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# Negotiating rationally: the power and impact of the negotiator's frame

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## Executive Overview

***In the last ten years, negotiation has moved from the industrial relations arena to the forefront of managerial interest. As the nature and structure of managerial challenges evolve, negotiation skills become necessary. Considerable research has been conducted to determine how negotiators either fail to reach agreements that are in their best interest or leave them worse off.***

***The focus of this article is to consider how managers could negotiate more rationally—that is reach agreements that maximize the negotiator's interests. Unfortunately, our natural tendencies in negotiation and decision making contain biases that systematically reduce our ability to reach agreements that maximize our interests. While there has been significant research directed toward identifying these cognitive biases and their impact on negotiator behavior, we explore a negotiator's predilection for framing proposals in ways that reduce information search and analysis and direct the choice of alternatives.***

***We suggest that the frames a manager imposes on problems or disputes are a function of the referent point by which we evaluate success or failure and gains or losses. In the context of a negotiation, there is often little objective about the choice of a particular referent point, although the point that we choose can significantly influence the attractiveness of various outcomes. We describe the impact of various frames and identify ways in which managers can guard against being unduly influenced by the frames of disputes as well as ways managers can use frames to improve the potential for resolving disputes.***

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## Article

Everyone negotiates. In its various forms, negotiation is a common mechanism for resolving differences and allocating resources. While many people perceive negotiation to be a specific interaction between a buyer and a seller, this process occurs with a wide variety of exchange partners, such as superiors, colleagues, spouses, children, neighbors, strangers, or even corporate entities and nations. Negotiation is a decision-making process among interdependent parties who do not share identical preferences. It is through negotiation that the parties decide what each will give and take in their relationship.

The aspect of negotiation that is most directly controllable by the negotiator is how he or she makes decisions. The parties, the issues, and the negotiation environment are often predetermined. Rather than trying to change the environment surrounding the negotiation or the parties or issues in the dispute, we believe that the greatest opportunity to improve negotiator performance lies in the negotiator's ability to make effective use of the information available about the issues in dispute as well as the likely behavior of an opponent to reach more rational agreements and make more rational decisions within the context of negotiation.

*The goal of our research has been to help negotiators think rationally. This is important, not because rationality is some end-state we should strive to achieve, but rather because by negotiating rationally, we will improve the likelihood that we will reach better agreements as well as know which opportunities or deals we are better off avoiding.*

To this end, we offer advice on how a negotiator should make decisions. However, to follow this advice for analyzing negotiations rationally, a negotiator must understand the psychological forces that limit a negotiator's effectiveness. In addition, rational decisions require that we have an optimal way of evaluating the behavior of the opponent. This requires a psychological perspective for anticipating the likely decisions and subsequent behavior of the other party. Information such as this can not only create a framework that predicts how a negotiator structures problems, processes information, frames the situation, and evaluates alternatives but also identifies the limitations of his or her ability to follow rational advice.

*Rationality* refers to making the decision that maximizes the negotiator's interests. Since negotiation is a decision-making process that involves other people that do not have the same desires or preferences, the goal of a negotiation is not simply reaching an agreement. The goal of negotiations is to reach a *good* agreement. In some cases, no agreement is better than reaching an agreement that is not in the negotiator's best interests. When negotiated agreements are based on biased decisions, the chances of getting the best possible outcome are significantly reduced and the probabilities of reaching an agreement when an impasse would have left the negotiator relatively better off are significantly enhanced.

