

# **Managing Risk at the Bargaining Table: Creativity and Accountability in Negotiation**

## **A Research Proposal**

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Negotiators often have to be creative to avoid impasse and reach mutually beneficial agreements (e.g., Frankel, 1998; Spector, 1995). Finding creative solutions requires negotiators to think fluently and flexibly about problems, and to be open to original, unconventional ideas (McCrae, 1987). A possible downside of creative thinking, however, is that it often involves a risky, exploratory processing style, in which negotiators actively and eagerly seek novel alternatives, as opposed to a more risk-averse, self-protective, vigilant and cautious processing style, involving greater scrutiny of new ideas (Friedman and Foster, 2001). Thus, while creative thinking at the negotiation table is often desirable, it can also lead to risky decisions.

To safeguard against risky decisions, organizations often create strict accountability demands for their negotiators. In response, negotiators try to anticipate objections to their decisions and to craft strategies that they can later defend and justify (Gelfand & Realo, 1999; Tetlock, 2002): "when individuals are held accountable for the decision making process they develop more pre-emptive self-criticism, engage in deep information processing, and have higher motivation to develop an accurate and multifaceted understanding of the decision problem" (Scholten et al., 2007, p. 541; De Dreu et al., 2006).

Organizations, which can often be remarkably self-focused, more than occasionally want to have their cake and eat it, too, i.e., they want their negotiators to be both creative and accountable – and not just for final outcomes, but for every step of the process. This poses tremendous challenges for negotiators, as these two seemingly contradictory demands require

the activation of two opposite mindsets. On the one hand, negotiators must be pro-active and take on a regulatory focus emphasizing promotion; on the other hand, they must be risk averse and take on a regulatory focus emphasizing prevention (Friedman & Foster, 2001; Higgins, 1998). These two approaches, however, cannot operate simultaneously, and an organization's short-sighted desires therefore seem unattainable.

The current research attempts to identify conditions that allow negotiators to be simultaneously creative and accountable. Identifying these conditions would allow negotiators to make optimal decisions on behalf of their organizations by operating as intuitive scientists, intuitive economists and intuitive politicians (Tetlock, 2002), all at once.

#### *A New Experimental Paradigm*

Although it seems obvious that creativity will facilitate negotiations, empirical research on creativity in negotiation is actually rather scarce (for notable exceptions, see Goldenberg, Nir & Maoz, 2005; Kurtzberg, 1998). One likely reason is the standard experimental paradigm (for reviews see Bazerman et al., 2000; Thompson, 1990), which does not allow negotiators to exercise creative thinking; instead, it provides the participants with structured tasks, including payoff schedules that list all of the possible agreements. Thus, the participants choose from a series of alternatives rather than creating their own, possibly more original agreement options.

Thus, this research develops and tests a new experimental paradigm for research on integrative negotiation, one that allows negotiators to generate new ideas and non-specified agreement outcomes. Like the standard paradigm, the new paradigm will allow negotiators to claim as well as to create value (i.e., "enlarge the pie") by identifying compatible issues and by conceding on low-priority issues in exchange for concessions on high-priority issues (i.e., "logrolling"). Unlike the standard paradigm, the new paradigm gives negotiators "outside resources" that they can use to create novel proposals.

#### *The FINE Paradigm*

The new paradigm, named FINE (Flexible Integrative Negotiation Experiment), uses two payoff schedules instead of just one. The first lists all of the issues, the possible agreements for each issue, and the gains in money units (MUs) for each possible agreement (see Appendix 1 for an example). The second lists the same issues but provides blank spaces instead of possible agreements, inviting the negotiators to create alternative agreement options, which may be either quantitatively or qualitatively different from the ones listed in the original payoff schedule (see Appendix 2 for the "Alternative Agreements Table").

The FINE paradigm encourages participants to create novel solutions by offering greater rewards for new, alternative agreements as compared to the payoffs that they would receive

with the agreement possibilities listed in the first set of tables. For each issue, the Alternative Agreements Table specifies each participant's "total profit." Whenever a negotiator creates a proposal that is not in the original payoff schedule, she must decide how much of her "total profit" for that particular issue she will offer the other party to accept her proposal. When both parties agree on a new, alternative agreement, their gains for that particular issue are those listed in the Alternative Agreements Table. The key point is that the "total profits" always include a surplus above what both parties can jointly earn under a completely integrative agreement using their original payoff schedules.

