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Ethical Trade-offs in Negotiations and the Aristotle-Nash Dilemma of the Negotiator

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Abstract: A recent article in the Academy of Management Perspectives has revived the important question as to what extent ethical behavior is appropriate, intentional and effective in negotiations, especially professional or business negotiations. We will show that a serious ethical conflict is immanent in any negotiation that entails a significant distributive share or a competitive setting. This conflict results from the fact that misrepresentation isgenerally a dominant strategy in any of the above-mentioned negotiation settings. Truthful revelation of one's preferences and limits is instead reducing the individual direct outcomein a distributive negotiation with comparable levels of negotiation power. However, misrepresentation also comes with a long-term cost of losing ethos and credibility as a negotiator. Obviously and repeatedlyviolating the ethical standards of honesty raises distrust among negotiation counterparties and limits the future effectiveness of the individual negotiator to reach agreements in general as well as achievesuperior win-win outcomes in more integrative negotiation settings.We argue that this dilemma should be labeled according to the researchers who first analyzed these cornerstones of negotiations with Aristotle's fundamental work on persuasion and rhetoric and John Nash's bargaining theory–the Aristotle-Nash Dilemma.Negotiators have to understand that there is no biunique set of effective negotiation tactics and general ethical rules that can be applied uniformly. In contrast to this, ethical rules applied by a negotiator today will shape their solution space in future negotiation rounds.

Keywords: *Negotiation; Ethics; Conflict Management; Persuasion and influencing; Buyer-Seller-Relationships*

I. INTRODUCTION

There is the general consensus that lying is unethical behavior, whereas truthful revelation is decent, ethical behavior. This consensus is underlined by the fact thata request for honesty found its way into the 10 commandments,regarded as the oldest and most prominent document of an ethical code of conduct, at least in the Western world("Thou shalt not bear false witness against thy neighbor"). However, as soon as we move to the arena of negotiations, and especially professional business negotiations, things become less straightforward. Furthermore,despite the fact thatquestions pertaining to ethics and honesty have continuously received some attention in literature, they have hardly been at the center of debate in terms of negotiation science and analysis.

Finally, a recent article on ethical fading in negotiations by Rees, Tenbrunsel and Bazerman asks for a broader, multidisciplinary conversation on what is and what should be ethically acceptable in negotiations (Rees, Tenbrunsel and Bazerman, 2018). We very much agree with the need for this debate and propose the followingbrief contribution.In fact, we observe a largeunawareness of the fundamental conflict between success and morale that is inherent in almost every negotiation setting. As shown before, the fundamental conflict is very simple in that exaggerating in a distributive negotiation setting yields better results and that being fully honest actually creates an incentive for the other party to lie to maximize its yields (Raiffa, Richardson and Metcalfe, 2002).

Before entering any negotiation, both parties have to make a decision on how to approach the negotiation: Do they want to maximize their individual outcome or do they want to stick to ethical rules of honesty?For this reason, we will generally follow the broader decision-theory-based approach to negotiations which was first developed by Howard Raiffa in his classic work *The Art and Science of Negotiation*. This article therefore combines general theoretical results from philosophy and game theory with practical observations from empirical psychology and negotiation analysis.

The core objective of this article is to narrow down the question as to what is ethically acceptable behavior in negotiations by defining the exact trade-off between maximizing one's short-term outcomes and maintaining ethical integrity. However, in contrast to Rees, Tenbrunsel and Bazerman we will refrain from the meaningful assumption that ethical behavior is generally to be promoted. Instead we will attempt to lay down the general benefits of good ethical conduct and the respective costs of violating ethical rules.This will be done without an explicit assumption as to what extentviolations of ethical behavior are made intentionally or unintentionallysince we will concentrate on the effects of behavior rather than on negotiators'psychological and mental representations.

This article is structured around three research hypotheses which will be developed in turn:

Thesis I: Misrepresentation of one's objectives or limits is a dominant strategy when a negotiator wants to maximize their return in adistributive or competitive negotiation setting.

Thesis II: Extreme or repeated misrepresentation will reduce a negotiator's ethos and credibility and thus reduce their ability to conclude agreements in future negotiations.