**Since negotiation is a decision-making process that involves other people that do not have the same desires or preferences, the goal of a negotiation is not simply reaching an agreement. The goal of negotiations is to reach a good agreement.**

A central theme of our work is that our natural decision and negotiation processes contain biases that prevent us from acting rationally and getting as much as we can out of a negotiation. These biases are pervasive, destroying the opportunities available in competitive contexts, and preventing us from negotiating rationally. During the last ten or so years, the work that we and our colleagues have done suggests that negotiators make the following common cognitive mistakes: (1) Negotiators tend to be overly affected by the frame, or form of presentation, of information in a negotiation; (2) Negotiators tend to nonrationally escalate commitment to a previously selected course of action when it is no longer the most reasonable alternative; (3) Negotiators tend to assume that their gain must come at the expense of the other party and thereby miss opportunities for mutually beneficial trade-offs between the parties; (4) Negotiator judgments tend to be anchored upon irrelevant information—such as, an initial offer; (5) Negotiators tend to rely on readily available information; (6) Negotiators tend to fail to consider information that is available by focusing on the opponent's perspective; and (7) Negotiators tend to be overconfident concerning the likelihood of attaining outcomes that favor the individual(s) involved.

Describing the impact of each of these biases on negotiator behavior is obviously beyond the scope of this article. What we will attempt to do, however, is to focus on one particular and important cognitive bias, *framing*, and consider the impact of this bias on the process and outcome of negotiation. The manner in which negotiators frame the options available in a dispute can have a significant impact on their willingness to reach an agreement as well as the value of that agreement. In this article, we will identify factors that influence the choice of frame in a negotiation.

### **The Framing of Negotiations**

Consider the following situation adapted from Russo and Shoemaker:<sup>1</sup>

*You are in a store about to buy a new watch which costs \$70. As you wait for the sales clerk, a friend of yours comes by and remarks that she has seen an identical watch on sale in another store two blocks away for \$40. You know that the service and reliability of the other store are just as good as this one. Will you travel two blocks to save \$30?*

Now consider this similar situation:

*You are in a store about to buy a new video camera that costs \$800. As you wait for the sales clerk, a friend of yours comes by and remarks that she has seen an identical camera on sale in another store two blocks away for \$770. You know that the service and reliability of the other store are just as good as this one. Will you travel two blocks to save the \$30?*

In the first scenario, Russo and Shoemaker report that about ninety percent of the managers presented this problem reported that they would travel the two blocks. However, in the second scenario, only about fifty percent of the managers would make the trip. What is the difference between the two situations that makes the \$30 so attractive in the first scenario and considerably less attractive in the second scenario? One difference is that a \$30 discount on a \$70 watch represents a very good deal; the \$30 discount on an \$800 video camera is not such a good deal. In evaluating our willingness to walk two blocks, we frame the options in terms of the percentage discount. However, the correct comparison is not whether a percentage discount is sufficiently motivating, but whether the savings obtained is greater than the expected value of the additional time we would have to invest to realize those savings. So, if a \$30 savings were sufficient to justify walking two blocks for the watch, an opportunity to save \$30 on the video camera should also be worth an equivalent investment of time.

Richard Thaler illustrated the influence of frames when he presented the following two versions of another problem to participants of an executive development program:<sup>2</sup>

*You are lying on the beach on a hot day. All you have to drink is ice water. For the last hour you have been thinking about how much you would enjoy a nice cold bottle of your favorite brand of beer. A companion gets up to make a phone call and offers to bring back a beer from the only nearby place where beer is sold: a fancy resort hotel. She says that the beer might be expensive and asks how much you are willing to pay for the beer. She will buy the beer if it costs as much as or less than the price you state. But if it costs more than the price you state, she will not buy it. You trust your friend and there is no possibility of bargaining with the bartender. What price do you tell your friend you are willing to pay?*

Now consider this version of the same story:

*You are lying on the beach on a hot day. All you have to drink is ice water. For the last hour you have been thinking about how much you would enjoy a nice cold bottle of your favorite brand of beer. A companion gets up to make a phone call and offers to bring back a beer from the only nearby place where beer is sold: a small, run-down grocery store. She says that the beer might be expensive and asks how much you are willing to pay for the beer. She will buy the beer if it costs as much as or less than the price you state. But if it costs more than the price you state, she will not buy it. You trust your friend and there is no possibility of bargaining with the store owner. What price do you tell your friend you are willing to pay?*

