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1. Introduction

Day by day, we all make important decisions. Most of them, especially the ones that will affect us to a greater extent, are made in the context of social interactions. Rilling et al. (2011) refer to them as social decisions because they affect us personally on the one hand, and the people surrounding us on the other hand.

We have all already asked ourselves some of the following questions: Can I trust this person? Should I reciprocate this person's trust? Was that fair? Should I treat this person fairly? Should I punish this person for treating me in an unfair manner? Should I comply with social norms? (cf. Rilling et al. 2011, p. 24)

In business, decisions are often taken in the course of a negotiating process that occurs between two or more economic actors. Actually, negotiation clearly is a fundamental part of business. Negotiation "is essential for managers" (Butler 1999, p. 217), since they negotiate union contracts, the prices of resources and their allocation, delivery schedules, promotion and compensation packages of employees, and other aspects of organizational outcomes (cf. p. 217).

As a negotiation consists of human beings interacting with the aim of coming to an agreement, we can say that it is a social interaction in which both parties try to get as much out of the deal as possible and / or to enlarge the pie in the realm of the given possibilities.

However, almost all economic models are based on certain powerful assumptions according to which all human beings are "exclusively pursuing their material self-interest and do not care about social goals" (Fehr et al. 1999, p. 817). Accordingly, humans are perceived as being totally rational, selfish actors that seek to maximize their own utility, profits and payoffs. Such a person is commonly referred to as *homo oeconomicus*. In addition, also most of the literature on conflict resolution assumes that "rational" attempts to maximize individual gains motivate the course and outcome of negotiations (cf. Albin 1993, p. 223).

This traditional vision of economic actors may of course be true for some people. However, research currently provides evidence suggesting that humans are also influenced by other motives. For instance, a person's preference is not simply determined by absolute levels of outcome. We also care about how much we receive in comparison to the other's payoffs and simultaneously we care about how much the other one receives as well. On an individual level, people dislike losses significantly more than they like gains (cf. Rabin 1998, p. 11). In this sense, we can actually argue that economic assumptions about human behavior have mainly been followed in order to keep mathematical models as simple as possible.

In recent years, academics have increasingly paid attention to social motives as a factor that influences the decision-making process, bargaining behavior and economic outcomes. Social preferences have become a widely recognized phenomenon in empirical economics. Today, more and more economists accept that individuals do have social and/or reciprocal preferences (cf. Cabrales et al. 2010, p. 2261). Experimental economics have studied human behavior and their interactions within organizational structures as well as in interactions between individuals; and found that humans are guided by social motives to an extent that cannot be neglected.

Scientists of various fields such as psychology, neurology and economics have provided evidence that social preferences have an important impact on decision-making as well as on several other behavioral aspects of economic actors. Although there is only little literature that explicitly treats social preferences in negotiations, several cross-connections between works from different fields indicate that social preferences have an impact on negotiations.

Fehr et al. (1998), Rabin (2002), List (2004), Camerer et al. (2006), Fischbacher et al. (2010), Cabrales et al. (2010), Tricomi et al. (2010) and several other academics showed that social preferences exist, indicated why they matter and how they influence economic outcomes. Rabin (1998) states that psychological research can teach economists about making a person's utility function more truthful than under standard economic postulations.

Nowadays, numerous are those economists that still believe that social preferences do not exist. However, a growing stream of researchers agree that a person's utility is determined by the own payoff and an other-regarding component, which can be seen as the comparison between the own payoff with the payoffs of the others (cf. Cooper et al. 2013, p. 8). In other words, people depart from a self-interested goal to then pursue other-regarding preferences such as fairness, reciprocity and revenge (cf. Rabin 1998, p. 11).

Following Bazerman et al. (2000), it was Raiffa (1982) who first marked a turning point in the field of research on negotiations, because he questioned the perception of humans as purely self-interested rational negotiators. In his work "The art and science of negotiations" (1982), he acknowledged the importance of establishing precise descriptions of one's opponent rather than just assuming that the latter is rational. Further, he noted that already the fact that a negotiator does negotiation analysis and prepares strategies before starting the talks, has to be taken as an indicator for the circumstance that negotiators themselves do not follow purely rational strategies (cf. Bazerman et al. 2000, p. 282).

Hence, when people negotiate, there are actually two or more persons that do not have purely rational interests and are often not only concerned by their own payoffs sitting around a same table. Additionally, evidence indicates that social preferences play a major role in the everyday lives of human beings. In fact, there is a widespread acceptance with regard to the existence of social preferences and their influence on human behavior. Nevertheless, there is considerable divergence in literature about which factors actually determine people's conducts.

It seems obvious that, as a consequence of the existence of social preferences and non-rational negotiators, social preferences influence negotiations. Do they influence solely the outcome or are more aspects influenced? Can this influence differ, depending on one's opponent in a negotiation? Clearly, **how do social preferences influence negotiations?** This thesis aims at providing answers to this question by reviewing existing literature. Hence, this work will focus on the implications of people's social preferences in economics and especially in negotiations.

In the first section social preferences will be defined. The different forms of social preferences, namely fairness and inequity aversion, reciprocity, trust and altruism will be presented. For each of these other-regarding motives, I will discuss what it is, provide some theories and some empirical findings.

In the second section, I will go in depth of the topic and discuss how social preferences influence negotiations. For this matter, a short overview of what negotiations are will be provided. In fact, it is likely that social preferences influence the whole negotiating process, from the beginning to the end, with some forces being more prevalent in one than in another part of the talks.

This possibility leads me to explore how social preferences matter in negotiations. Therefore, in the last part of this work, I will point out how each of the mentioned social preferences matter in negotiation.

2. What are Social Preferences?

2.1. General Characteristics

2.1.1. Definition

Within this chapter, we want to provide a definition of social preferences by looking at explanations from several academics, such as Fehr et al. (2002), Camerer (2003), Charness et al. (2002) and Brandts et al. (2012) among others. Further, we will see that two pioneering works have pushed forward the discussion on social preferences as well as the generation of different models. The most important ones will briefly be explained.

Fehr et al. (2002) provide the following definition of social preferences: “A person exhibits social preferences if the person not only cares about the material resources allocated to her but also cares about the material resources allocated to relevant reference agents” (p. C2). This definition of social preferences identifies “relevant reference agents“, which can designate colleagues with whom the person interacts most frequently at work, a person’s relatives, trading partners, neighbors or friends.

According to Camerer (2003) social preferences “balance a person’s desire to have more money with their desire to reciprocate those who have treated them fairly or unfairly, or to achieve equality” (p. 11). Charness et al. (2002) explain that “formal models of social preferences (...) assume people are self-interested, but are also concerned about the payoffs of others” (p. 817).

Brandts et al. (2012) provide a definition that makes clearer how social preferences are being expressed by individuals. They state that economically incentivized subjects express social preferences, when they are “willing to sacrifice parts of their material earnings to compensate the kind behavior of others, or will be willing to reciprocate at a non-negligible cost, or even pay a positive price for punishing the behavior of selfish individuals” (p. 113).

The term “other-regarding preferences“ often occurs in the literature on social preferences. In the following these terms will be used interchangeably assuming that they both refer to non-selfish motives.

Experimental economics have pointed out several forms of social preferences. From a negotiation and management point of view, reciprocity, fairness and trust seem to be the most relevant and influential ones. However, the other ones cannot be neglected. Interestingly, when dealing with the topic of social preference, the notion of punishment always occurs. It is in fact intrinsically tied to the concept of other-regarding preferences. As we will see in greater detail later on, there is large evidence for the fact that people are willing to punish others that do not behave according to the “rules of social preference” (Cooper et al. 2013, Andreoni et al. 2002, Rabin 1998, Rabin 2002, Fehr et al. 2002, List 2004, Charness et al. 2002, Fehr et al. 2003, Denant - Boemont et al. 2007 among others).

Much of the work on social preferences is based on game theory and bargaining games. According to Cooper et al. (2013) this field of research strongly depended on results from ultimatum and dictator games around 1995 (p. 2). As an example, consider the dictator game, which is an experiment in which one subject, named the dictator can decide either to transfer money to an anonymous recipient or to refrain from doing so. Clearly, a purely self-interested, rational dictator would choose not to send any money. However, on average, dictators decide to transfer about 30 percent of their endowments. This kind of transfer, which does not correspond to the *homo oeconomicus*’ behavior, is taken as evidence that the person in question also follows some kind of social motives and thus exhibits social preferences (cf. Croson et al. 2008).

Fehr and Schmidt (1999) and Bolton and Ockenfels (2000) have published two theoretical papers with this regard that were of great influence on later literature dealing with social preferences. Both pioneering works generated outcome-based models: They both provided explanations for the results of ultimatum and dictator games outcomes. Fehr et al. (1999) and Bolton et al. (2000) explored the players’ concerns about the distribution of payoffs along with their own income.

The authors could explain outcomes that the traditional *homo oeconomicus* failed to clarify by assuming that a person’s utility of an outcome depends on a player *i*’s own payoff on the one side, but also on how this person assesses it

when comparing with other player's payoffs. Moreover, both works showed, without changing the structure of preferences, that standard own income maximizing results emerged in different environments (cf. Cooper et al. 2013, p. 7). Most importantly, these works have clearly pushed discussion on the topic forwards and hence, helped in identifying what kind of social preferences are „responsible“ for the deviations of the self-maximizing, selfish model of economics.

Nevertheless, their papers have also been criticized. Wilson (2010) for instance criticized models of social preferences; he argues that economists have simply invented this notion in order to force ordinary human behavior to fit their models (p. 77). However, apart from a few quite negative feedbacks, the criticism was rather constructive, because it resulted in a broader range of literature, which often represent revised and improved versions of Fehr et al. (1999) and Bolton et al. (2000).

Hence, different models have appeared. Interestingly, most of them depart from the assumption of self-interest, (cf. Charness et al. 2002, p. 817) whereas different reasons for the existence of other-regarding preferences are discussed. The fact that people are also concerned by the payoffs of others supports the existence of social preferences. Charness et al. (2002) provide an overview about some of the models. Difference-aversion models assume that players are motivated to reduce differences between theirs and others' payoffs. In contrast, social welfare models assume that people like to increase social surplus. Increasing social surplus does not necessarily mean that those with lower payoffs are being helped. Social welfare can also be increased by enlarging the payoffs of those that are already having a lot. Finally, reciprocity models assume that the decision of raising or reducing another person's outcome or payoff depends on how fair the other one behaved (cf. Charness et al. 2002, p. 818).

In order to increase the understanding of other-regarding preferences, it is important to keep in mind that difference-aversion and social welfare models are similar to one another because they both focus on the outcome of others. Reciprocity models are distinct from the two other types because they emphasize on the behavior of others. In other words, difference-aversion and

social welfare model stress that a person's outcome is decisive for one's desire to increase or decrease the other's payoff, whereas reciprocity models highlight the person's behavior and state that one's fairness judgment about this behavior will be decisive for one's wish to increase or decrease the other's payoff.

However, it is important to point out, that different studies have indicated that not all people act in accordance with some kind of social preferences. It seems that a considerable number of humans exhibit selfish preferences and do not care about the outcome of others. As said by Fehr et al. (2002), "most studies indicate that there is also a substantial fraction of people who behave in a purely selfish manner" (p. C4).

Finally, one should keep in mind that notwithstanding the sedulous efforts of several academics, no model has been developed until now which is capable of incorporating all the important factors that guide and influence humans in their economic bargaining behavior. In addition, also the definitions about the different forms of social preferences are not absolute. Research is in some sense still in its infant shoes so that all scholars do still not agree on the same definitions. Said more precisely different scholars emphasize different points in their definitions and model social preferences differently. However, within this work, the following ones will be discussed: fairness and inequity aversion, reciprocity, trust, and altruism. I will try to provide an overview of the different streams of research.

2.1.2. Cognitive Limitations: Biases Influence our Preferences

It is widely known that humans suffer from cognitive limitation, although one has to admit that the human brain is capable of achieving remarkable abilities. Bazerman et al. (2000) point out that it is precisely these cognitive limitations that provide us with insights into the functioning of the human mind (p. 282) and allow us to propose frameworks and develop models that help us to understand the decision-making processes, bargaining behavior and economic events.

As said by Olekalns et al. (2012), "cognitive biases affect negotiator's representations of their outcomes" (p. 2). Humans often use heuristics to

evaluate alternatives and take decisions instead of rationally analyzing the full set of available information. Moreover, we are biased. Biases can be defined as systematic deviations from normative models¹, which occur because of cognitive limitations. In other words, a bias is a deviation from an objectively correct behavior. In fact, biases influence which information a person considers and interprets. There are a lot of different biases that influence human preferences. However, I am interested in showing how different preferences can affect negotiations by drawing a barrier that makes it difficult to reach an optimal agreement. Therefore I only want to focus on those biases that matter most with regard to negotiations.

First of all, it makes a difference how the information one receives has been presented, how it has been framed. According to Olekalns et al. (2012) the negotiator's frame is the most investigated bias. Such a frame determines how we perceive a conflict and guides our evaluation of preferences. As said by Rabin (1998) this bias is called a framing effect and refers to the phenomena in which a person prefers an option X to Y when the choice is elicited one way, but prefers Y to X when the choice is elicited in another way (p. 12). Konow (2001) provides a similar definition, stating, "choices are affected by the way in which fundamentally equivalent alternatives are presented" (p. 160). Further, the author also points out that fairness judgments are often subject to various kinds of cognitive limitations such as framing effects or loss aversion.

Framing effects will therefore result in people making judgments on the basis of gains and losses rather than with regard to total levels of outcome or resource allocation. However, importantly, losses will be more heavily influencing fairness perceptions than gains, due to the fact that humans are frequently showing an aversion against losses. In negotiations, framing effects distort the perceptions of negotiators with regard to their interests in comparison with those of the other. Clearly, negotiators often assume that their interests stand in direct contrast with the opponent's ones, which commonly makes it difficult to enlarge the scope of possible solutions and agreements. However, it is not really

¹ According to normative models, a person will always choose the alternative that maximizes the expected value of the potential outcome.

possible to distinguish between a bias – such as framing in this case – and a value judged as subjectively correct to an individual.

Another frequently occurring bias is named anchoring. Anchoring refers to opinion forming based on the use of irrelevant information as a reference point for evaluating some unknown information or value (cf. investopedia.com). Said differently, people anchor their judgments to a certain point of reference, they base their decision on events and values that are known to them, even if these information are not relevant to the actual event or value. Thereby they fail to adjust their judgment sufficiently to the actual situation. In negotiations, first impressions and first offers frequently act as anchors. For instance, when a negotiation is started with a high initial offer and large concessions are made, negotiators often indicate that they are very satisfied with the outcome. On the contrary, moderate levels of initial offers followed by moderate concession-making result in less satisfied negotiators even if the final outcome is actually the same (cf. Griesmair 2013).

In addition, people tend to see themselves as being better than others on desirable attributes and often have unrealistically positive self-evaluations (cf. Bazerman et al. 2000, p. 285). In negotiation, this results in negotiators that estimate that they are able to fully control events, even though the latter often are out of their locus of control. Such behavior may in fact increase costs of finding an agreement because the length of the discussion may be prolonged.

Furthermore, negotiators' fairness assessments are never purely objective. As pointed out by Albin (1993) and Bazerman et al. (2000), parties rather overweight the views that favor themselves and frequently view their own norms of fairness as being the more relevant or true ones.

Moreover, social interactions are guided by the beliefs, expectations and needs that parties have. As a result, when faced with social interactions, people create "a social world that fits the expectations" and in "negotiations, too, the parties, through their belief systems (...) create the interaction and its outcomes" (Bazerman et al. 2000, p. 290). Hence, individuals may behave as if their beliefs about the other person were true; and the other person frequently acts in

ways that confirm these beliefs. In other words, actors focus on the parts of information that are congruent with already existing beliefs and expectations. They focus on information that is familiar to them and do not necessarily consider the whole information they are faced with. In fact, this is also the reason why placebo effects exist. When people believe that some medication is useful and has a certain effect, their expectation will be confirmed through the strong belief that there is an effect, although there actually is not.

We have now first discussed what social preferences are in general and then seen what biases are. It is however important to distinguish between these two terms. A bias is a deviation from an objectively correct behavior, whereas there is no such thing as an objectively correct social preference. Table 1 briefly emphasizes the distinction.

	Definition / Distinction
Bias	Deviation from an objectively “correct” behavior. Often the people involved in an interaction will not realize that they are guided by some kind of bias. Only an objective evaluation from a third and uninvolved party will be able to detect a bias that has a certain influence on the interaction or on its outcome.
(Social) Preference	Subjective inclination or attitude towards something. Hence, there are no objectively “correct” (social) preferences. As for any preference, there is no right or wrong one. For instance, everybody is free to favor a different blend of ice cream.

Table 1
Distinction between biases and social preferences

2.2. Fairness and Inequity Aversion

2.2.1. What is it?

“Despite the strong sentiments and vigorous actions *it* incites, no consensus has emerged about what it is” (Konow 2001, p. 137). Defining the notions of fairness and inequity aversion is a difficult task, because of the complexity and ambiguity that this implies. In addition, some of the forms of cognitive limitation, which have been discussed in the last sub-chapter, have an influence on fairness judgments and have to be taken into consideration. For instance,

humans in general and negotiators in particular often view their own fairness norms as being just.

Further, information effects always play a role in fairness statements, since an observer never possesses all potentially relevant information to evaluate justice issues. In fact, information effects have to do with how a stated context will affect the filling of information gaps (Konow 2001, p. 158). Konow (2001) identifies two types of effects. First, someone that has to estimate whether an outcome is fair will extrapolate the values of unstated but still relevant variables or conditions from the information provided (p. 158). Secondly, when a person does not have enough information to do this extrapolation, he or she might assume that “all the values of unknown variables are equal across the members of the reference group” (p. 159) between whom resources shall be allocated. Since fairness and inequity aversion are quite close to each other, they will be discussed together although they actually are a matter of two distinct social preferences. However, as we will see they are linked to each other. Further, a number of papers such as Colquitt et al. (2001) or Konow (2001) to name just two among them, use the notions of justice, fairness and inequity aversion interchangeably. In this work the terms will also be used as synonyms.

In the following, the notions of fairness and inequity aversion will be defined and several forms of fairness will be discussed. Second, inequity aversion will be discussed. In fact, various authors provide different definitions and emphasize on different aspects of fairness so that it is quite challenging to come up with one definition. It is noteworthy that some authors make a distinction between the terms, so that this differentiation shall be mentioned shortly for the sake of completeness.

Albin (1993), for instance, argues that the notion of justice builds the macro-concept in which fairness is embedded. She states that justice refers to the “general principles for the distribution of resources and obligations in society as a whole” (p. 225) whereas concepts of fairness are more explicit and related to a context. Hence, notions of fairness are “individual (psychological) notions relating to a particular conflict, negotiation and/or outcome, and include views

on how to apply any broader principle of justice regarded as pertinent to a specific context” (p. 225).

In contrast, according to Fehr et al. (1999), Bolton et al. (2000) and Fehr et al. (2002), inequity aversion refers to a person’s determination to achieve “an equitable distribution of material payoffs” (Fehr et al. 2002, p. C3). Thus, inequity averse persons behave altruistically with regard to others, because they “want to increase the other persons’ material payoffs, if the other persons’ material payoffs are below an equitable benchmark, but they feel envy, i.e., they want to decrease the other persons’ payoffs, when the payoffs of the others exceed the equitable level” (Fehr et al. 2002, p. C3). In fact, the desire to increase someone’s payoff or on the contrary the desire to lower it contains the idea of punishment. Consequently, inequity averse persons and those caring for fairness issues will regularly act just as reciprocal persons do. It appears that inequity aversion is what motivates fairness preferences.

In economics, two types of fairness are predominantly discussed, namely outcome fairness and procedural fairness. For a long time, only issues of outcome fairness have really been addressed. It is only in more recent years, that literature started differentiating between types of fairness and underlining that they also matter in social interactions. The reason for the late discernment of other forms of fairness lies in standard economic analysis, which evaluates all actions solely by their consequences.

