Financial vulnerability may discourage positive negotiation strategies

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People who feel financially vulnerable may be prone to believing incorrectly their success in negotiations must come at the expense of the other party, leading them to ignore the potential for more cooperative and mutually beneficial options, according to research published by the American Psychological Association.

"Our research suggested that those who feel financially disadvantaged often approach economic exchanges, such as negotiations, with the assumption that each party has directly conflicting preferences," said Tianyu He, MA, of INSEAD, Singapore, and lead author of the study. "However, a much more beneficial strategy is a cooperative approach where each side engages in joint problem solving, exploring each party's different preferences. This strategy maximizes the negotiation outcomes for both parties so if financially disadvantaged individuals use this method, they may not continue to perpetuate their situations through poor deals."

The study was published in the *Journal of Applied Psychology*.

He and her co-authors explored whether having or perceiving financial vulnerability would prompt a zero-sum perception of success, meaning that success for one person can only come at another's expense.

"This idea can also be described as a 'fixed-pie' view, where people go into a negotiation as if each side is arguing over how big a piece of the pie they each get, with one side losing a slice for every slice the other side takes," she explained. "This can cause people to not consider the potential to 'expand the pie,' by looking for cooperative agreements where both sides win."

The researchers first looked at the Integrated Value Survey dataset, an international survey with 191,648 participants across 90 countries from 1981 to 2014. This survey gauged financial vulnerability through multiple measures: reported household income; perception of which income group they felt they were in within their country; satisfaction with their financial situation; and whether respondents lacked food and cash. The survey also measured participants' beliefs that their success must come at the expense of others by using a scale from 1 (e.g., people can only get rich at the expense of others) to 10 (e.g., wealth can grow so there is enough for everyone).

"This provided evidence that when people experienced financial vulnerability, they were more likely to believe their gain depended on the loss of others," said Rellie Derfler-Rozin, Ph.D., of the University of Maryland and one of the study co-authors.

To test how this relationship might apply to negotiations, the authors conducted four experiments with over 1,000 undergraduate students.

In all four of the experiments, participants were paired up and asked to negotiate four different issues regarding the sale of a car: the price, color, warranty and delivery date.

The authors assigned point values to each potential outcome for each issue (e.g., a one-year warranty gives the seller 600 points and gives the buyer 100 points). The warranty and delivery date scores were weighted in such a way that if players used cooperative strategies (i.e., they worked together to find a mutually acceptable solution), the sum of their points would be greater than if they competed to maximize their individual point totals. The higher the combined point value after the negotiation, the more the participants used an integrative, cooperative strategy as opposed to a zero-sum strategy.

In the first experiment, the students were asked to write about an experience when they did not have enough money or an experience when they did. This was done to put the participants who wrote about not having enough money in a mindset of financial vulnerability in which they would be more inclined to think about concerns related to material resources, said He.

Participants were then put into pairs and engaged in the negotiation. Half of the pairs were told that the two best individual performers in the experiment would receive $50, while the other half were given no financial incentive. Only the pairs who were given a financial incentive showed significant differences in negotiation strategies. The subsequent experiments followed the same procedures as the first experiment except that all pairs were given a financial incentive and financial vulnerability was measured by reported household income.

In all four experiments, the researchers found evidence that financial vulnerability was significantly associated with lower total point values, confirming that participants experiencing financial vulnerability were more likely to approach the situation with a zero-sum mindset and thus less likely to capitalize on opportunities for joint value gain, said He. The authors believe these findings could provide a partial explanation for why it is so difficult for low-income people to improve their economic standing.

"By holding this win-lose mindset, financially disadvantaged people may continue to make poor deals, perpetuating their situation," said Marko Pitesa, Ph.D., of Singapore Management University, a study-co-author. "Negotiation training programs may be beneficial to help them look for and recognize the potential for cooperative exchanges."

More information: "Financial Vulnerability and the Reproduction of Disadvantage in Economic Exchange," by Tianyu He, *Journal of Applied Psychology*, 2019.

Provided by American Psychological Association