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The Remarkable Robustness of the First-Offer Effect: Across Culture, Power, and Issues

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## Abstract

The first-offer effect demonstrates that negotiators achieve better outcomes when making the first offer than when receiving it. The evidence, however, primarily derives from studies of Westerners without systematic power differences negotiating over one issue—contexts that may amplify the first-offer effect. Thus, the current research explored the effect across cultures, among negotiators varying in power, and in negotiations involving single and multiple issues. The first two studies showed that the first-offer effect remains remarkably robust across cultures and multi-issue negotiations. The final two studies demonstrated that low-power negotiators benefit from making the first offer across single- and multi-issue negotiations. Importantly, the second and fourth studies used multi-issue negotiations with distributive, integrative, and compatible issues, allowing us to show that that first offers operate through the distributive, not the integrative or compatible issues. Overall, these results reveal that moving first can benefit negotiators across many organizational and personal situations.

Keywords: Negotiation, first offers, anchoring, power, culture

### The Remarkable Robustness of the First-Offer Effect: Across Culture, Power, and Issues

At the bargaining table, a vexing question facing the parties is whether to make the first offer. Although a number of lay experts continue to claim that going second is the wiser move (e.g., Dell & Boswell, 2009; McCormack, 1984), research typically shows that going first is the road to riches. These studies find that agreements favor the first-mover: final prices are typically higher when sellers make the first offer than when buyers do (Benton, Liebling, & Kelley, 1972; Chertkoff & Conley, 1967; Galinsky & Mussweiler, 2001; Liebert, Smith, & Hill, 1968; Yukl, 1974). Yet, an important limitation of this first-offer effect and its associated prescription, to move first if possible, is that the primary evidence for the effect comes from studies of: a) Western negotiators, b) without systematic power differences, c) bargaining over a single issue. The single-issue context also masks the possibility that first offers may have differential effects on the different types of issues—distributive, integrative, and compatible—being negotiated.

Whether the first-offer effect extends across cultures, power disparities, or multi-issue negotiations—and across the various types of negotiable issues—remains unclear. Indeed, it is possible that past studies have created the “perfect conditions” to discourage negotiators from overcoming the first offers that they receive. Negotiators bargaining over a single issue, for example, may find it difficult to move away from a first offer because they have no other issues to consider or incorporate into a tradeoff. Multi-issue negotiations, in contrast, afford many alternative focal points and tradeoff possibilities. Following this logic, the first-offer effect may not extend to situations that make it easy for negotiators to discount the first offers that they receive. Thus, some researchers and lay experts—even those who cautiously accept the first offer’s benefits—continue to argue against moving first across cultures, power disparities, and multi-issue negotiations.

The current research tested this perspective vis-à-vis the first-offer literature's broad-based advice to move first. In doing so, it sought to address three unanswered questions in the negotiations literature: whether the first-offer effect emerges when the recipient could discount the first offer as: a) less appropriate due to dominant cultural norms; b) less relevant due to bargaining power; or c) less informative due to multiple issues. We contrasted the discounting perspective, which would suggest that the first-offer effect is confined to particular situations, and the anchoring perspective, which would suggest that the effect is robust across a wide range of situations. Finally, by unpacking the first offer's effects on the distributive, integrative, and compatible issues, the current research sought to examine the critical question of *how* the first offer operates, i.e., whether it exerts differential effects on different types of issues.

Overall, we explored the operation and boundaries of the first-offer effect in hope of producing both theoretical and practical advancement. Our findings revealed that the first-offer effect remains remarkably robust across contexts, operating primarily through the distributive issues that facilitate value-claiming—not the integrative or compatible issues that facilitate value creation.

### Anchoring and First Offers

The theoretical roots of the first-offer effect trace back to the anchoring bias (Tversky & Kahneman, 1974), a psychological heuristic involving the assimilation of judgments to an initial numerical value (i.e., an anchor). Two mechanisms explain the assimilation of judgments to anchors. *Insufficient adjustment* occurs when people form judgments that remain too close to an anchor versus an objective value (e.g., by asking, “How much less than the \$50K sticker price would this car dealer accept?”; Tversky & Kahneman, 1974). People serially, but insufficiently, adjust from the anchor value (Epley & Gilovich, 2001), which is one reason why more radical

anchor values produce more extreme final judgments. Another reason is *selective accessibility*, which occurs when people generate knowledge consistent with an anchor's value. For example, a \$50K opening offer might focus attention on the attractive features of a car like its low mileage or leather interior, whereas a \$10K opening offer might focus attention on negative features like dents or manual locks (Mussweiler & Strack, 1999a, 1999b). Like many cognitive heuristics, anchoring operates across various actors and situations (Tversky & Kahneman, 1974). For example, anchors sway the judgment of both novices *and* experts (Mussweiler, Strack, & Pfeiffer, 2000)—on topics from real estate (Northcraft & Neale, 1987) to legal verdicts (English & Mussweiler, 2001) to interpersonal perceptions (Gilovich, Medvec, & Savitsky, 2000).

In negotiations, first offers act as anchors. Since ambiguity typically surrounds the “true” value of a negotiated object, the first offer acts as a relevant, if biased indicator of the object's value. Although negotiators intuitively know that they should discount their counterpart's first offer, cognitive corrections typically remain insufficient (Galinsky & Mussweiler, 2001), in part because selective accessibility focuses attention on features consistent with the anchor (Galinsky & Mussweiler, 2001; Mussweiler et al., 2000). Ultimately, first offers anchor negotiation counterparts around a starting value, which influences their counteroffer and eventually the final settlement price (Galinsky, Leonardelli, Okhuysen, & Mussweiler, 2005; Galinsky & Mussweiler, 2001; Galinsky, Mussweiler, & Medvec, 2002).

The evidence in favor of making the first offer, however, primarily derives from studies of Western negotiators, without systematic power differences, bargaining over a single issue. Since each of these conditions could make it difficult to discount the first offers that one receives, for reasons described below, it remains possible that the negotiation contexts in previous experiments amplified the first-offer effect. To test whether the first-offer effect is

robust or confined to these particular contexts, we examined contexts that could reduce or ameliorate the first-offer effect. Additionally, the multi-issue negotiation context provided an empirical vehicle to examine *how* first offers exert their effect on negotiation outcomes (i.e., through the distributive, integrative, or compatible issues).