However, when evidence appeared, suggesting that the procedures by which decisions are taken also affect fairness perceptions, more and more papers started emphasizing on procedural and distributive fairness. Still today, these two types of fairness are primarily discussed in the existing literature on fairness. Nevertheless, other types of fairness also matter, especially in a negotiation context. In negotiation literature, there are papers that studied fairness issues and also took a closer look to other types of fairness, such as process fairness, structural fairness, interpersonal or informational justice. These types of fairness are rather neglected in economic literature. All the mentioned types of fairness shall be explained in the following.

Outcome fairness refers to the “principles underlying the allocation (...) of benefits and burdens in negotiated agreements” (Albin 1993, p. 237), and the extent to which parties actually think that an allocation of resources or payoffs is fair afterwards. In other words, outcome fairness is about how fair parties find the result of a negotiation and more precisely the distribution of resources. Konow (2001) assumes that distributive justice is an economic agent's goal. However, he nuances this assumption by stating that it is not the agent's only one. It is worth mentioning that others such as Colquitt et al. (2001) also refer to outcome fairness as distributive justice or fairness.

Procedural fairness not only refers to the control that parties have with regard to the negotiation process, but also refers to all the specific mechanisms, often defined at the beginning between parties to an exchange and then considered as rules of the game (cf. Albin 1993, p. 228). In fact, procedural justice depends on certain so-called procedural characteristics. Dolan et al. (2007) indicate that procedural fairness can be explained by six procedural characteristics, namely voice, neutrality, consistency, accuracy, reversibility and transparency. It is only if these procedural features are given, that people will regard an outcome as the result of a fair procedure. These characteristics will be explained in the following.

Voice is one of the most frequently mentioned determinants of procedural fairness. Among others, Albin (1993), Colquitt et al. (2001), Bazerman et al. (2000) and Dolan et al. (2007) have emphasized the importance of voice. It refers to the means by which those who are affected by a decision are involved in the decision-making process (cf. Dolan et al. 2007, p. 160) either directly or by being represented by another person or a group of other persons. Said differently, voice is about giving every party or affected group a chance to be heard (cf. Albin 1993, p. 228).

Neutrality on the contrary refers to the trust one has that a decision is being taken independently from the decision-makers themselves and any kind of pre-conception and self-interest. Further, neutrality requires that the interests of similar people will be treated in the same way (cf. Dolan et al. 2007, p. 160).

A process satisfies the criteria of consistency when the same decision-making principles are applied across a substantial time period on the one side and across a range of similar decision contexts on the other side (cf. Dolan et al. 2007, p. 160).

Accuracy requires that a decision is made based solely on substantial evidence rather than on personal biases or any other inaccurate mechanism. Dolan et al. (2007) note that in cases of job selection and legal disputes, voice may overlap with accuracy.

Reversibility refers to the right to re-discuss an unfavorable outcome or discussion to some degree. However, if a decision cannot be reversed, compensation may be awarded instead.

Finally, transparency means that the reasoning leading to the final decision is clear to all parties as well as to the people affected by the verdict (cf. Dolan et al. 2007, p. 161).

In line with Albin (1993), in addition to procedural and outcome fairness, structural and process fairness also have to be taken into account.

Process fairness, on the other side, can be defined as “the extent to which parties in process of negotiating relate to and treat each other “fairly” and how parties’ notions of (outcome) fairness influence the dynamics of the negotiation process, including their choice of procedures for arriving to an agreement” (Albin 1993, p. 228). It is worth mentioning that the terms of process and procedural fairness are often used interchangeably in research literature because both notions refer to the fairness of the negotiation process in general. However, as we have seen procedural fairness refers to all the specific mechanisms that are employed in an exchange in order to get to an agreement (cf. Albin 1993, p. 234) whereas process fairness, as a specific case of procedural fairness, can be understood as fair behavior of the negotiating parties during the progression of the discussions. Therefore it makes sense to distinguish between these forms of justice.

To sum it up, process fairness concerns broader questions than procedural fairness, such as how the negotiation mechanisms are actually used during the process. As we have seen, Albin (1993) distinguishes between structural, process, procedural and outcome fairness. According to her, judgments about whether an outcome is fair are formed by the principles of equity, equality and need.

Thibault and Walker (1975) have introduced the notions of procedural justice and process justice (cf. Thibault et al. 1975 cited in Colquitt et al. 2001, p. 426). In fact, they recognized that dispute resolutions are constituted of a process as well as a decision stage and suggested that parties of a dispute will only view a procedure as fair if they had the possibilities to control the process of the negotiation. However, if only one party can control the process of a negotiation, it cannot be considered as fair. Hence, both parties need to be able to exert a certain control over the process in order for it to be regarded as fair.

Structural fairness refers to the frame in which a negotiation takes place. As such, it concerns the structure of a negotiation and includes the identity of the partners, the issues to be negotiated, the rules and codes of conduct that govern the negotiations and the physical features such as for example the location where the talks take place (Albin 1993).

Colquitt et al. (2001) add interactional and informational justice to the discussion about the different types of fairness. It is noteworthy that the authors occasionally refer to interactional justice as interpersonal justice. Colquitt et al. (2001) are not the first ones to discuss these types of fairness. Already Greenberg (1993) has, among others, used these designations. Interactional (or interpersonal) justice refers to the idea of people that interact and treat each other with respect and sensitivity. Briefly, it concerns the interpersonal treatment people receive. Informational justice in turn refers to the fairness in the provision of the information in an exchange. Explanations are for instance perceived as being provided in accordance to informational justice when they are reasonable, timely and specific (cf. Colquitt et al. 2001, p. 390).

After having mentioned all these different types of fairness, it becomes clear that fairness is not an easily definable concept. Another complex aspect about fairness issues is that one always has to ask the question to whom something is or is not fair. Fairness is an element of acceptability and therefore, something that is fair to one party may not be regarded as fair by another one.

2.2.2. Theories on Fairness

Since distributive justice was the type of fairness that has been predominantly under scrutiny in literature for a long time, the first theories on fairness have also exclusively focused on it. Hence, I will provide some theories on outcome fairness in this chapter. More concretely, we will look at the concepts of Rabin (1998), Albin (1993) and at Konow's (2001) work, which is a collection of several theories. We will see that they can conflict with each other.

Academics have tried to find solutions aiming at determining whether an outcome is fair. Therefore, they tried to develop measurement methods that would enable a calculation of the degree to which an outcome could be regarded as fair. Adams (1965), for instance, suggested a theory according to which the fairness of an outcome could be measured by calculating the ratios of the parties' inputs and opposing them to the ratios of the parties' outcomes (cf. Colquitt et al. 2001, p. 426).

In more recent years, academics have continued to focus on how to determine the allocation of resources in a fair manner. In addressing the question of what rules people feel to be appropriate for distributing resources, Rabin (1998) provides a nice example that shall also be reproduced here in a simplified form to provide a brief account of another, more recent, theory on fairness.

Imagine two persons find 10€ or a good worth the same amount of money. How would an average third person decide to split the amount between the two claimants?

We could suppose that this third party, concerned by fairness issues, would decide to give the 10€ or the equally costly good to the person that is less wealthy or to the one for whom the good has a higher personal value. However,

according to research results, most people would go for a 50-50 split, regardless of the parties' situation or necessity.

As Rabin (1998) puts it, "except in extreme cases, often we ignore issues of relative usefulness and feel that goods should be divided equally" (p. 18). According to a majority of people, goods should be allocated following the so-called maximin-criterion, which "equalizes welfare improvements between the two people. The maximin rule resonates with many people (...) even when self-interest is at stake" (cf. Rabin 1998, p. 18).

However, there are several cases where the maximin-criterion, which basically refers to the equality principle (which will be discussed hereunder), will not necessarily lead to a fair outcome, since it also depends on the parties' initial positions. Strictly speaking, an equal split can only be fair if the parties' initial positions were equally far from their security points (cf. Albin 1993, p. 234).

Albin (1993) as well as other authors such as Welsh (2004), Konow (2001), Fehr et al. (1999), Andreoni et al. (2009) have suggested different concepts of fairness. Each of them points at different determinants of fairness perceptions in negotiation and other decision-making processes. As we will see, these concepts of fairness sometimes turn out to be conflicting. It is often simply impossible to satisfy all fairness concepts at once.

In accordance with Albin (1993), the major concepts of fairness are equity, equality and need. In maintaining these three values as particularly significant, she actually refers to Deutsch's (1975) work, in which he detects them as being the basis of distributive justice. In explaining the different concepts, one can recognize the parallels to inequity aversion. Since outcome fairness has been widely discussed in the literature, these three concepts should be explained briefly.

Equity signifies that rewards or resources should be distributed proportionally to one's contributions, inputs, actions, qualities, endowments or efforts. In this sense, fairness is reached when both parties' relative amount of inputs and rewards are the same (cf. Albin 1993, p.238). However, the equity concept also seems to be the most ambiguous one, since the parties should actually agree in

advance about the nature of relevant inputs and ways to calculate the relative value.

In contrast, according to the concept of equality, all parties should get the same or comparable rewards, regardless of their inputs or need. The following terms reflect the mentioned rule: “equal shares“, “compromise in the middle“, “equal excess“ and “equal sacrifice“. In general, people believe that a fair outcome will be reached if both parties are willing to yield in the same amount (equal split). Yet, it is difficult to reach an equal outcome, when parties are unequal in some respect or if the goods to be divided are indivisible (such as a car) or heterogeneous.

Finally, the need principle refers to redistributive justice and states that resources should be allocated only according to people’s need. Said differently, the least endowed party would get the greatest share according to this rule (cf. Albin, 1993, p. 239).

In order to capture a full image of distributive justice, Konow (2001) developed a framework of inequity aversion that is based on the following components: efficiency, needs, accountability and context. Basically, he provides a theory that intends to explain how fair values are determined. Unlike Albin’s (1993) suggestion, he only keeps the need concept, and adds the principles of efficiency and accountability. He further states that fairness is a context-specific phenomenon. In sum, according to Konow’s (2001) theory, “justice, like a square, has four sides: three general equity principles and context”² (p. 138).

His theory focuses on how a fair value is established. In doing so, he mainly concentrates on everyday situations as they could potentially occur in real-life situations (cf. Konow 2001, p. 137). As noted previously, he distinguishes between the accountability, the efficiency and the needs principle. In fact, this distinction is based on evidence gathered from telephone interviews conducted

² In order to avoid any confusion, it should be mentioned, that Konow (2001) uses the terms of fairness, justice and equity interchangeably, which he mentioned at the beginning of his work, so that the quoted sentence could also be „....three general fairness principles and context“.

in the Los Angeles area and written questionnaires of students from an American University.

To illustrate his theory Konow (2001) uses a “castaway” scenario in his questionnaires, which is based on the well known Crusoe and Friday paradigm. Later this situation is supplemented by other settings, which are more close to those of daily life. So, at first there are always these two survivors of a shipwreck on an uninhabited island and the fair allocation of the only available food, namely bananas, is at issue (cf. Konow 2001, p. 141). All along the paper, Konow (2001) assumes that the greater the difference between a person’s allocation and his or her entitlement, the more respondents will judge the allocation as being unfair.

The accountability principle states that the entitlement of a person depends on the perceived output or production of the allocable variable, such as the bananas collected for eating, and the person’s perceived input to the production, such as the castaway’s contribution to the available bananas, the number of fruits he collected or his labor time. When judging if a final allocation is fair, respondents differentiate between exogenous and discretionary variable, meaning that their answers are based on whether the castaway can influence the number of bananas collected or not. An exogenous variable for instance is one that a person cannot change but which may nevertheless have an influence on the outcome. As an example Konow (2001) provides one of the castaways with a missing hand since birth. Hence, the accountability states that a person’s fair allocation is proportionate to the variables he is able to control (cf. Konow 2001, p. 141), meaning that in their judgments people do not hold a castaway accountable for differences in the number of bananas picked if these differences are due to exogenous variables.

The efficiency principle is concerned about the total size of the allocable variable and as such it tries to have the highest amount of resources that should be divided between individuals (cf. Konow 2001, p. 148).

In accordance with the needs principle everyone should receive an allocation that satisfies one’s subjective needs. According to Konow’s (2001) theory there

is trade-off between accountability and needs, but when it comes to basic needs, accountability is less dominant (cf. Konow 2001, p. 149).

Finally, Konow (2001) states, “one aspect of fairness is the relative importance attached to each of the justice principles in a particular situation” (p. 157). For instance, context also matters when it comes to comparisons: A CEO’s salary of \$ 9 million is viewed as fair when compared with salaries of CEO’s from comparable large companies, but it is viewed as an unfair remuneration when compared to the earnings of workers from the same companies (cf. Konow 2011, p. 158).

It happens that fairness principles conflict with each other. The careful reader may already have recognized that – without even considering the further principles proposed by Konow (2001) – the three principles of Albin’s (1993) concept of fairness have the potential of conflicting with one another. As an example, let us imagine an outcome – whatever it may look like – which satisfies the concept of equality. Such an outcome distributes resources equally among parties. In doing so, the principle of need and equity would not be satisfied and hence a conflict of principles would arise, making it impossible to reach a fair agreement in terms of all three principles. When taking into consideration the accountability or efficiency principle, we would not only face a situation in which principles would be conflicting, but a situation of clashing concepts.

When a situation occurs in which fairness principles are converging, they have to be carefully balanced and viewed according to their relative importance (Albin 1993, Konow 2001). However, according to Konow (2001), the accountability principle is the most relevant one. He states that if an outcome is regarded as unfair with regard to the accountability principle, people will typically find that an allocation is unfair. According to Konow (2001), “accountability plays a special role” (p. 154), it is “the quintessence of justice” (p. 157), because “efficiency and needs exist as distributional goals distinct from justice, whereas accountability represents the distinguishing feature of justice” (p. 156).

2.2.3. Empirical Evidence

In this part, we want to illustrate the theory on fairness by discussing some of the empirical findings on fairness and inequity aversion, with regard to both outcome fairness and procedural fairness. We will mainly look at Blount (1995) and Dolan et al.'s (2007) experimental results.

In their theory of fairness, competition and cooperation, Fehr et al. (1999) model fairness as self-centered inequity aversion. In order to provide an explanation of Fehr et al.'s (1999) definition of fairness, we shall say that inequity aversion means that people do not like inequitable outcomes, and would rather give up some material payoff in order to realize a more equitable outcome. Also Konow (2001) creates a link between distributional justice (if outcomes are fair) and inequity aversion.

As we know, in many situations, what will be taken as a fair outcome can be interpreted very differently. Therefore, Blount (1995) addresses the question what factors may possibly affect preferences for absolute versus comparative payoffs when fairness issues are either unclear or cannot be met (cf. Blount 1995, p. 131). Absolute payoffs refer to the component of social utility that represents the value of the individuals own payoff, whereas the comparative component includes fairness considerations, as it is the component which represents the value to the individual of his or her own payoff relative to those of the other parties (cf. Blount 1995, p. 131).

In fact, a fundamental assumption about all attribution theory models is that people in social contexts feel the need to infer causes and to assign responsibility for why a certain outcome occurs (cf. Blount 1995, p. 132). In this context, intentionality of a person's action as well as one's personal interest in the result is crucial for the assignment of responsibility. When a person perceives an outcome as unfair, his or her behavior will be marked by blame and anger or even aggression.

Blount (1995) conducted three experimental studies in which she analyzed how fairness judgments about an outcome vary in social-decision settings, depending on people's causal attributions. For that matter she used several

versions of the ultimatum game. In the traditional version of this game, there are usually two players to whom the experimenter says that they have to split a fixed amount of money. Player 1 proposes a certain split to Player 2, who can decide whether to accept the proposed split of money or to reject it. If he accepts, each player gets as much as player 1's split suggested. If he rejects, both receive nothing. In her study, Blount (1995) used three levels of attribution that vary in terms of perceptions of intentionality and self-interest. The table below shows how people's causal attributions have been modeled.

	Perceptions of Intentionality & Self-interest
1 st level	Self interested social party = source of the offer is human and has a stake in the bargaining outcome → Perception of intentionality is given → Perception of self-interest is given
2 nd level	Neutral social = source of the offer is human, but does not get a payoff that is directly associable to the bargaining outcome. (refers to neutral third party) → Perception of intentionality is still given → Perception of self-interest is removed
3 rd level	Environmental = source of the offer is not human, but attributable to natural causes or chance (such as a roulette game) → Perception of intentionality is removed → Perception of self-interest is removed

Table 2
Manipulation of causal attribution in Blount's (1995) experiment

According to her findings, two dimensions of external attribution affect the way in which individuals judge absolute and comparative payoffs as being fair or unfair. First, it depends on whether the cause of an outcome is being a result of the environment or attributable to a human's behavior. Said differently, the judgment will differ based on whether the outcome has been caused by a human action or not; and second, it depends on the degree to which a person is perceived as having an interest in the outcome of a certain decision (cf. Blount 1995, p. 131).

In two of the studies Blount (1995) conducted, the outcome was solely attributable to environmental conditions. In these two studies individuals acted

according to standard economic assumptions, focusing on absolute payoffs, and were rather unconcerned about other-regarding preferences and a fair distribution of payoffs across parties (cf. Blount 1995, p. 142). However, the third study, in which human interaction and intentionality were introduced, exposed a more multifaceted preference structure and reasoning. Under this condition, people activate additional cognitions associated with distributive and procedural fairness and value absolute versus comparative payoffs differently. For instance, status or power of an opponent influence their fairness considerations with regard to payoffs.

By relating intentionality and self-interest to accountability and equality, an even more multidimensional preference structure with regard to defining an outcome as fair or unfair, can be obtained. Accountability and intentionality both contain the will of influencing the outcome and in both cases a person's entitlement depends on how much that person contributed to it. At the same time, accountability is more far-reaching as it questions the person's actual possibilities of influencing the situation in terms of exogenous and discretionary variables. In this sense, an outcome could be judged as fair in terms of intentionality whereas the same outcome would be unfair in terms of accountability when exogenous variables exist, which a person cannot influence but which still have an influence on the outcome itself. Hence, if variables that cannot be controlled influence the outcome, the result would not be viewed as fair allocation according to the accountability principle. Equality on the other hand would not take into account any of these factors and may therefore not be viewed as fair result.

As already mentioned earlier, literature points out that the perception of procedural justice in individual decision-making contexts depends on the extent to which certain characteristics are fulfilled, namely: voice, neutrality, consistency, accuracy, reversibility and transparency. In their study, Dolan et al. (2007) tested which procedural characteristics matter most to people.

To find this out, participants were asked to discuss in focus groups as well as to fill in questionnaires. Their discussions as well as the surveys dealt with health care rationing decisions and the scenario described to the participants was

about the UK National Health Service (NHS) health authority that undergoes an unforeseen change in its budget, whereby a group was told that the NHS faced a unexpected budget increase whereas another group was told it faced a budget decrease (cf. Dolan et al. 2007, p. 163). In the example provided by Dolan et al. (2007) the NHS is responsible for the health care needs of a regional population that is consisting of approximately 500.000 people.

After transcribing and analyzing the results, Dolan et al. (2007) concluded, that accuracy and consistency are the most relevant procedures whereas transparency turned out to be the least important one (cf. p. 166) – at least when compared to the others. However, voice was also found to be extremely important.

Interestingly, Dolan et al. (2007) also revealed that the importance attached to procedural characteristics is highly context-dependent (cf. p. 168). Since Konow (2001), in his theory on distributional fairness, also found that context matters, we can eventually state that context always plays a fundamental role when it comes to fairness assessments, in both procedural and outcome fairness.

The last empirical study result we want to look at deals with procedural and distributive justice at the same time. In fact, modern Western societies claim that unbiased random procedures allow equal opportunities and consequently produce fair results (cf. Bolton et al. 2005, p. 1055). Following Oberholzer-Gee et al. (1997), Bolton et al. (2005) state “random decision mechanisms are the embodiment of fair procedures”, because “nepotism is out of question”, and “the rich and the powerful do not have any better chances than the poor and the humble if allocation relies on random decision processes” (p. 1056).

