

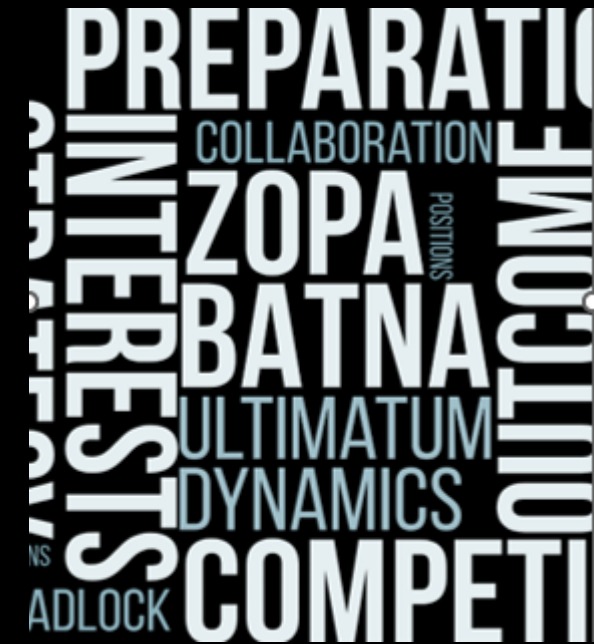


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Behavioural Economics

Leveraging Human Bias in Negotiations

Classical Decision-Making Theories

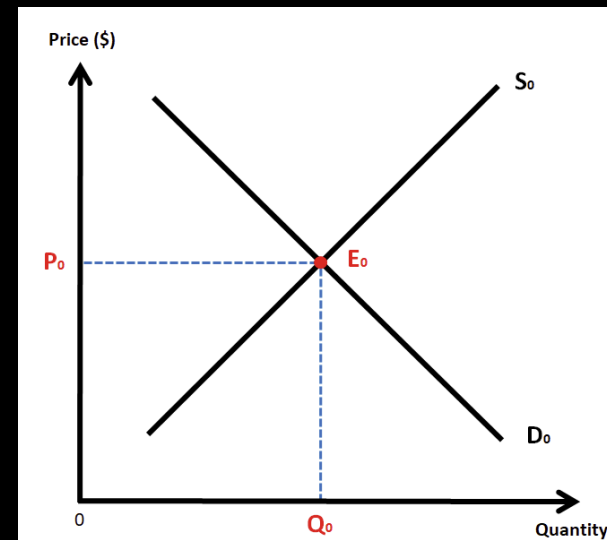


Classical Negotiation Theory:

- People act in their best interest to maximise outcomes.
- Decisions are logical, based on cost-benefit analysis.
- Preferences are stable and consistent throughout the process

Classical Economic Theory:

- Also relies on the idea of rational actors making optimised decisions.
- Assumes decisions are unaffected by emotions or external influences.



Game Changers in Decision Theory

Humans are predictably irrational...

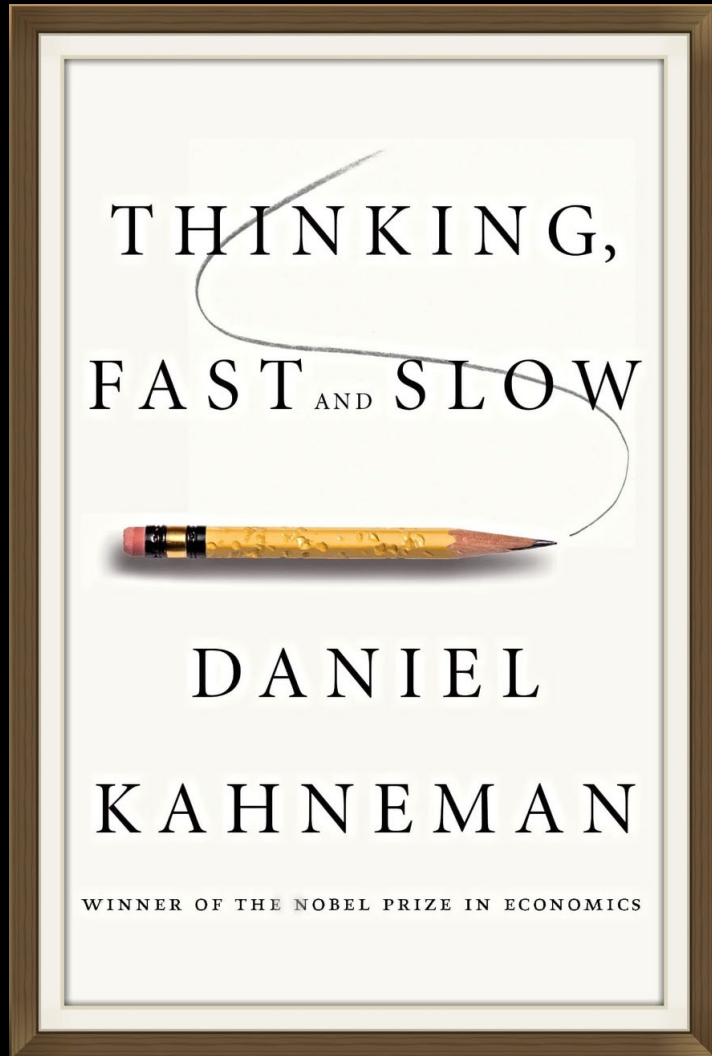
- People are prone to **heuristics—mental shortcuts** that simplify complex decisions but introduce errors.
- Decisions are often shaped by **emotions and biases** rather than pure logic.
- **Context** and **framing** influence how choices are perceived and decisions made



Kahneman & Tversky
2002 Nobel Prize Laureates
- Economics

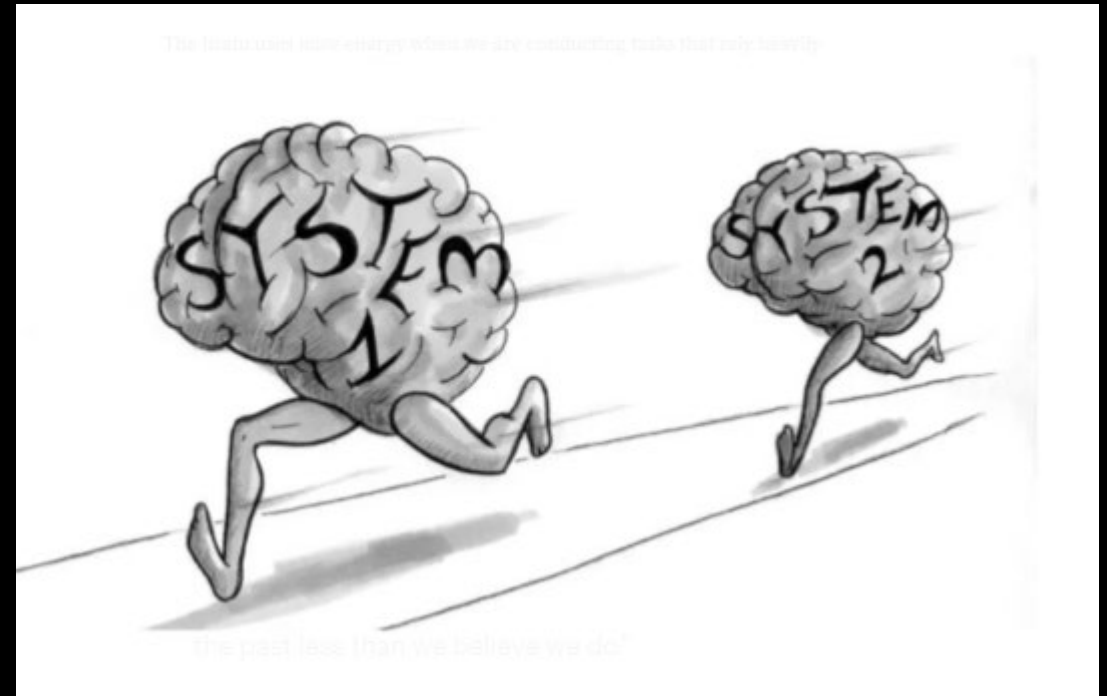
Insights into how humans make decisions can sharpen and enhance negotiation strategies...