In both versions of the story, the results are the same: you get the same beer and there is no negotiating with the seller. Also you will not be enjoying the resort's

amenities since you will be drinking the beer on the beach. Recent responses of executives at a Kellogg executive training program indicated that they were willing to pay significantly more if the beer were purchased at a "fancy resort hotel" (\$7.83) than if the beer were purchased at the "small, run-down grocery store" (\$4.10). The difference in price the executives were willing to pay for the same beer was based upon the frame they imposed on this transaction. Paying over \$5 for a beer is an expected annoyance at a fancy resort hotel; however, paying over \$5 for a beer at a run-down grocery store is an obvious "rip-off!" So, even though the same beer is purchased and we enjoy none of the benefits of the fancy resort hotel, we are willing to pay almost a dollar more because of the way in which we frame the purchase. The converse of this situation is probably familiar to many of us. Have you ever purchased an item because "it was too good of a deal to pass up," even though you had no use for it? We seem to assign a greater value to the quality of the transaction over and above the issue of what we get for what we pay.

**The referent point that we choose determines the frame we impose on our options and, subsequently, our willingness to accept or reject those options.**

Both of these examples emphasize the importance of the particular frames we place on problems we have to solve or decisions we have to make. Managers are constantly being exposed to many different frames, some naturally occurring and others that are purposefully proposed. An important task of managers is to identify the appropriate frame by which employees and the organization, in general, should evaluate its performance and direct its effort.

#### *The Framing of Risky Negotiations*

The way in which information is framed (in terms of either potential gains or potential losses) to the negotiator can have a significant impact on his or her preference for risk, particularly when uncertainty about future events or outcomes is involved. For example, when offered the choice between gains of equal expected value—one for certain and the other a lottery, we strongly prefer to take the *certain* gain. However, when we are offered the choice between potential losses of equal expected value, we clearly and consistently eschew the loss for certain and prefer the risk inherent in the *lottery*.

There is substantial evidence to suggest that we are not indifferent toward risky situations and we should not necessarily trust our intuitions about risk. Negotiators routinely deviate from rationality because they do not typically appreciate the transient nature of their preference for risk; nor do they take into consideration the ability of a particular decision frame to influence that preference. Influencing our attitudes toward risk through the positive or negative frames associated with the problem is the result of evaluating an alternative from a particular referent point or base line. A referent point is the basis by which we evaluate whether what we are considering is viewed as a gain or a loss. The referent point that we choose determines the frame we impose on our options and, subsequently, our willingness to accept or reject those options.

Consider the high-performing employee who is expecting a significant increase in salary this year. He frames his expectations on the past behavior of the company. As such, he is expecting a raise of approximately \$5000. Because of the recession, he receives a \$3500 salary increase. He immediately confronts his manager, complaining that he has been unfairly treated. He is extremely disappointed in what his surprised manager saw as an exceptional raise because the employee's referent point is \$1500 higher. Had he known that the average salary increase was only \$2000 (and used that as a more realistic referent point), he would have perceived the same raise quite differently and it may have had the motivating force that his manager had hoped to create.

The selection of which relevant frame influences our behavior is a function of our selection of a base line by which we evaluate potential outcomes. The choice of

one referent point over another may be the result of a visible anchor, the “status quo,” or our expectations. Probably one of the most common referent points is what we perceive to be in our current inventory (our status quo)—what is ours already. We then evaluate offers or options in terms of whether they make us better off (a gain) or worse off (a loss) from what (we perceive to be) our current resource state.

Interestingly, what we include in our current resource state is surprisingly easy to modify. Consider the executive vice-president of a large automobile manufacturing concern that has been hit by a number of economic difficulties because of the recession in the U.S. It appears as if she will have to close down three plants and the employee rolls will be trimmed by 6000 individuals. In exploring ways to avoid this alternative, she has identified two plans that might ameliorate the situation. If she selects the first plan, she will be able to save 2000 jobs and one of the three plants. If she implements the second plan, there is a one-third probability that she can save all three plants and all 6000 jobs but there is a two-thirds probability that this plan will end up saving none of the plants and none of the jobs. If you were this vice president, which plan would you select (#1 or #2)?

