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THE ROLE OF INDIVIDUAL BARGAINING BEHAVIOR IN THE PAY SETTING PROCESS: A PILOT STUDY

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ABSTRACT: A model of initial salary determination for professional and managerial employees is developed. That part of the model which concentrates on the role of employee salary negotiation behaviors and attitudes was investigated using a sample of 117 individuals. Significant variance in salary bargaining attitudes and behaviors was found; attitudinal and demographic differences between negotiators and non-negotiators were determined. Additionally, negotiating behavior was found to be positively related to salary, but only slightly related to salary growth.

The issue of salary determination has long been a topic of intense study and debate among economists, sociologists, and managers. Not only has it been studied from the perspectives of equity, motivation and market efficiency, but researchers have also investigated the pay levels of groups of workers based on their occupation, demographics and job performance. One area of compensation practice that has received less attention than others is the process by which an individual's *starting* salary is determined. This issue is particularly relevant for managerial and professional employees. For these employees, the hiring manager often has a certain amount of discretion in judging what the appropriate starting salary for an particular applicant should be.

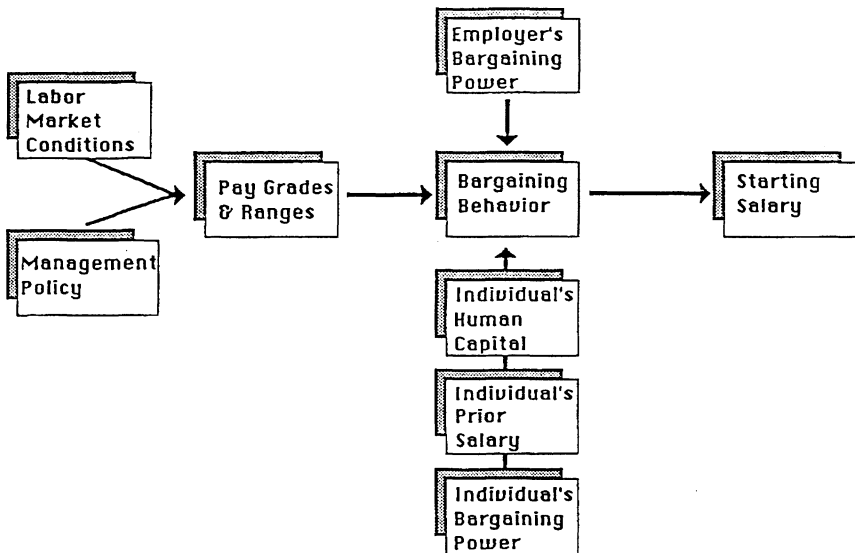
It is the purpose of the current research to develop a model of initial salary determination and to test that portion of the model which deals with employee attitudes and behaviors.

A MODEL OF STARTING SALARY DETERMINATION

In many firms, the starting salary for a given position is fixed by management policy or union contract. This is especially true for clerical, technical or blue collar workers. For these positions, a model of individual behavior is not needed to understand how starting salaries are determined. But for employees not covered by a contract or strict policy, the manager who has the responsibility for hiring these individuals possesses a certain amount of discretion in determining the starting salary awarded. This decision is influenced by a number of factors, represented in Figure 1.