Introduction to the Irrational Human



System 1 -FAST

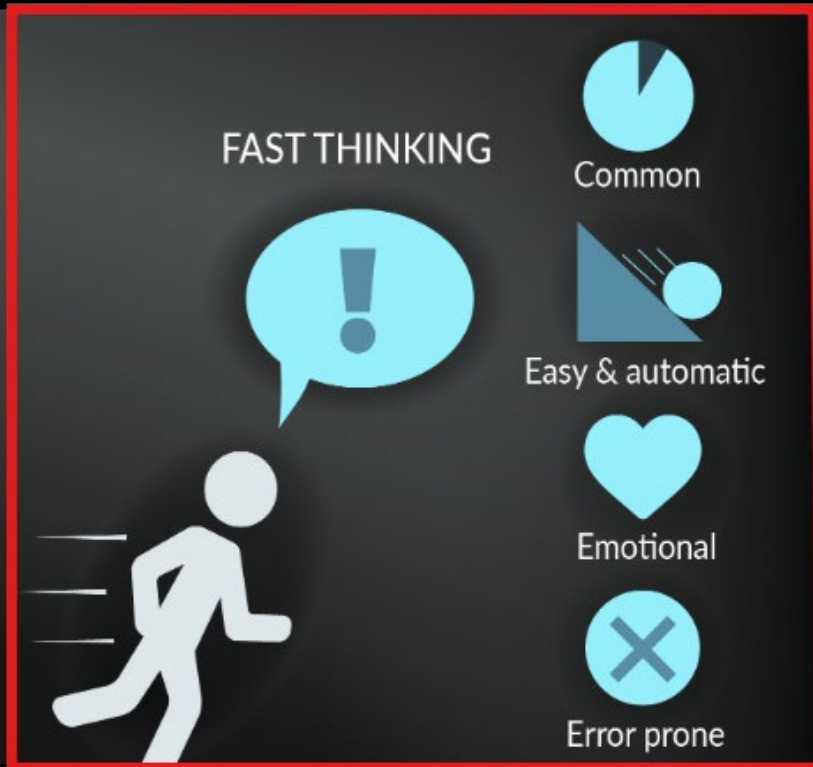
System 2 -SLOW



The 2 System Brain

Used 95% of the time in decision making

System 1 - What you see is all there is (WYSIATI)



- ❑ **INSTANT:** Operates almost instantly, without deliberate effort
- ❑ **EFFICIENT:** Processes patterns and emotions, making snap judgments, quick conclusions and decisions
- ❑ **EMOTIONAL:** Strongly influenced by context, feelings, and immediate perceptions
- ❑ Relies on **ASSOCIATIVE MEMORY** - draws from our knowledge library of learnings and experience
- ❑ **LOVES SHORTCUTS:** Relies on heuristics "rules of thumb" to simplify decisions

$$2+2 = ?$$

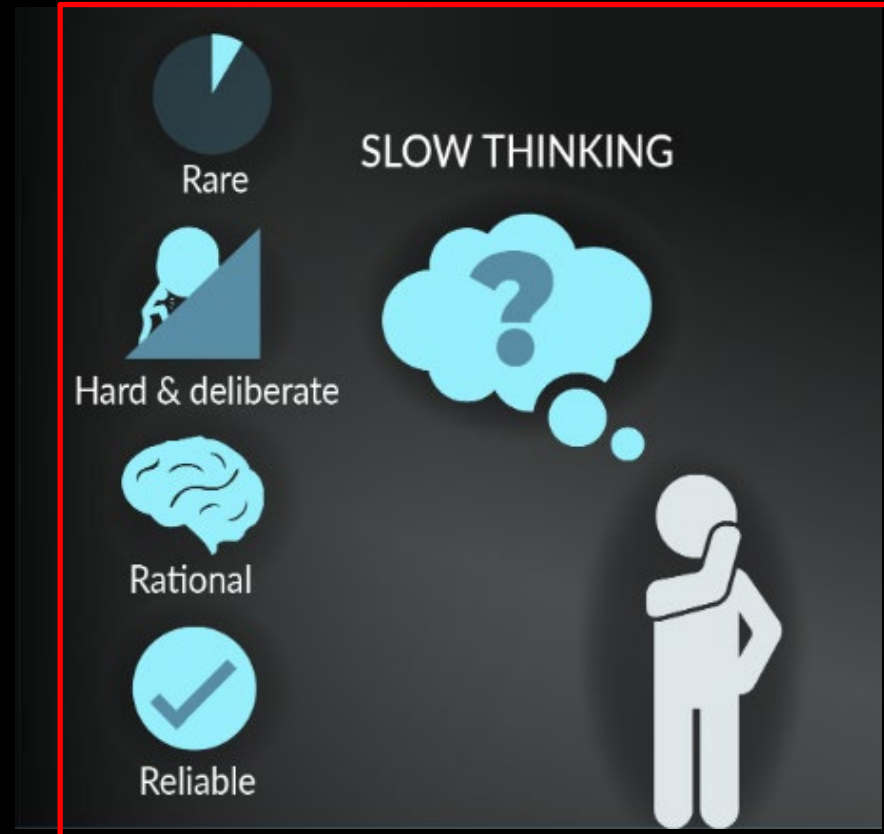
The 2 System Brain

Used **ONLY 5%** of the time in decision making

System 2

- ❑ LAZIER: Has to be switched on by an event, complex question
- ❑ SLOWER: Prioritises accuracy over speed
- ❑ MORE LOGICAL: Analyses data methodically, applies structured logic
- ❑ REFLECTIVE: Considers context and consequences
- ❑ ENERGY-SAPPING: Consumes more mental energy and resources

26 x 32 = ?



How to remember

SYSTEM 2

vs

SYSTEM 1



Older sister that plans everything

The Two Systems working together

Default Mode

System 1 dominates – is on 95% of the time

- ❑ System 1 goes first - using WYSIATI model and associative memory to try to solve the problem

Transition from System 2 to System 1

- ❑ System 1 calls on System 2 when it can't solve the problem

Transition from System 2 back to System 1

- ❑ **Expertise:** Repeated practice moves tasks from System 2 (effortful) to System 1 (automatic).



A BAT AND A BALL TOGETHER COST \$1.10



+



= \$1.10

THE BAT COST \$1.00 MORE THAN THE BALL.