Albin (1993) provides examples of what random methods may look like: it can be about tossing a die, flipping a coin, or arranging some kind of lottery. Random procedures are often used in important political or social contexts because they convey a feeling of fairness and equality (cf. Albin 1993, p. 236). However, even if there is an equal chance for every party to “win”, “the losing party will rarely feel that an outcome was fair” (Albin 1993, p. 234). Nevertheless, as we will see, Bolton et al.’s (2005) results indicate that even if

an outcome is unfair, the adoption of fair procedures may help in accepting an outcome, although it is not necessarily a satisfying one.

Essentially, Bolton et al. (2005) conducted a study in which they examined the influence that fair procedure have on the pattern of acceptance and resistance to various outcomes (cf. p. 1055). They mainly used ultimatum games for their purpose. This study is interesting because it allows us to better understand interdependencies between the perceptions of procedural and outcome fairness. Hence, some of the findings shall be highlighted here. For instance, their evidence suggests that an unfair offer is more acceptable, if there is neither a fair potential procedure nor a fair outcome (cf. p. 1061). Further, Bolton et al. (2005) show that a fair procedure may substitute for a fair outcome, meaning that if the way that leads to an outcome was fair, the outcome itself does not necessarily have to be fair. Eventually people believe that effort has been made to reach a fair outcome, since fair procedures have been used – giving the final result less weight in their judgments than the way that lead to it. Reversely, an unfair procedure is not seen as a substitute for a fair outcome (Bolton et al. 2005, p. 1066), somehow indicating that procedure matters more than outcome itself.

In addition, “proposals made by a fair random procedure lead to a different reaction than those made directly by a human player” (Bolton et al. 2005, p. 1066). This finding is in fact consistent with Blount’s (1995) results, that if a cause is not directly attributable to a person, even an unfair offer is seen as being more acceptable. In sum, Bolton et al.’s (2005) empirical evidence indicate that choice behavior is strongly sensitive to procedural fairness issues (cf. p. 1071). The authors also state that such findings can explain the social pressure that aims at the implementation of fair procedures, since some people are even willing to impose costs on themselves as well as on others in order to combat against the application of unfair procedures (cf. Bolton et al. 2005, p. 1071).

2.3. Reciprocity

2.3.1. What is it?

As for fairness, we will provide a definition of reciprocity based on different authors' suggestions namely Rabin (1998) and Fehr et al. (2002).

Rabin (1998) uses quite simple terms to define reciprocity: "If someone is being nice to you or others, you are inclined to be nice to him; if somebody is being mean to you or others, you are inclined to be mean to him" (p. 21). Hence, reciprocity refers to a type of social preference that implies that a person will respond to actions that are perceived as being kind in a kind way and to actions that are perceived as being hostile in a hostile manner (cf. Fehr et al. 2002, p. C2). In other words, a person reciprocates behavior and returns the behavior he or she receives – just like an echo returns the sound you shout in the woods. The difference with reciprocity is that it is not an automatism just as the echo is, but depends on the subjective perception of a person. It is also worth mentioning, that preferences for reciprocity are not driven by interests in future material profits.

Two forms of reciprocity can be distinguished:

- Positive reciprocity, e.g. when someone responds to a kind action in a kind manner.
- Negative reciprocity, e.g. when someone responds to a mean action in a likewise mean manner.

Insofar, negative reciprocity can be linked to the willingness to punish behavior that is subjectively regarded as unkind or unfair, whereas positive reciprocity triggers a person's desire to return back the kind, fair action that was previously given to oneself. Hence, theories of reciprocity always deal with cooperation and punishment behaviors.

Fehr et al. (2002) also label this social preference as reciprocal fairness, because a person's evaluation of an action as kind or hostile depends on whether the consequences and the intention associated with the respective action are perceived as fair or unfair (cf. p. C3). According to Fehr et al. (2002),

the fairness of the intention depends in turn on the relative equitability of the payoff distribution as compared to the possible outcomes. However, as we will see later, there is some disagreement in literature on whether reciprocity is driven by intentions or not.

In fact, it is exactly this labeling as “reciprocal fairness” and the link between both social preferences that result in the establishment of theories that simultaneously treat fairness and reciprocity issues.

2.3.2. Theories on Reciprocity

Reciprocity has been discussed by a number of academics and resulted in various theories. Among them are Fehr et al. (1999), Rabin (1993), Charness et al. (2000), Fehr et al. (2003) and Bowles et al. (2011), which we will look at in more detail in the following.

Fehr et al. (2003) indicate that two main theories on reciprocity can be distinguished (cf. p. 11). On the one hand, there are approaches that assume that at least a fraction of people exhibit social preferences and hence also preferences for reciprocity. According to such theories, a person's utility function depends on the that person's material payoff, but also on the amount that the other person receives. Caring about how much the other gets can be an indicator for any kind of social preferences such as altruism, envy, fairness or reciprocity for example. Consequently such approaches assume that all individuals have a perfectly rational behavior and use game theory to analyze and explain outcomes of experimental games.

On the other hand, another stream of literature emphasizes on people's underlying intentions and yet focuses on so-called intention-based reciprocity. These theories suggest that people have other-regarding preferences and hence care about the intentions of one's opponent, meaning that if one feels treated kindly, one will feel the desire to return the favor and be kind to the other person. In contrast, when having the feeling of being treated unkindly, one will also reciprocate this behavior and hence be willing to hurt the other. Consequently, with regard to this second approach, a player's interpretation of the other's player's comportment is fundamental. Said differently, “intention-

based theories predict that people are generous only if they have been treated kindly, i.e., if the first-mover has signaled a fair intention“ (Fehr et al. 2003, p. 34). Importantly, intention-based theories require an implementation of psychological game theory.

Rabin (1993) for instance, models reciprocity by relying on psychological game theory. In his concept, a fundamental role is accorded to beliefs. As explained in Cooper et al. (2013), according to Rabin (1993), a player j 's kindness towards i is given by the normalized difference between player i 's expected payoff and an „equitable payoff“ as determined by player i 's beliefs about player j 's actions and player j 's beliefs about player i 's actions (which is then referred to as second order beliefs). As said in Rabin (2002), “people form potentially distorted beliefs about the world or their opponent” (p. 661). Basically, under uncertainty conditions, people make judgments and form their beliefs by using heuristics and biases. Nevertheless, they still try to maximize their perceived expected utility (cf. Rabin 2002, p. 662).

In their book “Human Reciprocity and Its Evolution”, Bowles et al. (2011) not only discuss reciprocity, but also strong reciprocity. According to them, people who decide to sacrifice their “own payoff in order to cooperate with others, to reward the cooperation of other, and to punish the free-riding, even when they cannot expect to gain from acting this way” (Bowles et al. 2011, p. 20) are having preferences for so called strong reciprocity. Strong reciprocators are different from “normal” reciprocators. Generally speaking, people believe that cooperating is the right thing to do and they enjoy doing it. On the other hand, people generally do not appreciate unfair behavior and enjoy punishing those who violate certain norms of fairness (cf. Bowles et al. 2011, p. 51).

Bowles et al. (2011) state that the “predisposition to cooperate and a willingness to punish defectors is what we have termed strong reciprocity, and it is the combination of the two that is essential to the large-scale cooperation exhibited by our species” (p. 148). Throughout their book, the authors examine how reciprocity and altruism have developed within the human species. They also discuss how punishment encourages more cooperation. According to their

argumentation, groups with more punishers can sustain more cooperation because the gains of free-riding are reduced and therefore even absolutely self-interested people are pushed to cooperate (Bowles et al. 2011, p. 148). In addition, “when punishers are common, the threat of punishment is sufficient to deter free riding, so punishers rarely bear the costs of punishing” (Bowles et al. 2011, p. 148). Therefore, already the presence of people that are willing to punish and display this willingness to the other group members can engender cooperative behavior.

2.3.3. Empirical Evidence

As we have seen, certain theories on reciprocity state that beliefs or intentions trigger reciprocity. However, according to Fehr et al. (2003) it is not clear whether beliefs or intentions about the opponent’s behavior trigger reciprocity. They state that some experimental results provide evidence that rewarding behavior is nearly unaffected by perceived intentions, whereas other results show some, although small, role (cf. Fehr et al. 2003, p. 34). We want to look at the strongest evidence for the role of intentions as well as the strongest evidence against it.

Bolton et al. (1998) have provided strong evidence against the role of intentions. Basically, they conducted sequential social dilemma experiments, which are actually similar to the prisoner’s dilemma game, and have set up two different conditions. In one of them, the first player could make a kind choice relative to a reference choice. In fact, the kind choice meant that, no matter what the second player chooses, his or her payoff would increase by 400 units at a cost of 100 for the first player (cf. Fehr et al. 2003, p. 35). In this condition, the second player then had the possibility to undertake actions to reward the first player’s choice. In the second condition, the first player did not have the opportunity to demonstrate any kind intention, but was only entitled to make the reference choice. The result of Bolton et al. (1998) investigation indicated that the second players rewarded the first players to a greater extent in the second condition, which indicates that intention did not play a role in this experiment in determining reward behaviors.

Bolton et al. (1998) concluded their experimental research by stating that intentions influence reciprocal behavior. Nevertheless, one could argue that their results are not maintainable. In fact, one could argue that Bolton et al.'s (1998) experimental outcome is the product of the experimental conditions themselves, since good intentions were attributed to the subjects, whereas bad intentions were not visible in their setting.

In contrast, Falk et al. (2008) provide strong evidence for the role of intentions, stating that they do play a role when it comes to reciprocity issues. They conducted a so-called moonlighting game in which a first player can choose to either take money from a second player or transfer money to the latter, who can then decide to return some money to the first player or to punish him or her. Their results indicate that the second player always sends back significantly more money to the first player when this one has transferred something earlier – no matter the amount. So, for all positive transfers, the second player reciprocates the transfer by giving back even more money (cf. Fehr et al. 2003, p. 36). This can be seen as clear evidence for the impact that intention has on reciprocal behavior.

Another important feature of reciprocity is the fact that a large number of people are willing to punish someone who treated them in an unkind way. We will see that this can have an impact on economic forces such as competition.

Fehr et al. (2002) conducted a slightly modified ultimatum game in which there are two responders and one proposer. Both responders can instantaneously either accept or reject the proposer's suggestion. The rules of the game are as follows: "If both accept, a random mechanism determines with probability 0.5 which one of the responders will get the offered amount. If only one responder accepts, he will receive the offered amount of money. If both responders reject, the proposer and both responders receive nil" (Fehr et al. 2002, p. C8). In such a game, standard economic assumptions would predict that the self-interested proposer should receive the whole surplus, and yet, competition between responders should not affect this outcome and even if there are even more responders, the result should still be the same. However, in Fehr et al.'s (2002) experiment, adding a proposer dramatically changes the results. In the bilateral

case, the responder's average share of the surplus is around 40 percent and does not change much over time. When a second responder is introduced, however, the responders' share is 35 percent and reduces over time so that it is only 21 percent after 12 rounds and less than 20 percent after the 20th period (cf. Fehr et al. 2002, p. C9). As indicated on figure one, adding a third responder affects the result even more and lowers the responders' share.

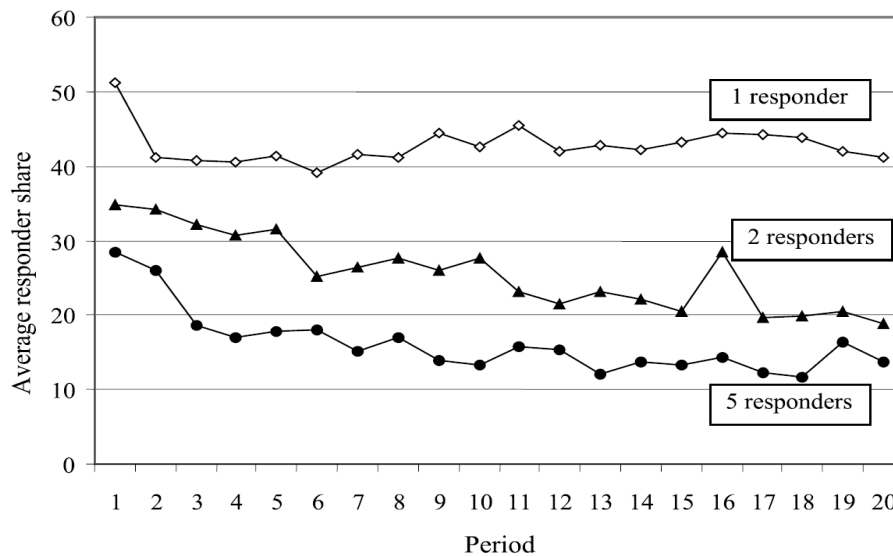


Figure 1
 Responder Share in the Ultimatum Game with One, Two and Five Competing Responders
 Source: Fehr et al. 2002, p. C9

Fehr et al. (2002) argue that these effects can be explained by the existence of reciprocal responders. Reciprocal players reject low offers in order to punish the proposer, but in the competitive case, so when there is more than just one responder, this is not possible anymore and hence results in less frequent rejection through the responders (cf. Fehr et al. 2002, p. C9). In conclusion of this study it can be said that reciprocity has the potential to affect the competition on market outcomes and therefore should not be neglected by economists.

Also other experiments that study the effects of reciprocity indicate that reciprocity has an influence on economic outcomes. Andreozzi (2013) for instance studied the process of equilibrium selection in games when players have preferences for reciprocity. According to his results, reciprocity can have a negative effect on the equilibrium selection process.

Another interesting and quite wide-reaching study comes from Xiao et al. (2005). As reported by Cooper et al. (2013), Xiao et al. (2005) have conducted a one-shot ultimatum game in which they introduced the possibility for responders to verbally punish their proposers in addition to deciding about accepting or rejecting their offer (cf. Cooper et al. 2013, p. 15). The option of verbal punishment dramatically affected the denial decisions of responders. In fact, rejection rates for offers of 20 percent or less of the whole pie, dropped from 60 percent to 32 percent when responders could punish verbally. In addition, almost 80 percent of the responders that received rather low offers sent back messages containing negative emotions. This evidence indicates that responders have an emotional reaction to low offers, which manifests itself in the decision to punish the proposer (cf. Cooper et al. 2013, p. 15). They argue that when given the option of verbal punishment, a large number of people rather send negative messages to their selfish proposer instead of giving up money (cf. p. 15).

Interestingly, there also is empirical evidence for the existence of in-group effects with regard to reciprocity. Chen et al. (2009) for instance conducted a laboratory experiment to measure the effect of induced group identity on social preferences and found that group identity matters (cf. Chen et al. 2009, p. 431). Belonging to a certain group such as to a group of women or men, of economists or to a certain religion, means that one shares the same identity and in turn influences the reaction people might have towards in-group and out-group members.

According to Chen et al.'s (2009) results, people's reciprocity preferences differ when matched with in-group members compared to when matched with out-group members. In fact, people will care more about the outcome and welfare of people with whom they share common characteristics. Clearly, people "are more likely to reward an in-group than an out-group match for good behavior. They are significantly more forgiving towards misbehavior from an in-group match compared to an out-group match" (Chen et al. 2009, p. 445). Said differently, Chen et al.'s (2009) results suggest that a person will respond even more amiable to kind actions of an individual from the same group and also punish unkind ones less frequently.

2.4. Trust

2.4.1. What is it?

Although economists have understood that trust plays an essential role in economic interactions, a “universally accepted definition has remained elusive” (Kramer 1999, p. 571). This chapter will try to provide a definition of the term essentially by using the works of Kramer (1999), Olekalns et al. (2012) and Barney et al. (2007).

Kramer (1999) explains that there are formulations that emphasize the social and ethical facets of trust while others highlight the strategic and calculative dimensions of trust (cf. p. 571). He also states that despite the variety of views about what trust is, all authors agree that trust is an essentially psychological state (cf. p. 571).

Fine et al. (1996) argue that trust is a complex notion that includes aspects of the “world of cultural meanings, emotional responses, and social relations (...) one not only thinks trust, but feels trust” (p. 25).

Olekalns et al. (2012) define trust as a „confident, positive expectation about the actions of another person“ (p. 2), implying that when a person trusts someone, he or she assumes that the expectations will be met. According to the authors, this assumption further allows us to enter into interdependent relationships, which are relationships in which an individual’s outcomes are influenced by another party’s actions (p. 2). However, Olekalns et al. (2012) also point out that one should not disregard that trusting others also increases one’s vulnerability.

Other academics also point out the vulnerabilities that often go hand in hand with trust. In accordance with Barney et al. (2007) for instance, trust is the “mutual confidence that no party to an exchange will exploit another’s vulnerability”. James (2001) offers a similar definition, but adds that in economic settings, trust always occurs in situations where agents take risky actions in environments characterized by uncertainty or informational incompleteness (cf. p. 291). Kramer (1999) states that trust is “similar to other forms of risky choice” (p. 572). In sum, all these definitions are related to the expectation of one party that the other party will not exploit possible sources of vulnerability. For

instance, when A trusts B, it means that A expects B not to behave opportunistically and hence not to exploit weaknesses of a situation for its own profits. Opportunism can therefore be seen as the contrary of trust.

Regardless of the definitions theorists formulate, the fragility of trust and the possibilities of trusting someone that actually is not trustworthy and abuses of our trust have been pointed out by several academics, such as Olekalns et al. (2012), Barney et al. (2007), Kramer (1999), James (2001) and Fehr et al. (2005). Obviously, as we know from daily life experiences, it can take years until a trustful relation is built, but this trust can be destroyed within a few minutes.

Kramer (1999) explains that a number of cognitive factors can help us in understanding the existing asymmetry between trust-building and trust-destroying processes. Generally speaking, humans perceive sources of trust-destroying news as more credible than sources of positive, trust-enhancing news. Two human cognitive limitations essentially play a role. On the one hand, negative and therefore trust-breaking events are more apparent than positive, trust-building events. On the other hand, we often attribute more weight on negative events when we build our judgments about something (cf. Kramer 1999, p. 593).

In general terms, trust engenders collective welfare and a shared desire to achieve goals together (cf. Kramer 1999, p. 583). Trust is able of fostering long-term relationships – be it in negotiations (cf. Albin 1993) or more personal interactions such as with friends and family members.

2.4.2. Theories on Trust

Several concepts about trust have emerged as of today. In this work, three different theories will be discussed: Yamagishi (2011), Möllering (2001) and Hardin (1992).

Yamagishi (2011) distinguishes between general trust and information-based trust. According to his definition, general trust refers to a person's expectation about another person's trustworthiness, without knowing anything about that person.

“General trust can be defined as trust toward someone about whom no specific information is present, or trust toward someone about whom you know nothing except the fact that he or she is a human being. When one estimates the trustworthiness of someone about whom one knows nothing, one has to use the trustworthiness of people in general as a “default” ” (Yamagishi 2011, p. 28).

On the contrary, information-based trust is defined as the trust someone has towards another person due to the information that he or she has about that person. The information will be used to judge the trustworthiness of the opponent. Yamagishi (2011) further argues that defining general trust as default expectation of someone else’s trustworthiness actually implies that general trust is in fact information-based trust, based on information about people in general rather than about specific persons (cf. p. 29).

Additionally, Yamagishi (2011) explains that there are other forms of trust between general and information-based trust, such as category-based trust. Category-based trust refers to trusting people that belong to a certain category, such as trusting men, woman, Americans or Japanese based on general information about a specific category of people, but not on specific information about a particular person (cf. p. 29).

Further, Yamagishi (2011) defines forms of information-based trust, depending on which type of information is used to build a trust judgment, whereby he distinguishes between the following types of information:

- Information about the person’s character traits
- Information about the person’s feelings and attitudes towards oneself
- Information about the incentives for that person (cf. p. 29).

According to Yamagishi (2011), humans frequently trust someone because he or she has never either directly or indirectly heard that the person has acted in a merciless way. He names such a form of trust “character-based trust”. Further, he also reminds us that we sometimes trust people from whom we have already heard that he or she has threaten others badly or betrayed someone. In this case, we trust the person not because of his or her good character traits, but rather because we know the person has positive attitudes towards us – which

makes us believe that he or she is trustworthy. When trust is based on such information, Yamagishi (2011) talks about “relational trust” (cf. p. 30).