Figure 1

A Model of Starting Salary Determination



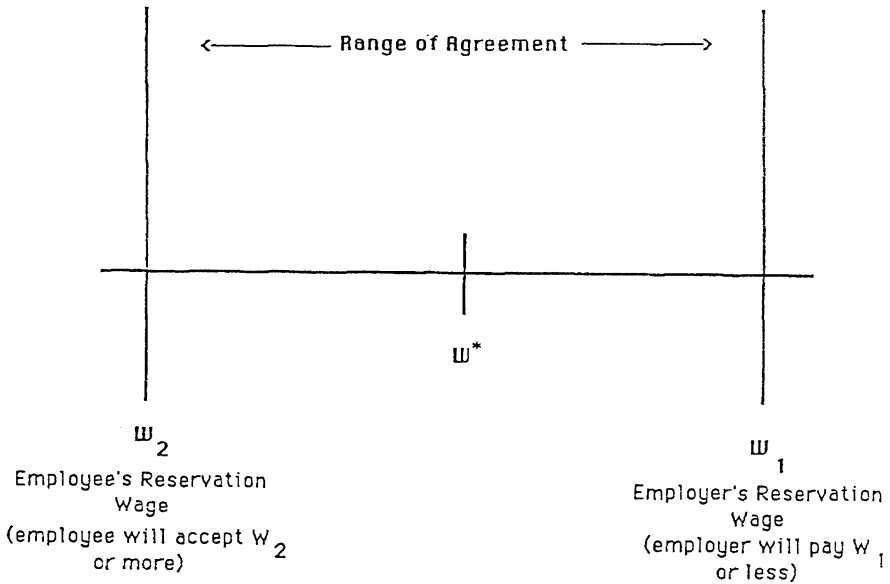
Pay structures, and their associated grades and rate ranges, are determined by generally accepted compensation practices. These practices use job evaluation techniques and labor market surveys to establish a range of wage rates for a particular group of jobs. These ranges can be modified by management policy to reflect the firm's strategic goals. Within each range, the hiring manager may exercise judgment regarding the appropriate salary for each new entrant. The floor of this starting salary is equal to the floor of the total range for the pay grade; in most cases the ceiling will be less than the pay grade's highest wage (in

order to allow for future pay raises) but could include the entire range in order to attract unusually qualified candidates.

Where a new hire's final starting salary falls within that pay range is determined by characteristics of both the candidate and the hiring manager. The starting salary parameters each party faces are described in Figure 2, adapted from Raiffa (1982).

Figure 2

The Wage Negotiation Parameters



W_1 represents the employer's reservation price (wage). W_1 is the highest wage the employer is prepared to pay an individual for a particular position. W_2 represents the applicant's reservation wage, the very minimum that will be accepted. The applicant has determined that settling for a wage less than W_2 is worse than no settlement at all. W^* represents the final wage settlement agreed to by both parties, the starting salary for this particular individual in this position. If W_2 is greater than W_1 , there will be no possible range of agreement. However, if W_2 is less than or equal to W_1 , a range of agreement for the final "contract" wage of W^* exists.

Exact determination of W^* is a function of several factors. First, the candidate brings to the job a given amount of human capital. This capital may be in the form of the amount and type of education, years of

experience, or job related skills. Human capital theory assumes that an efficient labor market will recognize the worth of each individual's capital and the individual will be compensated with a suitable rate of return (Becker, 1964).

A second factor influencing an entrant's starting salary is the individual's prior salary in another position or firm. The new employer may assume that a candidate's previous salary reflected the true worth of that person to the previous employer and hence reflects his/her worth to the prospective employer. Or, the employer may want the starting salary to be equal to or greater than the applicant's previous salary to avoid morale problems.

Finally, the employer and the job candidate may engage in negotiations of the starting salary. The final salary agreed upon is influenced by the amount of bargaining power each party possesses. Bargaining power can be defined as the ability to bring about desired outcomes (Salancik & Pfeffer, 1977). Numerous sources of power exist including the power of information itself (Lewicki & Litterer, 1985). Power can be derived from qualities of the individual, the environment, or an interaction of the two. The ability to use certain techniques and strategies, as well as the personality of the negotiator will moderate the level of power possessed by each party (Rubin & Brown, 1975).