The FINE paradigm provides incentives to negotiators to create original, mutually beneficial solutions. At the same time, however, it requires the bargainers to offer their counterparts some portion of a "total profit" that they might be tempted to retain for themselves. Thus, the paradigm may not necessarily lead to creative agreements; it will only do so if the bargainers can get beyond the notion that they are "giving up" something to reach a more beneficial, creative outcome.

Another risk is that the two negotiators may reach an agreement that is not included in the original payoff schedule, including agreements that are infeasible (i.e., cannot be implemented due to objective limitations unknown to the negotiators at the time of the negotiation), unacceptable to their respective constituencies (e.g., because they are seen as violating sacred values), or both. This is exactly where accountability comes into play. The two negotiators may be held accountable for their decisions and actions simply by informing them that their behaviors will be monitored; by telling them that they must justify their actions after the negotiation (either to their respective constituencies or to a 3<sup>rd</sup> party); or by providing them with monetary rewards or punishments based on evaluations of their performance. In this way, we can investigate how they will react when they are asked to be both creative and accountable to their constituency. The following section briefly outlines three proposed studies aimed to respond to this and additional questions.

### *The Proposed Studies*

#### Study 1

Study 1 will be a first test of the FINE paradigm. Sixty (60) Northwestern University students will be asked to complete four different, previously validated, measures of creativity: The Creative Achievement Questionnaire (Carson, Peterson & Higgins, 2005); the Multiple Use Potential Scale (Bearden & Netemeyer, 1999; Price & Ridgway, 1983); and two measures of creative performance that assess idea generation as well as divergent thinking: Offering varied

solutions to a problem (a creative decision making task adapted from Goncalo & Staw, 2006), and offering varied uses for a given product (Friedman & Foster, 2001).

Participants will then engage in a simulation of a business negotiation using the FINE paradigm (see Appendix A). The participants will be paired on a random basis. Performance-based monetary incentives will help motivate the participants to do well. Study 1 will use the four creativity scores for each participant to predict joint outcomes: we expect that measured creativity will correlate positively with joint gains. Following Kurtzberg (1998), we also expect that the creativity score of the more creative participant of the two will better predict joint outcomes than their average creativity scores. Finally, we also expect that individuals' creativity scores will correlate positively with their enjoyment of and satisfaction with the task (both will be measured in a post-experiment questionnaire).

### Studies 2 & 3

Study 2 will assess the separate and joint effects of creativity and accountability in the FINE paradigm in a 2 (Creativity) X 2 (Accountability), between-subjects factorial design. One-hundred-and-sixty (160) student participants will be randomly assigned to pairs and to one of four conditions (with/without creativity demands x with/without accountability demands). Following previous research, we expect that demands for either creativity or accountability will increase joint outcomes, compared with the no demands condition. We also expect that the potentially positive effect of simultaneous demands for creativity and accountability will be moderated by the participants' experience of role conflict (H2; King & King, 1990; Pandey & Kumar, 1997); in particular, we expect that minimal feelings of role conflict will be associated with a stronger positive effect of creativity and accountability demands on joint outcomes.

Study 3 will investigate how simultaneous demands for creativity and accountability affect negotiating teams, as opposed to individual negotiators. Teams have more cognitive resources at their disposal than individuals; they can also assign different tasks or roles to different team members. We expect that negotiating teams will outperform individuals in managing the simultaneous demands of creativity and accountability. One-hundred-and-twenty (120) Northwestern University students will participate in three-person teams in one of two conditions, no demands or creativity plus accountability demands. We expect that creativity and accountability demands will have a positive effect on joint outcomes, moderated, as noted, by teams' experience of intragroup conflict (H2; Jehn, 1995; Pearson, Ensley & Amason, 2002).

### Budget

1. Materials:	\$100.
2. Research assistance –	
100 hours x \$10 an hour:	\$1000.
3. Payments to participants –	
Study 1: 60 participants X \$15 per participant:	\$900.
Study 2: 160 participants X \$25 per participant*:	\$4,000.
Study 3: 120 participants X \$25 per participant*:	\$3,000.
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	Total: \$9,000.

\* The payment to participants will depend on their performance; this represents our best guess of the average.

### Planned Schedule

- October-December 2008: Preparation of research materials, pretesting, and data collection for Study 1.
- January 2009: Data analysis for Study 1; preparation of research materials for Studies 2 and 3.
- February-May 2009: Data collection for Studies 2 & 3;
- June-September 2009: Data analysis; writing a paper for publication.