The second theory we want to look at is Möllering´s (2001) one. In his article, Möllering (2001) responds to the numerous different theories that have appeared in recent years and which, as he says, sometimes fail to capture the whole concept of trust and everything it involves. He therefore calls for a reintegration of Simmel´s (1950) early and groundbreaking works on trust, which he argues are true today and often missing in contemporary theoretical approaches with regard to trust. Möllering (2001) points out that the link between trust bases and a trustful state of expectation is much weaker than is commonly assumed” (p. 404). In fact, as Möllering (2001) explains, Simmel (1950) has argued that there is an additional element, which can be interpreted as sort of faith, which is necessary to clarify the concept of trust.

Möllering (2001) proposed a conceptualization of trust as a mental process consisting of three elements. The first element is expectation, which is the “state reached at the end of the trust process” (p. 417). Said differently it is the outcome that can be either positive in the case of trust, or negative in the case of distrust. The second element is the interpretation. Our interpretations are based on the experiences we make in life which in turn provide us with “good reasons”.

However, interpretations stay interpretations and are therefore limited and not always correct, partially because interpretation processes are often influenced by affective choices and not solely by rational ones.

The third one Möllering (2001) emphasizes on, is an element that Simmel (1950) introduced in his works: Suspension. In fact, suspension allows a person to build a bridge between the interpretation and the expectation about the trustfulness of someone else. Said in Möllering´s (2001) words, suspension enables the “mental leap of trust” (p. 417) and is concerned with the “bracketing of the unknowable which represents a defining aspect of the nature of trust” (p. 417). Suspension allows an actor to make unclear, interpretative information temporarily certain.

In contrast, Hardin (1992) suggests a theory according to which trust is also based on a three-fold relationship. However, the three elements discussed by Hardin (1992) are different than those proposed by Möllering (2001).

In fact, Hardin (1992) focuses on trust from a rational choice perspective, which is one of the most influential theories of trust in organizational science. As pointed out by Kramer (1999), trust as a rational choice has its roots in sociological, economic and political theory, whereby Hardin (1992) can be classified to the political stream that marked this theory. According to rational choice theory, the decision to trust is nothing more than any other form of risky decision-making in which “individuals are presumed to be motivated to make rational, efficient choices” (p. 572).

Hardin (1992) discusses that the following features are involved: the properties of a truster, the attributes of a trustee and a specific context or domain over which trust is conveyed (cf. Kramer 1999, p. 574). So, basically, trust consists of the knowledge to trust, the incentives for the trustee to fulfill that trust and the context in which the trust question arises. In a context that involves members of one owns group, relational considerations will frequently be taken into account when deciding whether to trust or not and hence exert an influence over how trust is built.

2.4.3. Empirical Evidence

Since trust is a notion that has been treated from different angles, existing empirical evidence also goes in different directions. In this work, we will review some neurobiological evidence (Fehr 2009, Bohnet et al. 2004, Baumgartner et al. 2008), proof for the importance of similarities between people in order to develop trust (Tanis et al. 2005) and the impact of reputation (Yamagishi et al. 1994).

In his article *on the economics and biology of trust*, Fehr (2009) reviews strong biological and behavioral evidence indicating that our decision to trust does not solely depend on our risk-taking behavior towards a person and on our beliefs about a person's trustworthiness, but that social preferences play a fundamental role (cf. Fehr 2009, p. 236). In particular, Fehr (2009) points out

betrayal aversion, which is the unwillingness to betray, to be disloyal. Evidence points out that betrayal aversion is important with regard to trust, indicating that risk preference alone cannot explain trust behavior in the trust game.

In reliance on Hong and Bohnet (2007) and the trust games conducted by Bohnet and Zeckhauser (2004), Fehr (2009) explains trust as the willingness of a person to make herself or himself vulnerable to other's actions. Bohnet et al. (2004) actually used a slightly modified trust game, in which both the sender and the receiver are endowed with a certain amount of money: it is the binary version of the trust game.

For comprehension, the binary version of the trust game shall be shortly described: Both players are initially endowed with an amount of money; in the case of Bohnet et al. (2004) both have \$10. The investor can either choose to send her endowment to the trustee or to keep it. If the investor decides to send the money, the amount is doubled so that the trustee gets \$20, which leaves him with \$30 in sum. Similarly, the trustee also has two choices, namely to either send back \$15 or only \$8 (cf. Fehr 2009, p. 238). By making such choices, players of the trust game express their willingness to make themselves vulnerable to the other players' actions, since their own outcome will depend on it. Fehr (2009) therefore argues that a purely belief-based definition of trust misses this aspect (cf. p. 238).

Fehr (2009) further reviews neurological evidence from Baumgartner et al. (2008) who verified and underwent follow-up studies from other colleagues and could show that trust involves neuronal activity. For instance, the release of oxytocin, a neuronal substance is an indicator for the involvement of neuronal activity. In fact, oxytocin plays an important role in pro-social approach behavior (cf. Fehr 2009, p. 241). More concretely, "oxytocin deactivates neural activity in the amygdale and midbrain regions (...) known to be involved in fear processing in the trust game, relative to the activation levels observed in the risk game" (Fehr 2009, p. 244).

The last neurobiological piece of evidence we want to mention in this work comes from Reuter et al. (2009) and Cesarini et al. (2008).

They studied trust behavior in both risk and trust game. Together, they could show that social and asocial risk taking are apparently encoded in our genes and hence even partially heritable (Reuter et al. 2009 and Cesarini et al. 2008, both cited in Fehr 2009, p. 245).

Tanis and Postmes (2005) conducted an investment game in which they manipulated the information by the test persons with “cues to identity” about the other participants. In fact, they offered the participants of their study information about the personal identity of their opponents in form of pictures and first names, as well as information about group membership, which can be seen as social identity cues (cf. Tanis et al. 2005, p. 414).

They argue that these cues to identity play a major role in the perception of others and the willingness to trust as well as the readiness to reciprocate trust. As said by Tanis et al. (2005), trusting in another person means that you give this person the power over an outcome that you value yourself (cf. p. 415). In this sense trust is about expecting the other to reciprocate the trust one offers. The authors expected that perceived trustworthiness would increase through the offered information about social and personal identity.

Basically, the game was set up as follows. The participants could invest the money that they received for participating in the research study. The experimenter told them that the amount they would decide to send would be then tripled and randomly transferred to another participant. The participants were led to believe that the other player could choose how much of his sum was to be returned to the participant (Tanis et al. 2005, p. 415). Said differently, “if the participant decided to invest money, the counterpart would have the power to decide the size of the reward which the participant would receive” (Tanis et al. 2005, p. 416). In addition, the counterpart was either said to be a member of a certain group to which the participant in question also belonged or not (cf. Tanis et al. 2005, p. 416).

The results confirmed Tanis et al.’s (2005) predictions: “cues to personal identity affect how others are perceived as individuals” (p. 421), reduces ambiguity and influence the perceptions of people’s trustworthiness. As such,

when having information about the personal identity of someone, that person is viewed as being more trustworthy. Also group membership turned out to be a “strong predictor of trusting behavior” (Tanis et al. 2005, p. 421). Interestingly, when additionally provided with information about the group membership, so information about a target’s social identity, personal identity information was not really taken into account anymore. Said differently, for in-group members’ cues to personal identity made no difference (cf. p. 421).

Last but not least, the authors provide evidence that trusting behavior was also determined by expected reciprocity. In their study, participants were particularly willing to transfer their money to an in-group member and did not expect a reciprocal behavior from anonymous out-group members. Therefore, they had a less trusting behavior towards out-group members. Interestingly however, is the fact, that when cues of personal identity were given, participants even expected an out-group person to be reciprocal and therefore showed themselves more willing to transfer their money.

To sum up, Tanis et al.’s (2005) findings, we can say that reciprocity is strongly expected from in-group members as compared to out-group members. When information about someone’s personal identity is provided, participants view both, in- and out-group members as trustworthy, and hence expect them to be reciprocal, even if they do not share a common social identity (cf. Tanis et al. 2005, p. 422). It seems that the deciding whether to trust or not is strongly influenced by the degree to which a person expects a reciprocal behavior from the other one. Moreover, expectations about reciprocity depend on perceptions of trustworthiness and group membership that are formed due to both individual and group identity (cf. Tanis et al. 2005, p. 422).

Finally, empirical evidence indicates that reputation plays a major role in people’s estimation about the trustworthiness of someone. Yamagishi et al. (1994) posits that trust can help humans to deal with social uncertainty. Reputation can provide an “extra assurance” for people to deal with it. However, reputation is imperfect since indirect information about a potential partner’s traits and trustworthiness is not always accurate.

Concrete knowledge that has been accumulated in past interactions may

represent a better proxy for trust. Nevertheless, having access to someone's reputation is generally more assuring than having no information at all about a person. In this sense, reputation provides a good basis for determining whether to trust a person or not. Said differently, trust requires the kind of information that is "somewhere between total knowledge and total ignorance" (Lewis et al. 1985, p. 970) and thus reputation may be precisely this type of knowledge.

2.5. Altruism vs. Spitefulness and Selfishness

2.5.1. What is it?

First of all, it seems obvious that altruism stands in absolute contradiction to spitefulness and selfishness. This and the fact that relatively few people exhibit these three forms of preferences, is why they should be discussed together. In a first step, spitefulness and selfishness will be examined. Then, we will take a closer look on altruism and reciprocal altruism, a mixed form of preference.

A person can have or develop a purely selfish preference, but such an inclination does not represent a form of social preference. When discussing social preferences, it is nevertheless important to be aware of the fact that, although most people show some kind of social preferences, it does not mean that everyone does. For instance, Fehr et al. (2002) mention that most studies conducted in this field indicate that a remarkable proportion of people behave in a purely selfish way (cf. p. C4).

Further, "in competitive experimental markets with complete contracts, in which a well-defined homogenous good is traded, almost all subjects behave as if they are only interested in their material payoff" (Fehr et al. 1999, p. 818). Interestingly, Fehr et al. (1999) could show that a single purely selfish player can bring a number of extreme inequity averse players to behave in a completely selfish way too (cf. p. 819). The authors' results are based on the results of bargaining games that took place under certain competitive conditions. However, this can be seen as evidence for the great influence that selfish people can have on those that actually have social preferences. These selfish actors are most probably those that fit best into the assumption of the

homo oeconomicus: Maximizing one owns profit without caring about the others' outcome corresponds to such a person.

In contrast, a person with envious or spiteful preferences will be keen on decreasing the material outcome of someone else at a personal cost to himself, because such a person "always values the material payoff of relevant agents negatively" (Fehr et al. 2002, p. C4). In fact, in Falk et al.'s (2008) study a small fraction of people exhibit such preferences. However, they are not numerous compared to reciprocal decision-makers for example and therefore do not play a predominant role (cf. Fehr et al. 2002, p. C4).

Finally, the last form of preference that I want to discuss is altruism. Although altruism is very different from reciprocity or inequity aversion, just as these forms, it represents a social preference that influences behavior in general and bargaining as well as economic behavior in particular. In simple words, altruism stands for absolute, unconditional kindness, since it does not depend on the opponent's behavior.

An altruistic person is kind to everyone without expecting any return, being kind is just who he or she is. Therefore, an altruistic person would never do something that could endanger another person's payoff. As a formal definition, we can quote Fehr et al. (2002) who states that an altruistic person "values the material resources allocated to a relevant reference agent positively" (p. C4). As such, altruism can be opposed to spiteful and envious preferences, where an actor values allocations of others negatively.

A distinction has to be made, namely between altruism and reciprocal altruism. In contrast to altruism, reciprocal altruism refers to individuals who behave in an altruistic way because others are also behaving altruistically towards them (cf. Bandiera et al. 2005, p. 951). In other words, reciprocal altruism is a weaker form of altruism, because it is not pure unconditional kindness, but depends on the circumstances and especially on the behavior of the opponent.

2.5.2. Theories on Altruism

Altruism in its purest and absolute form can rarely be encountered. However, it seems that human beings frequently exhibit some limited form of altruism. De Dreu (2013) states that individuals are not altruistic all the time and towards everyone, but rather show altruistic behavior towards certain people in certain situations. He discusses this behavior as parochial altruism and states that it has some parallels with other-regarding preferences (cf. De Dreu 2013, p. 11). Since this type of self-sacrifice is occurring more often, it shall be discussed in detail in the following.

According to De Dreu (2013), cooperation and competition (or conflict) can both be analyzed on an individual level and on a group level; the latter refers to whether someone belongs to a certain group or not. If someone has the feeling that he or she belongs to a certain group, it is likely that this person will have concerns for others that are part of this same group and feel in-group love as well as the necessity to behave in a way that benefits the group, even if this engenders personal costs and/or losses. Hence, parochial altruism has two components, in-group love and out-group hate.

However, Balliet et al.'s (2013) results indicate that parochial altruism is driven primarily by in-group favoritism and only to a lesser extent by out-group hate (cf. Balliet et al. 2013 cited in De Dreu 2013, p. 11). Their meta-analysis also indicates that parochial altruism is moderated by a bounded generalized rationality, which implies that parochial altruism evolves because of people's expectation that they will benefit from in-group cooperation in the long term. Hence, they are willing to contribute to their in-group even if this contribution is only possible at a personal cost (cf. Balliet et al. 2013 cited in De Dreu 2013, p. 11). It is worth mentioning that especially individuals with pro-social orientations exhibit parochial altruism. It further seems that parochial altruism is guided by intuition, based on whether someone belongs to a certain group or not.

De Dreu (2013) argues that both, cooperation and conflict arise due to the existence of parochial altruism, which he describes as "the tendency to self-sacrifice to benefit one's in-group and to derogate and hurt out-groups" (p. 11).

De Dreu (2013) argues that in-group love and out-group hate influence people's behavior and determine whether someone will act in an unconditionally kind way. More precisely, there is an interaction, a mixture of "individual self-interests, values, and beliefs that converge into and are informed by group interests, values, and beliefs, and both the individual and group-level interests, values, and beliefs are shaped by and instrumental to the intergroup competition and conflict" (De Dreu 2013, p. 10).

Based on the social identity theory, Ellemers (2012) provides an explanation for this phenomenon: People actually build their self-concept from the group to which they appertain. In order to maintain and even improve their social identity, people tend to harm out-groups and try to ensure that their in-group wins a competition with an opposing out-group (cf. De Dreu 2013, p. 10). In fact, Ellemers (2012) emphasizes on the fact that there are several situations, in which people do not act solely as individuals but primarily as members of a group. Accordingly they will think, feel and act just as the group does.

Ellemers (2012) further notes that this can have both a positive and a negative impact. Such a feeling of group membership can be good if it means that a person will help someone in need, but on the contrary has to be seen as something deeply negative in case it engenders cruel behavior towards someone, simply because this person does not believe in the same religion or does not belong to the same ethnic group for example (cf. Ellemers 2012, p. 848). Hence, parochial altruism is double-edged: It strengthens the in-group, but at the same time has the potential to intensify intergroup competition and conflict (cf. De Dreu 2013, p. 11), which may, in the worst scenario, even end in an escalation with disastrous consequences.

2.5.3. Empirical Evidence

As mentioned earlier, pure altruism is rare. However, academics such as Johannesson et al. (2000) found evidence for the existence of this form of social preference. Therefore, before looking at the empirical evidence that De Dreu et al. (2010) provided with regard to parochial altruism, empirical support for altruism in its purest form shall be provided.

Johannesson et al. (2000) conducted an experiment in form of a double blind dictator game. In a dictator game, the dictator chooses how much money he wants to give away to a certain recipient and how much he wants to keep, whereby the recipient has to accept any allocation. It is already widely known that dictators do not follow standard economic assumptions in their division of money since they mostly do not leave the recipient without anything but instead decide to divide the sum of money so that the other player also receives something.

The deviation from standard economic assumption can be explained by the subject's penchant for fairness, reciprocity or, as argued by Johannesson et al. (2000) by altruism. However, many academics claim that altruism is not a possible explanation. Among them, Hoffman et al. (1994) dispute this potential clarification and explain the deviation from self-interested payoff-maximization by reciprocity. They argue that dictators decide to donate money to the recipients because of their expectation to gain something in return in future interactions (cf. Hoffman et al. 1994 cited in Johannesson et al. 2000, p. 137).

However, according to Johannesson et al. (2000) the results of the experiment conducted by Hoffman et al. (1994) have to be reviewed because anonymity was not guaranteed by the design since all participants were students and knew that other students, just like them, participated to the testing. Hence, Johannesson et al. (2000) increased the social distance between the dictators and the recipients in their study by randomly assigning recipients from the Swedish population to the dictators (cf. p. 138). In such a setting, if a dictator decides to donate money, it is mailed to the anonymous recipient, who until then is unaware that he or she is actually participating in an experiment.

Consequently, any possible remaining reciprocity expectation is removed and "if donations in dictator games are motivated solely by reciprocity, donations should therefore drop to zero with this experimental treatment" (Johannesson et al. 2000, p. 137). Interestingly, this is not the case, since the results indicate that 33,34% of the dictators donate some amount of money (cf. p. 139). Johannesson et al. (2000) interpret this result as evidence for non-reciprocal

altruism. In fact, this can also be seen as a support for the existence of altruism in human beings.

As said above, De Dreu et al. (2010)'s empirical support for parochial altruism shall be discussed now. They considered the neurobiological origins of parochial altruism, especially with regard to the influence of the hypothalamic neuropeptide. As we have already seen earlier in the course of this paper, oxytocin plays a major role in pro-social approach behavior and in trust building. Oxytocin is in fact a peptide bond composed of nine amino acids, which are formed in an area of the brain that is named hypothalamus. From there it is then spread into the brain and into the blood stream.

De Dreu et al. (2010) conducted three double-blind placebo-controlled experiments to investigate the influence of oxytocin on parochial altruism. In fact, participants had to take decisions that engendered financial consequences to themselves, to their in-group members and also to the competing out-group members (p. 1408). Results indicate that oxytocin modulates parochial altruism, because it promotes in-group trust and cooperation and gives birth to defensive aggression towards competing out-groups (cf. p. 1408).

3) Social Preferences in Negotiations

This part represents the heart of my thesis. The impact of social preferences on negotiations shall be pointed out, whereby only the influence of fairness, reciprocity and trust will be examined here.

I have decided to discuss these respective social preferences, because I am convinced that fairness and trust are important factors for humans, not only in their private lives, but also in their professional interactions and experiences. I was eager to see how they come to influence negotiations. My choice to take a closer look on the influence of reciprocity in negotiations is due to my belief that there is an unwritten rule that humans follow in their interactions – a rule that contains a main message: “You treat me well, I treat you well”. Following certain rules of fairness and reciprocity would certainly avoid many frictions in negotiations and relationships. Ideally, it would eradicate many long-lasting societal conflicts of economic, politic, environmental or ethnical nature for instance.

Before discussing how the mentioned social preferences influence negotiations, it is important to understand what negotiations are, how they can be characterized, to be aware of the different strategic choices that negotiators face in each phase of a negotiation. Therefore, these points will first be clarified before proceeding to the impact of social preferences on negotiations.

3.1. What are Negotiations?

The aim of this part is to explain what negotiations actually are in order to better understand the impact that social preferences have on bargaining. We will see that negotiation is a dynamic process containing different sequences, which are influenced, among others, by the extent to which parties share information, by mindsets and turning points. Further, depending on the employed strategies and the bargaining behavior of the negotiating parties, negotiations can be either of distributive or integrative nature.

3.1.1. A Macro-Perspective on Negotiations

A negotiation is a transaction process in which people try to determine what each party gives and takes or performs and receives (cf. Thompson 1990, p. 516). In his paper, Thompson (1990) states that a negotiation setting has five characteristics, namely:

- People think that they have conflicting interests
- Communication is likely
- Potential midway solutions exist and compromises are possible
- Parties may make temporary offers and counteroffers
- Offers and proposals do not determine outcomes until both parties accepted them (cf. Thompson 1990, p. 516).

Olekalns et al. (2012) state that a negotiation is a dynamic process, which is influenced by several strategic decisions, cognitive biases, social motives, power, gender, culture and other interpersonal variables. There is a lot to say about these different influential factors, but it would take too long to describe the effects and consequences of all of them, so that this work will not deal with them in greater detail.

During the negotiation process, both partners learn more about the context in which their talks are embedded, their goals and intentions as well as their relative power (cf. Olekalns et al. 2012, p. 4). With this information, parties often reassess their initial strategies in the course of the talks and adopt strategies that they think are appropriate to the given circumstances (cf. Olekalns et al. 2012, p. 4).