The role of bargaining in the salary determination process is recognized as important but has not been systematically studied (Heneman, Schwab, Fossum, & Dyer, 1989; Kolb & Sheppard, 1985). Only Freedman (1978) has studied the role of one factor in negotiation—the strength of demand—on pay raise decisions. Using an experimental design, Freedman found that when subordinates were equitably paid, subjects gave larger raises to subordinates who made a strong demand for a raise than to those who made no demand. When the subordinates were underpaid, strength of demand had no effect on the level of raise awarded. It is yet to be determined if negotiation beyond the level of an initial demand has a similar role in the determination of starting salary.

The purpose of the current study is to examine the relative contribution of bargaining behavior to the determination of starting salary. This study concentrates on examining the bargaining activities of the job candidate. In particular the following questions are investigated:

1. Do differences in salary negotiating behavior exist between individuals?
2. What factors (demographic, work outcome preferences, etc.) distinguish those who actively negotiate for salary from those who do not?
3. Is negotiating behavior related to the final starting salary agreed upon by the parties?

METHOD

Subjects

Data were collected from 117 respondents (40 female and 77 male) enrolled in evening MBA programs at two universities. Comparative analysis of the responses based on university affiliation revealed no differences; all analyses are reported for the entire sample. At the time of the study, all respondents held a full-time position, typically in a managerial or professional capacity. Demographic characteristics of the sample are listed in Table 1.

Table 1
Sample Characteristics

Variable	Mean	Standard Deviation
Age (in years)	30.10	7.20
Current Salary	\$32,960.00	\$12,402.00
Years in Current Job	3.60	2.90
Years Work Experience	6.64	5.4

Instruments

Subjects completed a five-section questionnaire. The first segment asked for demographic and work history information. Second, the respondents were asked to react to a list of bargaining behaviors that a person might engage in during salary negotiations. This list of behaviors was compiled by the researchers based on a content analysis of the bargaining literature. Behaviors were classified as either:

- 1) information gathering behaviors (6 items); or
- 2) negotiating behaviors (6 items).

An example of the first type of behavior is "asking peers and colleagues about the 'going rate' for the position". An example of a negotiating behavior is "asking for a higher salary than was initially offered". For each of these twelve behaviors the respondents were asked to indicate on a 5-point Likert-type scale (1) how likely they were [their propensity] to engage in each of these behaviors (1 = very unlikely, 5 = very likely) and (2) how likely they believe it is that each behavior would result in a higher salary [their instrumentality] (1 = very unlikely, 5 = very likely).

Third, participants were asked whether they had engaged in any of these twelve behaviors while searching for their current job. This job search could have been in either an internal or external labor market. If appropriate, they indicated how many times during the negotiation they exhibited the behavior. For example, they indicated how many rounds of bargaining took place before agreeing to a final salary.

In part four, each person was asked to rate their perceptions of the labor market for their skills and position at the time of their job search. Finally, they were asked to rank order their preferences for a number of job rewards, including salary and selected fringe benefits.

Analyses

Simple and cross tabulations were used to examine variability in bargaining behavior [Research question 1]. Correlation and t-test analyses were performed to examine the differences in beliefs, attitudes, and behaviors between those persons who bargained for salary and those who did not [Research question 2]. The dependent variables of salary and salary growth were regressed on human capital, labor market, and bargaining variables to assess the relative contributions of these three potential salary determinants [Research question 3].

RESULTS

A frequency analysis of a variety of negotiating activities is presented in Table 2. Managers and professionals in the current sample engaged in relatively little information gathering from the firm. They waited for their new employer to state a salary offer; few asked about the salary range, and they infrequently asked job incumbents about salary information. This last behavior may be due to a lack of contact with the job holder. All three behaviors, or the lack of them in these cases, may reflect unwritten rules of business etiquette; norms that dictate the impropriety of asking about salary during a job interview. It is interesting to note that a majority of the respondents did make the initial inquiry about fringe benefits.

Many of the respondents did gather information from peers and published sources (government surveys, professional association reports, etc.). These sources of information do not threaten future employment relationships, and are likely perceived as providing unbiased reports of the wage parameters in the current labor market.

