The Role of Social Identity and Information in Expectation Formation and Bargaining Facilitation

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This paper explores how the social context in which market transactions are embedded influences transaction expectations, perceptions and outcomes in both complete and incomplete information situations. Under complete information conditions, individuals react more strongly to unfair offers that come from out-group than from in-group counterparts reflecting out-group derogation (Study 1). However, under incomplete information condition, norm violating expectations come into play (Study 2). Individuals stop giving the benefit of the doubt to in-group counterparts when the offer is relatively low, signaling possible competitive behavior. Additionally, they start favoring out-group counterparts when the offer is relatively high and clearly signals cooperative behavior (Study 3). This paper highlights the malleability of judgment and behavior to social cues that are an integral part of many exchange processes. Knowledge of such influences should facilitate better management of trade-offs between competitive and cooperative behavior in exchange processes.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/14904/volumes/ap08/AP-08

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EXTENDED ABSTRACT
With the globalization of business activities as well as the increasing mobility and diversity in the general population, it is increasingly common to find business transactions in settings that involve individuals from different countries, cultures and, in general, different social backgrounds. As the social milieu in which most exchange processes are embedded become increasingly complex, academics and practitioners seek to better understand how the social context and situational constraints influence business transactions (e.g., Adair, Okumura, & Brett, 2001; Chen, Mannix, & Okumura, 2003). Arguing that one of the most salient features that individuals are confronted with in an exchange process is their counterpart’s social identity, this research investigates the role of social identity and information in influencing expectations of counterpart’s behavior as well as outcomes of buyer-seller transactions.

Previous research suggests that social identity biases judgments and decisions. For example, in the context of conflict management, perceptions of common group identity have been shown to enhance the concern for the needs of the other party (Rubin, Pruitt, & Kim, 1994). In contrast, perception of a separate group identity seems to lead to inter-group bias and enhance perception of the zero-sum nature of conflicts (Sidanius, Van Laar, Levin, & Sinclair, 2004). In sum, individuals interpret and react differently to transactions based on whether the counterpart is perceived to be a member of their own social group or from another social group (e.g., Brewer & Kramer, 1986; Kramer, Pommerenke, & Newton, 1993).

Several aspects distinguish this research from the existing literature. First, while much of the previous research on social identity focuses on the salience and strength of an individual’s self identity and how it leads to differences in expectation formation and decision making (e.g. Sidanius et al., 2004), this research examines the influence of the transacting counterpart’s social identity. The distinction is important because although self-interest and own-payoff maximization is inherent in most exchange processes, recent research shows that individuals are also concerned with notions of distributive justice or fairness (e.g., Kahneman, Knetsch, & Thaler, 1986). In other words, individuals demonstrate “other-regarding” preferences such that they not only worry about their own expected payoff, but also about that of their counterpart (e.g., Loewenstein, Thompson, & Bazerman, 1989). The extent to which individuals exhibit these “other-regarding” preferences may depend upon whether their counterpart is perceived to be a member of one’s own social group or from another social group (Brewer, 1979; Kramer, Pommerenke, & Newton, 1993).

Second, much of the existing research has focused on complete information situations where both parties in an exchange process have access to clear and objective referents (White & Neale, 1994). Readily available referents allow individuals to assess the fairness of potential transaction outcomes with relative ease. In contrast, many transactions are complex, characterized by uncertainty and information asymmetry (e.g., Pinkley, 1995; Srivastava, 2001). Facing uncertainty and information asymmetry, individuals may form different expectations about the mutual gains from trade as well as the attractiveness of potential outcomes (White & Neale, 1994). Since most exchange processes are characterized by information asymmetry, this paper examines the influence of information in conjunction with social identity (cf. Kramer, Shah, & Woerner, 1995). The premise is that a counterpart’s social identity may influence the outcome of buyer-seller transactions and may do so differently depending on whether there is complete or incomplete information. While the importance of social categories in the formation of norms under conditions of ambiguity is recognized (e.g., Fiske & Taylor, 1991), relatively little research examines the role of social identity in incomplete information situations. This paper thus not only adds to the few studies on the role of social identity in complete information situations but also extends the literature by examining how the counterpart’s social identity affects expectations of distributive justice and, thereby, behavioral outcomes in incomplete information situations. Examining both complete and incomplete information situations allows us to explore the boundary conditions for the unfavorable bias towards out-group members, more commonly known as out-group derogation (e.g., Kramer, Shah, & Woerner, 1995).

Three experimental studies use ultimatum bargaining as the transaction context in which to study the role of social identity. In ultimatum bargaining, one agent (proposer) makes an offer to another agent (responder) that divides a specified sum of money between the two agents (Camerer & Thaler, 1995). The responder can then either accept or reject the offer. If the offer is accepted, the sum of money is divided as proposed and the game ends. If the offer is rejected, both agents receive nothing and the game ends. Ultimatum bargaining provides the appropriate context as it is not only a model for basic transactions but also represents a building block for more complex negotiated transactions (see Camerer & Thaler, 1995 for a review). Ultimatum bargaining has been extensively used in the literature to document behavioral regularities that were interpreted to imply that fairness considerations often override strategic considerations. Importantly, for the purposes of this research, ultimatum bargaining not only represents the end state of continuous bargaining but also the simplest form of a take-it-or-leave-it transaction, thereby offering a simple structure that allows isolation of the factors of interest.

Study 1 shows that, in complete information ultimatum bargaining, individuals react more strongly to unfair offers that come from out-group counterparts than in-group counterparts. In incomplete information bargaining, where there is uncertainty about the percentage of the total amount that the offer represents, out-group derogation is still prevalent when the offer is relatively high and could possibly be fair. However, study 2 finds that when the offer is relatively low, out-group derogation is reversed and individuals react more negatively to in-group counterparts who could possibly be taking undue advantage of the situation. Finally, study 3 supports that making the situational constraints salient moderates out-group derogation and eliminates differences between in-group and out-group counterparts. Together, the findings highlight the malleability of judgment and behavior to social cues that an integral part of many exchange processes. Knowledge of such influences should facilitate better management of the trade-offs between competitive and cooperative behavior in bargaining contexts.
REFERENCES