Thesis III: Negotiators can facilitate future negotiations by following high ethical standards and being honest as this increases their ethos.

The combination of Thesis 1 and 2 represents the trade-off and dilemma in which every negotiator finds themselves in most negotiations. The more they misrepresent and exaggerate, the more they can get out of this specific negotiation. However, the more they do so, the more they risk reducingtheir ethos and credibility for future negotiations and therefore theirpotential to be an effective negotiator in the future. On the other hand, however, honesty and good ethical conduct in this negotiation can help to increase one's ethos and credibility for the future but reduce one'sexpected revenue in this negotiation. We name this the Aristotle-Nash Dilemma.

1. Research Thesis I: The benefits of lying and misrepresentation

Machiavelli's "the Prince" is probably the most relevant and popular reference when it comes to questioning the overall benefits of good ethical behavior. In a broader context it covers the question as to what extent the Prince should keep his word (Machiavelli 1532, Chapter 18). The recommendation here is straightforward as Machiavelli advocates being virtuous and honest for as long as possible; however, the Prince should also be prepared to break the boundaries of virtue whenever necessary to pursue his overall goals. In the long run he should expect to be evaluated on his achievements rather than on his virtuousness (Machiavelli 1532, p.77). The rational argument for precisely why it pays off to misrepresent the truth to others is later given by John Nash in his seminal 1953 paper on non-cooperative bargaining theory (Nash 1953, p.138). Both parties will try to split the payoff of any negotiation or bargaining situation according to the parties' utilities, hence parties have an incentive to misrepresent their utility or valuation of the assets at stake in the negotiation. Economists and game theorists have found this inconvenient, less so for the failure of ethical conduct, but rather for the problem that the behavior may cause inefficiencies, as parties may fail to agreealthough an agreement would have been beneficial for both. This inefficiency has been a focus of game theorists' approach to bargaining until it became accepted in the Myerson-Satterthwaite theorem that this is an inherent problem of negotiations and bargaining with incomplete information (Myerson and Satterthwaite, 1983).

In parallel to this general and theoretic challenge to truthful behavior in negotiations, practitioners were able to prove that the strategy of upfront and honest 'takeitorleaveit' offers without any haggling and anchoring, proposed by L.Boulware, was not useful to achieve a high number of agreements (Williams, 1964). The term Boulwarism is thus used for a negotiation tactic that often fails and is generally not recommended in negotiation textbooks (Raiffa et al. 2002, p.114). Following the groundbreaking research of Kahneman and Tversky in particular,psychologists were able to show in a series of experiments that both framing and anchoring are effective instruments for success in negotiations (best overview given in Kahneman, 2011). Negotiations, especially in the business world, are typically characterized by the fact that we do not know the other party's true valuation or reservation prize for what is at stake in the negotiation. In these settings, psychological anchors or frames used as a starting point or first offer heavily influence the outcome of the negotiation (Galinsky andMussweiler, 2001), even in the case of professional negotiators (Kahneman, 2011).

In contrast to many other situations, the findings from the rational choice perspective of game theory is largely consistent with those of empirical psychology. In any simple two-sided negotiation with a distributive or competitive character, any strategy of truthful revelation is dominated by misrepresentation of one's valuation or reservation price. It always pays off to use an anchor and exaggerate one's demands at least slightly beyond one's reservation price.

Thesis I: Misrepresentation of one's objectives or limits is a dominant strategy when a negotiator wants to maximize their return in a distributive or competitive negotiation setting.

It is important to understand that we describe the misrepresentation of one's objectives, limits, BATNAs or exit points here. Thesis 1 does not cover the misrepresentation of actual facts about the underlying topic to be negotiated, such as the amount of work experience a job applicant has or the age of a car to be sold. The focus here is on misrepresenting one's objectives or limits or one's possible alternatives or exit points. As discovered earlier by researchers (e.g. Bazerman et al., 2000, p. 291), the main challenge here is the fact that "*Ethical standards in negotiation are inextricably tied to the definition of the game*." People often assume that misrepresentation is part of the negotiation game and can therefore be ethically accepted. Other research has shown that people are especially open to using ethically ambiguous tactics when they expect the other party to have a competitive motivation (Lewicki, Saunders and Barry, 2006, p. 254).