### Qualifications

Nir Halevy is a visiting post-doctoral fellow at the Kellogg School of Management, Northwestern University. He received his Ph.D. in social psychology and management from the Hebrew University of Jerusalem in 2007. His research, which focuses on decision making, conflict and negotiation, has been published in several academic journals and edited books.

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Appendix 1: Negotiating the establishment of a joint product development team – background information and payoff schedule #1

Background information

This is an experiment in negotiation. The participants will be paired on a random basis. In each pair, one participant will play the role of the representative of software company A, and the other will play the role of the representative of software company B. Both companies create and sell computer games. The headquarters of the two companies are located in different countries. Both companies wish to establish a joint product development team that will develop products that would fit the diverse tastes of potential consumers in multiple markets. The aim of this negotiation is to determine the conditions for the establishing and operating the joint product development team (JPDT).

The two representatives should discuss 6 issues related to the establishment of the JPDT:

1. Team Composition
2. Management
3. Expenses
4. Interaction mode within the JPDT
5. Incentives for team members
6. The target population for the products

Each participant will receive private background information and a payoff schedule describing his or her interests in each of the six issues. The payoff schedule lists three possible agreements for each issue. This information **should not** be presented to the other party.

In addition to the detailed payoff schedule, each participant will receive another table, labeled Alternative Agreements Table. This table allows each participant to come up with agreements that are either quantitatively or qualitatively different than the ones listed in the payoff schedule for each issue.

When proposing a novel agreement, each participant should also indicate how much of the resources available to him or her (indicated in the *own profit* column in the Alternative Agreements Table) he or she is willing to offer to the other party so that he or she would accept the alternative agreement.

You were assigned to the role of **Representative of Company A**

<b>Issue</b>	<b>Possible Agreements</b>	<b>Own Profit*</b>
Team Composition **	25% from company A : 75% from company B	0
	50% from company A : 50% from company B	150
	75% from company A : 25% from company B	300
Management **	Team manager from company B	0
	An external expert not affiliated with either company	300
	Team manager from company A	600
Expenses **	75% from company A : 25% from company B	0
	50% from company A : 50% from company B	200
	25% from company A : 75% from company B	400
Interaction Mode **	One neutral site – face-to-face communication	0
	Two sites with face-to-face meetings every 6 months	350
	Two sites – a virtual team using only electronic communication	700
Incentives for the team ***	No bonuses - just the salary	0
	Bonuses based on sales once the products reach the markets	250
	Bonuses based on evaluated performance during the working period	500
Target Population ****	Products should be designed for children	0
	Products should be designed for children and teenagers	250
	Products should fit all age groups from young children to young adults	500

\* each point equals \$.01

\*\*Integrative issues

\*\*\*Distributive issue

\*\*\*\*Compatible issue

You were assigned to the role of **Representative of Company B**

<b>Issue</b>	<b>Possible Agreements</b>	<b>Own Profit*</b>
Team Composition **	25% from company A : 75% from company B	600
	50% from company A : 50% from company B	300
	75% from company A : 25% from company B	0
Management **	Team manager from company B	300
	An external expert not affiliated with either company	150
	Team manager from company A	0
Expenses **	75% from company A : 25% from company B	700
	50% from company A : 50% from company B	350
	25% from company A : 75% from company B	0
Interaction Mode **	One neutral site – face-to-face communication	400
	Two sites with face-to-face meetings every 6 months	200
	Two sites – a virtual team using only electronic communication	0
Incentives for the team ***	No bonuses - just the salary	500
	Bonuses based on sales once the products reach the markets	250
	Bonuses based on evaluated performance during the working period	0
Target Population ****	Products should fit all age groups from young children to young adults	500
	Products should be designed for children and teenagers	250
	Products should be designed for children	0

\* each point equals \$.01

\*\*Integrative issues

\*\*\*Distributive issue

\*\*\*\*Compatible issue

Appendix 2: Negotiating the establishment of a joint product development team – payoff schedule #2

Alternative Agreements Table for the **Representative of Company A**

Issue	Alternative Agreements	Own Profit*	“X” Proposed profit to the other party out of own profit*
Team Composition		500-X	
Management		800-X	
Expenses		600-X	
Interaction Mode		900-X	
Incentives for the team		700-X	
Target Population		1200-X	

\* each point equals \$.01

Alternative Agreements Table for the **Representative of Company B**

Issue	Alternative Agreements	Own Profit*	“X” Proposed profit to the other party out of own profit*
Team Composition		800-X	
Management		500-X	
Expenses		900-X	
Interaction Mode		600-X	
Incentives for the team		700-X	
Target Population		1200-X	

\* each point equals \$.01