### Potential Limits of the First-offer Effect

#### *Culture*

The empirical evidence for the first-offer effect appears to come almost entirely from negotiations among individuals from Western cultures. Given culture's ability to shape negotiators' values (e.g., Brett & Okumura, 1998) and strategies (e.g., Gunia, Brett, Nandkeolyar, & Kamdar, 2011), first offers could have decidedly different effects in other cultures, especially those in the East. We sought to explore the first-offer effect's cultural generality by investigating it both in an Eastern culture, and across Eastern and Western cultures.

In general, Westerners tend to value individualism, assertiveness, and directness (e.g., Brett & Okumura, 1998; Hall, 1976; Hofstede, 1980; Markus & Kitayama, 1991; Nisbett, Peng, Choi, & Norenzayan, 2001). Since making the first offer, especially with an exaggerated or extreme value, is an assertive and direct move, Westerners may see a first offer from another Westerner as relatively appropriate. Indeed, since moving first is the paradigmatic sign of assertiveness and individual power in the West (Magee, 2009; Magee, Galinsky, & Gruenfeld, 2007), negotiators operating within Western cultural assumptions may not be particularly surprised when a same-culture counterpart moves first, even with an exaggerated offer. Thus, first offers could strike Westerners as culturally-normative, expected, or even admirable.

In contrast, Easterners tend to value collectivism, restraint, and indirectness, all of which could make a first offer from the other party seem relatively inappropriate. Indeed, Eastern

negotiators place a premium on harmony maintenance (Schwartz, 1994), even with their counterparts (Leung, 1997), and also value indirect modes of communication that imply rather than explicitly state their priorities (Brett & Okumura, 1998). Compared to Western negotiators, then, Eastern negotiators may see a counterpart's first offer, especially when extreme, as excessively aggressive and explicit, and as violating communication norms. In other words, Eastern culture in and of itself may afford a basis for discounting a first offer, which could dampen the first-offer effect.

Yet, the anchoring bias has been shown to operate in various cultures (Ohtsubo & Kameda, 1998). Thus, even if the first offer seems inappropriate, Eastern negotiators may still find it hard to ignore, given the fundamental cognitive processes that lend it potency. Indeed, if Easterners do not expect to receive an aggressive first offer, the expectancy violation associated with receiving such an offer may cause them to pay excessive attention to it (Kanazawa, 1992), and attention to an anchor is precisely what underlies its influence. Additionally, some Eastern negotiators may actually see offers as a relatively indirect, and thus appropriate, method for communicating their priorities (Adair, Weingart, & Brett, 2007). Finally, Eastern values could actually discourage the recipient of a first offer from re-anchoring aggressively, as that could further upset the relationship (Liu, Friedman, & Chi, 2005).

Consistent with these arguments, Liu et al. found that naturally-occurring first offers can anchor a single-issue negotiation among Chinese negotiators. We extend this work by examining whether the first-offer effect operates in Eastern negotiations involving: a) manipulated first offers and b) multiple issues. Additionally, we test the generality of the first-offer effect by examining the offer's impact in negotiations among a culturally diverse group of individuals. Sampling across many cultures facilitates an alternative test of the possibility that the first-offer

effect is a Western artifact. Although the conflicting perspectives above do not resolve whether first offers will predict final agreements in negotiations among non-Westerners, the universality of anchoring led us to predict that the first-offer effect would extend across cultures, and even to prototypically Eastern cultures.

### *Power Disparities*

Even within the West, there is at least one situation in which first offers could prove less relevant: when the person receiving the offer is more structurally powerful than the person making it, i.e., when the first mover is low-power. Decades of research, borne of economic analysis, show that negotiation power hinges on a structural element of a negotiation: the strength of a negotiator's Best Alternative to Negotiated Agreement (BATNA; Fisher & Ury, 1981). Strong BATNAs afford power by making negotiators less dependent on a particular negotiation to meet their needs. They are perhaps the single-best predictor of negotiated outcomes, as strong BATNAs give negotiators the power to push for better terms and to walk away if the counterpart demurs (Pinkley, Neale, & Bennett, 1994). (Because both negotiation parties have alternatives, good or bad, power is necessarily a relative concept in negotiations. Thus, our studies define "low" or "high" power relative to the other party.)

Previous studies of the first-offer effect have not featured systematic power disparities. Any differences between the negotiators' power situations were typically minor and idiosyncratic across studies. Because comparable power increases interdependence between the parties (Kim, Pinkley, & Fragale, 2005), negotiators with equally strong BATNAs may find it hard to ignore the offers on the table. In other words, similarly strong BATNAs may provide negotiators with little basis for discounting the first offers that they receive.

The current research explores what transpires when the negotiators have pronounced and systematic power differences. On the one hand, negotiators can effectively ignore offers inferior to their BATNA (Raiffa, 1982), so relatively strong BATNAs could allow negotiators to discount and overcome the first offers they receive. Put differently, first offers from low-power negotiators might have little effect on negotiation outcomes, as high-power negotiators may feel comfortable discounting them and taking comfort in their strong BATNA. Indeed, since the powerful tend to be poor perspective-takers (Galinsky, Magee, Inesi, & Gruenfeld, 2006) who notice the actions of others less often (Galinsky, Maddux, Gilin, & White, 2008), high-power negotiators may pay little attention to their counterpart's first offers. Regardless of what the low-power negotiator says or does, the high-power negotiator could base their behavior on an advantageous alternative.

Yet, the powerful rely at least as heavily on judgmental heuristics (Anderson & Galinsky, 2006; Fast, Sivanathan, Mayer & Galinsky, 2012), including anchoring (Fiske, 1993). Thus, first offers in the general proximity of their BATNA could still readily anchor them. Since prior research has repeatedly shown that BATNAs are strong and independent predictors of negotiation outcomes, we contrasted a hypothesis predicting *only* an effect of BATNAs against a hypothesis predicting an effect of *both* BATNAs and first offers. Since the anchoring effect and other judgmental heuristics extend to the powerful (Fast, et al., 2012), we predicted that first offers from low-power negotiators would still have an independent and direct effect on final outcomes.