Thirty percent of the respondents asked for a higher salary than was originally offered. Of those who did ask for a higher salary, 65% went through one round of negotiations, 25% went through 2 rounds, and the rest engaged in from 3 to 9 rounds of negotiation.

Table 2

Self-Report of Information-Gathering Behavior and Negotiating Behavior During Most Recent Job Search

Behavior	Percent Engaging in Behavior
<i>Information Gathering</i>	
Made initial salary inquiry	19.0
Inquired about salary range	27.6
Asked peers about "going" rate	50.0
Investigated published sources	46.1
Asked job incumbent about salary	15.4
Asked about fringe benefits	75.0
<i>Negotiating</i>	
Asked for higher salary than initial offer	30.2
Asked for better fringe benefits	13.9
Asked for different work schedule	10.4
Asked for job duties	7.8
Stated "reservation wage"	20.0
Stated "had another job with \$X salary"	7.8

The second research question asks what distinguished those who negotiate for a higher salary from those who accept the employer's initial offer. Tables 3 and 4 present the results of a series of t-tests that were performed to identify significant differences in responses and characteristics of the two groups. Bargainers tended to be male, have their undergraduate degree in business and report that they were raised in a higher socioeconomic group. For all variables investigated, negotiators consistently rated themselves higher than non-negotiators, although only a few of these differences were statistically significant. There were few differences in information gathering behavior and beliefs. Significant differences in information gathering centered on instrumentality beliefs.

Further analysis of the sex differences in information and negotiation behavior during job search is warranted in light of "earnings gap" research (c.f. Treiman & Hartman, 1981; Ferber & Spaeth, 1984; Daymont & Andrisani, 1984). As presented in Table 5, a higher percentage of males reported that they asked the prospective employer about the salary range, while women reported that they used peer and published information more often. Women were more likely to state that they had disclosed the existence of an alternative job offer as a negotiating tech-

Table 3

**T-test Comparison of Mean Ratings Reported by Bargainers (n = 47)
and Non-Bargainers (n = 70)**

	<i>T-values</i> ¹	
	Probability of Engaging in Behavior	Belief Behavior Will Lead to Higher Salary
<i>Information Gathering</i>		
Made initial salary inquiry	0.40	2.41**
Inquired about salary range	0.41	2.14*
Asked peers about "going" rate	1.14	2.52**
Investigated published sources	0.55	0.77
Asked about fringe benefits	0.28	1.80
<i>Negotiating</i>		
Asked for higher salary than initial offer	3.77**	2.36*
Asked for better fringe benefits	3.17**	2.37**
Stated "reservation wage"	1.37	0.86
Stated "had another job with \$X salary"	1.83	0.40
Bargained back and forth for higher salary	2.56**	2.08*

¹A positive t-value indicates that bargainers rated themselves higher on the variable than non-bargainers.

*Significant at .05 level (two-tailed test)

**Significant at .01 level (two-tailed test).

nique. While this tactic was infrequently used by either sex, neither sex used it as a bluff. There were no differences between the sexes in negotiating for non-cash compensation. In addition to the issues reported in Table 5, subjects were asked whether they had negotiated for "other" types of job characteristics or rewards [an open-ended question]. None of the male respondents filled in this category. Twelve percent of the women filled in answers relating to career paths, e.g. special training programs, job rotation, etc.