HOW MUCH IS THE BALL?



A BAT AND A BALL TOGETHER COST \$1.10

+



=

\$1.10

THE BAT COST \$1.00 MORE THAN THE BALL.

HOW MUCH IS THE BALL?

LET'S DO THE MATH



+



=

\$1.10

\$1.05

\$0.05

System 1 - The FOMO Photobomber!



$$\begin{array}{ccccccc} \text{bat} & + & \text{ball} & = & \$1.10 \\ \$1.05 & & \$0.05 & & \end{array}$$

System 1 HATES missing out and suffers from FOMO

She will try to be involved, even when she should hand the analysis over to big sis.

She holds on through

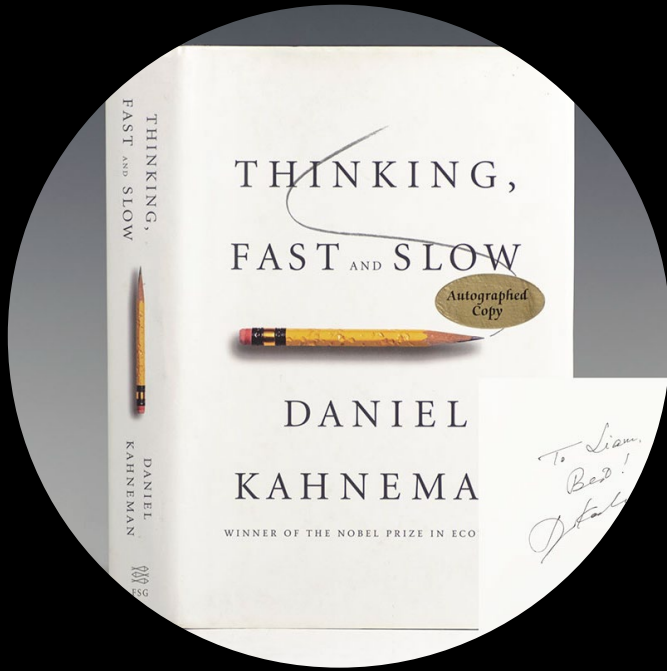
Decision Substitution

Naughty System 1 swaps complex decisions with easier ones, so that she can answer the question.

FYI

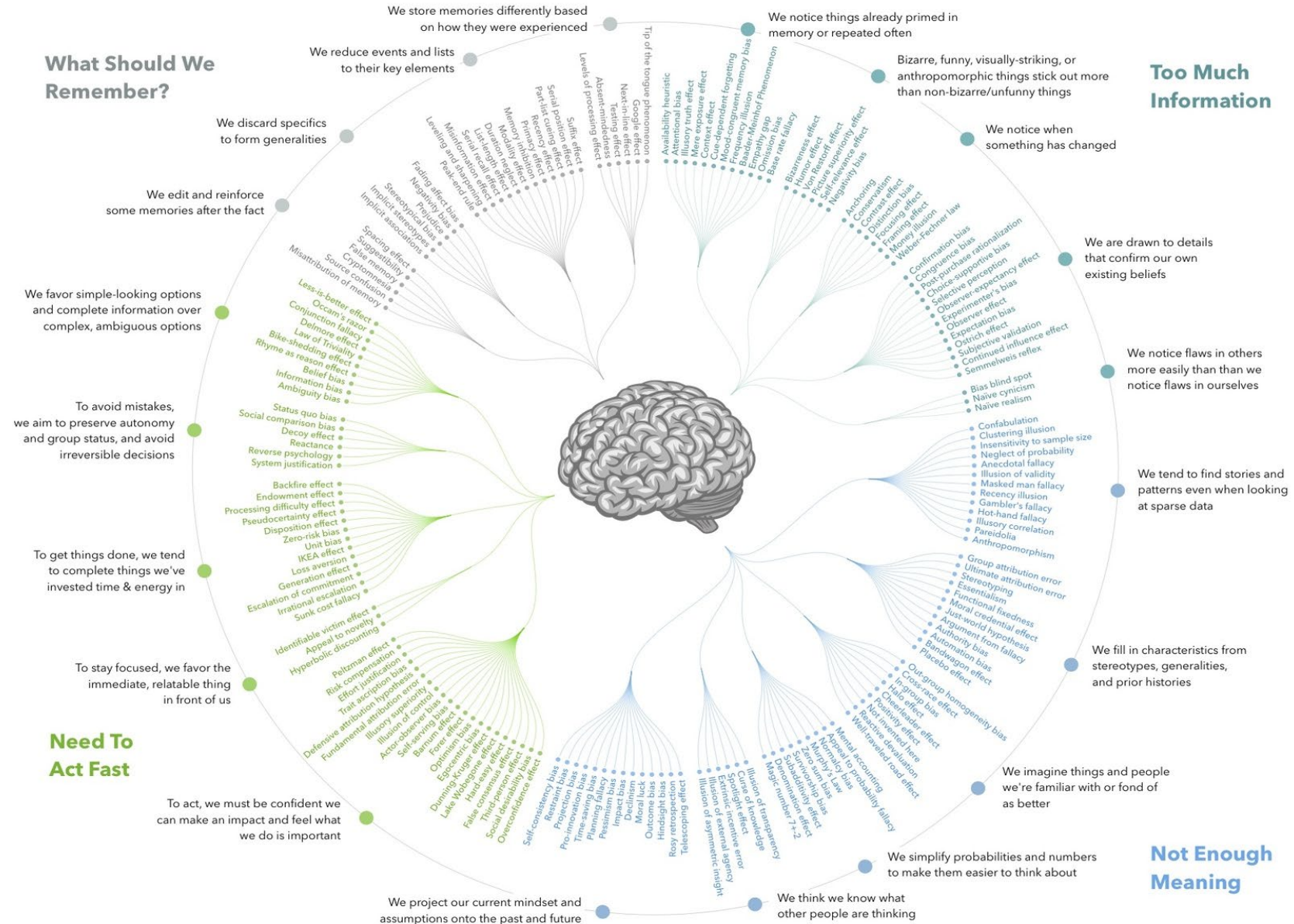
System 2 is happy to sit it out; she's tired and busy sipping her coke by the pool...





“please read the book, it's
FABULOUS!”

COGNITIVE BIAS CODEX



Bias

Anchoring Effect



System 1 overly relies on initial information it receives

The first number presented is incredibly powerful and creates an anchor for subsequent decisions

Bias

Anchoring Effect – how much is this jacket worth?



Anchoring Effect

Anchoring – System 1 can even use irrelevant information as a reference for evaluating or estimating an unknown value or new information.

When anchoring, System 1 bases decisions or estimates on events or values known to them (or that have been primed), even though these facts may have no bearing on the actual event or value.

Research: estimate the price of a wireless keyboard after writing down the last two digits of your social security number – expressed as dollars (i.e., if your SSN ended in 74, you would write down \$74).