### *Multi-Issue Negotiations*

Single-issue negotiations may lend particular potency to the first-offer effect because these negotiations, by definition, make one particular issue (e.g., sales price) and its associated

value salient. Under these conditions, even when negotiators know that they should ignore the first offer, they may find it hard to heed this knowledge, given the absence of other issues available to act as alternative focal points. In this sense, single-issue negotiations may resemble the initial judgment problems used to document the anchoring bias. For example, Tversky and Kahneman (1974) asked people to spin a numerical wheel, then estimate the percentage of African countries that were members of the U.N.: the estimates assimilated to the value of the spin. Like this value, the first offer in a single-issue negotiation affords the only reference point. Thus, diverting attention away from it, as negotiators would have to do, may prove especially difficult.

Multi-issue negotiations, in contrast, typically involve several reference points that could allow the recipient of a first offer to discount the offer. At a minimum, these negotiations afford at least one additional issue on which the negotiators could re-focus their attention and their numerical judgments. In addition, multi-issue negotiations may create the possibility of tradeoffs between issues that vary in importance. For example, they may allow for the possibility of integrative issues (i.e., issues that the parties prioritize differently and can thus trade-off), or even compatible issues (i.e., issues on which the parties agree and want the same outcome; Fisher & Ury, 1981). Thus, the recipient of an unfavorable first offer on one issue could choose to focus on other issue(s), to re-anchor the counterpart around a more favorable reference point, or to propose a tradeoff. Even without disputing the first offer, then, the recipient could shift the focus to an alternative issue and value, thereby effectively discounting it. For any of these reasons, multi-issue negotiations could dilute the first-offer effect.

Yet, anchors are powerful precisely because they simplify an otherwise complex and ambiguous situation. Indeed, in complex situations, people rely even more heavily on judgmental

heuristics (Kruger, 1999). Since multiple issues naturally increase the complexity of the negotiation, negotiators may rely heavily on the first offer, as a fixed reference point in an otherwise fluctuating and complex situation. Thus, multi-issue negotiators could find themselves just as anchored as single-issue negotiators. Indeed, if anchoring operates in the East and across power disparities, then the preceding arguments suggest that the first-offer effect should extend to multi-issue negotiations in either context. Given the robustness of heuristics like anchoring in complex situations, we predicted that first offers would have a direct effect on final outcomes in both single- and multi-issue negotiations, across numerous contexts.

*How* the first-offer effect operates in a multi-issue negotiation remains an open question. By definition, single-issue negotiations contain a distributive issue (i.e., an issue on which the parties' interests are diametrically opposed). As noted, however, multi-issue negotiations can contain three types of issues: distributive, integrative (i.e., issues that the parties prioritize differently and can thus trade-off), and compatible (i.e., issues on which the parties agree and want the same outcome). Thus, given prior findings, the first-offer effect could operate by anchoring the recipient on: a) the distributive issues only, or b) multiple types of issues.

Because distributive issues are, by definition, contentious—both parties care about them equally but have directly opposing preferences—negotiators who receive a first offer may seek to avoid contention by asking for concessions on their other, high-priority but less contentious issues. In effect, this would allow the anchor to settle on the distributive issue while the parties negotiate concessions on the other issues. If so, and if the first-offer effect does in fact surface, this would suggest that the effect will primarily operate through the distributive issues. Given this logic and the robust, documented impact of the first offer on distributive issues, we predicted

that the first-offer effect in multi-issue negotiations would be driven by the distributive issues, not by the compatible or integrative issues.

### The Current Research

Four studies (one with two parts) tested the robustness of the first-offer effect across cultures, multi-issue negotiations, and negotiations with power disparities. Studies 1a and 1b examined the first-offer effect in a prototypically Eastern culture (Thailand) and across many cultures, respectively. Study 2 extended the inquiry to multi-issue negotiations in Thailand. Studies 3 and 4, introduced considerable power differences between the (American) negotiators. Results revealed that the first-offer effect remains remarkably consistent across a wide variety of situations.

#### Study 1a: First Offers in an Eastern-Culture, Single-Issue Negotiation

This study explored intra-cultural Eastern negotiations, focusing specifically on individuals from Thailand, a prototypically eastern culture that ranks very low on individualism (20/100 vs. 91/100 in the U.S.; Hofstede, 1980) and assertiveness (3.48/7 vs. 4.55/7 in the U.S.; House, Hanges, Javidan, Dorfman, & Gupta, 2004), but high on restraint (4.22/7 vs. 3.90/7 in the U.S.; Schwartz, 1994). It used a single-issue negotiation about the sale of a pharmaceutical plant that many prior studies have used to document the first-offer effect (Galinsky et al., 2005; Galinsky & Mussweiler, 2001; Galinsky et al., 2002). It also drew from a unique sample of professionals with negotiating experience.

#### *Participants*

Participants were 62 senior government officials from the Thai Ministry of Finance who were enrolled in an executive-level negotiation course (participant sex was not recorded).

#### *Design and Procedure*

*Negotiation Exercise.* Participants received a standard introduction and were randomly assigned to the buyer or seller role in the *Synertech-Dosagen* negotiation (described in Galinsky & Mussweiler, 2001), which involves the sale of a pharmaceutical plant. Both parties were given a BATNA: Buyers could build a new plant for \$25 million, and sellers could strip the plant and sell the equipment separately for a profit of \$17 million. Thus, a positive bargaining zone of \$8 million (the distance between the two parties' BATNAs) made a deal profitable for both parties. After reading their role information for 15 minutes, each of the 31 negotiation dyads went to a private room and negotiated for 30 minutes.

*Measures.* At the end of the negotiation, each dyad completed an agreement sheet asking which party made the first offer and the value of the final selling price. As a baseline, and for comparability with prior research (e.g., Galinsky & Mussweiler, 2001), this study examined whether final prices were higher when the seller spontaneously made the first offer, and lower when the buyer did, as well as whether first offers correlated with final prices.

### *Results and Discussion*

One dyad reached an impasse and was treated as missing data<sup>1</sup>.

Although a similar number of buyers (16) and sellers (14) made the first offer,  $t(29) = .36, p = .72$ , sales price was higher when sellers ( $M = 25.31, SD = 4.46$ ) versus buyers ( $M = 20.45, SD = 1.87$ ), made the first offer,  $t(28) = 3.79, p = .001, d = 1.42$ . Even in the prototypically Eastern culture of Thailand, then, the party who made the first offer walked away with a more favorable agreement.