According to Adair et al. (2005) a negotiation consists of four key stages, namely relational positioning, identification of the problem, generation of solutions and finally reaching an agreement. In fact, as we will see when explaining the four different stages one by one, Adair et al. (2005) and Thompson's (1990) description of a negotiation bear resemblances to each other, whereby Adair et al. (2005)'s work discusses only the single phases of a negotiation, whereas Thompson refers to the whole negotiation.

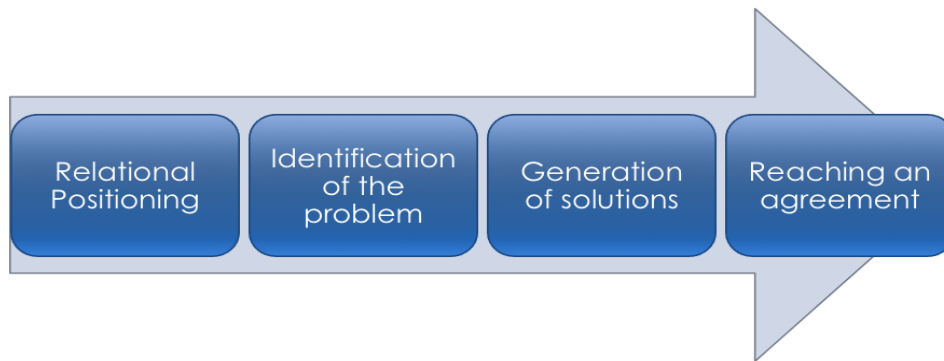


Figure 2
The negotiation process
Source: Adair et al. 2005 (adapted)

In the “relational positioning”-phase, the partners can demonstrate their competitiveness or decide to indicate that they are interested in building a relationship. Often negotiators know what they want and assume the other party wants the exact opposite (cf. Adair et al. 2005, p. 35). Hence, they try to figure out if the opponent will be rather competitive or cooperative in the course of the talks. Only when this is clarified, a negotiator will be willing to reveal information about his or her interests and positions. Adair et al. (2005) point out that this first phase is frequently characterized by reciprocal sequences, meaning that for example when faced with a cooperative behavior, a negotiator will respond in a cooperative way as well.

It is worth mentioning that information is a very powerful proxy for determining negotiation outcomes. In fact, the more accurate information a party has, the more this party’s outcome will be advantageous – of course, this holds only *ceteris paribus*, so for a given opponent with given information. If the opponent also knows more, the situation might be different– and *vice versa*. Particularly opening moments, which are characterized by high levels of uncertainty, convey important messages. Through their language and the use of words negotiators provide their opponents with information about their goals and their preferences for certain strategies (cf. Olekalns et al. 2010, p. 2). The way a person interprets initial impressions will also influence the subsequent talks. As Olekalns et al. (2010) point out, not all information is taken into account equally (cf. p. 3), since some aspects of the interaction will be weighted more heavily than others.

However, the beginning of a negotiation is often strongly characterized by competitive behavior, because at this stage it is about positioning oneself and focusing on influence with respect to power and status (cf. Adair et al. 2005, p. 36) since detailed information about the opponent's needs and interests are not available yet, which makes it difficult to use rational arguments. Nevertheless, "the emphasis on power must wane over time" (Adair et al. 2005, p. 36) if the negotiators want to come to an agreement.

Further, the authors point out that the negotiators should continue their talk by using structural sequences instead of reciprocal ones and that this transition is likely to occur within the first stage.

Structural sequences stand for the use of "behaviors from different strategic groups" (Adair et al. 2005, p. 35). As an example, imagine a negotiator who responds to a treat by making an offer. Structural sequences refer to a progression of the talks characterized by a linked usage of persuasion and priority setting intended to search for information about each other's preferences. Structural sequences are frequently used when negotiators try to refocus the talks. In contrast, reciprocal sequences means that one reacts to a the behavior of the opponent in the same or in a very similar way (cf. Adair et al. 2005, p. 35). A cooperative behavior would therefore be returned just as a competitive one would be. Adair et al. (2005) states that the reciprocation of cooperative behavior indicates that negotiations are rather integrative, aiming at enlarging the pie whereas the reciprocation of competitive behavior indicates a more distributive approach, aiming at maximizing one's one portion of the pie.

As we will see later on, the reciprocation of competitive behavior may engender vicious conflict spirals and block the continuation of the talks. Therefore, the use of structural sequences may allow negotiators to ensure a more flawless progression of the negotiation.

The second phase arises when the negotiators turn their attention to the problems that shall be solved, when they try to identify the issues at stake. Hence, this stage is characterized by a detailed discussion of the issues as well as a reciprocal exchange of priority information. Negotiators focus on the issues, underlying interests, building trust and start searching for a potential

outcome. The reciprocal sequences of information exchange should decrease after this stage, because “once information about interests and priorities is available, negotiators can turn to structuring a deal and claiming value” (Olekalns et al. 2000 cited in Adair et al. 2005, p. 36).

In the third stage, which is about the generation of solutions, negotiators typically begin to make offers (cf. Adair et al. 2005, p. 37). Since negotiators are concerned with creating and claiming value, they need to balance cooperative and competitive tactics during the negotiation process. Nevertheless, negotiators will continue with more competitive strategies and claim value in order to get out as much as possible of the final agreement (cf. Olekalns et al. 2000 cited in Adair et al. 2005). Adair et al. (2005) state that the third phase is a passionate and energetic stage in which parties constantly shift between integrating information and influencing the outcome. Negotiators always compare the offers from their opponent with their own objectives, restrictions and interests when deciding whether to accept or reject it (cf. Adair et al. 2005). Since negotiators already have enough information about the opponent’s interests in this stage, they will mainly use persuasive rationality and structural sequences to convince the person they face.

Finally, the last stage is about reaching an agreement. When negotiations reach this stage, it is already foreseeable if an agreement can be reached or if the talks will rather end without an accord. However, in this fourth phase of a negotiation, parties try to eliminate alternatives and move towards a final decision (Adair et al. 2005, p. 37). Negotiators have already made clear why they think they should get more value by using all possible rational persuasive arguments.

Hence, the last phase is characterized by more offers and more concessions (cf. Olekalns et al. 1996, Adair et al. 2005). Most importantly, reciprocal sequences of offers will be pretty common in this stage, which means that negotiators will “reject the other party’s offer by making a counter-offer rather than engaging in persuasion” (Adair et al. 2005, p. 37).

A negotiation ends when both parties decide to accept a certain outcome or to leave the discussion without having reached an agreement.

3.1.2. Integrative vs. Distributive Negotiations

In negotiation literature, there is a distinction between distributive and integrative bargaining (cf. Albin 1993, Thompson 1990). Almost every negotiation – except those in which both parties have perfectly compatible interests, which of course does not happen frequently, - contains a distributive component (cf. Thompson 1990, p. 517).

Two or more parties that essentially aim at maximizing their own utilities characterize a distributive negotiation. In dividing resources, each party would try to allocate the biggest part for him or her. Such negotiators can be said to be following a very competitive bargaining behavior. Nevertheless, it also happens that negotiators are not purely competitive and do not only care about the simple division of resources.

If negotiators try to find ways to enlarge the pie, to add value, benefits and resources, negotiation literature talks about integrative bargaining. In fact, integrative solutions “allow negotiators to achieve greater utility, (...) to avoid potential stalemates” (Thompson 1990, p. 517). In addition, Thompson (1990) states that integrative negotiations “often are more stable over time, foster harmonious relations between parties, and contribute to the welfare of the broader community” (p. 517).

As said by Olekalns et al. (2012) “one of the first decisions a negotiator makes is whether to adopt a broadly cooperative or broadly competitive approach” (p. 1). This decision can be very far-reaching. In a sense, this decision will affect the negotiation, because it will determine whether the negotiation is of distributive or integrative nature, but will also define the range of acceptable outcomes to the parties and their readiness to concede. Therefore, it will shape the whole negotiation and form the parties’ preferences and behavior, which can be either characterized by a rather problem-solving and collaborative behavior or by a more contentious and power-oriented comportment (cf. Olekalns et al. 2012, p. 1).

In bargaining, one is often confronted with the so-called negotiator’s dilemma. A negotiator’s dilemma refers to the fact that if a negotiator choses a cooperative

strategy, both parties can maximize their outcomes and hence create value whereas a competitive strategy will probably fail to create value. Most dangerously however, if both decide to be competitive, no agreement may be reached because of the starting contentious cycle that it can engender. On the other side, if only one party decides to behave cooperatively, this party is vulnerable to exploitation (cf. p. 1).

It is however important to point out that most negotiations will not be only competitive or cooperative in nature. Most talks are mixed-motive. In addition, Putnam et al. (1982) assumes that each message can potentially contribute to both, cooperation or competition. According to the authors it mainly depends on the message's function within the structure of the bargaining interaction (cf. Putnam et al 1982, p.191).

Hence, negotiators are forced to find the right balance between the use of cooperative and competitive strategies. According to Olekalns et al. (2012), individuals will employ a more competitive strategy when they are very much concerned about their own outcomes and do not really care about having a long-lasting relationship with their opponent, whereas negotiations are characterized by more integrative, collaborative strategies when the negotiators "place equal weight on their own and the other party's outcomes, recognizing the importance of preserving their relationship with the other negotiator" (p. 2).

Cognitive biases, discussed in chapter 2.1.2, also influence a negotiator's strategic choice regarding the adoption of a cooperative or competitive strategy. In this context, especially framing is important. Negotiators will behave more competitively if they are framed in a way that they view their outcomes in terms of costs than in terms of profits (cf. Olekalns et al. 2012, p. 2). In addition, loss-framed negotiators are more likely to set higher minimum acceptable outcomes. They also start the talks with higher offers and are less likely to make concessions or only make small concessions as compared to gain-framed negotiators (cf. Olekalns et al. 2012, p. 2).

3.1.3. A Micro-Perspective on Negotiations

3.1.3.1. *Process maintenance and process shifts*

We have already discussed that a negotiation is a dynamic process, characterized by stability and shifts in which the speakers change their strategies in response to each other (cf. Olekalns et al. 2008, p. 135). In other words, negotiations contain phases of process maintenance on the one hand and process shifts on the other hand.

Phases of process maintenance are periods in which the negotiating parties indicate that they have a shared strategic approach and common goals (cf. p.139). Process shifts, in contrast, are characterized by instability in the strategic approach of negotiators; here negotiators signal divergent strategic approaches and discrepant goals (cf. p. 140). The interplay of process maintenance and process shifts affects the value creation process and hence, the extent to which an outcome will be beneficial to both parties (cf. p. 144).

3.1.3.2. *Mindsets*

As frequently highlighted in negotiation literature, humans often have pre-defined images in head of how a negotiation should unfold. In fact, so-called mindset constructs strongly influence the negotiation process and its outcome.

Basically, mindsets refer to all the mental models, schemas, scripts and conflict frames that one has and uses to select and modify the own negotiation strategies during the talks (cf. Olekalns et al. 2010, p. 3). The reason why mindsets are so essential to negotiations is that they actually guide the communication and shape a negotiator's tactical and strategic choices. Olekalns et al. (2010) distinguish between mindsets that act as inferential filters and those that act as strategic lenses, which are explained in the table below. It is however important to mention that "mindsets are not static" (p. 4), but can be "disrupted by specific events that regenerate uncertainty about the other party's goals and have the potential to trigger redirections – transitions – in the negotiation process" (p. 4).

	according to Olekalns et al. (2010), mindsets can act as...
...Inferential filters	Cognitive structures shape <u>how individuals process information</u> about and interpret behavior of other persons. As inferential filters, mindsets build expectations about the behavior of one's opponents, just like stereotypes would do. Consequently, shifts in mindsets are caused by violations of expectations, because inferential filters draw a person's attention towards behavior that does not fit the expectations. (p.5)
...Strategic lenses	" (...) <u>mindsets bring a distributional shift in negotiators' tactical choices</u> " (p. 4) . As strategic lenses, mindsets act to guide a negotiators tactics, which in turn are basically chosen from a set of possible tactics, determined by a self-formed mindset.

Table 3

Mindsets as inferential filters or as strategic lenses

Source: Olekalns et al. 2010, p. 4-5.

3.1.3.3. Turning Points

Another important aspect about negotiations are turning points – meaning events that act as an interruption of "(...) the flow of interactions and bring about change" (Olekalns et al. 2005, p. 1696).

In fact, by thinking about the relationships we have with others and by recalling media reports from various domains such as sports, economics or politics, we quickly realize that we encounter turning points from our daily lives, such as when something rather unexpected happens that sheds a new light on a conflict. A turning point can also be a moment in time during an on-going negotiation that worsens the situation, such as when the true, e.g. bad intentions of the opponent are revealed.

Turning points are events that change the flow of the interaction behavior - as such they attract attention. In negotiation settings, turning points translate to shifts in the employed strategies – meaning that a new strategy is being introduced, leaving the old one behind. In this sense, it would be a phase of process shift. Said differently, turning points engender process shifts so that we

could say that process shifts are a consequence of the occurring events that act as turning points.

For instance, when negotiators have the feeling that continuing to employ the same strategy would lead to a temporary impasse or even to a total escalation, they might decide to redirect the negotiation.

Following Olekalns et al. (2005), it is always highly effective if negotiators say something like “we don't seem to make a progress on this issue. Let's put it to the side and come back to it later” to redirect the negotiation and avoid impasses and escalation. Nevertheless, in order to be fruitful such interventions must of course be noticed and responded to (cf. Olekalns et al. 2005, p. 1697).

Olekalns et al. (2005) have identified three distinct categories of turning points, namely the following ones: substantive, attitudinal and procedural. These categories are based on the different dimensions that influence negotiators perception and interpretation of negotiations. The table below describes the different categories of turning points and presents the different possible traits that each of them can adopt.

	Description
SUBSTANTIVE TURNING POINTS	Capture outcome preferences and the nature of the dispute
Interest-focused	Underlying interests, needs and priorities of the opponent
Offer-focused	Offers, counteroffers and arguments
ATTITUDUNAL TURNING POINTS	Capture events that shape a negotiator's assessment of the opponent's intentions
Positive characterization	Positive attributions about underlying motives and intentions
Negative characterization	Negative attributions about underlying motives and intentions
PROCEDURAL TURNING POINTS	Interventions in the negotiation process itself
Positive	Behaviors that facilitate negotiation: redirect negotiation to a more productive process
Negative	Behaviors that impeded negotiation: divert negotiation to an unproductive process for both parties involved

Table 4
Categories of Turning Points
Source: Olekalns et al. 2005, p. 1698 (adapted)

As we will see later on, turning points affect relationships and outcomes of dyadic negotiations.

3.1.3.4. Strategic Sequences

Research in the field of negotiation has further found that there are three different forms of strategic sequences: reciprocal, complementary and transformational (cf. Olekalns et al. 2012, p. 5). A strategic sequence consists of a chain of at least two strategies. However, chains of more than two strategies can frequently be identified in negotiations.

Reciprocal sequences, which have already shortly been mentioned in 3.1., refer to repeating the behavior employed by the opponent, which also consists of responding to a menace with a menace. Complementary sequences, in contrast, describe “tactical chains in which parties answer in-kind without the strict matching observed in reciprocal sequences” (Olekalns et al. 2012, p. 5). An example for a complementary sequence would be a negotiator who responds to a threat rather by a demand than another threat. As pointed out by Olekalns et al. (2012), both tactics are competitive, but still not the same. A complementary sequence is not as rigid as a reciprocal one. Finally, a transformational sequence refers to a tactical chain of cooperation-competition or competition-cooperation, and as such is intended to set a move from one to the other strategy. In other words a transformational sequence implies a shift from integrative to distributive negotiation or vice-versa.

In sum, strategic sequences indicate how negotiation partners “react to each other on a moment-to-moment basis” (Olekalns et al. 2012, p.6). These reactions are however influenced by many factors and negotiations are generally also affected by unforeseeable events, turning points and critical points, which taken together can drive the negotiations either in the direction of finding an agreement or on the contrary of accepting that no deal will be found.

3.2. Social Preferences and Negotiations

Now that we have discussed what negotiations are, we finally want to turn our attention to how they influence social preferences. In a first step, fairness in negotiation will be discussed. After, we will look at reciprocity in negotiation and finally at trust in negotiation. For each of them, I have carefully selected some studies in order to point out the diversity of forces that are triggered by these respective other-regarding behaviors and are capable of influencing negotiations in ways that may not always be predictable by normative economic models, which frequently fail to incorporate such rather *social* aspects of human behavior.

3.2.1. Fairness in Negotiations

We have already seen what fairness is, what forms it can take and have discussed several theories and empirical evidence.

Now, the aim of this part is to understand how fairness influences negotiations.

Unfortunately, despite the numerous studies on negotiation, works that explicitly refer to fairness in negotiation are not numerous. However, there are several papers in which cross connection to classical negotiation concepts can be found. Zeleznikov et al. (2012) for instance studied legal fairness issues in dispute resolutions. Such papers can also be applied to fairness in negotiations in a more broad sense.

Zeleznikov et al. (2012) discuss the notion of principled negotiation, which has been introduced by Fisher and Ury at the Harvard Project on Negotiation³. A principled negotiation respects certain features such as the following ones: “separating the people from the problem; focusing upon interests rather than positions; insisting upon objective criteria; and formulating a BATNA⁴ (best alternative to a negotiated agreement)” (Zeleznikov et al. 2012, p. 269). According to the authors, BATNAs can be used to form a basis from which fair

³ Fisher R and Ury W, *Getting to YES: Negotiating Agreement Without Giving In* (Houghton Mifflin, Boston, 1981); see also Harvard Project on Negotiation, <http://www.pon.harvard.edu> viewed 10 May 2011.

⁴ For graphical representations of BATNA and other negotiation-related terms, please confer to page 65.

agreements can be obtained. Said differently, a principled negotiation refers to a negotiation that follows certain rules.

I posit that ideally a negotiation should lead to an agreement that is objectively and subjectively seen as fair by both parties throughout several stages of the talks. Fairness issues have an impact on all stages of a negotiation and depending on the stage, different types of fairness are more prevalent than others, exerting a stronger influence on the parties' negotiation behavior and perceptions.

In order to keep it simple, I assume that there are only the following three stages:

- Opening moments of a negotiation
- The negotiation itself – the process of a negotiation
- After the negotiation

As I will show, fairness is involved during all moments of the talks and is a factor that is able to explain the “dynamics of a negotiation process, the outcome and its durability” (Albin 1993, p. 224).

3.2.1.1. Fairness in the Opening Moments of a Negotiation

At the beginning of a negotiation, it is all about accessing one's interests and identifying the problem or issue that gives rise to a particular conflict which can be solved through negotiation. However, literature and practical contemporary examples indicate that it is not always desirable to negotiate.

Sometimes - and especially when trying to ensure a fair negotiation - it may be wise to refuse entering into a real negotiation process and instead decide to search for alternative opportunities that are more limited but can be seen as agreements that enable a stabilization of the conflicting tensions (cf. Zeleznikov et al. 2012, p. 265). Studies conducted by Condliffe (2008) have examined the still existing conflict rivalries between the neighboring countries India and Pakistan, Greece and Turkey and Israel and Lebanon. According to her findings, all these conflicts are characterized by the unwillingness of both parties to resolve the core-contested issues. Yet, they are at the same time willing to discuss and agree on certain other specific points that influence their

relationships – in Condcliffe's (2008) terms, these points are so called "islands of agreement". Also Putnam et al. (1982) point out that winning is not the sole goal of a negotiation and state that it is sometimes better to just manage a conflict (cf. p. 176).

In a negotiation's initial situation, notions of fairness create a motivation and enhance the wish to resolve a particular problem. Especially in distributive negotiations, opening moments and propositions for the allocation of resources will influence the positions and expectations, which parties bring to the table (cf. Albin 1993, p. 223).

