establishing and maintaining a large or strong social network (Kilduff and Brass, 2010). By increasing the number and strength of connections, negotiators also increase the likelihood of improving their alternatives (e.g. many people find jobs through friends and relatives; Montgomery, 1991), the capacity to acquire valuable information (e.g. market information, information about the opponent's alternatives) (Shane and Cable, 2002) and the probability they are seen as having high status (Cook and Emerson, 1978). Thus, social capital is not only its own source of power but also acts as a facilitator for other types of power.

For social networks to be valuable to negotiators, connections do not necessarily have to be close friends and allies. Sometimes, so called “weak ties” – or social relationships characterized by infrequent interaction and a low level of closeness – can be just as useful as strong ties as they require less maintenance but can be activated when needed (Granovetter, 1973; Levin et al., 2011).

When the horsemen ride together

We have ordered the horsemen in what we see as their relative importance. On average, having a strong BATNA or more information more strongly drives negotiations towards one's ideal outcome than having high status or rich social capital (Lee et al., 2017). One reason for this lies in the fact that alternatives and information can be leveraged more directly in a negotiation, whereas the benefits of status and social capital operate in a more indirect way. Of course, having multiple sources of power is better than having a single source of power. And, as we noted above, these sources of power tend to reinforce each other (Magee and Galinsky, 2008).

It is important to note that the relative importance of these sources of power may fluctuate from context to context. For instance, in cultures characterized by high power distance, such as China, Korea or Japan, the relative importance of status or occupying a prominent social network position goes up and the relative importance of one's BATNA goes down; that is, a low-status individual in a high-power distance culture will be less able to leverage their BATNA or their inside information than will a low-status individual in a low power distance culture (Lee et al., 2017).

How power influences negotiation outcomes

Power increases the probability that individuals will achieve their ideal outcomes in part because power has transformative effects on individuals' psychological states (Keltner et al., 2003; Galinsky et al., 2015). When one has power, one feels powerful. As a result of these psychological changes, power makes negotiators more ambitious and protects them from contextual influences. Power boosts ambitions because it leads to confidence, optimism and proactive behavior that propel negotiators to ask for more. Power also protects individuals from outside pressures and, in turn, makes them less likely to fall prey to the tactics and maneuvers of the other side.

Powerful weapons: power boosts negotiator confidence, optimism, proactive behavior and persuasion

Power infuses people with a sense of optimism (Anderson and Galinsky, 2006) and confidence (Fast et al., 2012; See et al., 2011; Tost et al., 2012) while leading them to experience less physiological stress (Schmid and Schmid Mast, 2013) and to speak with a steadier voice (Ko et al., 2014). The powerful can more effectively tap into their underlying interests (Kifer et al., 2013; Kraus et al., 2011) and see the big picture (Magee et al., 2010; Smith and Trope, 2006). Finally, the powerful are more persuasive and articulate themselves more effectively (Kilduff and Galinsky, 2013; Lammers et al., 2013; Schmid and Schmid Mast, 2013).

All of these effects lead the powerful to behave more proactively throughout the negotiation process. When people feel powerful at the bargaining table, they are more likely to decide to negotiate and ask for more rather than simply accepting an offer as is (Magee et al., 2007). In the context of job negotiations, this can have very significant financial outcomes for the would-be negotiator. Babcock and Laschever (2007) found that not all graduating seniors attempted to negotiate their job offers. However, those who did negotiate earned, on average, \$5,000 more. Although a \$5,000 difference may not seem like a huge sum, given a conservative rate of 3 per cent in both raises and interest, by age 60, those who chose to initiate a negotiation would have \$568,834 more!

The powerful are more likely to make the first offer and make an ambitious first offer. In one study, having a strong alternative led negotiators to be three times more likely to try to make the first offer (Magee et al., 2007). In other research, the higher the value of negotiators' BATNA, the more ambitious the first offers they made (Schaerer et al., 2015). The value of the first offer is incredibly important because it has a strong impact on final agreements (Galinsky et al., 2009; Gunia et al., 2013). Overall, power translates into better outcomes by leading negotiators to be proactively ambitious – to negotiate rather than accept an offer, to make the first offer and to make ambitious offers.

Powerful shields: power protects negotiators from the tactics of the other side

Power also benefits negotiators by inoculating them from social and contextual influences. The powerful tend to be less influenced by the situation and can thus act more in line with their own goals (Guinote and Cai, 2016). Indeed, those who have a lot of power are less likely to conform to the opinions of others compared to those who have little power and are less influenced by the status and reputation of the other side (Galinsky et al., 2008a, 2008b). Power also protects negotiators from emotional tactics used by negotiation opponents. For example, powerful negotiators remain unimpressed by their opponent's anger expressions, whereas their powerless counterparts concede more to an angry opponent than to a happy opponent (Van Kleef et al., 2006). Elevated power even immunizes negotiators from sympathy appeals by other parties (Van Kleef et al., 2008).

In addition, power can help people see novel ways of thinking about problems and make them less likely to conform to the offers that other parties have already put on the table (Galinsky et al., 2008a, 2008b). Thus, power can be truly liberating in negotiations.

Conclusion

In this article, we have outlined four prominent sources of power in negotiations – alternatives, information, status and social capital. These sources of power play a direct role in shaping the dynamics of exchange in most negotiations: they alter both the explicit strategic behavior of negotiators and their implicit behavior. Those who hold the balance of power are more ambitious and protected from influence attempts by the other side. The savvy negotiator knows to maximize these sources of power so that the negotiation odds will ever be in their favor.

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