#### Study 1b: First Offers in a Cross-Cultural, Single-Issue Negotiation

Study 1b tested the cultural robustness of the first-offer effect in a different way: by examining whether the effect arises when negotiators from many different cultures meet at the

bargaining table. If the effect is an artifact of Western culture, it should not arise in a diverse, cross-cultural sample. Conversely, if the effect consistently emerged across a multiplicity of cultural pairings, it would provide initial evidence that the effect is robust to culture. Like Study 1a, this study used a single-issue negotiation and examined naturally-occurring first offers.

### *Participants*

Participants were 74 MBA students (20 women) enrolled in a leadership course at a global business school. Their average age was 28. Students represented 32 nationalities and all continents (except Antarctica). They were randomly assigned to a counterpart from a different nationality.

### *Design and Procedure*

*Negotiation exercise.* Participants were randomly assigned to act as seller or buyer in the *Energetics Meets Generex* negotiation (negotiationexercises.com). The seller, Energetics, represents a large energy company interested in selling its wind division. The buyer, Generex, represents a large power company interested in buying the division. Buyers had two alternatives, one relatively cheap and one relatively costly: buy a much smaller wind division in a less attractive market for \$220 million, or develop a comparable facility from scratch for \$350 million with a three-year delay. The seller's BATNA was to sell their assets piecemeal for a profit of \$170 million. Thus, a positive bargaining zone between \$50 and \$180 million made a profitable deal possible for both parties. Participants prepared for 20 minutes and negotiated for 30. The measures were the same as in Study 1a.

### *Results and Discussion*

Two dyads failed to reach agreement and were treated as missing data.

Although a comparable number of buyers (14) and sellers (23) made the first offer,  $t(36) = 1.51$ ,  $p = .14$ , sales price was higher when sellers made the first offer ( $M = 214.91$ ,  $SD = 53.66$ ), than when buyers made the first offer ( $M = 180.57$ ,  $SD = 27.96$ ),  $t(35) = 2.95$ ,  $p = .03$ ,  $d = .80$ . No nationality showed any more proclivity to initiate the first offer than any other nationality,  $\chi^2(33) = 25.71$ ,  $p = .81$ . Likewise, no nationality performed better than any other nationality as a result of making the first offer (three-way interaction between nationality, first offer, and role;  $p = .66$ ). The same was true when nationalities were grouped into continents (North America, Europe, Asia, etc.;  $p = .99$ ), or into Western, Eastern, and other cultures ( $p = .99$ ).

Overall, this study highlights the cultural generality of the first-offer effect by suggesting that the effect extends to negotiations between individuals from many cultures. Because Studies 1a and 1b did not manipulate which party made the first offer, our results remain open to the alternative explanation of self-selection. The following study, conducted in Thailand, corrected for this issue by manipulating who made the first offer, and also extended our inquiry to a multi-issue negotiation.

#### Study 2: First Offers in an Eastern-Culture, Multi-Issue Negotiation

Study 2 drew from a separate Thai sample to investigate whether the first-offer effect would extend to multi-issue negotiations in an Eastern cultural context. It also explicitly manipulated which negotiator made the first offer, allowing causal inferences about the influence of the offer. In combination with the naturally-occurring first offers in Studies 1a and 1b, we felt that experimentally manipulating first offers in this and the remaining studies would provide strong evidence on the first-offer effect. In addition, Study 2 examined the separate effects of the first offer on the distributive, integrative and compatible issues.

Finally, it tested whether the first-offer effect would endure through time; thus, it allowed all negotiators to engage in a “post-settlement-settlement” (“PSS”: Raiffa, 1982): a renegotiation in which either party may change or revert to the original terms of agreement. The passage of time and the attendant ability to reconsider, like the other factors investigated here, could dilute the effect of the first offer. Alternatively, negotiators could remain anchored by the first offer, even during the post-settlement phase; much as the first offer anchors subsequent offers, which anchor the final price, the final price could anchor the post-settlement price. In line with this and the other arguments above, we generally expected the first-offer effect to endure.

### *Participants*

Participants were 48 experienced managers (18 women) enrolled in an Executive Masters in Business Administration (EMBA) program at a major business school in Thailand.

### *Design and Procedure*

*Negotiation Exercise.* Participants were randomly assigned to the buyer or seller role in the *Moms.com* negotiation ([negotiationexercises.com](http://negotiationexercises.com)). The two parties represented a buyer (TV station) and a seller (production company), and they negotiated the syndication of a television show. The negotiation included four issues: Sales price was a distributive issue; one party’s loss was the other’s gain. Financing terms and number of runs were integrative issues: Although the seller preferred upfront payment and the buyer preferred delayed payment, while the buyer preferred more runs and the seller preferred fewer runs, financing was more important to the seller and runs to the buyer. As a result, both negotiators could profit from upfront financing, combined with maximal runs. The negotiators also had the option of including a second show (Juniors) in the agreement. This was a compatible issue, in that its inclusion could benefit both

parties; once included, however, its price became a distributive issue with a \$10,000 bargaining zone.

The profit implications of each issue were quantified, and the parties received a worksheet explaining how to compute the value of package deals. Both the buyer and seller had comparably attractive alternatives in which the buyer could buy from another company, and the seller could sell to another station. After reading the packet, the 24 dyads went to private rooms and negotiated for 60 minutes. After finishing their negotiation, all negotiators reported their net gain (i.e., their total profit minus the value of their BATNA) on separate sheets.

After submitting these sheets, the negotiators were instructed to go back to their private room for a period of 15 minutes. This period was described as an opportunity to “revise” their first agreement, in a way that would improve *both* parties’ outcomes, if they wished. In other words, the submitted agreement now functioned as both parties’ BATNAs, which they could either improve upon or exercise.

*Experimental Manipulation.* Negotiation dyads were randomly assigned to a buyer-first or seller-first condition. The last page of their packets contained the experimental manipulation. Labeled “Negotiation Instructions,” it said: “For this negotiation, the [BUYER/SELLER] will make the first offer. The [BUYER/SELLER] will make the first statement and present an offer to the [SELLER/BUYER].” Both members of each dyad received the same instructions and no further information about the offer (e.g., how many issues it should contain).

*Measures.* Participants completed an agreement sheet at the end of the negotiation, on which they indicated who made the first offer; all dyads made the first offer as instructed. The agreement sheet asked the negotiators to detail the agreement on price, financing, and runs. A space labeled “Other” enabled them to include the second show, Juniors, which most (86%) did.