Now consider the same options (Plan 1 or Plan 2) framed as losses: If the vice-president implements Plan 1, two of the three plants will be shut down and 4000 jobs will be lost. If she implements Plan 2, then there is a two-thirds probability of losing all three plants and all 6000 jobs but there is a one-third probability of losing no plants and no jobs. If you were presented with these two plans, which would be more attractive? Plan 1 or Plan 2?

***In translating the influence of the framing bias to negotiation, we must realize that the selection of a particular referent point or base line determines whether a negotiator will frame his or her decision as positive or negative.***

It is obvious that from a purely economic perspective, there is no difference between the two choices. Yet, managers offered the plans framed in terms of gains select the first plan about seventy-six percent of the time. However, managers offered the choice between the plans framed in terms of losses only select the first plan about twenty-two percent of the time. When confronted with potential losses, the lottery represented by Plan 2 becomes relatively much more attractive.

An important point for managers to consider is that the way in which the problem is framed, or presented, can dramatically alter the perceived value or acceptability of alternative courses of action. In negotiation, for example, the more risk-averse course of action is to accept an offered settlement; the more risk-seeking course of action is to hold out for future, potential concessions. In translating the influence of the framing bias to negotiation, we must realize that the selection of a particular referent point or base line determines whether a negotiator will frame his or her decision as positive or negative.

Specifically, consider any recurring contract negotiation. As the representative of Company “A,” the offer from Company “B” can be viewed in two ways, depending on the referent point I use. If my referent point were the current contract, Company “B’s” offer can be evaluated in terms of the “gains” Company “A” can expect relative to the previous contract. However, if the referent point for Company “A” is an initial offer on the issues under current consideration, then Company “A” is more likely to evaluate Company “B’s” offers as losses to be incurred if the contract as proposed is accepted. Viewing options as losses or as gains will have considerable impact on the negotiator’s willingness to accept side “B’s” position—even though the same options may be offered in both cases.

Likewise, the referent points available to an individual negotiating his salary for a new position in the company include: (1) his current salary; (2) the company’s initial offer; (3) the least he is willing to accept; (4) his estimate of the most the

company is willing to pay; or (5) his initial salary request. As his referent moves from 1 to 5, he progresses from a positive to a negative frame in the negotiation. What is a modest *gain* compared to his current wage is perceived as a loss when compared to what he would like to receive. Along these same lines, employees currently making \$15/hour and demanding an increase of \$4/hour can view a proposed increase of \$2/hour as a \$2/hour gain in comparison to last year's wage (Referent 1) or as a \$2/hour loss in comparison to their stated or initial proposal of \$19/hour (Referent 5). Consequently, the location of the referent point is critical to whether the decision is positively or negatively framed and affects the resulting risk preference of the decision maker.

In a study of the impact of framing on collective bargaining outcomes, we used a five-issue negotiation with participants playing the roles of management or labor negotiators.<sup>3</sup> Each negotiator's frame was manipulated by adjusting his or her referent point. Half of the negotiators were told that any concessions they made from their initial offers represented losses to their constituencies (i.e., a negative frame). The other half were told that any agreements they were able to reach which were better than the current contract were gains to their constituencies (i.e., the positive frame). In analyzing the results of their negotiations, we found that negatively framed negotiators were less concessionary and reached fewer agreements than positively framed negotiators. In addition, negotiators who had positive frames perceived the negotiated outcomes as more fair than those who had negative frames.