\$56

Top 20%

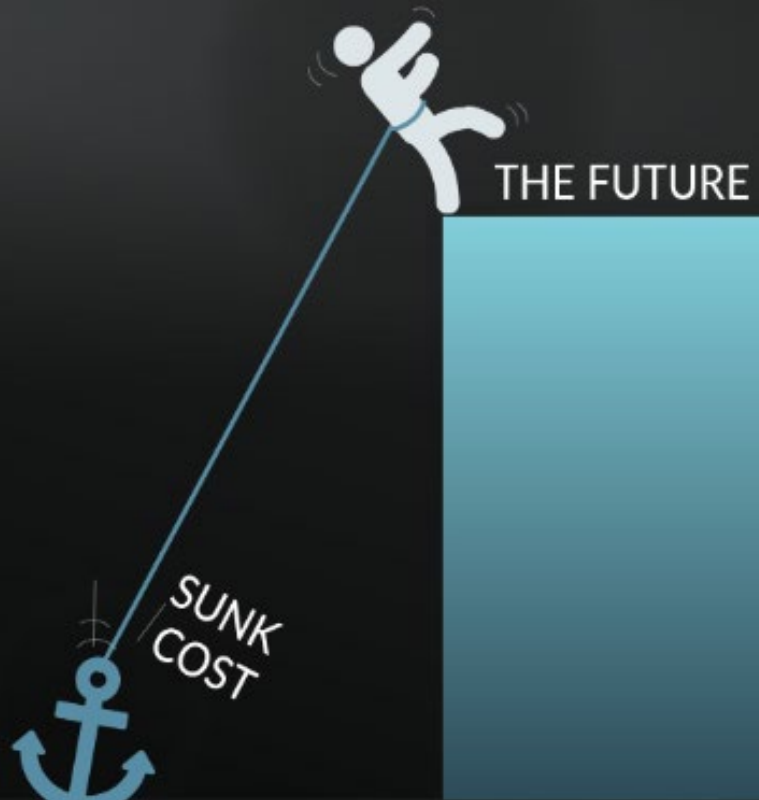
\$16

Bottom 20%

The top 20 percent bid an average of \$56 for the cordless keyboard; the bottom 20 percent bid an average of \$16.

Bias

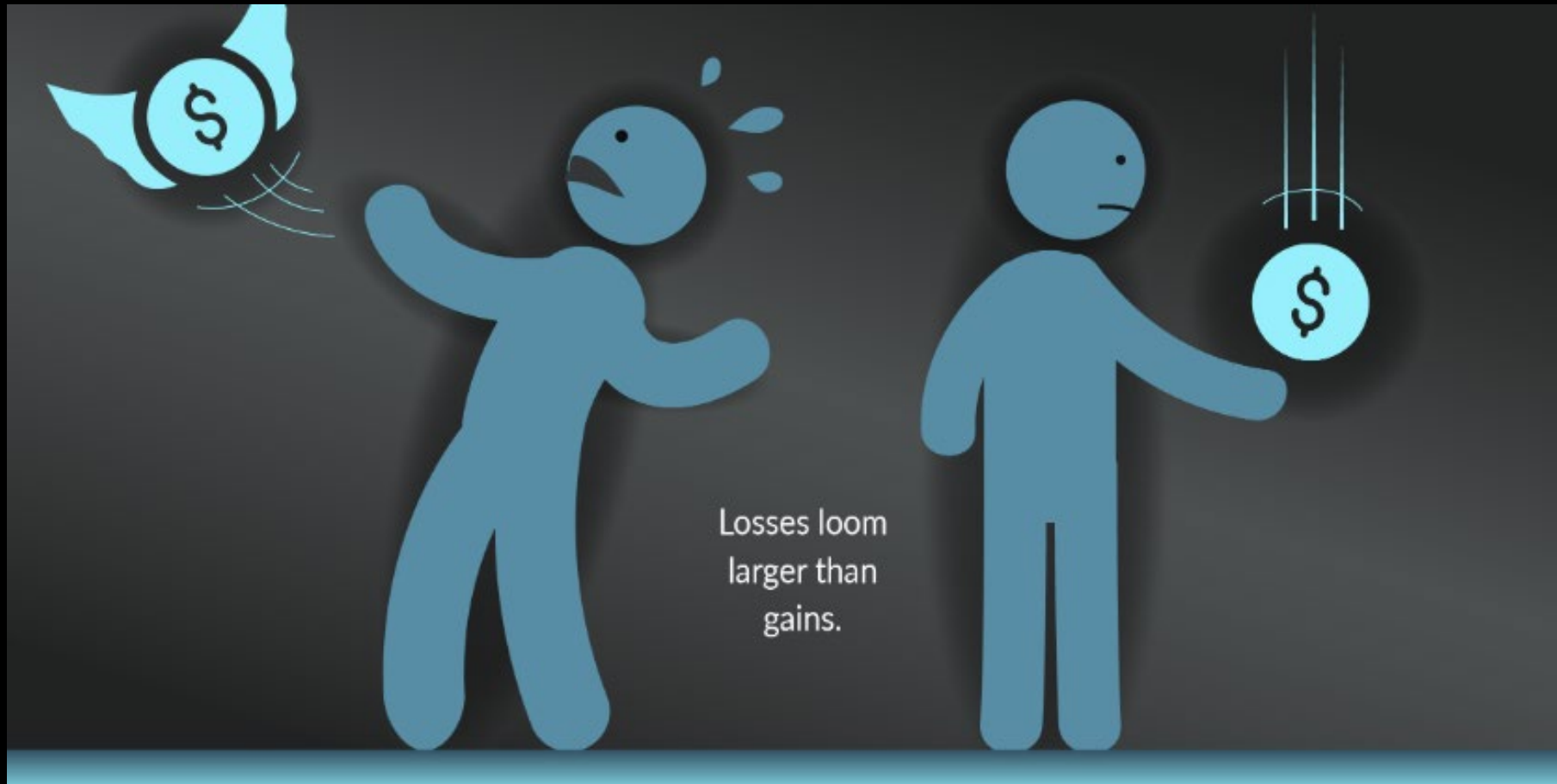
The Sunk Cost Fallacy



- **Definition:** Continuing a poor choice due to invested resources.
- **Example:** 'We've spent too much to walk away now.'
- **Use:** Acknowledge sunk costs but reframe the value of pivoting.

