

# Myth or Science?

## When Selling in an Auction, Start the Bidding High

This statement is false. That might surprise you, given that the anchoring bias seems to suggest I should set the initial bid as high as possible. In auctions, however, this would be a mistake. In fact, the opposite strategy is better.

Analyzing auction results on eBay, a group of researchers found that lower starting bids generated higher final prices. As just one example, Nikon digital cameras with ridiculously low starting bids (one penny) sold for an average of \$312, whereas those with higher starting prices went for an average of \$204.

What explains such a counterintuitive result? The researchers found that low starting bids attract more bidders, and this increased traffic generates more competing bidders, so in the end the price is higher. Although this may seem irrational, negotiation and bidding behavior aren't always rational, and as you've probably experienced firsthand, once you start bidding for something, you want to win, forgetting that for many auctions the one with the highest bid is often the loser (the so-called winner's curse).

If you're thinking of participating in an auction, we have a couple of other myths to dispel here. First, some buyers think sealed-bid auctions—where bidders submit a single bid in a concealed fashion—present an opportunity to get a “steal” because a price war can't develop among bidders. Evidence routinely indicates, however, that sealed-bid auctions are bad for the winning bidder (and thus good for the seller) because the winning bid is higher than would otherwise be the case. Second, buyers sometimes think jumping bids—placing a bid higher than the auctioneer is asking—is smart strategy because it drives away competing bidders early in the game. Again, this is a myth. Evidence indicates bid jumping is good at causing other bidders to follow suit, thus increasing the value of the winning bid.

Sources: Based on G. Ku, A. D. Galinsky, and J. K. Murnighan, “Starting Low but Ending High: A Reversal of the Anchoring Effect in Auctions,” *Journal of Personality and Social Psychology* 90 (June 2006), pp. 975–986; K. Sherstyuk, “A Comparison of First Price Multi-Object Auctions,” *Experimental Economics* 12, no. 1 (2009), pp. 42–64; and R. M. Isaac, T. C. Salmon, and A. Zillante, “A Theory of Jump Bidding in Ascending Auctions,” *Journal of Economic Behavior & Organization* 62, no. 1 (2007), pp. 144–164.

### Class Exercise

1. Divide students into teams of three to five each.
2. Ask students to access <http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1676/F-198web.pdf>
3. Have each team role play a negotiating side in preparing a contract between a music distributor and a music publisher to place music on the Internet-based music stores.
4. Have the groups prepare briefs on each of the issues in the online paper and how they would approach successfully fulfilling them.
5. Have each group report to the class the results of its analysis and recommendation for meeting the issues.

# International OB

## Negotiating Emotions across Cultures

As a rule, no one likes to face an angry counterpart in negotiations. However, East Asian negotiators may respond less favorably than people from other cultures.

One article reported that in two separate studies East Asian negotiators were less likely to accept offers from negotiators who displayed anger during negotiations. Another study explicitly compared how U.S. and Chinese negotiators react to an angry counterpart. Chinese negotiators increased their use of distributive negotiating tactics, whereas U.S. negotiators, when confronted with an angry negotiator, decreased their use of these tactics.

Why do East Asian negotiators respond more negatively to angry negotiators? The authors of the first study speculate that the answer may rest in East Asian cultural values. Because their culture emphasizes respect and deference, East Asians may be particularly likely to perceive angry behavior as disrespectful, and thus deserving of uncooperative tactics in response.

Sources: Based on S. Kopelman and A. S. Rosette, "Cultural Variation in Response to Strategic Emotions in Negotiations," *Group Decision and Negotiation* 17, no. 1 (2008), pp. 65–77; and M. Liu, "The Intrapersonal and Interpersonal Effects of Anger on Negotiation Strategies: A Cross-Cultural Investigation," *Human Communication Research* 35, no. 1 (2009), pp. 148–169.

### Class Exercise

1. Ask students to view the video on the comparison of Chinese and U.S. negotiation styles (it's 49 minutes long) at <http://www.youtube.com/watch?v=GPu8VqptSik>.
2. Have students break into discussion groups to talk about the differences in styles.
3. Do the students believe that major differences exist that must be planned for to overcome?
4. Have the students write a short white paper defining the concepts they would have to address if they were part of a negotiating team in talks with a Chinese manufacturer.

# An Ethical Choice

## Sharing Your Salary

How secretive should you be about what you earn? People vary in their responses to this question, and one of the main sources of difference tends to be age.

Arielle Green, age 22, doesn't mind discussing her \$30,000 annual salary (plus overtime) with friends and colleagues. "There's just more of a feeling of openness in discussing what you make," Green said. According to Green, her parents would never discuss their salary with others. "It's very hush-hush," she noted.

Bill Coleman, chief compensation officer for Salary.com, said, "This is a generation that is much more attuned to teamwork, collaboration, and sharing information. How do you know if \$45,000 is a good offer? You go to your friends."

There are both benefits—and risks—in discussing your salary with others. The primary benefit is that you may acquire valuable information about what you should be making, or about what your employer is willing to pay. Two people working in the same job with similar qualifications often do not earn the same salary. So, though asking for more pay simply because a coworker earns more is likely to be an ineffective negotiating strategy by itself, knowing what coworkers make can help you anchor your pay expectations.