The relationships between bargaining attitudes, behaviors, and demographic variables were analyzed using correlation analysis. In order to analyze the respondents' bargaining attitudes more efficiently, the 10 propensity and 10 instrumentality items previously analyzed were col-

Table 4
T-test Comparisons Between Bargainers (n = 47) and Non-Bargainers (n = 70)

Demographics	
Salary	0.79
Age	0.20
Gender	2.38**
Undergraduate Degree	
Business	2.24*
Technical	0.60
Labor Market Experience	1.26
Socio-Economic Status	2.06*

Table 5
Male-Female Differences in Information-Gathering and Negotiation Behavior During Job Search

	Male (n = 77)	Female (n = 40)
<i>Information Gathering</i>		
Made initial salary inquiry	16.8%	21.0%
Inquired about salary range	30.0	23.7**
Asked peers about "going" rate	46.8	55.3
Investigated published sources	42.1	52.6
Asked job incumbent about salary	15.0	15.8
Asked about fringe benefits	74.0	76.3
<i>Negotiating</i>		
Asked for higher salary than initial offer	31.2%	28.9
Asked for better fringe benefits	13.0	16.2
Asked for different work schedule	9.1	13.5
Stated "reservation wage"	18.4	21.1
Stated "had another job with \$X salary"	3.9	13.2**

**Significant at .05 level (two tailed test).

lapsed into 4 separate scales, all items receiving unit weight. These four scales are labeled:

- 1) Information Gathering Behavior Propensity;
- 2) Information Gathering Behavior Instrumentality;
- 3) Bargaining Behavior Propensity; and
- 4) Bargaining Behavior Instrumentality.

Coefficient alphas for all scales exceeded .80. In addition an incidence of bargaining behavior and an information gathering behavior variable were constructed by counting the actual number of these types of behaviors the respondents reported engaging in during the most recent job search.

Not surprisingly, the correlations between these scales suggest that a high instrumentality for a behavior is associated with a high propensity for that behavior ($r = .42$, $p < .01$) which in turn is related to a high incidence of actual behavior ($r = .43$, $p < .01$). Additional correlations revealed that the propensity to bargain and bargaining behavior instrumentality perceptions were positively related to the relative importance of salary ($r = .27$ and $.20$ respectively, $p < .01$). However, when it came time to actually bargain, it was those persons who ranked salary low who tended to engage in bargaining behavior ($r = -.17$, $p < .05$). Apparently, the more valuable salary is to an individual, the less likely s/he is to risk that salary by trying to bargain for a higher one.

Older persons and those with more labor market experience tended to do more bargaining but engaged in less information-gathering than younger persons. During their years in the labor market, these persons may have been able to accumulate this knowledge and did not need to gather it specifically at the time of the job search. A tight labor market (few jobs, many applicants) may have encouraged persons to bargain less as indicated by negative correlations between labor market difficulty, bargaining instrumentality and the number of rounds of bargaining. This type of environment may be perceived as a risky one in which to negotiate salary. If one asks for too high a salary, instead of a counteroffer, the prospective employer will simply contact another applicant.

Finally, current salary is significantly related to actual bargaining behavior ($r = .22$, $p < .05$). Two regression analyses were performed to further examine how bargaining influences salary. The first uses current salary as the dependent variable; the second, salary change. Salary change was measured as the subject's current salary and the starting salary of their first post-college full-time position. These analyses should be viewed as preliminary. The dependent variable in both regressions is based on current salary, not starting salary as our model would suggest. Since the average person in the current sample had been in their job only $3\frac{1}{2}$ years, the correlation between starting salary and

Table 6
Stepwise Regression Analysis Results for Salary

Independent	Beta Coefficients	t-value
Information Gathering Behavior	0.30	2.18*
Age	0.12	3.58**
Sex	-1.14	-3.17**
Work experience	0.09	2.60*
Labor Market Difficulty	-0.14	-3.76**
Constant	2.89	2.37*

*Significant at .05 level (two tailed test)
**Significant at .01 level (two tailed test).

current salary could be expected to be high. Therefore, current salary can be considered a proxy variable for starting salary for the current sample.

Salary was regressed onto information-gathering behavior, age, sex, work experience, and labor market difficulty in order to examine the appropriateness of the model present in Figure 1. Table 6 presents the regression coefficients and goodness of fit tests associated with these regressions.