A separate but identical agreement sheet was used for the PSS, requiring negotiators to re-write their agreements and thus encouraging them to revise these agreements. Buyer and seller gains were computed using the same formulas detailed in participants' packets. Further details about the scoring system are available in Brett (2007: 64-65).

Our primary dependent measure was value claimed: the percentage of the total created value that each negotiator earned, individually. Value claimed is the multi-issue equivalent of the dependent variable in Study 1: it captures how the value was distributed at the dyad level and controls for the other party's gains. Thus, we ran dyad-level analyses with value claimed by the buyer as our dependent variable (value claimed by the seller produces equivalent results). To examine the first offer's effects on the individual issues, our dependent variables were simply the issues themselves (price, number of runs, percentage financing per year, inclusion of compatible issue, its price). We examined the first offer's effects on each.

### *Results and Discussion*

Two dyads reached an impasse and were treated as missing data.

As predicted, the buyer claimed more value after making the first offer ( $M = .60$ ,  $SD = .20$ ) than after receiving the first offer ( $M = .34$ ,  $SD = .28$ ),  $t(20) = 2.56$ ,  $p = .02$ ,  $d = 1.07$  (see Figure 1); the same was necessarily true for the seller.

Next, we examined the first offer's effects on the individual issues. As predicted, the first offer influenced the distributive issue: sales price was substantially higher when the first offer was made by the seller ( $M = \$62090.82$ ,  $SD = 7943.00$ ) versus the buyer ( $M = \$46818.18$ ,  $SD = 7166.84$ ),  $t(20) = 4.74$ ,  $p < .001$ ,  $d = 2.02$ . However, the first offer had no significant effects on either of the integrative issues: number of runs,  $t(20) = 1.49$ ,  $p = .15$ , or financing in any of the years of the contract, all  $t$ 's(20)  $< 1.38$ ,  $p$ 's  $> .21$ . Likewise, the first offer had no effect on

whether the compatible issue, Juniors, was included in the agreement,  $\chi^2 = .39, p = .53$ . Once included, however, its price was a distributive issue, and the first offer again had an effect: price was higher when the first offer was made by the seller ( $M = \$16400, SD = 5232.38$ ) versus the buyer ( $M = \$10777.78, SD = 5262.55$ ),  $t(17) = 2.33, p = .03, d = 1.07$ .

Also consistent with our predictions, the first offer endured through the PSS. Fourteen of 22 dyads (63.6%) reached a new agreement, which created an average of \$.57 million in additional, joint value. Even when the parties who did not alter their agreements were included, the PSS resulted in significantly more joint value [ $M_{\text{before}} = \$4.10$  million,  $SD_{\text{before}} = $.64$ ;  $M_{\text{after}} = \$4.47$  million,  $SD_{\text{after}} = $.59$ ;  $t(21) = 2.68, p = .01$ ]. Nevertheless, buyers who had originally made the first offer continued to claim more of the joint value ( $M = .64, SD = .16$ ) than did buyers who had originally received the first offer,  $M = .36, SD = .27, t(20) = 2.93, p = .008$ . Indeed, the effect appeared to grow stronger during the post-settlement settlement,  $d = 1.26$  (though this unhypothesized effect must remain suggestive until replicated; see Figure 1). Additionally, the party who made the first offer continued to command a more favorable sales price,  $t(20) = 4.47, p < .001, d = 1.91$ , and price on Juniors,  $t(20) = 2.62, p = .02, d = 1.12$ . However, the first offer continued to have no influence on the integrative issues ( $p$ 's  $> .15$ ) or the decision about whether to include Juniors in the deal (all dyads eventually did).

As in Study 1, the party who made the first offer walked away with an advantageous agreement, even in a culture prototypically low on individualism and assertiveness. Study 2 also demonstrates that the first offer advantage extends to multi-issue contexts, and provides evidence that the first-offer effect is stronger for the distributive issues than the integrative or compatible issues. In addition, Study 2 shows that this effect extends to a renegotiation. Indeed, the renegotiation offers evidence in favor of the underlying anchoring logic, as the renegotiation

provided negotiators with an opportunity to discount the first offer that they had received at least an hour before. However, further research is needed before drawing strong conclusions on the long-term effects of first offers, and certainly before concluding that the first-offer effect will grow stronger with time. Nevertheless, this result does suggest that the first offer influences the negotiation's outcome without "poisoning the well" for subsequent negotiations. More generally, this and the prior study suggest that the first-offer effect is remarkably robust to several important features of real-world negotiations.

### Study 3: First Offers and Power in a Single-Issue Negotiation

Study 3 explored whether the first-offer effect would remain robust in the face of negotiations characterized by another common and critical context: power disparities. To avoid varying too many variables at once (culture, issues, power), and thus promote comparability with prior research, this study used a single-issue negotiation in the U.S.

#### *Participants and Design*

Participants were 116 MBA students (56 women) enrolled in a negotiation course at a Midwestern U.S. business school. The experiment had a 2(First offer: buyer vs. seller) x 2(Better alternatives: buyer vs. seller) between-subjects factorial design, at the dyad level.

#### *Design and Procedure*

*Negotiation.* Participants were randomly assigned to the buyer or seller role in the *Synertech-Dosagen* negotiation used in Study 1a. The procedure was the same as Study 1a's except for two manipulations: who made the first offer and who had the better BATNA. Also, the bargaining zone was extended to \$13 million to accommodate the BATNA manipulation.

*Experimental Manipulations.* *First offers* were manipulated the same as in Study 2. Independent of first offers, dyads were randomly assigned to a *buyer-better* alternatives or *seller-*

*better* alternatives condition, operationalized as the party holding the better BATNA. Negotiators with better alternatives had BATNAs comparing favorably to the independent valuations in their case, and to the other party's BATNA. Thus, in the *buyer-better* condition, buyers learned that building a new plant would cost \$25 million (a relatively attractive amount), while sellers learned that stripping the plant would net \$12 million (a relatively unattractive payout). In the *seller-better* condition, it cost buyers \$30 million to build a plant (an unattractive amount), and sellers netted \$17 million (an attractive payout). Thus, dyads always contained one negotiator with relatively good alternatives and one with relatively poor alternatives. Participants knew nothing about their counterpart's alternatives. The measures were the same as in Study 1a.

### *Results and Discussion*

Two dyads that reached impasse were treated as missing data<sup>2</sup>.