One risk is that you cannot be sure the information you've been given is true. If someone gives you wrong information, you'll be operating from a flawed premise. Another risk is that you might run into an awkward situation. Rebecca Geller, age 29, who works in media relations for a San Francisco company, remembers a brunch at which a school administrator wondered whether his aspirations for a \$40,000 annual salary were reasonable. He asked, "Why, what do you guys make?" One, a lawyer, sheepishly confessed to a \$130,000 annual salary. "There was definitely an awkward silence," Geller said.

Before sharing your salary with others, keep these points in mind:

1. Make sure you are aware of organizational policies, both before and after you join an organization. Many organizations have policies against open disclosure of pay. If you violate such policies, you may risk your job.
2. Realize that sharing, while possibly valuable, can be used against you. Say you are the high earner, and you disclose this information to a coworker. This coworker may then demand a higher salary, using your disclosure as justification. While some employers would not hold that against you, others might—including the boss, your colleagues, or even the coworker to whom you made the disclosure.
3. If you share, it only makes sense to get information in return. More generally, make sure sharing makes sense from your long-term interests. Don't share as a means of appeasing. Giving in once only means you'll be harassed again in the not-too-distant future.

Sources: Based on A. Williams, "Not-So- Personal Finance," *New York Times* (April 27, 2008), pp. S1, S2; R. Zuppek, "Things Not to Share with Your Coworkers," *Careerbuilder.com* (January 3, 2008),

msn.careerbuilder.com; and L. Wolgemuth, "Using What You Know About Co-workers' Pay," U.S. News and World Report (June 19, 2008), [www.usnews.com](http://www.usnews.com).

**Class Exercise**

1. Divide students into groups of three to five students each.
2. Ask the teams to prepare a questionnaire to find out what other students believe about sharing salary information.
3. In addition to questions about opinions toward salary sharing, the groups should also ask each respondent what type of business they work for, how old they are, their gender, how long they have been working for their employer, and other information you believe could be independent variables in the outcome.
4. Have the students collect data from students around school.
5. The students should put the information into an Excel spreadsheet.
6. The Excel spreadsheet will permit simple statistical analysis of the responses including frequency distributions and correlations to determine if any of the independent variables have significant effect on the responses.
7. Ask the students to write a paper on their findings and to prepare a presentation to the class about the results.

# Point/CounterPoint

## Conflict Benefits Organizations

### Point

Let's briefly review how stimulating conflict can provide benefits to the organization:

- **Conflict is a means to solve problems and bring about radical change.** It's an effective device by which management can drastically change the existing power structure, current interaction patterns, and entrenched attitudes. If there is no conflict, it means the real problems aren't being addressed.
- **Conflict facilitates group cohesiveness.** Whereas conflict increases hostility between groups, external threats tend to cause a group to pull together as a unit. Conflict with another group brings together those within each group. Such intragroup cohesion is a critical resource that groups draw on in good and especially in bad times.
- **Conflict improves group and organizational effectiveness.** Groups or organizations devoid of conflict are likely to suffer from apathy, stagnation, groupthink, and other debilitating diseases. In fact, more organizations probably fail because they have *too little* conflict, not because they have too much. Stagnation is the biggest threat to organizations, but since it occurs slowly, its ill effects often go unnoticed until it's too late. Conflict can break complacency—though most of us don't like conflict, it often is the last best hope of saving an organization.

### CounterPoint

In general, conflicts are dysfunctional, and it is one of management's major responsibilities to keep conflict intensity as low as humanly possible. A few points support this case:

- **The negative consequences from conflict can be devastating.** The list of negatives associated with conflict is awesome. The most obvious negatives are increased turnover, decreased employee satisfaction, inefficiencies between work units, sabotage, and labor grievances and strikes. One study estimated that managing conflict at work costs the average employer nearly 450 days of management time a year.
- **Effective managers build teamwork.** A good manager builds a coordinated team. Conflict works against such an objective. When a team works well, the whole becomes greater than the sum of the parts. Management creates teamwork by minimizing internal conflicts and facilitating internal coordination.
- **Conflict is avoidable.** It may be true that conflict is inevitable when an organization is in a downward spiral, but the goal of good leadership and effective management is to avoid the spiral to begin with. You don't see Warren Buffett getting into a lot of conflicts with his board of directors. It's possible they're complacent, but we think it's more likely because Berkshire Hathaway is a well-run company, doing what it should, and avoiding conflict as a result.

**Teaching Notes**

1. Lead a discussion on how conflict between the student body and the administration could help or hurt your institution.
2. Create functional/dysfunctional lists on the board, and ask students first how conflict could help the college or university. Record these under “functional.” In the discussion, see if specific topics or issues are on the students’ minds.
3. Next, ask how such conflict can harm the institution. Again, record these and solicit specific issues, and record to whom the costs or “hurts” would apply.
4. Now discuss what would make such conflict functional or dysfunctional.
  - Is it the topic?
  - The parties involved?
  - The history of the issue?
  - Student expectation of administration reaction to conflict?
5. Finally, discuss:
  - Why have students not spoken up on these issues?
  - How could functional conflict be started and managed over a specific issue?
  - What are the dangers if it got out of hand?