



Your History With Money Affects How You Negotiate

The mindset fostered by financial scarcity hinders the pursuit of win-win outcomes.

Today's smart leaders would never dream of conducting cross-border negotiations in a culture-blind way. They are well aware that when internationally diverse groups sit down to negotiate, the differences in their cultural values are at the table too. To achieve that coveted **win-win outcome**, you need to know where your counterparty is coming from, literally and figuratively.

Yet differences that exist *within* cultures can also profoundly impact negotiating styles. My recent research looks at how past experience of financial disadvantage affects how people negotiate. We find that this experience produces a mindset with unique barriers to the achievement of win-win results. But the prevailing wisdom about negotiations has little to say about distinctions rooted in economic class rather than culture or nationality. These class blind spots may have serious societal implications in this era of mounting inequality because so many levers of social mobility are tied to negotiations.

Extracting mutual value

As described in my article in the *Journal of Applied Psychology*, co-authored by Rellie Derfler-Rozin (University of Maryland) and Marko Pitesa (Singapore Management University), win-win negotiations hinge upon special techniques. Of all the bones of contention in a negotiation, certain items will be more important to one counterparty

than the other(s). Win-win negotiators can drill down into their priorities list to find areas where ground can be given to their counterpart at little cost to what they themselves care about most. Consequently, everyone gets more out of the negotiation.

But the experience of financial hardship can engender a zero-sum mentality that inhibits mutual value creation. For the poor, fortune tends to flow in one direction, against them. They are less familiar with strategies for shared value incorporating nuanced give-and-take. Hence, a win-win negotiating style may be foreign to them – more like a language they don't know than a skill they can easily learn.

We first tested our hypothesis against data from the Integrated Values Survey, which includes answers from nearly 200,000 people around the world about their moral and economic worldview. We found that there were indeed strong positive correlations between respondents' self-reported financial vulnerabilities and their agreement with the zero-sum statement: "People can only get rich at the expense of others."

Then, we launched a series of experiments involving undergraduates at a business school. In one study, we split participants into two categories, based on their answers to questions about the state of their

Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>

finances as well as a writing exercise designed to induce feelings of either financial vulnerability or security. Within each category, students were paired up for a mock-negotiation over the price, colour, warranty and delivery date of a new car. In this hypothetical scenario, the difference in importance placed upon the warranty and delivery date created an opportunity for the negotiators to pursue a win-win outcome.

Half of the pairs were told that the best negotiator would receive a cash prize. The cash incentive seemed to drive a wedge between privileged and underprivileged negotiation styles. Financially comfortable pairs went down the win-win path, realising more value on both sides by trading off secondary priorities. But the financially vulnerable pairs revealed less of this behaviour and ultimately created less value on the whole.

Incentives

It is significant that the disparity in negotiation style was present only when a cash prize was promised. Without a financial reward, there was no consistent difference between how the two participant types negotiated. We conclude, therefore, that the zero-sum frame of mind arises when financially disadvantaged individuals perceive the prospect of economic betterment.

Presumably, such an individual would apply the zero-sum framing to negotiations conducted on behalf of a firm, if they felt the outcome would have salary repercussions. Left unchecked, this could produce sub-optimal results both for organisations and negotiators who can ill-afford the financial disappointment.

But the effects we describe would perhaps be strongest for negotiations directly influencing the career advancement of financially vulnerable individuals: hiring, promotion, etc. These also happen to be moments when win-win skills would most come in handy. Ideally, companies and employees would co-design pay packet, benefits, leave allotment, etc. with reference to both parties' full menu of priorities. If the employee is working from a zero-sum perspective, there will be missed opportunities to uncover areas of overlapping value. Over the course of a working life, what's left on the table could add up to a significant (and needless) financial and career deficit.

A question of skills?

As part of leadership development, many organisations already invest in courses on win-win negotiation skills. Our findings indicate that employees with past experiences of financial disadvantage should be among the first in line to

Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>

receive training.

Skills learned in a workshop, however, often cannot erase hard-knock lessons gleaned empirically. For their part, recruiters and hiring managers should also be aware that even within local talent pools, negotiating style may vary based on class identity and economic status. Coming to mutually beneficial terms with a candidate from a financially vulnerable background may entail expending a little extra effort to push the potential for win-win. Unspoken messages also matter. If already-mistrustful employees are encouraged to think their counterparty is out to trick them, their zero-sum instincts will kick in forcefully. Their street-smart reflexes may be relaxed, however, if they are encouraged to view the person or people across the table as potential collaborators in a search for shared value.

***He Tianyu** is a PhD candidate in Organisational Behaviour at INSEAD.*

*Don't miss our latest content. Download the free **INSEAD Knowledge app** today.*

*Follow INSEAD Knowledge on **Twitter** and **Facebook**.*

Find article at
<https://knowledge.insead.edu/leadership-organisations/your-history-with-money-affects-how-you-negotiate-13511>

Download the Knowledge app for free