The only exceptionto Thesis 1 can be made in situations where one side holds significantly more bargaining power than the other side. If a party has strong alternatives, more time or is better informed, these power levers might be sufficient to achieve a beneficial result without relying on anchoring strategies (Eichstädt, Hotait and Dahlen, 2017). However, as documented in the original paper of Rees, Tenbrunsel and Bazerman, ample proof exists that high powernegotiators use bluffs and lies too, both intentionally as well as unintentionally (Rees, Tenbrunsel and Bazerman, 2018, p.13).

2. Thesis II: The costs of lying and misrepresentation

When it comes to influence and persuasion, the oldest and most significant references to this topic have already been made by the ancient Greeks and Romans when analyzing rhetoric. One of the most important summaries covering this question explicitly is Aristotle's book on rhetoric. In this Aristotle essentially finds three technical means of persuasion which all need to be combined for a successful effort to persuade others: (a) in the character of the speaker (ethos), (b) the emotional state of the hearer (pathos), (c) the rationale of the argument itself (logos) (Rapp, 2010). The importance of a good, rational argument and the use of appealing to the other side's emotions have later been proved empirically as important aspects of influence in workplace and business environments (Yukl and Tracey, 1992).

Only very recently has a first general approach to integrate Aristotle's findings on rhetoric into negotiation practices been defined (Weiss, 2015). Althoughthe overall aspect of ethos has generally received little attention in negotiation science, the specific aspect of credibility has been a core subject of negotiation research, especially in the seminal work of Tom Schelling on threats and commitments (Schelling, 1960). Here he finds that credibility is of crucial importance in conflict negotiations where threats are being applied. The use of threats in a negotiation requires the party to either commit to bring the threat to bear or to have otherwise built up a reputation of following through withtheir threats or promises.Although Schelling's work has been centered around applying game theory to political crisis negotiations, it forms one of the fundamental pillars of understanding negotiations. Despite differences in the general background, threats play an essential role in professional business or private negotiations as well. This comes from the fact that either party always has the opportunity to walk away from a negotiated agreement and use this as a threat or a warning to get better terms (Fisher andUry, 2012). In negotiation research, some authors have looked into questions of reputation, which obviously covers the question of credibility and ethos, among other things. The few existing studies find that,in general, reputation matters and influences negotiators' behavior (Goates, Barry and Friedman, 2003) and also outcomes (Tinsley, O'Connor and Sullivan, 2002).

Thesis II: Extreme or repeated misrepresentation will reduce a negotiator's ethos and credibility and thus reduce their ability to conclude agreements in future negotiations.

However, no empirical study has yet analyzed the extent to which excessive anchoring and bluffing in one negotiation impacts credibility and ethos and therefore the performance of a negotiator in subsequent negotiations. Nevertheless, the importance our society places on honesty liesprecisely in the fact that we cannot trust the future actions of people who lie repeatedly. Whether we look at family relations, business dealings or political affairs, every cooperation or negotiation becomes much more difficult and cumbersome whenever there is increasing distrust. The ethos of different negotiation partners together forms the trust upon which groups are able to work more effectively to achieve a common goal. The more trust people have in one and other, the more easily and efficiently they can collaborate as they do not have to waste resources on mechanisms and contracts to ensure ethical conduct. From an economic perspective, one could summarize that trust generally reduces transaction costs.

The more a negotiator relies on misrepresentation to maximize their gains following Thesis 1, the more they risk underminingtheir own credibility in the future. This effect may come about irrespective of different potential negotiation outcomes: A) The negotiator may succeed and get what they claimed with their initial anchor, but it will be observed later on that the split of the value at stake was not in any way fair, so the negotiator risks being perceived as greedy and selfish. B) The negotiators are unable to agree due to both sides applying excessive misrepresentation, but observe later that there was good reason to agree, so the negotiators risk being perceived as too stubborn. Or C) the negotiator concedes substantially after they set a first excessive anchor and develops a reputation of making huge concessions, so the negotiator gains a reputation of hyperbolizing initially. In all these scenarios, the reputation is affected in such a way that future negotiation partners will carefully weigh up the negotiator's initial position in subsequent negotiations.