In order to start a negotiation in a fair manner, parties should ideally have a transparent knowledge of the negotiation issues to be discussed. The provision of transparent, accurate information plays an important role. With the aim of developing negotiation support processes and tools, Zeleznikov et al. (2012) point out certain factors that have to be considered if a negotiation should be fair. According to their research, a negotiation can only be fair if it is transparent and if the parties do not withhold vital information (cf. p. 270). In more general terms, the initial phase of a negotiation will strongly be influenced by structural fairness on the one side and by informational fairness on the other side. As for structural fairness, all parties shall be given the possibility to be represented in the talks from the beginning on. Further, the issues to be discussed and the rules that are set up at the beginning will influence the fairness perceptions of both parties.

3.2.1.2. Fairness During the Talks

During the talks, as soon as the parties have decided to engage in negotiation with the aim of resolving the problem at stake, concepts of fairness will influence the give and take, support parties in their evaluation of alternatives, coordinate their expectations and help forging an agreement (cf. Albin 1993, p. 224). In order to avoid constant disagreements and standstills as well as to prevent the possibility that one party leaves the negotiation table to find alternative ways of satisfying his or her interests, it is crucial for each party to figure out what the opponent will regard as fair and acceptable solution (cf. Albin 1993, p. 224). In other terms, this means that interactional, process, procedural and structural fairness will have an impact on an on-going negotiation.

For instance, the way parties interact and treat each other in terms of respect and kindness will be decisive of one's readiness to make concessions. Further, interactional and procedural justice will influence reciprocal forces in the negotiation. If a negotiator gives his opponent the feeling that he is being treated in a fair and kind manner, the opponent might want to give back this positive feeling and act in a kind manner too.

Fair behavior in terms of process fairness also concerns the use of deceptive and coercive tactics (cf. Albin 1993, p. 229). Successfully used, such tactics often result in an unfair agreement without that the exploited party even realizes. Nevertheless, misrepresenting one's interests or alternatives may not always be unfair. There clearly is a difference between someone who lies about the substance of the items being negotiated and someone who "only" misrepresents them to a narrowly extent (cf. Albin 1993, p. 229).

3.2.1.3. Fairness After the Talks: Measuring Negotiation Performance

Once parties reach an agreement, fairness issues are still involved. How fair will the parties find the agreement after the talks? Will it be honored in the long run? Are the negotiators willing to negotiate with the same opponent again? Does the negotiated agreement have the potential to lay the foundation for long-term relationships?

When the parties reach an agreement, it is reasonable to find ways that enable the negotiators to measure it – among others also in terms of fairness. Since negotiation literature on the one hand, and literature on fairness on the other hand, have both particularly focused on the outcome and the distribution of resources, researchers and scientists from different fields have tried to find solutions enabling the measurement of outcome.

Clearly, in order to be able to say if an outcome is fair or not, it is essential to find ways that enable negotiators to measure the final outcome. As said by Tripp (1992), when negotiators arrive to an agreement, it is necessary to find an appropriate measure that allows the calculation of their performance.

In general we can say that outcomes of a negotiation can be measured in two different ways: economically and in a socio-psychological way. We will first look at economic measurement tools of negotiation and later indicate that socio-psychological measures add a non-negligible component to quantifying negotiation outcome.

Economic measures are based on axioms of individual utility. They focus on the results of a negotiation – as such they emphasize on the outcome of negotiations and do not include the processes or methods that were used to reach the agreement (cf. Thompson 1990, p. 517). Nash solution and Pareto efficiency – which will be explained in more detail - are examples for economic tools measuring negotiation behavior.

Normative bargaining models specify three measures of performance. Which of these measures of performance shall be selected depends on the result of the negotiation, which, along with Thompson (1990), can be one of the following:

- Mutual agreement
- Joint outcome
- Individual outcome (cf. p. 519).

In theory, negotiators should always reach a mutual agreement if it is in both parties' interests to do so. This means that if the only agreement negotiators could obtain is worse than the disagreement outcome⁵, then they should rather disagree.

Raiffa (1982) states that the zone of possible agreement (ZOPA), which is based on the negotiators' reservation prices, determines the utility of a mutual agreement. A reservation price is the walkaway price – that is the minimum that a negotiator is willing to settle for. Any price below the reservation price would lead to an outcome that is worse than the disagreement outcome. Bargaining zones in turn can be negative or positive: A positive bargaining zone exists if negotiators' reservation prices overlap; a negative bargaining zone exists if the negotiators' reservation prices do not overlap (cf. Thompson 1990, p. 517). Both negotiators gain from mutual agreement when there is a positive bargaining zone, whereas there is no benefit for negotiators when there is a

⁵ A disagreement outcome is the outcome that is obtained if no settlement is found.

negative bargaining zone. The bargaining surplus is the difference between one's reservation price and the final settlement. In a distributive negotiation setting, a negotiator will try to have a high bargaining surplus in order to maximize his or her own utility.



Figure 3
BATNA and ZOPA

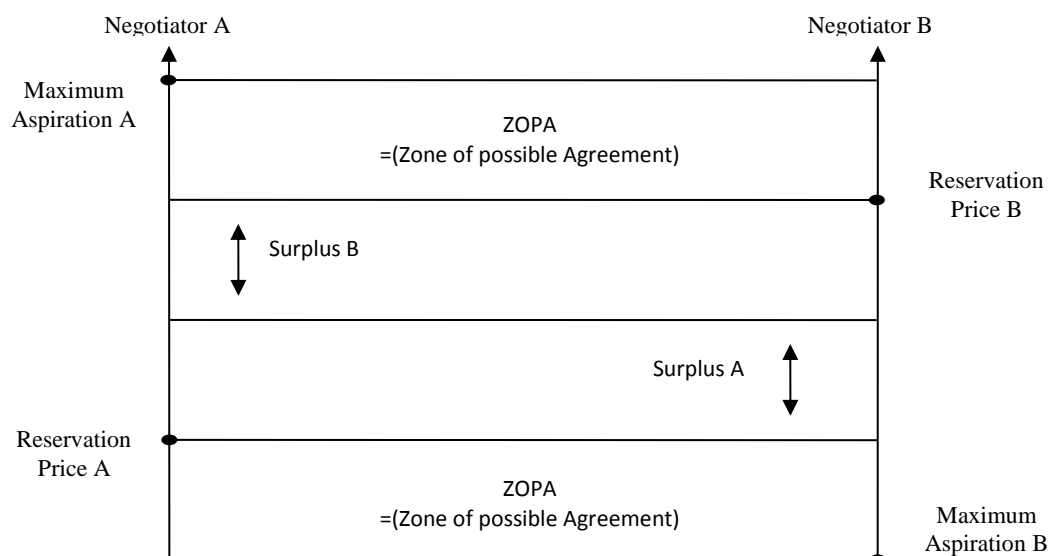


Figure 4
Reservation price, ZOPA and Surplus

On the other hand, when negotiators engage in integrative bargaining and try to “create resources”, to enlarge the pie so that both are better off, economic measures capture the joint profit by summing up both parties outcome. This measure is frequently used as measure of integration (cf. Thompson 1990, p. 517)

Tripp et al. (1992) present two kinds of measures for the calculation of the joint performance of negotiations: Pareto efficiency and joint profit.

The term Pareto efficiency is actually named after an Italian economist, Vilfredo Pareto (1848-1923) who introduced the notion of Pareto efficiency in 1906. A negotiation outcome is efficient or Pareto optimal if there is no other feasible solution or set of feasible solutions that would improve the utility of one or both parties while not hurting either party (cf. Thompson 1990, p. 516). In other words, Nash argued that negotiators try to reach *the* Pareto optimal solution, so that no additional joint gains would be possible, because the solution already maximizes their utility. However, only one out of possibly many Pareto solutions will really maximize individual and/or joint utility. Therefore Pareto optimal solutions are not necessarily easy to generate in real negotiations.

In fact, the set of Pareto optimal agreements is named Pareto frontier. Hence, Pareto efficiency is the extent to which a negotiation agreement approaches this frontier. A fully Pareto efficient agreement is said to be Pareto optimal. The Nash solution is attained when the parties reach the unique agreement that maximizes the product of the parties' revenues (cf. Tripp et al. 1992).

In contrast, a joint profit, the second kind of measure discussed in Tripp et al. (1992)'s paper is the "sum of the profits the two parties receive from their agreement" (p. 280). In this sense, joint profit is a simple measure to evaluate joint performance. However, as said by Tripp et al. (1992), "the choice of performance measures can affect the conclusions drawn by negotiators" (p. 292) and the selection of performance measure should therefore be carefully selected.

In order to capture all variables that will affect outcome fairness, social-psychological measures have to be taken into consideration. In addition to the outcome itself, socio-psychological measures of negotiation performance also focus on the processes that lead to a respective outcome.

In addition to finding and selecting an appropriate way of measuring a negotiation outcome, it is also noteworthy to mention that it is usually in the interest of the negotiating parties to find an agreement that is viewed as fair after its conclusion. The reason for this is simple and lies in the fact that such an agreement is normally more durable than an outcome that results from

confrontation of skills and power (cf. Albin 1993, p. 240). Further, an agreement that is still being honored and viewed as fair afterwards builds and fosters long-term relationships.

Nevertheless, an agreement can also look unfair to a party after its conclusion. This frequently requires re-negotiations and adjustments. The most obvious situation that calls for a re-discussion occurs when a party discovers that the opponent “cheated” at some point in the negotiation.

This is further the case, when new information comes up and throws a new light on the issues being discussed or the context in which these discussions take place.

Albin (1993) also discusses the case in which an agreement becomes unfair because of some outside actors who refuse to sign the contract in order to avoid the costs involved with it (cf. p. 241).

3.2.1.4. Economic vs. Subjective Value of Negotiation Outcomes

Another important feature of negotiation outcomes concerns the distinction between the economic outcome and the subjective value that an outcome has to a given party.

Curhan et al. (2009) tested empirically the “degree to which economic and subjective value achieved in job offer negotiations predicts employees’ subsequent job satisfaction” (p. 524). In fact, job satisfaction is influenced by the personal feelings that one has during the negotiation. Curhan et al. (2009) define these feelings as subjective value attributed to a negotiation and argue that they influence the perceived outcome as well as the further behavior of an employee. Job satisfaction on the other hand can be defined as the affective attachment that a person has towards its job. Most interestingly, the degree of satisfaction and turnover intention were measured a year after the negotiation actually took place, which indicates that the outcome of a negotiation influences an employee’s job attitude and fulfillment in the long-term.

In sum, negotiators also care about the opponent’s perceptions of the outcome and have preferences for fair outcomes. Curhan et al. (2009) and Thompsons (1990) works indicate that it is wise to leave the purely economic-based

outcome view when dealing with negotiations and they indicate how important the socio-psychological components are in determining behavior during as well as after negotiations.

3.2.2. Reciprocity in Negotiations

In negotiations, parties generally have a strong tendency for reciprocity. That is why numerous researchers, specialized in the field of negotiation, tried to figure out “when and how individuals will reciprocate one another’s moves” (Donohue 2006, p. 3).

Donohue et al. (2006) investigated what actually triggers reciprocity. They proposed a model according to which a person’s decision to reciprocate depends on the evaluation of the context, that consists of the following three elements: “the individual’s attitudinal response to the situation, their evaluation of the other’s likely objectives, and the situational constraints in which they find themselves” (p. 1). In fact, Donohue et al. (2006) argue that these features will build a person’s internal response to a given situation, that in turn influences the overall willingness or readiness to reciprocate or not.

Research has pointed out that the reciprocation of communication is common in dyadic interactions and in negotiations (cf. Brett et al. 1998, p. 411). In fact, negotiators reciprocate behavior of their opponents with regard to the employed tactics, strategies and also by reciprocating contentious communication such as treats.

However, as pointed out by Olekalns et al. (2012), reciprocity is only one kind of strategic sequence among others. Clearly, “negotiations shape how negotiators respond to the other party’s tactics” (p. 5) and reciprocating the opponent’s behavior is just one possible answer.

Further, there is evidence for the violation of the well-established norm of reciprocity. Johnson et al. (2009) provide evidence that negotiations that take place through computer-mediated communication can lead to a violation of the concept of reciprocity. More research on computer-mediated negotiation is needed to be able to see how the norm of reciprocity is being influenced under such circumstances.

Literature also indicates that negotiators are not always reciprocating bargaining behavior. Especially when it comes to concession making, Wall (1981) found that negotiators do not reciprocate the opponent's concessions and do not retain the expectation that his or her own concessions will be reciprocated (cf. p. 367).

The following sub-chapters will explore how the reciprocation of contentious communication can result in conflict spirals (cf. Brett et al. 1998, Putnam et al. 1982), indicate how power and status influence a negotiator's reciprocity behavior (cf. Putnam et al. 1982) and finally discuss reciprocity and concession making by taking a closer look at Wall (1981) and Johnson et al. (2009)'s works.

3.2.2.2. Reciprocation of Contentious Communications and Conflict Spirals

In general, people reciprocate the communication they receive and it appears to be almost instinctive to reciprocate contentious communication as well.

Contentious communication refers to "(...) communication that imposes or threatens to impose, unfavorable or costly consequences" (cf. Brett et al. 1998, p. 411) on the opponent. Such a behavior often results in a lose-lose situation. As Putnam et al. (1982) put it, "when an attack-defend pattern evolves into sequences of attack-attack or defend-defend, the conflict is likely to escalate" (p. 191).

Once exchanges are characterized by reciprocated escalatory communications, they often result in negative conflict spirals that can hardly be stopped. When such conflicts reach a certain magnitude, they can be very damaging to organizations and the costs of conflicts can be very important too (cf. Brett et al. 1998, p. 410). According to Brett et al. (1998) "A conflict spiral occurs when a negotiator initiates a contentious communication, the other negotiator responds with a contentious communication, and the first negotiator continues in a self-consistent manner with a contentious communication" (p. 411).

Through their studies, Putnam et al. (1982) showed that conflicts tend to escalate when bargainers "(...) become entrapped in a matching game" (p.

190). Putnam et al. (1982) found that reciprocity is more evident in settings of integrative strategies. Their evidence further supports the idea that conflict spirals and escalating conflicts often evolve from the mismanagement of distributive communication (cf. p.191).

In fact, when negotiations turn into conflict spirals, the talks often end up without any agreement or with an agreement that is extremely one-sided, which means that the distribution of resources favors one side more than the other one. Brett et al. (1998) examined how such negative conflict spirals can be avoided in the first place and how they can be stopped once the negotiators already got the ball rolling. They reviewed literature that provides solutions to avoiding and ending conflict spirals on the one hand and suggested new remedies on the other hand.

Brett et al. (1998) state several academics who advice not to reciprocate contentious communication in order to avoid a conflict spiral. Putnam et al. (1982) provided evidence for the efficacy of this recommendation. Brett et al. (1998) results point out that when contentious communication is not reciprocated, the opponent is more likely to change its behavior too and the negotiation will not end up in a conflict spiral or an impasse. However, it seems that reciprocating is instinctive whereas not reciprocating is rather counter-instinctive, which makes this piece of advice a difficult one to pursue. Additionally, the opponent can misinterpret one's decision not to reciprocate. For instance, a party may believe that the partner was not paying attention and hence think that he or she has to re-send the message (cf. Brett et al. 1998, p. 412).

That is why Brett et al. (1998) also aimed at finding alternative ways of avoiding such conflict spirals. According to their findings the use of mixed communication can change a negotiator's focus on contentious communications. In other words, when a contentious communication is not solely reciprocated with another contentious communication, but also with a non-contentious one (cf. Brett et al. 1998, p. 413, 419), such as a signal that indicates the willingness to cooperate, the negotiator's focus on contentious communication can be influenced.

Further, evidence also demonstrates that labeling the process can help to break

a spiral. More concretely, the authors showed that the focus of a negotiator on contentious communication could be changed if the negotiation process is labeled as unproductive, as it is difficult for the other to disagree with such a labeling without looking totally stubborn. Brett et al. (1998)'s paper contains a nice example that should be mentioned here. Imagine a negotiator that says, "Are you threatening me?" as a response to a menace. Such a question may help the negotiator that has sent the threatening message to refocus on the actual talk and the negotiation process. Continuing to threaten after a communication has been labeled as such may be against the norms of comportment in negotiations and hence may help in stopping the creation of a vicious conflict spiral (cf. Brett et al. 1998, p. 414). Trying to redirect the talks in a more favorable and constructive way may also help to attenuate the creation of a conflict spiral (cf. Olekalns et al. 2005, p. 1697).

Consequently, reciprocation appears to be a very important factor in negotiation, since it is influencing the probability of getting to an agreement, the concession finding and the quality of the deal. Therefore, "reciprocation needs to be managed strategically" (Brett et al. 1998, p. 420). Eventually intense negotiation training and bargaining experience may help in finding better agreements, that are neither extremely distributive nor extremely one-sided and enable to enlarge a negotiator's skills so that he or she can actually avoid escalations in negotiations.

3.2.2.3. The Influence of Power and Status on Reciprocity

Be it in society or in organizational structures, the use of power and status is frequently involved to a certain extent in bargaining. Power and status influence bargaining behaviors and result in differences in assumptions of legitimate power, which in turn influence the perceptions of personality traits (cf. Putnam et al. 1982, p. 174).

Putnam et al. (1982) have studied the role of reciprocity in the distributional and sequential structure of negotiation interactions. They have examined the differences that occur in the communication structure of labor negotiators as opposed to management negotiators. In general, the authors posit, "bargainers

uphold the norm of reciprocity while protecting against possible exploitation” (p. 190). In other words, we use reciprocal sequences in order to protect ourselves against possible exploitations, because we know that the other can try to exploit our vulnerabilities.

Putnam et al. (1982)ʼs studies of communication behavior indicate that the roles attributed to negotiators have an impact on the frequency and bargaining structure. Following Davis (1966), Putnam et al. (1982) recognize that the “norm of reciprocity both constrains and is constrained by a personʼs status, i.e., his or her relative position in a social or institutional hierarchy” (p. 173). For instance, managers used the power attributed to their role during the talks, whereas blue-collar delegates brought forward their arguments without putting their positions in advance. Further, labor representatives often employed offensive positions, used more threats and rejections. Managers strengthened their positions with defensive communication and used self-supporting arguments (cf. Putnam et al. 1982, p. 190). In general, the talks were characterized by attack-defend cycles. These cycles were buffered by offensive information sharing sequences. Because of the regularity and structure of this pattern, Putnam et al. (1982) concluded that the information sharing sequences are actually functioning as a protection against the escalation of the negotiation, to avoid drawbacks and standstills.

3.2.2.4. Reciprocity and Concession Making

Reaching an agreement clearly is the primary goal of negotiation. In order to come to an agreement, both parties have to communicate and to engage in the process of concession making. According to Johnson et al. (2009), concession making consists of one person making an offer that supports the opponentʼs interests but simultaneously reduces the benefits for the person that makes the offer (p. 148). Generally, negotiations move towards an agreement by concession making – as such concession making increases the likelihood of reaching an agreement (cf. Johnson et al. 2009, p. 160).

We will now see that there is evidence indicating that concession-making behaviors are not reciprocated in negotiations. In fact, it appears that reinforcement theory, a theory comparable to the one of operant conditioning, is more adequate in explaining the effects of opponentʼs concessions.

In addition, we will look at the interesting interplay between concession making in computer-based negotiation and reciprocity effects. In fact, it seems that reciprocity effects are diminished when such form of communication are used as basis for reaching an agreement.

Wall (1981) studied concession-making behavior in negotiation settings. More precisely, he tried to find out if either reciprocity or reinforcement theory is able to better explain the effects that opponent's concessions have on those of negotiators.

In fact, reinforcement theory is about rewarding and punishing. Since a negotiator values a concession made by his or her opponent, he or she will repeat this behavior, and hence, make a concession as well in order to reward the opponent for his or her concession-making. The reinforcement effect is also addressed by Johnson et al. (2009), who state that matching each other's concession making behavior is effective since it results in negotiator's desire to work out a mutually acceptable agreement (cf. p. 163).

Wall's (1981) results provide mixed support for the reinforcement theory, and strongly refute the reciprocity theory (cf. p. 372). In sum, Wall's (1981) study indicates that reinforcement is capable of shifting a negotiator's behavior and that a negotiator will more likely make concessions when he or she is reinforced for doing so (cf. p. 383). Therefore, it may be necessary to reevaluate the norm of reciprocity, since it seems not always to be valid.

