

The Endowment Effect in Individual and Team Negotiations

Amira Galin, Miron Gross, Irit Kella-Egozy, Sigal Sapir

E-mail Address -Amira Galin: ami30@bezeqint.net

Faculty of Management, Tel Aviv University

P.O.B 39040, Ramat Aviv, Tel Aviv 69978

Israel

Tel: +972-3-6408511

Fax: +972-9-7745802

Background

More negotiations are performed by Teams than by individuals. When comparing negotiating teams with negotiating individuals, it is important to know who, if either, is more affected by judgment biases - teams or the individual. If in fact negotiating teams are affected differently by the Endowment Effect, this may have implications both on the Group and the Endowment Effect theories. This may also have important consequences on the practical conduct of negotiations in business.

The Literature

Some studies focused on the various aspects of team judgment in negotiations (O'Connor, 1997; Moore, Kurtzberg, Thompson and Morris, 1999 and Beersma and De Dreu, 2002). Other studies compared team and individual decision-making processes and the conduct of negotiators. Three main groups may be found in these latter studies. The first group sustains that group processes mitigate biased behaviors accredited to individuals, such as accountability and anchoring (O'Connor, 1997). The second group maintains that the conduct of the negotiating group does not significantly differ from that of the individual (Whyte and Sebenius, 1997). While the third group found that polarization occurs in the group judgments (Burnstein and Vinokur, 1977).

In general, the aim of this study was to find out whether the Endowment Effect bias is the same for negotiators in teams as in individuals, or perhaps whether it is intensified or mitigated in groups. The Endowment Effect (Kahneman, Knetsch, & Thaler, 1990) suggests that individual negotiators adopt different reference points to objects when being the object possessor. Object processors hold a much greater value for objects owned by them (Thompson, 2001), than that which they would adopt as buyers of the same object.

One may find an explanation to this Endowment bias in the Prospect theory. Object possessors tend to value their objects highly, sustaining the view that selling their object is a 'loss', and therefore their attitude becomes loss aversive. In order to compensate for their feeling

of loss, they raise the negotiation stakes, demanding a "price", which they themselves would not be willing to pay if they were the buyer (Thaler, 1994).

A comparison between the Endowment Effect in negotiating teams vs. negotiating individuals has hardly been researched. Carnevale and Radhakrishan (Carnevale and Radhakrishan, 1995) studied the Endowment Effect in individuals and in couples from a cultural point of view. They concluded that regarding individuals, the Endowment Effect was found only in subjects from an individualistic culture and not from a collectivist one. Regarding couples, the Endowment Effect was found in those from a collectivistic culture and was not found in those from individualistic cultures. Generally, their findings support the notion that teams differ from individuals in relation to the Endowment Effect.

The present research is aimed at:

- a) Exploring the Endowment Effect in groups' negotiation when negotiating intangible items (such as intellectual resources and time invested in academic chores). and
- b) Comparing the Endowment Effect in negotiators when in groups and when as individuals.

The Research

This study focused on investigating the Endowment Effect in student groups and student individuals negotiating with the academic authorities of the university. A trade-off, of adding or dropping one seminar from the curriculum, was offered to the students. Students originally scheduled to attend two seminars were requested to conduct negotiations with the academic authorities of the university, in order to trade-off (add or drop) one seminar for advanced courses. In the university, in which the study was carried out, a seminar is considered to be a great deal more intellectually demanding and time consuming than advanced course.

Hypotheses

1. An Endowment Effect exists while negotiating for intangible objects such as time or intellectual efforts. In other words, a gap exists between the compensation requested by students for the addition of a seminar and the reimbursement, which they would be willing to offer for dropping the same seminar. The university authorities are demanded to give up a higher number of advanced courses for the addition of a seminar, than the number of courses the students will be prepared to give up for dropping the same seminar.

2. The Endowment Effect is intensified more in groups negotiating, than in individuals negotiating. In other words, in groups, the gap between compensation requested by students for the addition of a seminar and the reimbursement, which they would be willing to offer for dropping the same seminar would be significantly wider than the one observed when negotiations are conducted by the individual students.

Sample and Procedure

The sample was comprised of 93 students who were randomly assigned to 31 groups of 3 members each, and 246 individual students.

All 31 groups were confronted with a trade off between a seminar and advanced courses. The members of each group were asked to reach a consensus as to how many advanced courses they would demand be dropped by the university, if one seminar was added to their curriculum, and how many advanced courses they would agree to add, if a seminar was dropped from their

curriculum. Each of the 246 individuals was asked the same questions and answered them individually.

In order to statistically analyze the study hypotheses, t tests and analysis of variance were applied.

Results

We expected to find that the gap, between the compensation requested by the students for the addition of a seminar and the reimbursement which they offered for dropping the same seminar, would be wider in the groups than that of the individuals. Table 1 depicts the average data for both topics of negotiation (adding / dropping seminar from the curriculum) by groups and by individuals. The findings support our first hypothesis. The significance of the gap between an average compensation of 3.00 and an average reimbursement of 1.65 is confirmed by the t-test ($t=6.02, p<0.01$). Hence, a significant Endowment Effect in groups negotiating is established.

While a significant Endowment Effect was found also in individuals (an average compensation of 2.23 and an average reimbursement of 1.69 $t=5.94, p<0.01$), the comparison of the intensity of the Endowment Effect in groups and individuals supports our second hypothesis. Analysis of variance of the data in table 1 [$F(1,275) = 4.85, p<0.05$] clearly supports the above hypothesis, namely an intensification of the Endowment Effect in groups.

Table 1: Negotiating Groups vs. Negotiating Individuals, – t test and F

Proposal	Groups			Individuals		
	Mean	SD	N	Mean	SD	N
Adding a Seminar	3.00	1.15	31	2.23	1.23	153
Dropping a Seminar	1.65	0.61	31	1.69	0.76	153

Groups $t = 6.02, df = 30, p<0.01$

Individuals $t = 5.94, df = 152, p<0.01$

[$F(1,275) = 4.85, p<0.05$]

Discussion and Conclusions

Our Hypothesis predicted that the Endowment Effect exists in groups negotiating. Moreover, a stronger endowment bias exists compared to negotiations by individuals. Both hypotheses are supported in the present study.

Our findings add to the knowledge of negotiating groups' conduct. According to our findings, groups negotiating behave differently than individuals negotiating. However, groups do not mitigate individuals' biases, instead, they intensify biases - at least they intensify the Endowment Effect bias. The Endowment Effect intensification in groups opposes the argument that groups are more rational decision makers as a consequence of decreasing biases.

The findings also contribute to the research of the Endowment Effect, as the impact of the Endowment Effect in groups negotiating has not, to a large extent, been addressed by research so far.

It is noteworthy that our findings regarding the intensification of Endowment Effect in group negotiations bears important implications on the practical conduct of business negotiations. The Endowment Effect may be a real obstacle in reaching a desired solution, since the holder of an asset raises the stakes expecting an unreasonable return. The intensification of the Endowment Effect in groups indicates that negotiations with individual members are preferable to negotiations with the entire group. This conclusion is supported by observing business and political negotiations, in which the opposing groups fail to reach an agreement, but negotiations between the individual representatives (leaders) of the groups do yield an agreement.

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