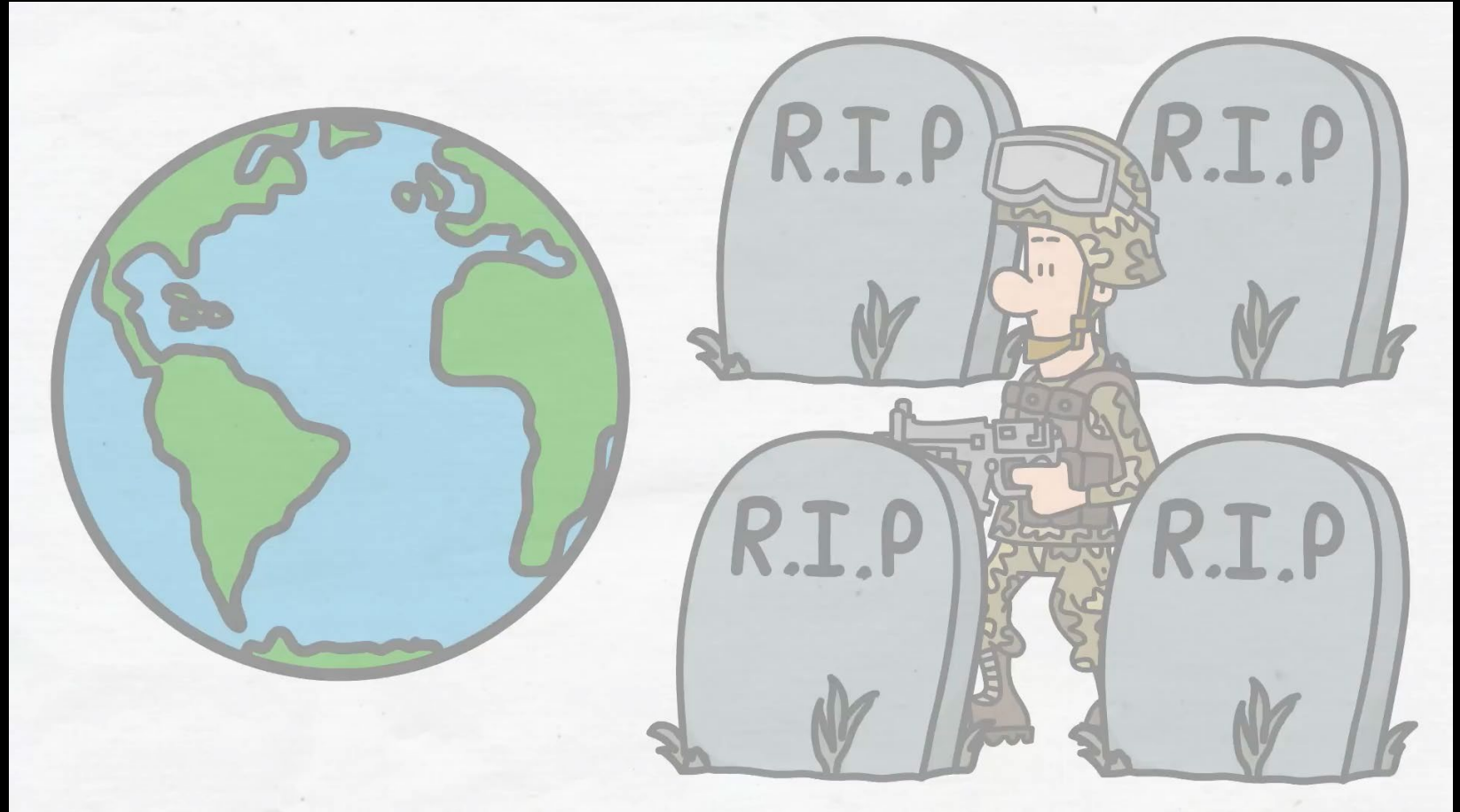
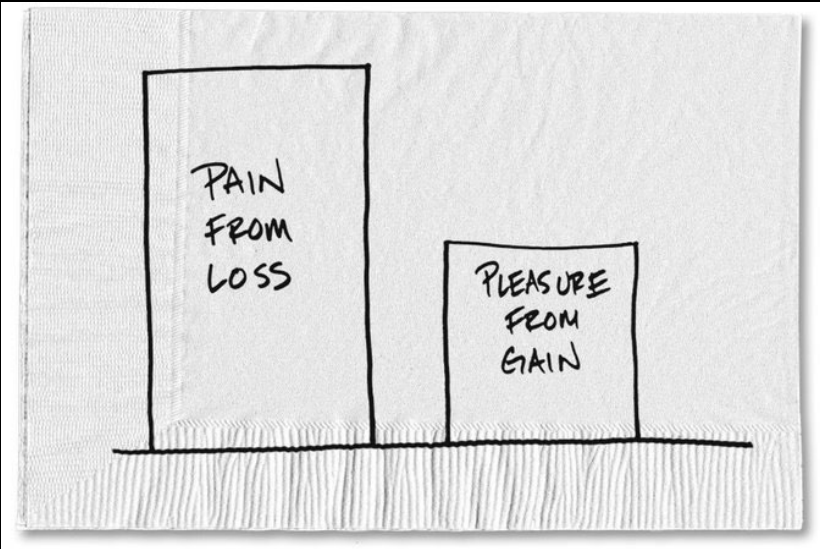
Bias

Loss Aversion — The fear of loss is **2 times** stronger than the desire for gain.



Heuristic

Loss Principle



Bias

Loss Aversion



Identify:

Look for avoidance behaviours, such as hesitation to give up existing benefits or overemphasis on potential downsides in a proposal.

Use as a Buyer:

Highlight what the seller stands to lose by not accepting your offer.
Frame the deal as a way to avoid risks or negative outcomes.

Use as a Seller:

Sellers can highlight what the buyer risks losing by delaying a deal

Bias

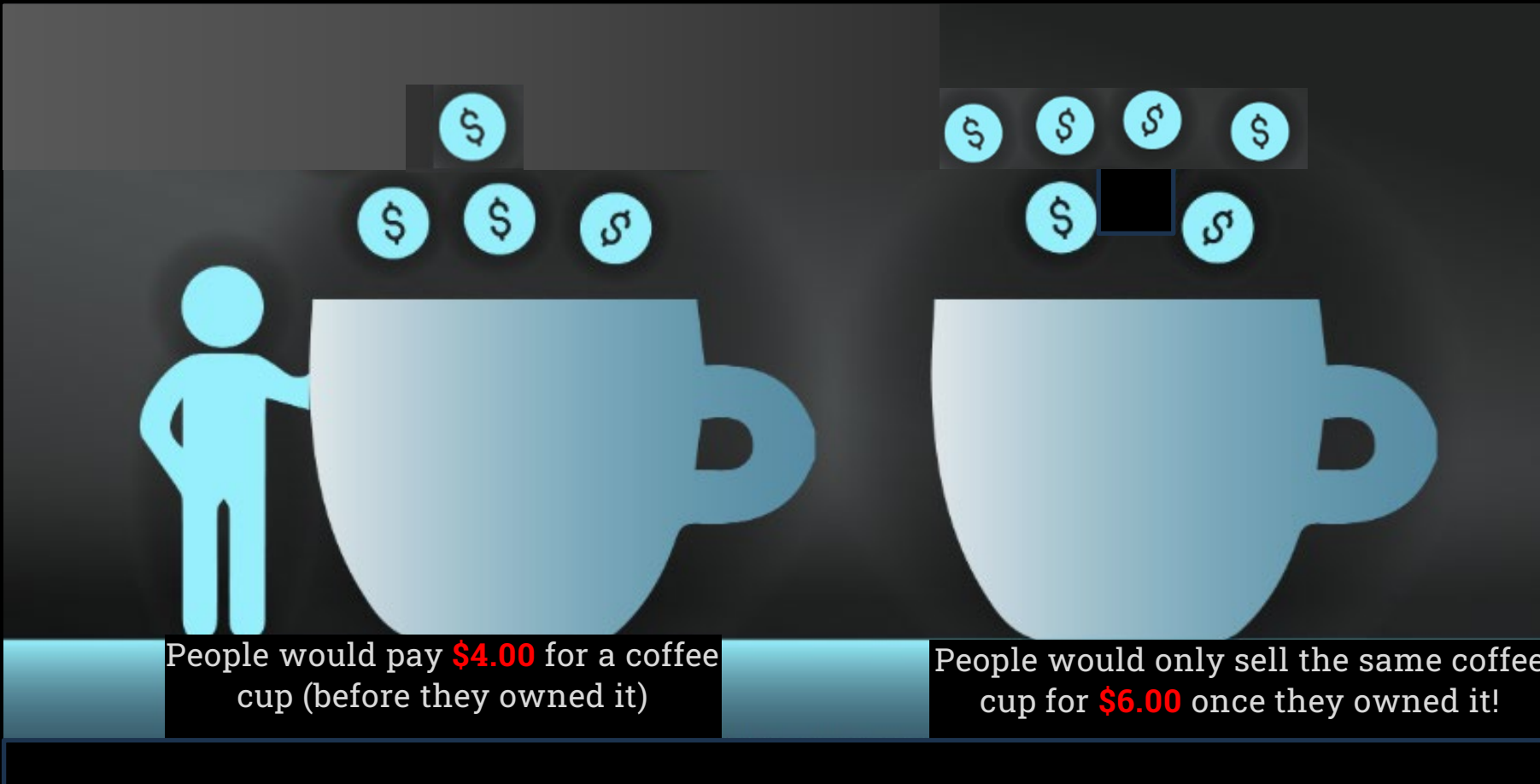
Endowment Bias

We ascribe more value to objects/things **merely because we own them.**

Even when that ownership is only for a few minutes long, people tend to value items they own more than items that they do not own.

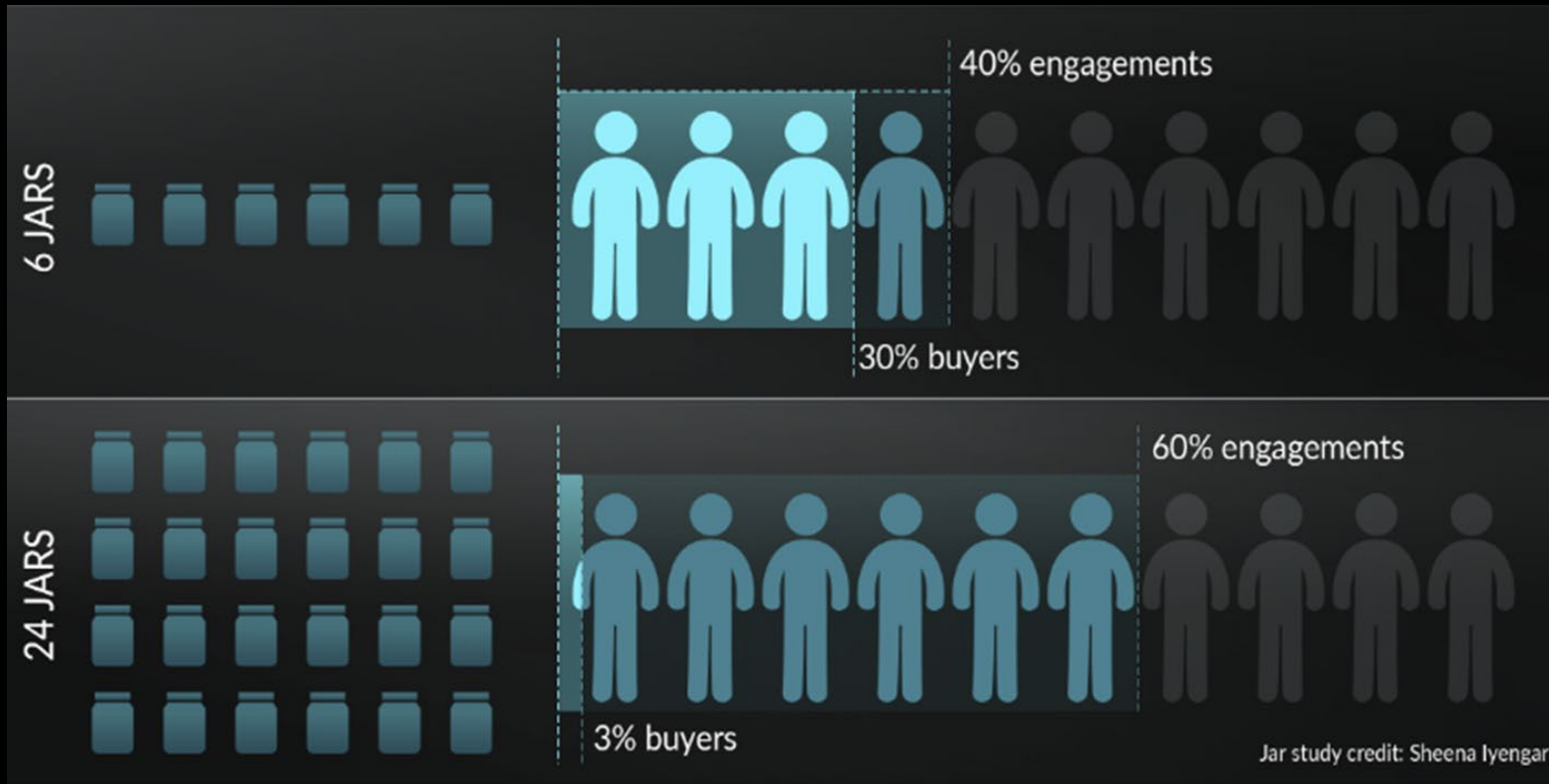
- **How It Shows Up:**
Important when trading concessions
- **Identify:**
Be aware that a concession from the other side is worth more to them than it is to you and vice-versa

Reframe value in objective terms (e.g., comparable market benchmarks) to deflate inflated valuations.



Bias

Decision Paralysis



How It Shows Up:

Too many options lead to indecision or defaulting to the status quo (Status Quo Bias).

Identify:

Look for hesitation, confusion, or repeated delays in decision-making.

Use as a Buyer:

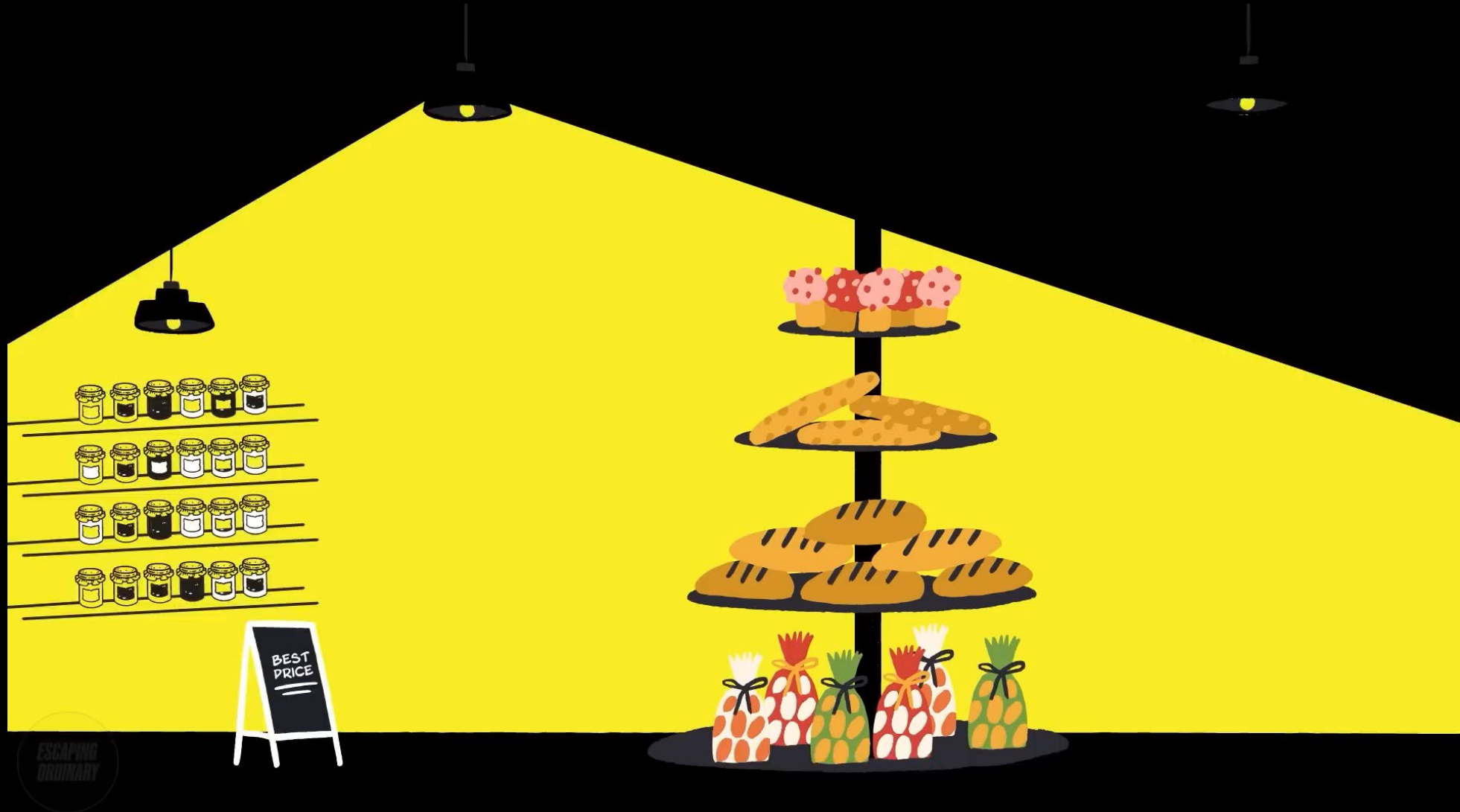
Present 2–3 simplified options to guide the seller toward your preferred outcome.

Use as a Seller:

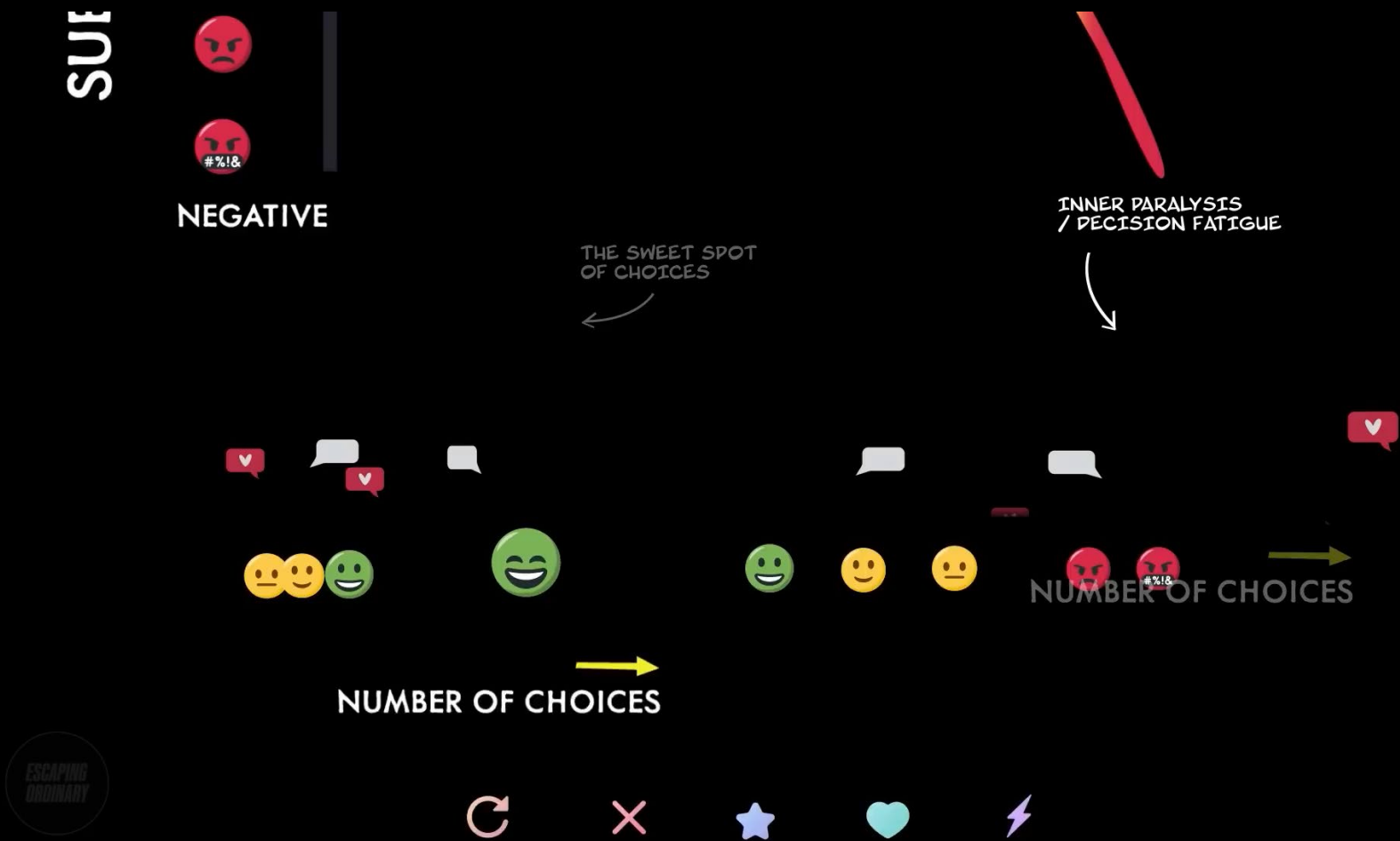
Limit choices and frame one as the "default" or most practical option to streamline decisions.