We conducted a 2(First offer: buyer vs. seller) x 2(Better alternatives: buyer vs. seller) factorial ANOVA on sales price (see Figure 2). Consistent with predictions, a main effect of alternatives emerged,  $F(1,51) = 4.14, p = .047, d = .56$ : Sales price was higher when sellers had a better BATNA ( $M = 21.56; SD = 2.43$ ) than when buyers had a better BATNA ( $M = 20.17, SD = 2.50$ ). Yet, the main effect for first offers was also significant,  $F(1,51) = 4.38, p = .04, d = .61$ : Sales price was higher when sellers made the first offer ( $M = 21.68; SD = 2.71$ ) than when buyers did ( $M = 20.20; SD = 2.13$ ). The interaction was not significant,  $F(1,51) = .70, p = .41$ .

In accordance with the predicted, dual main effects, sales price was highest when the seller made the first offer and had better alternatives, intermediate when the seller had better alternatives or made the first offer but not both, and lowest when the seller neither made the first offer nor had better alternatives (the reverse pattern held for buyers; see Figure 2). This implies that making the first offer improved negotiators' outcomes despite power disparities. Indeed,

low-power negotiators who did not move first performed the worst, implying that low-power negotiators face a special need to make the first offer. Paradoxically, however, negotiators may often refrain from moving first when they lack alternatives (Lax & Sebenius, 1986).

#### Study 4: First Offers and Power in a Multi-Issue Negotiation

Our fourth and final study investigated whether the first-offer effect would endure in the face of power disparities *and* multiple issues. As a basic robustness check, we also conducted the study in a very different context: employment negotiations.

##### *Participants*

Participants were 90 MBA students (40% women) enrolled in a negotiation course at a Midwestern U.S. business school. The experiment had a 2(First offer: recruiter vs. candidate) x 2(Better alternatives: recruiter vs. candidate) between-subjects factorial design, at the dyad level.

##### *Design and Procedure*

*Negotiation.* Participants were randomly assigned to the role of candidate or recruiter in the *New Recruit* negotiation (negotiationexercises.com), in which the parties negotiate the terms of a new employment contract. Negotiators' preferences were created by assigning points to each of eight issues, and they received a scoring system detailing the point structure. Two issues were distributive (e.g., the candidate wanted a higher and the recruiter a lower salary); two issues were compatible (e.g., both parties wanted the job to be in San Francisco); and the remaining four issues were integrative (e.g., bonus was more important to the candidate and vacation time to the recruiter; as a result, both negotiators could benefit from a large bonus packaged with little vacation time). After reading their packets, each dyad negotiated for 45 minutes in a private room.

*Experimental Manipulation.* Negotiation dyads were randomly assigned to conditions. The first offer was manipulated similar to Studies 2 and 3: either the recruiter or candidate was instructed to make the first offer. Dyads were also independently assigned to a *recruiter-better alternatives* or *candidate-better alternatives condition*. In the *recruiter-better alternatives condition*, recruiters learned that they had found an alternate candidate “worth 4500 points to you,” whereas candidates learned that they had found no alternate jobs, yielding zero points. In the *candidate-better alternatives condition*, candidates learned that they had found an alternate job worth 4500 points, whereas recruiters had found no alternative candidates, yielding zero points. Participants knew nothing about their counterpart’s alternatives. Participants negotiated and then completed an agreement sheet together. Our dependent measure was the same as in Study 2: value claimed.

### *Results and Discussion*

Two dyads that reached an impasse were treated as missing data<sup>3</sup>. In three dyads, the wrong negotiator made the first offer; they were excluded from the primary analyses.

We conducted a 2(First offer: recruiter versus candidate) x 2(Better alternatives: recruiter versus candidate) between-subjects ANOVA on value claimed by the recruiter (see Figure 3). As predicted, and consistent with Study 3, a main effect of alternatives emerged,  $F(1,35) = 3.97$ ,  $p = .05$ ,  $d = .68$ : Recruiters claimed more value when they had a better BATNA ( $M = .57$ ,  $SD = .16$ ) than when candidates had a better BATNA ( $M = .45$ ,  $SD = .17$ ). Directionally consistent with our hypotheses, the main effect for first offers was marginally significant  $F(1,35) = 3.04$ ,  $p = .09$ ,  $d = .60$ : recruiters claimed marginally more value when they made the first offer ( $M = .57$ ,  $SD = .20$ ) than when they did not ( $M = .47$ ,  $SD = .14$ ). When the three, errant dyads were included in the analyses, classifying them according to who actually made the first offer (e.g., *recruiter-first* if

the recruiter had actually made the first offer), however, the main effect of alternatives became stronger,  $F(1,38) = 6.15, p = .02, d = .87$ , and the main effect for first offers became significant  $F(1,38) = 4.88, p = .03, d = .77$ : recruiters claimed more value when they made the first offer ( $M = .58$  vs.  $.44, SD = .19$  vs.  $.17$ ). As in Study 3, the interaction was not significant in either set of analyses: without errant dyads:  $F(1,35) = .003, p = .95$ ; with errant dyads:  $F(1,38) = .13, p = .72$ .

To examine the effect of the first offer on the individual issues, we conducted separate ANOVAs on the points obtained for each issue type<sup>4</sup>. Consistent with the Study 2 results, recruiters earned marginally more points on the two distributive issues when they made the first offer ( $M = -1080, SD = 1496.52$ ) than when they did not ( $M = -2047.83, SD 1676.81$ ),  $F(1,39) = 3.43, p = .07, d = .61$ . The effect of alternatives was not significant ( $p = .18$ ), nor was the interaction between first offer and alternatives ( $p = .33$ ). Also consistent with Study 2, first offer had no effects on the points that the recruiter obtained from the integrative issues ( $p = .52$ ), nor the compatible issues ( $p = .66$ ). Alternatives and the interaction were not significant for either of these variables ( $p$ 's  $> .15$ ).

Consistent with Study 3, negotiators claimed the most value when they both made the first offer and benefited from a strong alternative, an intermediate amount by making the first offer or having a strong alternative but not both, and the least by neither making the first offer nor having a strong alternative (see Figure 3). In this multi-issue context, as in the single-issue context, first offers and alternatives both proved important to negotiation outcomes. Consistent with Study 2, the effect of first offers was attributable to the distributive issues, not the integrative or compatible issues. Taken together, the implication from this and the prior studies is clear and consistent: first offers continue to matter despite power disparities, and regardless of

whether negotiators occupy the low-power or high-power position, because they afford advantages on the distributive issues.