In another study, we posed the following problem to negotiators:

*You are a wholesaler of refrigerators. Corporate policy does not allow any flexibility in pricing. However, flexibility does exist in terms of expenses that you can incur (shipping, financing terms, etc.), which have a direct effect on the profitability of the transaction. These expenses can all be viewed in dollar value terms. You are negotiating an \$8,000 sale. The buyer wants you to pay \$2,000 in expenses. You want to pay less expenses. When you negotiate the exchange, do you try to minimize your expenses (reduce them from \$2,000) or maximize net profit, i.e., price less expenses (increase the net profit from \$6,000)?*

From an objective standpoint, the choice you make to reduce expenses or maximize profit should be irrelevant. Because the choice objectively is between two identical options, selecting one or the other should have no impact on the outcome of the negotiation. What we did find, in contrast, is that the frame that buyers and sellers take into the negotiation can systematically affect their behavior.<sup>4</sup>

In one study, negotiators were led to view transactions in terms of either (1) net profit or (2) total expenses deducted from gross profits. These two situations were objectively identical. Managers can think about maximizing their profits (i.e., gains) or minimizing their expenses (i.e., losses). These choices are linked; if one starts from the same set of revenues, then one way to maximize profits is to minimize expenses and if one is successful at minimizing expenses, the outcome is that profit may be maximized. That is, there is an obvious relationship between profits and expenses. So, objectively, there is no reason to believe that an individual should behave differently if given the instructions to minimize expenses or to maximize profits. However, those negotiators told to maximize profit (i.e., a positive frame) were more concessionary. In addition, positively framed negotiators completed significantly more transactions than their negatively framed (those told to minimize expenses) counterparts. Because they completed more transactions, their overall profitability in the market was higher, although negatively framed negotiators completed transactions of greater mean profit.<sup>5</sup>

*The Endowment Effect*

The ease with which we can alter our referent points was illustrated in a series of studies conducted by Daniel Kahneman, Jack Knetsch, and Richard Thaler.<sup>6</sup> In any exchange between a buyer and a seller, the buyer must be willing to pay at least the minimum amount the seller is willing to accept for a trade to take place. In determining the worth of an object, its value to the seller may, on occasion, be determined by some objective third party such as an economic market. However, in a large number of transactions, the seller places a value on the item—a value that may include not only the market value of the item but also a component for an emotional attachment to or unique appreciation of the item. What impact might such an attachment have on the framing of the transaction?

Let's imagine that you have just received a coffee mug.<sup>7</sup> (In the actual demonstration, coffee mugs were placed before one third of the participants, the "sellers," in the study.) After receiving the mug, you are told that in fact you "own the object (coffee mug) in your possession. You have the option of selling it if a price, to be determined later, is acceptable to you." Next, you are given a list (See Exhibit 1) of possible selling prices, ranging from \$.50 to \$9.50, and are told for each of the possible prices, you should indicate whether you would (a) sell the mug and receive that amount in return, or (b) keep the object and take it home with you. What is your selling price for the mug?

Another third of the group (the "buyers") were told that they would be receiving a sum of money and they could choose to keep the money or use it to buy a mug. They were also asked to indicate their preferences between a mug and sums of money ranging from \$.50 to \$9.50. Finally, the last third of the participants (the "choosers") were given a questionnaire indicating that they would later be given an option of receiving either a mug or a sum of money to be determined later. They indicated their preferences between the mug and sums of money between \$.50 and \$9.50. All of the participants were told that their answers would not influence either the pre-determined price of the mug or the amount of money to be received in lieu of the mug.

The sellers reported a median value of \$7.12 for the mug; the buyers valued the mug at \$2.88; and the choosers valued the mug at \$3.12. It is interesting that in

For each price listed below, indicate whether you would be willing to sell the coffee mug for that price or keep the mug.

If the price is \$0.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$1.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$1.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$2.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$2.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$3.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$3.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$4.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$4.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$5.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$5.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$6.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$6.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$7.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$7.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$8.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$8.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$9.00, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

If the price is \$9.50, I will sell \_\_\_\_\_; I will keep the mug \_\_\_\_\_.

Exhibit 1. The Coffee Mug Questionnaire



this exercise, being a buyer or a chooser resulted in very similar evaluations of worth of the mug. However, owning the mug (the sellers) created a much greater sense of the mug's worth. In this case, it was approximately forty percent greater than the market (or retail) value of the mug.