There is a lot of empirical support indicating that negotiators expect their opponent to reciprocate their concession. Nevertheless, Wall's (1981) investigation points out that negotiators only believe in their opponent's reciprocation at the beginning of a negotiation. Clearly, when negotiators enter a discussion, they first expect their actions, as well as concessions, to be reciprocated, because they do not have much information on their counterpart and only a few indicators as to their opponents concession-making behavior (cf. Wall 1981, p. 374). During the negotiation however, the negotiator will "re-evaluate" his or her opponent, by taking into consideration numerous factors such as "the opponents' prior concession, trends in their concessions, their movements toward target points, their reaction to the negotiators' concessions"

(cf. Wall 1981, p. 377) and hence, reciprocity as a cue will be abandoned. That is why Wall (1981) states that reciprocity is a very short-lived phenomenon (cf. p. 377).

However, as we will see in the following, the norm of reciprocity does not hold when it comes to the process of concession making and in particular when negotiators do not bargain in a classical face-to-face situation, but instead by the intermediary of computer media – which is, as we know, increasingly being used nowadays.

Johnson et al. (2009) have studied concession in bargaining situations that occur via computer-mediated communication. More concretely, they have focused on how and why conducting negotiations with computer media can affect the concession-making process, which is mandatory for reaching an agreement as well as the negotiation outcome.

There is a large difference between negotiating face-to-face and negotiating via text-based email. Clearly, with face-to-face negotiation, direct and personal communication is possible, whereas in computer-based negotiation, the parties, such as buyer and seller appear to be totally anonymous to each other. Hence, the transfer of cues, intended to help a negotiator in assessing the opponent's intentions and the information he or she receives, is hampered.

In face-to-face bargaining, certain characteristics such as co-presence, visibility, audibility, simultaneity and sequentiality facilitate the communication process and enable a negotiator to more efficiently use social and other communicated cues (cf. Johnson et al. 2009, p. 150). In contrast, none of these characteristics exist with text-based e-mail. As we will see, this has important effects on the whole negotiation and the likelihood of reaching an agreement.

In line with the well-established norm of reciprocity, one would expect that negotiators reciprocate the concessions made by their opponents. As said by Wall (1981), reciprocity implies, that “whenever the opponent makes a large concession, the negotiator follows with a large concession, and when the opponent makes a small concession the negotiator makes a small concession” (p. 368). Johnson et al. (2009) talk about this phenomenon under the expression of “cooperation theory” – meaning that negotiators basically

cooperate by matching each other's concessions so that a small or large concession made by one negotiator would be matched by a similarly small or large concession by the other negotiator (cf. Johnson et al. 2009, p. 149). In addition, one would assume that an individual, who engages in negotiation, believes that when he or she decides to make a concession, this concession will be reciprocated. In fact, individuals expect that fairness, reciprocity and equity guide their exchanges with others (cf. Wall 1981, p. 373).

In a negotiation situation with two individuals, the first person that makes a concession is designated the first mover whereas the other person is named second mover. Evidence indicates that being the first mover in computer-based negotiations may not always be wise. According to Johnson et al. 's (2009) paper, "first mover initial concessions were not matched by the second movers when negotiating over computer media" (p. 163). Johnson et al. (2009) provide a possible explanation for this first mover disadvantage. In fact, by the use of computer media the second mover enjoys an increased anonymity and reduced social presence, which can reduce the second mover's predilection for social preferences, such as fairness and equity and increase their selfishness (cf. p. 163). Additionally, compared to first movers in face-to-face negotiations, first movers in computer-based negotiations had to make greater initial concessions in order to achieve similarly good likelihoods of reaching an agreement (cf. Johnson et al. 2009, p. 163).

Authors such as Moore et al. (1999), Galinsky et al. (2001), Galinsky (2004), Malhotra (2004) and Adair et al. (2007) provide evidence that encourage negotiators to make first offers and to make concessions. However, Johnson et al. (2009) indicate that this is not true when negotiating by instant messaging. Their results show that the first mover, regardless of if he or she was a seller or buyer, always suffered from a certain disadvantage. Hence, a useful piece of advice for practitioners of computer-based negotiation tools could be "wait and be the second mover" (cf. Johnson et al. 2009, p. 164). In fact, first offers contain a lot of information about what one regards as an acceptable outcome and "influence the way negotiators think about the negotiation process" – as such they also "serve as anchor points for subsequent offers" (p. 160).

In their study, the authors also investigated the effects of power in negotiations that are conducted with computer media. Their findings can be applied to online dispute resolution services and e-commerce sites such as Square Trade for E-Bay for example (cf. Johnson et al. 2009, p. 164).

In fact, when sellers had a lot of power and buyers were second movers, the likelihood of reaching agreement was significantly reduced (cf. p. 163). Here Johnson et al. (2009) argue that the depersonalization associated with computer media has the potential to increase the buyers' distrust of sellers' motives. In fact, with computer media, second movers frequently did not reciprocate concessions (cf. p. 160). It further turns out that buyers often misinterpret sellers' behaviors in a negative way, which reduce their readiness to reciprocate first offers, to make concessions and hence reduce the likelihood of reaching an agreement (cf. p. 164).

For practitioners it might be useful to start computer-based negotiations by making multiple smaller concessions rather than a single large one. By doing so, they can overcome problems of mistrust, increase the "level of felt fairness" on the part of the buyers and stipulate their reciprocity (cf. p. 160).

3.2.3. Trust in Negotiations

Trust is a central part in any relationship (cf. Lewicki 2010); it is the most important part of any working relationship (cf. Fisher et al. 1988) and a crucial pre-condition for having a positive negotiation outcome after all (cf. Olekalns et al. 2005).

As pointed out by Olekalns and Smith (2012), one of the dilemmas in negotiation is the so-called trust dilemma. As mentioned earlier, trusting always increases vulnerability, since there is no guarantee that this trust will be reciprocated. However, negotiating and especially finding an agreement depends on the parties' willingness to solve the problem at stake, provide information and offer room for concessions while expecting the other party to reciprocate this behaviour. In the same time, a negotiator that behaves that way is disadvantaged and running the danger of being exploited when matched with

an opponent that suppresses essential information or does not match concessions (cf. Olekalns et al. 2012, p. 1).

In negotiations, trust is frequently cumulative, based on a history of common interactions (cf. Lewicki et al. 2000 cited in Deutsch et al. 2006). However, as this work will show, several forms of trust can be distinguished, and not all of them are based on a history of common interactions, but rather on first impressions and the behavior of negotiators during a negotiation, especially when it becomes critical and risks to escalate. Further, this part will discuss initial trust, how to build up trust in a relationship, how turning points can affect trust and finally take a closer look at trust and negotiation outcomes.

3.2.3.1. Forms of Trust in Negotiation

In economics, only one kind of trust is often discussed. Trust is mainly treated as reliability in the course of transactions. In contrast, negotiation literature has a more differentiated look at trust. This sub-chapter will present the distinction between several forms of trust, based on Yamagishi et al. (1994)'s, Kramer (1999)'s and Olekalns et al. (2013)'s works.

Yamagishi et al. (1994) suggest a differentiation between general trust and knowledge-based trust. General trust refers to trust as a cognitive bias, which helps in starting a social interaction and building a relationship. It is the “belief in the benevolence of human nature in general” (p. 139) whereas knowledge-based trust is limited to particular persons or organizations from whom one has accumulated information over a long period in history and hence are sure that they are trustworthy and will refrain from cheating. General trust in contrast is not limited to particular persons or organizations. Knowledge-based trust is the “by-product of committed relations” whereas general trust plays an important role when sufficient knowledge of a partner is lacking (cf. p. 139).

Since many negotiations occur between organizations, Kramer's (1999) bases of trust within organizations are useful in understanding how trust matters in relationships of negotiators.

As defined below, Kramer (1999) names six bases of trust:

- Dispositional trust
- History-based trust
- Third parties as conduits of trust
- Category-based trust
- Role-based trust
- Rule-based trust

The core contents of each of them shall be provided in the following.

Dispositional trust refers to a person's general predisposition to trust which is strongly related to the beliefs a person has towards human nature. In fact, people tend to "extrapolate from their early trust-related experiences to build up general beliefs about other people" (Kramer 1999, p. 575).

History-based trust in contrast refers to the information one has accumulated about the trustworthiness of someone else during past interactions. Interactional histories provide us with information that is useful in accessing a person's disposition, motives and intentions and yet allow us to judge whether someone's trustworthy or not on the basis of what we would expect from that person due to past experiences (cf. p. 575).

Third parties represent important *conduits of trust* since they "diffuse trust-relevant information via gossip (...) gossip constitutes a valuable source of second-hand knowledge about others" (p. 576). However, as it often is the case with gossip, information may be incomplete or wrong. Most importantly, Kramer (1999) notes that people also prefer to diffuse information that fits with what they think that a person wants to hear – which can be particularly dangerous with regard to trust.

Category-based trust occurs when persons trust each other on the basis of the shared membership in a social (or organizational) category. In fact, individuals tend to attribute positive characteristics such as honesty and trustworthiness to members of the same social category (cf. Kramer 1999, p. 577), because of the underlying cognitive biases, which in this case is the selective perception and interpretation of information.

Role-based trust is about the trust we accord to someone because of the position this person occupies in an organization for example (cf. p. 578). It is therefore linked to the knowledge that we expect a person to have in a certain occupation. As Kramer (1999) points out, people can even trust based on the role of a person in an organization without looking back at an interactional history. In a sense, it is not the person in the role that we trust, but more the system of expertise that enables that person to maintain his or her role (cf. p. 578).

In contrast, *rule-based trust* is a form of trust that is strongly embedded within organizations. Organizations often follow certain rules that can be either of formal or of informal nature and guide the organization's members' daily interactions. If trust in an organization is also about "diffusing expectations and depersonalized beliefs regarding other organizational members, then explicit and tacit understandings regarding transaction norms, interactional routines, and exchange practices" (Kramer 1999, p. 579), it subsequently provides the basis for its members to behave in a trustworthy manner although they do not have a precise knowledge about the other members. They are trustful to each other because of the shared understanding about the set of rules regarding appropriate behavior within the organization (cf. Kramer 1999, p. 579). Kramer (1999) also mentions that in such an on-going institutionalization of trust at a collective, macro-organizational level, a strong trustworthy relationship is induced at the individual micro-level of the organization, because they share a common, internalized set of rules.

Additionally, in economic terms, rule-based trust is able to reduce transactions costs and monitoring costs (cf. Kramer 1999, p. 580).

According to Olekalns et al. (2005), cognitive trust and affective trust have to be distinguished. Cognitive trust refers to the establishment of trust through the "reliability and competence of the other party" (Olekalns et al. 2005, p. 1698). Affective trust, in contrast, evolves from parties' recognition of shared values and common goals. Additionally, affective trust is underpinned by attributions of integrity (cf. Olekalns et al. 2005, p. 1698). Affective trust is mainly based on first impressions, whereas cognitive trust is shaped by the behavioral

information (cf. Olekalns et al. 2005, p. 1704). Such information is provided in the course of the negotiation, but is not available at the beginning, when parties first meet. Hence, it takes longer to build up cognitive trust.

3.2.3.2. Psychological Models of Trust

Psychologists have also widely explored the concept of trust. There are three different influential models:

- The uni-dimensional approach
- The two-dimensional approach
- Transformational approach

In the uni-dimensional approach, trust and distrust are seen as bipolar opposites (cf. McAllister 1995). According to this approach, trust refers to the willingness to make oneself vulnerable in the expectation that the other party will not abuse of this vulnerability. Distrust in contrast means that a person is not confident in the other and refers to the concern that the opponent will act in an unfavorable and harmful way (cf. Govier 1994 cited in Lewicki et al. 2006). When negotiation partners start at a zero-level of trust, the first meeting will be important in determining whether or not they are willing to trust their opponent. The first impression will therefore help in deciding to trust or distrust the person. According to Olekalns et al. (2005) a positive first impression increases a negotiators willingness to trust.

The uni-dimensional psychological approach towards trust has determined factors that are involved in the development of trust. Lewicki et al. (2006) have summarized them into six categories:

- “Characteristic qualities of the trustor (e.g., disposition to trust)
- Characteristic qualities of the trustee (e.g., general trustworthiness, ability, benevolence, integrity, reputation, sincerity)
- Characteristics of the past relationship between the parties (e.g., patterns of successful cooperation)
- Characteristics of their communication processes (e.g., threats, promises, openness of communication)

- Characteristics of the relationship form between the parties (e.g., close friends, authority relationships, partners in a market transaction,)
- Structural parameters that govern the relationship between the parties (e.g., availability of communication mechanisms, availability of third parties, etc.) “.

In the two-dimensional approach, trust and distrust are basically composed of the same features than in the one-dimensional approach, but they are seen as separate and independent from each other (cf. Lewicki et al. 2006). Relationships in this approach are seen as more complex constructs in which both trust and distrust can be exhibited.

The transformational approach is quite different from the two other psychological approaches of trust. In fact, in this case different forms of trust are distinguished and it is argued that trust can transform itself over time. For instance, the initial level of trust can be lowered or increased in the course of a discussion.

3.2.3.3. Initial Trust

When negotiators enter a negotiation, they already have a certain initial level of trust (or distrust) towards each other. Interestingly, research evidence indicates that negotiators often sit down at the table with a quite high level of trust already– even without really knowing each other (cf. Lewicki et al. 2010).

When negotiators first meet, they will try to find out if they can trust their opponent or not. Individuals that are thought to be cooperative, to have high levels of integrity and with whom one has shared goals, will be seen as more trustworthy. When partners enter a negotiation with positive expectations, they tend to share more information and this in turn enlarges the trust in their relationship. Butler (1999) describes these effects as a positive spiral of trust enhancement and information sharing. On the contrary, when the relationship is initially characterized by distrust, negotiators will follow a strategy of self-fulfillment and decide not to share a lot of information. In this case, Butler (1999) talks about decreased information sharing which results in a deteriorating spiral of mistrust.

As we have seen there are different forms of trust. In the initial phase of a negotiation, dispositional trust, history-based trust, trust due to the information one has from third parties as well as general trust towards people play a predominant role in determining how much trust one will have in his or her opponent. It is however important that parties have a certain level of initial trust, because otherwise starting to negotiate would not make much sense. Having a certain level of trust is a pre-condition for starting any social interaction and is the basis for building a relationship of any kind. In fact, most negotiations do not start out of nothing. In general, negotiations are conducted after having had some prior meetings in which certain preconditions have been established. Therefore, we can say that negotiations are frequently based on history-dependent processes (cf. Kramer 1999, p. 575). In this case, initial trust will strongly be linked to the interactions that occurred before the beginning of the negotiation.

Category-based trust can also influence initial trust levels. If negotiating parties are both members of a same organization, they may attribute themselves positive qualities and good intentions and hence trust each other. Further, rule- and role-based trust can trigger high levels of initial trust in bargaining.

In addition to the initial level of trust that a negotiator has, first impressions also have an important influence on the trust assessment of negotiators: They seem to be a crucial component for trust building in every human interaction. However, even within the course of negotiation, both parties still have several possibilities to show to their opponent that they can be trusted. Through their actions and the impressions they convey, such as by showing how much they care about the relationship in addition to their own personal outcome, negotiators influence the extent to which they are perceived as being trustworthy. Examples would include avoiding escalating cycles of communication in order to preserve the relationship.

Such events affect the impression one party has about the other one and shape affective trust (cf. Olekalns et al. 2005, p. 1699).

In sum, first impressions and several forms of trust (history based trust, general trust, etc...) will determine the initial level of trust. Butler (1999) emphasizes the importance of initial trust. He states that high levels of initial trust result in the

willingness of parties to share information, which in turn enhances trust. In addition, Butler (1999) points out that a trustful relationship cannot exist without having some initial trust expectations towards the opponent.

3.2.3.4. Building Trust

Negotiators enter talks with their respective amounts of trust or distrust towards their opponents. However, the initial level of trust may not stay as high or as low as it was at the beginning. A negotiator's trust level is subject to changes, just as his or her attitude and general behavior is. Throughout the bargaining process, negotiators can give their opponents a "sign" signaling their trustworthiness and hence increase the trust level. On the other hand, negative behavior can lead to a decrease in the trust level by which the relationship is being characterized.

In fact, several academics agree that the levels of trust are supple and change as negotiators meet more often and engage in transactions (cf. Lewicki et al. 2006, Olekalns et al. 2005, Kramer 1999). Kramer (1999), while discussing history-based trust, mentions that trust thickens and thins over the course of a relationship. In fact, individuals may change their perception about their opponents, depending on how much their expectations are being either validated or discredited (cf. Kramer 1999, p. 576). In other words, trust increases when expectations are met and trust decreases when expectations are violated. Moreover, De Dreu et al. (1998) point out that cooperative behavior in negotiations influences initial trust. De Dreu et al. (1998) also note that, in addition to entering negotiations with higher levels of initial trust, cooperators also generally develop greater trust quicker than individualistic bargainers. Olekalns et al. (2005) propose a similar theory, stating that "positive impressions and cooperative behavior increase trust (...) and trust increases cooperative behavior" (p. 1700).

This actually brings us to the heart of this chapter, namely to the following question: How can trust be built up in negotiations? Therefore, this chapter aims at pointing out some ways that enable negotiators to trigger a trust-building process by reviewing works of Solomon et al. (2001) and Malhotra (2004).

According to Solomon et al. (2001), trust is built step-by-step and “(...) requires talking and thinking about” it (p. 4). Talking about trust is neither always comfortable nor easy, and yet it may enhance the trust-building process.

“Building trust means thinking in a positive way and not only in terms of risks and vulnerabilities. We must force ourselves to think about uncertainties as possibilities and opportunities, not as liabilities” (p. 4). Solomon et al.’s (2001) optimistic view on trust is an interesting approach as it enables individuals to believe in trust, be it in business or in private relationships, in politics or life in general. And believing in the trustworthiness of a partner is important when an agreement shall be reached. It is only by mutual sharing of information, mutual fair and respectful treatment that joint gain can be maximized and trust slowly be gained.

Malhotra (2004) has worked out six ways that help to build trust in negotiation. First, he advises negotiators to “speak the language” of their opponents. Basically, he considers that negotiators have to go beyond understanding the issues at stake and the “technical” language that goes with it. They should try to perceive cultural nuances that may influence the choice of words and arguments that are chosen within the negotiation discussions. Malhotra (2004) explains that “by taking the time to understand the other party's history, culture and perspective, you send the message that you're committed to the negotiation and the relationship—an integral step in trust building. This fluency also signals your readiness to follow through on your negotiated settlement.” (p. 3)

He further discusses the importance of managing reputation. On the one hand, he emphasizes on the weight that reputation has from the very initial moment on. On the other hand, he advises bargainers to use their reputation as a tool by referring to successes in past negotiations or “provide references from mutually trusted third parties that vouch for your character and competence” (p. 4).

According to Malhotra (2004), the third way of building trust lies in dependency. In fact, the more dependent one is on someone, the more willing one will be to trust the opponent. Translated to a negotiation context, when parties believe that they depend on each other to achieve their individual goals, they will accept

the psychological discomfort associated with being dependent on someone and rather start believing in the trustworthiness of their opponent (cf. Malhotra 2004, p. 4). Negotiators can use this fact to their advantage by emphasizing the benefits connected to the agreement and by indicating what loss or damages might be caused if negotiations end in a deadlock (cf. p. 4).

In addition, when negotiations are based on long-term relationship, it can be very wise to make unilateral concessions, which refers to concessions that do not require any commitment or concession in return. Of course too high costs or risks should not be connected to such a concession. However, when carefully made a unilateral concession can build trust and communicate, “(...) to the other party that you consider the relationship to be a friendly one, with potential for mutual gain and trust over time” (p. 4).

The author also points out that no matter what kind of concession one chooses to make, it will only be “(...) influential in building trust and encouraging reciprocity if the receiver views them as concessions” (p. 4). Hence, it is fundamental for a negotiator to label them as such, so that the concession does not run the risk to be overlooked at. More concretely, he states, “In negotiation, there's no reason to let actions speak for themselves. When you've made a significant concession, be sure to communicate exactly how much you've given away and what the sacrifice means to you. By doing so, you'll not only affect the other party's perceptions of your goodwill but trigger your partner's desire to reciprocate, and increase the level of mutual trust” (Malhotra 2004, p. 5).