3. The Aristotle-Nash Dilemma

This means that negotiators have totrade off between short-term outcomes of the initial negotiation and potential benefits from future negotiations with the parties involved or observing. This dilemma can be traced back to the findings of John Nash, who proved that there is always an incentive to lie and misrepresent,and those of Aristotle, who showed the value of ethical conduct when persuading others.In this regard, negotiators have no simple, straightforward rule or recommendation they can follow when approaching a negotiation. They can apply anchoring and framing tactics to achieve a reasonable outcome, but they have to do this with care: The more excessive their request or the greater they misrepresent certain facts, the higher the likelihood that this will be observed either by the other negotiation party or by independent third parties observing the process or the results. A standard ethical norm is hard to define here, as people will apply different ethical standards for truthfulness when speaking with their family compared to bargaining over an antique lamp at a flea market. The same can be said for business negotiations, where people will apply different ethical norms for their specific team and their company versus external partners such as new suppliers or customers. The Aristotle-Nash Dilemma is relevant to any of these situations. However, one may predict that most people intuitively follow the Aristotle concept of building ethos and trust whenever they consider a potential long-term relationship. In contrast to this, they are willing to misrepresent or claim too much when they are in some sort of one-off situation. This may explain why Rees, Tenbrunse land Bazerman find quite a substantial amount of literature that allows for low ethical standards being tolerated in professional legal or business negotiations.

It is also noteworthy here to differentiate between distributive and integrative negotiations. In any distributive setting, claiming and hence anchoring is key to securing a fair share of the overall value at stake. In an integrative setting, it is essential to reveal each side's preferences and interests, so excessive framing or anchoring actually creates the risk of settling at a suboptimal agreement.

4. Thesis III: Shaping negotiation ethics

The influence of someone's ethos and credibility on their ability to persuade others has been explained above. This entails the opportunity to increase their ability to persuade others by increasing their ethos and credibility. This may be why people often invest in face-to-face meetings and time to get to know each other before they start actual business negotiations. Creating trust makes collaboration easier, which explains why companies often prefer to work on long-term, trust-based relationships with their suppliers rather than just on a one-off transactional basis. These kinds of relationships essentially build the foundationfor becomingmore win-win oriented in the long run, as fostered by the Harvard approach to negotiation (Fisher and Ury, 2012).

Thesis III: Negotiators can facilitate future negotiations by following high ethical standards and being honest as this increases their ethos.

Following high ethical standards is not to be mistaken by being overly generous or easy to deal with. It is about reliability and about avoiding the excessive use of anchoring, bluffs and dilution. In line with Thesis 3, there is ample evidence that both status and social capital influence negotiators' negotiation power (see overview in Galinsky, Schaerer and Magee, 2017). The authors show that respected high-status negotiators have more power and are more trusted than others. In addition, they summarize that social capital in terms of a large and strong social network increases negotiators' power.

CONCLUSION AND FURTHER RESEARCH

In order to fully understand the challenges of negotiations and ethical behavior, it is essential to understand and accept the Aristotle-Nash Dilemma. The better a negotiator understands this, the more they will be able to tailor their approach to the negotiation and weigh up short-term gains, long-term opportunities and potential costs.

The three theoretical theses outlined above undoubtedly leave a lot of room for empirical validation. First of all, there remains the question of different levels of misrepresentation and unethical behavior and to what extentthese influence negotiators' results. Furthermore,it would be interesting to test how easily excessive misrepresentation is detected by others ex post and to what extent it causes negotiation partners to alter their approach in subsequent negotiations. At the same time, it would be exciting to analyze ex ante to what extent especially experienced negotiators are intuitively aware of the trade-off and adapt their negotiation style accordingly depending on their expectations in terms of potential long-term gains. In addition to this, there is clearly ample scope to further analyze the interplay between honesty and slight misrepresentation in negotiations as well as social status and social networks.

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