The explanation for this disparity lies in the fact that different roles (buyer, seller, or chooser) created different referent points. In fact, what seems to happen in such situations is that owning something changes the nature of the owner's relationship to the commodity. Giving up that item is now perceived as a loss and in valuing the item, the owner may include a dollar value to offset his or her perceived loss. If we consider this discrepancy in the value of an item common, then the simple act of "owning" an item, however briefly, can increase one's personal attachment to an item—and typically, its perceived value. After such an attachment is formed, the cost of breaking that attachment is greater and is reflected in the higher price the sellers demand to part with their mugs as compared to the value the buyers or the choosers place on the exact same commodity. In addition, we would expect that the endowment effect intensifies to the extent that the value of the commodity of interest is ambiguous or subjective, the commodity itself is unique, or not easily substitutable in the marketplace.

#### *Framing, Negotiator Bias, and Strategic Behavior*

In the previous discussion, we described the negotiator behaviors that may arise from positive and negative frames within the context of the interaction. In this section, we identify some of the techniques for strategically manipulating framing to direct negotiator performance.

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***Framing has important implications for negotiator tactics. Using the framing effect to induce a negotiating opponent to concede requires that the negotiator create referents that lead the opposition to a positive frame by couching the proposal in terms of their potential gain. In addition, the negotiator should emphasize the inherent risk in the negotiation situation and the opportunity for a sure gain.***

As our research suggests, simply posing problems as choices among potential gains rather than choices among potential losses can significantly influence the negotiator's preferences for specific outcomes.

***As our research suggests, simply posing problems as choices among potential gains rather than choices among potential losses can significantly influence the negotiator's preferences for specific outcomes.***

Framing can also have important implications for how managers choose to intervene in dispute among their peers or subordinates. Managers, of course, have a wide range of options to implement when deciding to intervene in disputes in which they are not active principals. If the manager's goal is to get the parties to reach an agreement rather than having the manager decide what the solution to the dispute will be, he or she may wish to facilitate both parties' viewing the negotiation from a positive frame. This is tricky, however, since the same referent that will lead to a positive frame for one negotiator is likely to lead to a negative frame for the other negotiator if presented simultaneously to the parties. Making use of the effects of framing may be most appropriate when a manager can meet with each side separately. He or she may present different perspectives to each party to create a positive frame (and the subsequent risk-averse behavior associated with such a frame) for parties on both sides of the dispute. Again, if the manager is to effect the frame of the problem in such a way to encourage agreement, he or she may also emphasize the possible losses inherent in continuing the dispute. Combining these two strategies may facilitate both sides' preference for the certainty of a settlement.

Being in the role of buyer or seller can be a naturally occurring frame that can influence negotiator behavior in systematic ways. Consider the curious, consistent,

and robust finding in a number of studies that buyers tend to outperform sellers in market settings in which the balance of power is equal.<sup>8</sup> Given the artificial context of the laboratory settings and the symmetry of the design of these field and laboratory markets, there is no logical reason why buyers should do better than sellers. One explanation for this observed difference may be that when the commodity is anonymous (or completely substitutable in a market sense), sellers may think about the transaction in terms of the dollars exchanged. That is, sellers may conceptualize the process of selling as gaining resources (e.g., how many dollars do I gain by selling the commodity); whereas buyers may view transaction in terms of loss of dollars (e.g., how many dollars do I have to give up). If the dollars are the primary focus of the participants' attention, then buyers would tend to be risk seeking and sellers risk averse in the exchange.

***The framing effect suggests that to induce concessionary behavior from an opponent, a negotiator should always create anchors or emphasize referents that lead the opposition to a positive frame and couch the negotiation in terms of what the other side has to gain.***

When a risk-averse party (i.e., the seller, in this example) negotiates with a risk-seeking party (i.e., the buyer), the buyer is more willing to risk the potential agreement by demanding more or being less concessionary. To reach agreement, the seller must make additional concessions to induce the buyer, because of his or her risk-seeking propensity, to accept the agreement. Thus, in situations where the relative achievements of buyers and seller, can be directly compared, buyers would benefit from their negative frame (and subsequent risk averse behavior). The critical issue is that these naturally occurring frames such as the role demands of being a "buyer" or "seller" can easily influence the way in which the disputed issues are framed—even without the conscious intervention of one or more of the parties.