Information-gathering behavior is positively associated with salary. For each additional information-gathering behavior reported, the individuals salary increased by approximately \$1500¹. Age and work experience are positively related to salary, while sex and labor market conditions were negatively related.

The influence of sex and labor market experience on salary has been previously investigated by Corcoran and Duncan (1979) and Lloyd and Niemi (1979). Their findings indicate that when number of years experience in the work force is controlled for in an analysis relating salary and sex, the influence of sex on salary is reduced. In the current analysis, both variables explain a significant amount of variance. One possible explanation for this phenomena is that the current sample consists of persons of both genders having high variance in labor market experience, whereas previous samples often analyzed samples where the women had relatively low amounts of work experience.

¹ The variable SALARY was measured as an interval-scaled variable representing \$5000 increments in salary. A code of 1 represents a salary in the \$0 to \$5000 range, 2 = \$5001 to \$10,000, etc.

Table 7
Stepwise Regression Analysis Results for Salary Change

Independent	Beta Coefficients	t-value
Sex	-0.81	-1.79*
Work experience	0.16	4.54**
Information Gathering Propensity	0.03	0.46
Constant	1.50	1.10*

*Significant at .05 level (two tailed test)
**Significant at .01 level (two tailed test)

One initial conclusion is that information gathering is positively related to salary. Although the information gatherers did not tend to bargain more ($r = .17$), their bargaining may be more effective because of the information they possess. Further, when both information-gathering behavior and labor market experience are held constant, women still earn approximately \$4600 less than their male counterparts. Table 7 presents the results of a regression analysis where salary change is the dependent variable.

Only 28% of the variance in salary change is explained by the independent variables. This low level of explanatory power might be attributed to the fact that just because an individual bargained for his/her last salary, this behavior may not have been demonstrated in previous salary determination experiences. An alternative explanation is that significant bargaining power for salary determination exists at the point of entry into an organization, but not during the employee's tenure. As expected, work experience accounted for the majority of the variance explained.

DISCUSSION AND FUTURE RESEARCH SUGGESTIONS

The data suggest that individuals do engage in a variety of different bargaining behaviors and hold varying levels of belief in the usefulness of those behaviors. Salary negotiation is associated with increased starting salaries, but is only weakly related to salary growth. This suggests that bargaining skill and behavior only play a part in the determination of starting salary; subsequent salary increases are likely to be a func-

tion of actual job performance also. Information-gathering attitudes and behaviors are especially relevant, extending Karrass' (1968) findings. In a survey of experienced negotiators, Karrass reported that "preparation and planning skill" ranked as the most important trait of an effective negotiator. Having the correct information to use in bargaining determines the efficacy of other strategies and tactics.

The findings of this research concerning male-female differences in bargaining behaviors gives rise to an alternative "cause" behind sex differentials in wages typically reported in the United States. While previous research on general bargaining style and aptitude has demonstrated gender differences (Lewicki & Litterer, 1985; Rubin & Brown, 1975), the current research identifies clear differences in salary negotiation behavior. This difference, in conjunction with the pay expectation differences examined by Major, Vanderslice and McFarlin (1984), may explain why some women's starting salaries are lower than their male counterparts. If one assumes that most pay raises are awarded as a percentage of salary, the absolute size of the dollar gap between men and women would only widen in subsequent years.

The current research concentrates on the employee side of our proposed model. In addition to efforts directed at other parts of the model, work is also needed to identify those situations in which salary negotiation are most useful, and the tactics and strategies associated with success. While the current study demonstrates the effectiveness of bargaining behavior, it does not examine the processes which may differentially influence bargaining outcomes. For example, are certain negotiating techniques more effective than others; do certain techniques work better in certain occupations, industries, or economic conditions? Can these skills be developed in persons, or are there strong associations with personality variables?

Finally, this model needs to be evaluated from the perspective of the hiring manager. That is, how do managers establish an opening offer to present to a job candidate, how are concessions determined, and what strategies are employed in the process?

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