Further, when making offers, it is important to explain and justify it, in order to preserve and probably even enhance trust. Finally, when a negotiator tries to maximize joint gains, he or she sends a strong message, which has the potential to establish trust in the long run (cf. Malhotra 2004, p. 5).

3.2.3.5. Turning points, Trust and Cooperation

We have already discussed the existence of turning points in negotiations. Since turning points are moments in a negotiation that stand out because they interrupt the flow of behaviour, they affect negotiations to a considerable extent (cf. Olekalns et al. 2005, p. 1697) and consequently can result in a change of perception and trustworthiness attributed to one's opponent. Cooperation also influences trust levels. This chapter will discuss how turning points and cooperation can influence trust levels in negotiation settings.

In fact, turning points act as influential factor with regard to a negotiator's assessment of his or her opponent as well as in shaping trust and bargaining outcomes (cf. Olekalns et al. 2005, p. 1697). More concretely, affective trust and cognitive trust are influenced by turning points.

The relational as well as the substantive aspects of a negotiation are shaped by both, positive and negative turning points. In fact, the use of interest-focused turning points, positive procedural and positive characterization turning points increase trust and enable negotiators to better create value (cf. Olekalns et al. 2005, p. 1706) – to settle for integrative agreements. In contrast, negotiations interrupted by negative characterization turning points often result in an unfavourable negotiation relationship which diminishes the chances of value creation.

As we have seen, Olekalns et al.'s (2005) work links negatively characterized turning points, trust and joint gain to each other and actually gives insight in how to limit or avoid the generation of negative cycles of trust. Such negative cycles of trust can be avoided and outcomes can be improved if negotiators clearly signal their willingness to negotiate faithfully (cf. Olekalns et al. 2005, p. 1706). In fact, "Negotiators shift to cooperation at the point where they recognize that an impasse is likely" (Olekalns et al. 2005, p. 1696), because when arrived at a critical point in negotiation, they try to make the best out of a bad job and hence try to repair trust. Several authors have shown that cooperation leads to high trust levels whereas competitive, uncooperative behaviour decreases trust levels (cf. De Dreu et al. 1998, Lewicki et al. 1998).

In sum, negotiators should aspire at managing the negotiation process by direct intervention that aims at redirecting a negotiation when it becomes unproductive. In addition, negotiators should aim at being or appearing cooperative in order to create confidence. For this matter, negotiators should signal their willingness to preserve the relationship “by highlighting events that focus on the underlying interests” (Olekalns et al. 2005, p.1705) and be cooperative. By using such attention-attracting interruptions in a talk, negotiators can themselves influence trust and outcome levels.

3.2.3.6. Trust and negotiation outcomes

Trust appears to be a pre-condition for a negotiation to be fruitful in the sense of maximizing both parties' outcomes. In addition, an agreement based on a solid trustful relationship, is more likely to be cherished in the long run by both parties. As Olekalns et al. (2005) put it, a deal can only successfully be reached if both parties cooperatively exchange information and it is precisely information exchange that conditionally necessitates trust.

In contrast, other studies, such as the one of Butler (1999) indicate that trust is not always suitable for negotiation outcomes. In fact, Butler (1999) claims that a middle-way between extreme trusting and extreme distrusting may actually result in better agreements. Hence, we can see that literature provides mixed and sometimes even contradictory views on which level of trust is necessary in order to achieve good negotiation outcomes. This chapter will briefly examine the different point of views, by mainly taking into consideration Butler (1999) and Olekalns et al. (2005).

Olekalns et al. (2005) state that there are in fact two ways to build trust and increase joint gain, which are for instance insight - that is, among others a deep understanding for the opponent's interests - on the one hand and signals that clearly indicate a negotiator's intention to negotiate in good faith (cf. p. 1705). Further, the authors find that critical events such as turning points can influence trust and outcome. Therefore, it is important for negotiators to strategically use such events to reframe a negotiation and guide the talks to an efficient outcome. In fact, it is about sending signals that indicate the willingness and need of finding an agreement to one's opponent – and about hoping that these

signals will be reciprocated. In fact, Olekalns et al.'s (2005) results indicate that the more positive cognitive turning points and the less negative affective turning points occur in a discussion, the higher the joint result will be.

However, according to Butler (1999), too high levels of trust limit joint outcome and too much trust can even be costly to the negotiating parties. Hence, an optimal outcome can only be reached if negotiators adopt trust levels between extreme trust and extreme distrust. They should ideally be "hard on problems and soft on people" (cf. Butler 1999, p. 218) meaning that the issues at stake should be at the centre of attraction and not the people discussing them.

In his study, Butler (1999) explored the relationship between trust, the amount of information shared and the outcome. Participants were able to achieve integrative agreements as well as logrolling. Logrolling basically is a way by which integrative agreements are reached by exchanging low-priority issues against high-priority ones. As such, it requires that at least one negotiator perceives the other's priorities. Logrolling enables parties to overcome the fixed-pie mentality and move towards a win-win agreement (cf. Butler 1999, p. 220). The participants were divided into two groups: one of them had an initial level of trust, whereas the other one had an initial level of distrust. Butler's (1999) results show that when a relationship is characterized by high initial trust, parties tend to share more information, which in turn creates a better climate of trust. Through the information sharing, logrolling becomes possible. The complexity of the contract was reduced, because it was less marked by a punctilious attention to detail. However, Butler (1999) notes that negotiation efficiency was reached regarding the process efficiency, but not regarding the outcome efficiency.

4) Conclusions

This Master Thesis has discussed social preferences in negotiations and focused on the influence that they have on bargaining.

Section two has provided a broad overview about what social preferences actually are. Hence, definitions of several forms of preferences were provided. Fairness and inequity aversion, reciprocity, trust and altruism as well as spitefulness and selfishness have been discussed. For each of them, literature has been reviewed in order to provide theoretical and empirical evidence for their respective roles in human behavior. It turns out that, except for altruism, all forms of other-regarding preferences are found in a larger number of persons, although no economic model would predict them in people's behavior. Altruism is the only discussed preference that cannot commonly be found in human behavior patterns. However, parochial altruism – a slightly less extreme comportment than altruism in its purest form - is more frequently encountered (cf. De Dreu 2013).

Section one has also showed that cognitive limitations and biases guide people's preferences. Together, social preferences and cognitive limitations interact and shape people's inclinations, be it in personal everyday life situations or in interactions in economic and negotiation settings. In fact, biases influence what information is actually considered by negotiators and hence, they influence human preferences, human interactions and negotiation outcomes. In addition, we have seen that strategic choices in negotiations, such as the decision to follow a more competitive or cooperative strategy, are frequently shaped by the interplay between social preferences, cognitive limitations as well as other factors.

Then, section two pointed out some of the important characteristics of negotiations. Basically, we saw that a negotiation is a complex, dynamic process, where negotiators constantly face phases of process maintenance and process shift and thus, they have to adapt their strategies accordingly. Turning points, mindsets and information exchange strongly affect the negotiation process, the interpretation of the opponent as well as the outcome. In fact, the amount of shared information, as well as strategic decisions, cognitive biases,

social motives, power, gender, culture and interpersonal variables influence a negotiation process (cf. Olekalns et al. 2012). Initial impressions about one's opponent play a fundamental role in negotiation interaction, because they influence a person's perception and hence the whole subsequent talks.

In the following, this work explored existing literature to provide a selection of academic works and studies about the influence that fairness, reciprocity and trust exert on negotiations. We have clearly seen that humans are not acting in a purely rational way, but on the contrary are also influenced by other motives. In fact, social preferences represent just one set of motives that exert an influence on the decision-making process, the bargaining behavior and the economic outcomes. In other words, social preferences do not only influence the outcome of a negotiation, but have an impact on the whole negotiation process, from the very initial moment on, when negotiators first meet until the minute where an agreement is found and even beyond this moment, social preferences continue to play a role once the talks have ended.

We have seen that fairness has an impact on the dynamics of a negotiation process and the choice of procedures. Moreover, we have noted that other variables such as power and status of one's opponent influence fairness perceptions. In fact, power and status have an impact on the justice evaluation regarding the allocation of resources or payoffs.

Several fairness concepts, such as the principles of equity, equality, needs, accountability and efficiency (cf. Albin 1993, Konow 2001) have been presented. We have seen that it is nearly impossible to satisfy all concepts at once and that it is necessary to carefully balance them against each other in a given situation. Exogenous variables, which are variables that cannot be influenced, seem to play a special role (cf. Konow 2001). If, when comparing the outcome of two persons, one is lower, only because of the existence of exogenous variables, it will not be viewed as fair according to Konow's (2001) accountability principle. We have also seen that people generally attach more importance to the procedure that leads to an outcome than to the outcome itself. If a procedure was fair, the outcome – no matter how it looks like – will be viewed as fair, because the manner in which the agreement was found followed certain fairness principles (cf. Bolton et al. 2005).

In negotiations, opening moments are of special importance with regard to fairness issues. If the climate between two parties is bad in terms of fairness – so if there is a certain imbalance from the scratch on, the expectations and positions brought to the negotiation table will be negatively influenced (cf. Albin 1993). Further, the future relationship will be harmfully affected by unfair opening moments (cf. Zeleznikov 2012). In general, both, structural and informational justice play a predominant role in the initial phase of negotiations. During the negotiation itself, concepts of fairness influence the give-and-take process and the concession making. Further, fairness coordinates the parties' expectations and help parties in the evaluation of possible alternatives as well as in forging an agreement (cf. Albin 1993). In addition, the parties' willingness to reciprocate – thus, reciprocal fairness – is influenced by interactional and procedural fairness.

Finally, fairness also has an impact on the negotiation outcome itself. We have seen that evidence indicates that a negotiation outcome has an influence on job satisfaction, attitude and commitment (cf. Curhan et al. 2009). Moreover, in more general terms, an agreement that is seen as fair after its conclusion has better chances to be honored in the long run. In business situations, this is particularly important, since negotiations may take place more than just once with the same partner.

As for reciprocity, we have seen that it influences bargaining behavior which in turn modifies the economic outcome (cf. Andreozzi 2013, Fehr et al. 2002). In fact, the willingness to reciprocate behavior depends on the evaluation of one's objectives, of the opponent as well as of the context in which the talks take place (cf. Donohue et al. 2006). In addition, evidence indicates that group membership influences reciprocal behavior. In fact, it seems that people are more willing to reciprocate behavior towards in-group members (cf. Xiao et al. 2005).

As we have seen, there is positive and negative reciprocity. Negative reciprocity such as the reciprocation of contentious communication can be quite risky because it can result in a deadlock, meaning that negotiations may end without finding an agreement. In such a case, literature talks about conflict spirals (cf. Brett et al. 1998). When such conflict spirals occur, negotiators should try to

break them by signaling their willingness to cooperate and compromise in order to settle for an agreement.

Concession making is a central element of negotiation since it is fundamental for reaching an agreement. We have discussed reciprocity in both, face-to-face negotiations as well as computer-based ones and seen that the norm of reciprocity is violated when negotiations are only taking place virtually (cf. Johnson et al. 2009). Moreover, the norm of reciprocity seems to be a short-lived phenomenon (cf. Wall 1981), because negotiators only expect their opponents to reciprocate concessions at the beginning of a negotiation. Later on, when negotiators have more information about their opponents, they re-evaluate them as well as the situation and reciprocity does not seem to play a predominant role anymore.

The decision to trust someone is strongly linked to cues of personal identity. Such cues influence the perception one has about his or her opponent's trustworthiness (cf. Tanis et al. 2005). In addition, people tend to trust persons which whom they share a certain group-membership more than others. Also the degree to which a person expects his or her opponent to reciprocate behavior is decisive in whether trust will be build or not.

In bargaining situations, first impressions will guide the trust assessment of negotiators (cf. Olekalns et al. 2005). However, the way critical moments and turning points are handled by negotiators will also influence trust levels as well as the outcome (cf. Olekalns et al. 2005). During negotiations, cooperative behavior seems to be more favorable in building trustful relationships (cf. De Dreu et al. 1998). We have also seen that building trust is a hard task and presented several ways that enable negotiators to create a trustful relationship. In order to build up a trustful rapport, one must take the time to understand the partner's perspective as well as culture and try to signal commitment to the negotiation and the relationship (cf. Malhotra 2004).

Notwithstanding the importance of having a trustful relationship in negotiations, it seems that too much trust can be counterproductive. Therefore we have indicated that it is fundamental to find the right balance between extreme trust and extreme distrust (cf. Butler 1999).

In sum, we have seen that not only the outcome of a negotiation is influenced by social preferences. In fact, the whole process is continuously being shaped by social preferences. This leads us to the following question – are we ever acting rationally in negotiations if we are constantly influenced by social preferences?

According to Bowles et al. (2011), it is false to say that humans act irrationally. They state that “The desire to contribute, to punish shirking, and otherwise to act on the basis of social preferences, like the desire to consume conventional goods and services, can be represented by preferences that conform to standard definitions of rationality” (p. 46).

Often, the results of experimental games in which participants are willing to sacrifice a part of their material gain in the name of fairness or another moral and/or social sentiment, are taken as evidence for the expression of irrationality. According to Bowles et al. (2011) this is because rationality is being falsely used as synonym for „constant pursuit of self-interest“. They argue, „ (...) subjects appear to be no less rational when deciding to cooperate and punish than when they compare prices to decide what to cook for dinner. This suggests that the preferences that lie behind their social behavior are consistent with the basic axioms of rationality, namely on transitivity (consistency) and completeness“ (Bowles et al. 2011, p. 46).

However, there is no doubt that negotiations are influenced by social preferences in several ways. To sum it up, we can state that people care about other’s well-being and relative payoffs. Social preferences trigger dynamisms that influence human interaction and bargaining behavior as well as the whole negotiation process, the outcome and the future potential relationship the partners may have. Social preferences influence negotiations by shaping strategic choices, such as the decision to be either more competitive or more cooperative during the talks. Further, they shape laws of reciprocity, influence the concession making process, as well as the choice of procedures and help evaluating alternatives.

Hence, the conclusion of my work is that the expression of social preferences is omnipresent in human society: Among others, the desire to reward other

people's behavior if we interpret it as kind behavior and the desire to punish unfair, unkind or trust-breaking behavior is almost in our genes. Therefore, economic models of the future should integrate these factors and review the assumption about perfectly rational, profit- and utility-maximizing individuals for instance. In order to predict economic events even better, to understand interaction processes and outcomes even better, to increase the motivation of workers and employees, to foster long-term relationships with business partners and to reach better agreements, social preferences should get the place they deserve in academic business and management literature as well as in modern working environments.

Until now, many interesting questions with regard to social preferences and negotiations are still unsolved and no model has been able to include all the important factors that guide humans in their economic bargaining behavior. Since research is somehow in its infant shoes, there still are a wide variety of interesting discussions that can be held in future research.

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Annex A: Abstracts

Abstract in English

The present thesis explores how social preferences influence negotiations and is applicable to both, bargaining in business settings and in everyday life. In fact, this work reviews literature to shed light on the main forms of social preferences, namely fairness and inequity aversion, reciprocity, trust and altruism in order to indicate how they influence negotiations. For each of them, definitions, theories and empirical evidence are furnished. Then, a closer look is taken at fairness, reciprocity and trust. The provided empirical evidence indicates that people care about other's well-being and relative payoff. There is no doubt that most negotiators are not solely acting in the constant pursuit of self-interest as assumed by most traditional economic models. Instead, it seems that social preferences trigger dynamisms that influence human interaction and bargaining behavior as well as the whole negotiation process, the outcome and the future potential relationship. Social preferences influence negotiations by shaping strategic choices, such as the decision to be either more competitive or more cooperative during the talks. Further, they shape laws of reciprocity, influence the concession making process, as well as the choice of procedures and help evaluating alternatives and forging agreement. This work provides the reader with a broad selection of academic literature and research results and shows how fairness, reciprocity and trust exert a non-negligible influence on negotiations. Interesting sidelights of this thesis are the several recommendations for practitioners.

Abstract in German

Die vorliegende Masterarbeit erforscht, wie soziale Präferenzen Verhandlungen beeinflussen und ist sowohl auf Geschäfts- als auch auf Alltagsverhandlungen anwendbar. Diese Arbeit untersucht Literatur und greift die wichtigsten Formen von sozialen Präferenzen auf, um darzulegen wie diese Verhandlungen beeinflussen. Zu jeder einzelnen Präferenz, zu denen Fairness, Ungerechtigkeitsaversion, Gegenseitigkeit, Vertrauen und Altruismus zählen, werden zuerst Definitionen, Theorien und Ergebnisse empirischer Forschungen

diskutiert. Im Anschluss geht die Arbeit genauer auf Fairness, Reziprozität sowie Vertrauen ein und gibt an wie diese die Verhandlungen beeinflussen. Die angeführten, empirischen Ergebnisse verdeutlichen, dass Menschen sich für das Wohlbefinden und den Gewinn anderer interessieren. Es besteht somit kein Zweifel, dass die meisten Verhandlungspartner nicht nur nach Eigennutzen streben, so wie es von den traditionellen ökonomischen Modellen angenommen wird. Vielmehr scheint es so, als würden soziale Präferenzen Kräfte auslösen, die menschliches Verhalten in Verhandlungen sowie den gesamten Gesprächsprozess, dessen Endvereinbarung und letztlich auch die potenzielle zukünftige Geschäftsbeziehung der Verhandlungsparteien, beeinflussen. Zusätzlich beeinflussen soziale Präferenzen strategische Entscheidungen - wie unter anderem die Entscheidung sich eher kompetitiv oder kooperativ zu verhalten - und Reziprozitätsgesetze. Darüber hinaus hat sie Auswirkungen auf den Prozess des Entgegenkommens, auf das „Geben-und-Nehmen“ und helfen bei der Bewertung von Alternativen sowie beim Einigen.

Diese Arbeit bietet dem Leser eine breite Palette an akademischer Literatur und Forschungsergebnissen, welche aufzeigen wie Fairness, Reziprozität und Vertrauen Einfluss auf Verhandlungen nehmen. Es werden zudem verschiedene Empfehlungen für die Praxis gegeben.

Annex B: Curriculum Vitae

PERSONAL INFORMATION

Full Name: **Nadia Talasinos, BSc.**

Date of birth: August 6th 1988

Citizenship: Austrian

EDUCATION

03.2012- thitherto: **University of Vienna - Faculty for Economic Sciences**
Master Studies in International Business Administration
Specializations: Marketing and International Management

09.2011-02.2012: **École Supérieure de Commerce - SupdeCo Montpellier**
Semester Abroad at the Business School « Sup de Co »
in Montpellier, France

10.2010-06.2011: **University of Vienna – Faculty for Psychology**
Bachelor Studies in Psychology (essentially introductory phase)

10.2006-06.2011: **University of Vienna - Faculty for Economic Sciences**
Bachelor Studies in International Business Administration
Graduation in July 2011

1994-2006: **Lycée Français de Vienne - French Private School**
Graduation in June 2006

WORK EXPERIENCE

09.2013 – thitherto: **AGRANA Beteiligungs-AG - Division Fruit**
Junior Human Resources Manager (full time)

10.2012 - 07.2013, 03.2012 - 07.2012, 10.2009 - 06.2011: **University of Vienna - Faculty for economic sciences**
Chair for Public Utility Management & Financial Services
Teaching Assistant (part time – 16 hours/week)

07.2012 - 09.2012: **AGRANA Beteiligungs-AG - Division Fruit**
Assistant of the Board Members (full time – replacement during the summer months)

07.2011 - 08.2011: **AGRANA Beteiligungs-AG - Division Fruit**
Internship - Human Resources Department (full time)

07.2007 - 12.2008: **Hartig & Partners GmbH – HR Consultancy**
Assistant to Jens Neumann, Consultant and Trainer (part time)

02.2007 - 05.2007: **Verlagsgruppe NEWS / MediaNet**
Telephone Operator – Sales of Magazine Subscriptions (part time)

LANGUAGE SKILLS

English	Fluent in Spoken and Written
German	Mother Tongue
French	Mother Tongue
Spanish	Basic Knowledge