It is easy to see that the frames of negotiators can result in the difference between impasse and reaching an important agreement. Both sides in negotiations typically talk in terms of a certain wage, price, or outcome that they must get—setting a high referent point against which gains and losses are measured. If this occurs, any compromise below (or above) that point represents a loss. This perceived loss may lead negotiators to adopt a negative frame to all proposals, exhibit risk-seeking behaviors, and be less likely to reach settlement. Thus, negotiators, similar to the early example involving the beach and the beer, may end up with no beer (or no agreement) because of the frame (the amount of money I will pay for a beer from a run-down grocery store) that is placed on the choices rather than an objective assessment of what the beer is worth to the individual.

In addition, framing has important implications for the tactics that negotiators use. The framing effect suggests that to induce concessionary behavior from an opponent, a negotiator should always create anchors or emphasize referents that lead the opposition to a positive frame and couch the negotiation in terms of what the other side has to gain.

In addition, the negotiator should make the inherent risk salient to the opposition while the opponent is in a risky situation. If the sure gain that is being proposed is rejected, there is no certainty about the quality of the next offer. Simultaneously, the negotiator should also not be persuaded by similar arguments from opponents. Maintaining a risk-neutral or risk-seeking perspective in evaluating an opponent's proposals may, in the worst case, reduce the probability of reaching an agreement; however, if agreements are reached, the outcomes are more likely to be of greater value to the negotiator.

An important component in creating good negotiated agreements is to avoid the pitfalls of being framed while, simultaneously, understanding the impact of positively and negatively framing your negotiating opponent. However, framing is just one of a series of cognitive biases that can have a significant negative impact

on the performance of negotiators. The purpose of this article was to describe the impact of one of these cognitive biases on negotiator behavior by considering the available research on the topic and to explore ways to reduce the problems associated with framing. By increasing our understanding of the subtle ways in which these cognitive biases can reduce the effectiveness of our negotiations, managers can begin to improve not only the quality of agreements for themselves but also fashion agreements that more efficiently allocate the available resources—leaving both parties and the communities of which they are a part better off.

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## Endnotes

This article is based on the book by Bazerman, M.H., & Neale, M.A. (1992).

*Negotiating Rationally*. Free Press: New York.

<sup>1</sup> Adapted from J.E. Russo, & P.J. Schomaker, *Decision traps* (New York: Doubleday, 1989).

<sup>2</sup> R. Thaler, "Using Mental Accounting in a Theory of Purchasing Behavior," *Marketing Science*, 4, 1985, 12-13.

<sup>3</sup> M.A. Neale, & M.H. Bazerman, "The Effects of Framing and Negotiator Overconfidence," *Academy of Management Journal*, 28, 1985, 34-49.

<sup>4</sup> M.H. Bazerman, T. Magliozzi, & M.A. Neale, "The Acquisition of an Integrative Response in a Competitive Market Simulation," *Organizational Behavior and Human Performance*, 34, 1985, 294-313.

<sup>5</sup> See, for example, Bazerman, Magliozzi, & Neale (1985), op. cit.; Neale and Bazerman,

(1985), op. cit.; or M.A. Neale, & G.B. Northcraft, "Experts, Amateurs and Refrigerators:

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<sup>6</sup> D. Kahneman, J.L. Knetsch, & R. Thaler, "Experimental Tests of the Endowment Effect and Coarse Theorem," *Journal of Political Economy*, 1990.

<sup>7</sup> The coffee mugs were valued at approximately \$5.00.

<sup>8</sup> Bazerman et al., (1985), op.cit.; M.A. Neale, V.L. Huber, & G.B. Northcraft, (1987), op.cit.

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