### General Discussion

Four studies (one with two parts) provided consistent and converging evidence that presenting the first offer produces advantageous outcomes across a wide array of negotiation contexts. The plausible alternative proposition—that the first-offer effect is confined to a particular set of situations—was consistently unsupported. Studies 1 and 2 demonstrated that first offers, naturally occurring or manipulated, in single- or multi-issue negotiations, predict value-claiming across cultures and in the prototypically Eastern culture of Thailand, especially on distributive issues. Studies 3 and 4 revealed that the first-offer effect also withstands power disparities via BATNAs, in single- and multi-issue negotiations, especially on distributive issues. The first offer effect emerged regardless of whether the offer was measured or manipulated; the average effect size across all studies was  $d = .84$ , and the average measured and manipulated effect sizes were both in the “medium” to “large” range ( $d$ 's = 1.04 for measured and .72 for manipulated)<sup>5</sup>.

Theoretically, these results provide evidence that contextual features of negotiation—culture, power, and issues—do not undermine the first-offer effect. Instead, first offers appear to exert influence across a wide range of circumstances, supporting the robustness of effects based on fundamental, cognitive processes like anchoring. Collectively, these studies unearth *how* the first offer effect exerts its influence across the varying types of issues that can comprise a negotiation; distributive, integrative, compatible. Across both multi-issue negotiations, the first-offer advantage operated through the distributive issues and not through the integrative or compatible issues. Practically, the results provide broad support for the prescriptive advice that

negotiators operating across cultures, power disparities, or complex sets of issues can stake an advantageous position by moving first.

Past research on the first-offer effect has emphasized how anchoring leads negotiators to focus on the first offer, to the benefit of the person who made it (Galinsky & Mussweiler, 2001). The fact that one feature of the negotiators (their culture) and two features of the negotiation (its power and issue structure) do not dampen the first-offer effect suggests that anchoring can withstand many personal and situational differences. The current research suggests that several common features of negotiations, despite their ability to encourage discounting, may be insufficient to override the power of anchoring.

An important theoretical contribution of the present research was the finding that first offers in multi-issue negotiations influence final outcomes through the distributive issues, not the integrative or compatible issues. On the one hand, this reinforces the powerful impact of the first offer, as it suggests that negotiators can anchor aggressively on the distributive issue without suffering penalties on the other issues. Thus, making the first offer may represent a relatively “safe” value-claiming behavior, with few value-creation consequences. On the other hand, this finding suggests what could be the “real” limit of the first-offer effect: multi-issue negotiations in which the distributive issues are relatively unimportant. If the effect of first offers operates through the distributive issues, then the first-mover advantage may decrease as the relative importance of the integrative and compatible issues increases. Future research that tackles this prediction may prove particularly telling.

On a practical level, a globalizing and complex business world may diminish the ubiquity of negotiations involving exclusively-Western negotiators, equal-power negotiators, or negotiations over one, single issue. If so, then this research fills a practical gap by suggesting that

negotiators who feel equipped to move first should still consider doing so. Our last two studies lent special urgency to the prescription to move first, demonstrating that first offers essentially compensated for an inferior power position. Conversely, not making the first offer reinforced the weakness of low-power negotiators. These findings suggest that negotiators' natural impulse to avoid the first offer, especially when they lack strong alternatives, may not serve them particularly well. Instead, low-power negotiators would be well-advised to move first, especially when they have more control over their offers than their alternatives.

Our results should not be overstated or overextended: Although Study 1b was cross-cultural, we did not and cannot, on the basis of the current data, show that the first-offer effect is a true cultural universal. There may well be cultures in which moving first is so counter-normative as to be counterproductive. Alternatively, there may be cultures in which subjective value (Curhan, Elfenbein, & Xu, 2006) is more important than economic value. Although making the first offer appears to enhance short-term economic value, it may do less to fulfill subjective value, leading to longer-term costs in these cultures. The results of our PSS (Study 2) begin to suggest that the first offer's economic benefits may endure with time. Future research should extend the time horizon considerably and examine re-negotiations (or new negotiations) that occur days or even months later. Relatedly, research is needed to investigate the longer-term effects of first offers on subjective value, especially across cultures.

On the flip side, there may be cultures in which moving first is especially important: Adair and her colleagues (Adair, Weingart, & Brett, 2007), for example, have shown that Japanese negotiators exchange offers early in the negotiation as a form of information exchange. In cultures where offers serve an information exchange function, making the first offer could prove particularly important, as it not only anchors but informs. Conversely, in cultures like the

U.S. where first offers do not function as information (Adair, Weingart, & Brett, 2007), first offers are clearly important, but we would not advise negotiators to make an offer immediately. Making the first offer is not the same thing as making an offer *first thing*. Indeed, the timing of first offers appears to be particularly important for value creation: Sinaceur et al. (in press) found that among Western negotiators, first offers led to greater value claiming on distributive issues regardless of timing, but only late first offers facilitated creative agreements that integrated the parties' interests. This research suggests that the best outcomes occurred when a negotiator moved before their counterpart, but not right away. In sum, negotiators in any culture would be advised to collect the relevant information, through the culturally-appropriate method, before making the first offer (Gunia, Brett, Nandkeolyar, & Kamdar, 2011). Excellent negotiators not only know how to make the first offer; they know how to make it at the right time.

Similarly, low-power negotiators who wish to go first should be cautious about making their first offer too aggressively. Offering first is not the same thing as offering unreasonably. Indeed, the current research varied who made the first offer but did not vary its value. Recent work suggests that making an extreme first offer can prove detrimental to a low-power negotiator because a high-power negotiator can simply walk away (Schweinsberg et al., 2012). Future research could vary the amount of the first offer to determine when and how extreme first offers affect impasses and suboptimal agreements across Eastern cultures, power differences, and multi-issue negotiations.

These caveats noted, our studies demonstrate that proactively proposing a first offer can generate advantageous outcomes across a wide array of negotiation situations. Overall, they provide a clear prescription: negotiators who feel equipped to move first should move first with confidence—in the East and West, in spite of power disparities, and in complicated negotiations.

This research serves as a strong prescriptive counterpoint to the lay wisdom that advises negotiators to go second. Our results converge around the fact that making the first offer appears to be a dominant strategy across cultures and contexts.

## Notes

1. Tripp and Sondak (1992) advised researchers to treat impasses as missing data if 1) the impasse rate does not differ between conditions and 2) the negotiators are not given an explicit reservation price. We did that here to comply with their recommendation, and in subsequent studies to be consistent.
2. As the data were collected in four sections of the same class (with conditions randomly assigned across sections), we also controlled for section by entering it as a covariate. Section had no effects,  $p = .99$ .
3. As in Study 4, the data were collected in several sections of the same class (in this case, two), so we controlled for section by entering it as a covariate. Section had no effects,  $p = .27$ . Condition assignment was, again, random with respect to section.
4. Based on the above results, and to maximize statistical power, these analyses were conducted with the three, errant dyads included.
5. To compare the effect sizes, we tested their homogeneity. The between-class goodness-of-fit statistic  $Q_b$  showed that the mean effects for the measured studies and manipulated studies did not differ,  $Q_B(1) = 2.30, p = .13$ .

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Figure 1 – Study 2 Results

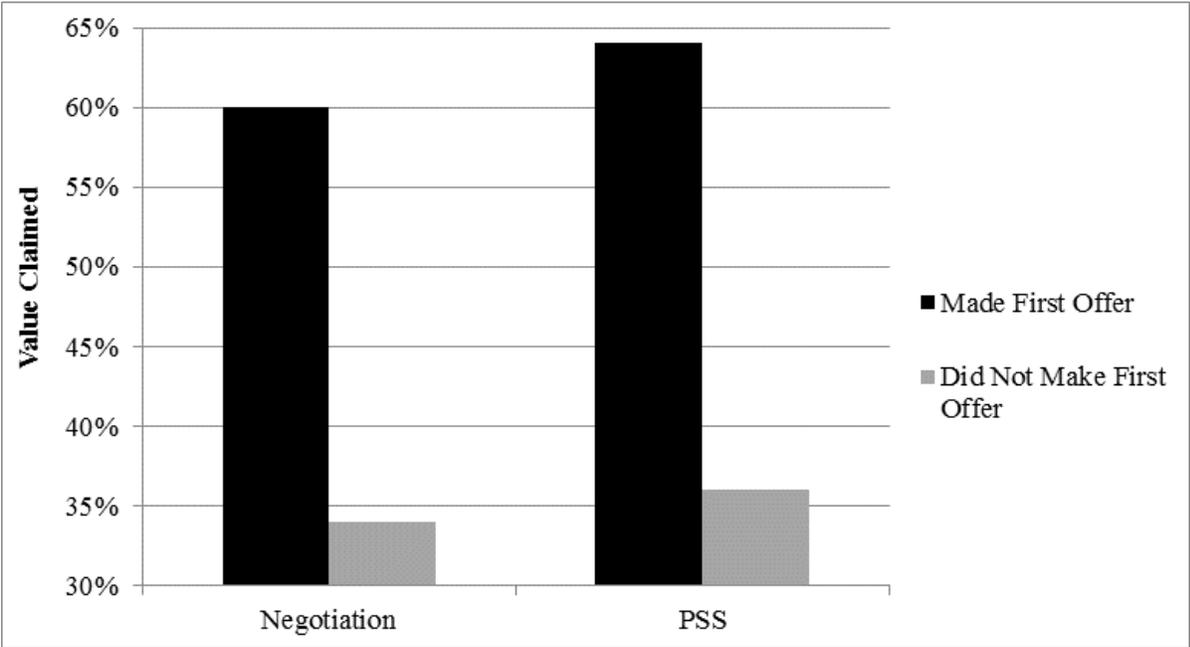


Figure 2 – Study 3 Results

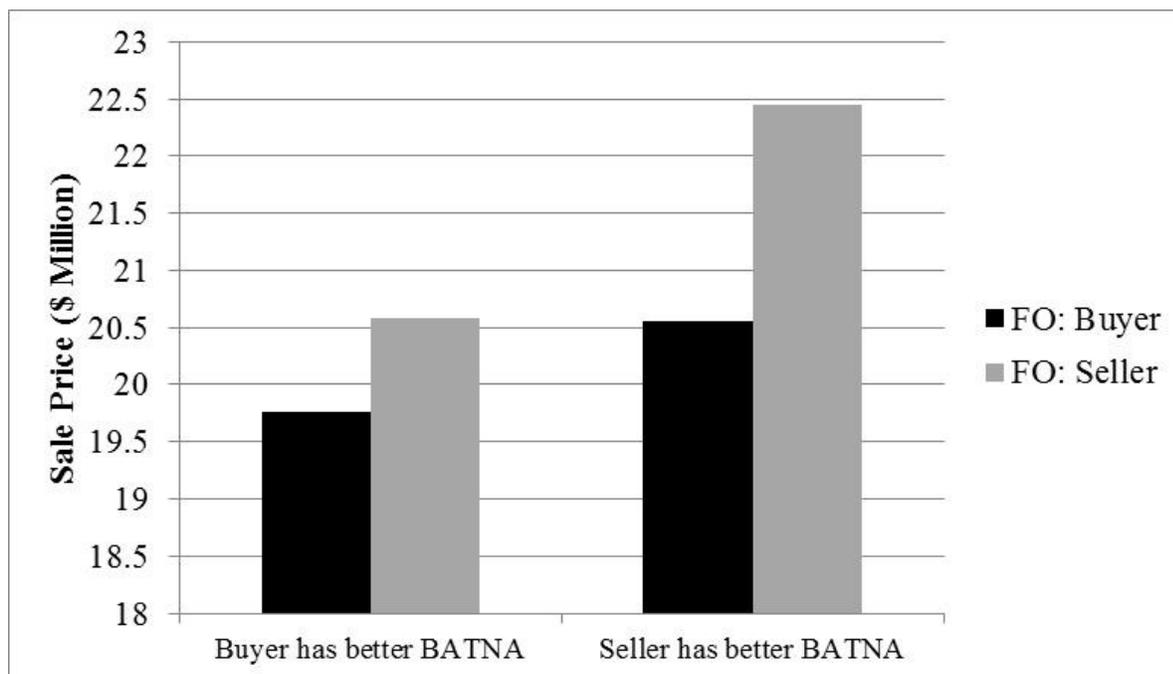


Figure 3 – Study 4 Results