Bias

Decision Paralysis



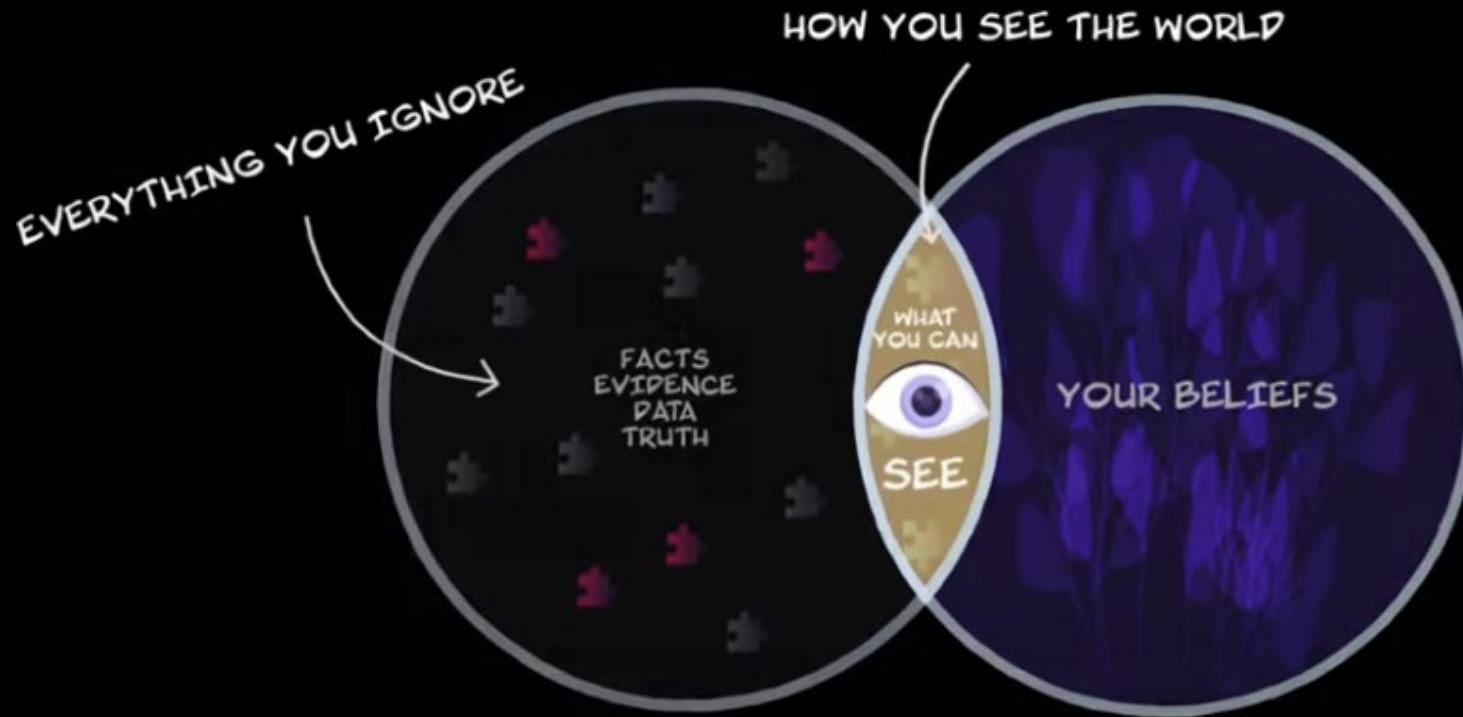
Decision Regret



Heuristic

Confirmation Bias

- You seek out information and think it is more accurate if it confirms your existing beliefs, mental models and hypotheses.
- You discount information that refutes your current belief(s).

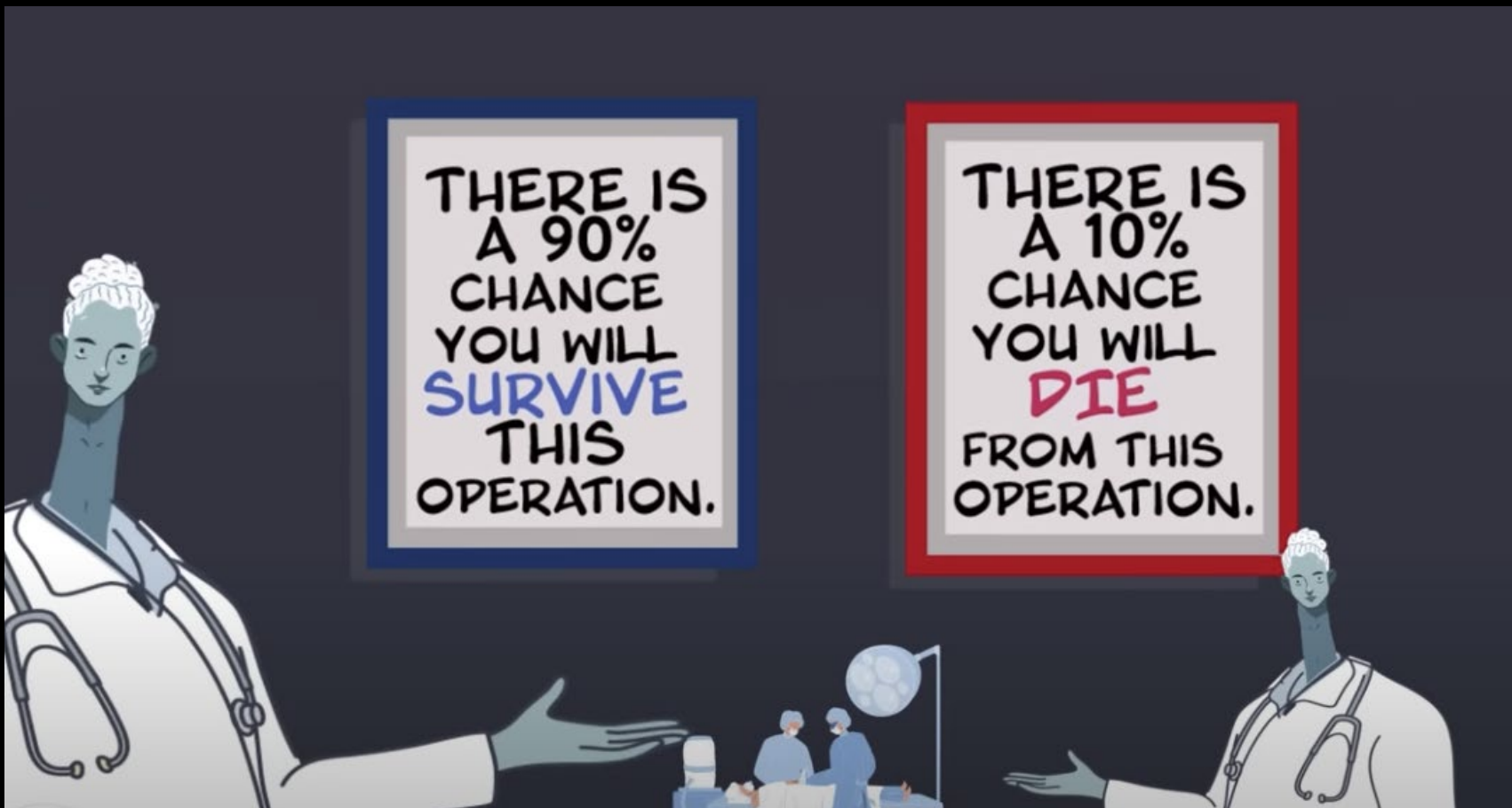


- **How It Shows Up:** **System 1** focuses more on evidence that supports pre-existing beliefs.
- **Identify:** Look for selective focus on ideas that align with your beliefs.
- **Use as a Buyer:** Frame arguments to align with the seller's beliefs and goals.
- **Use as a Seller:** Tailor proposals to reinforce the buyer's existing priorities.

Bias

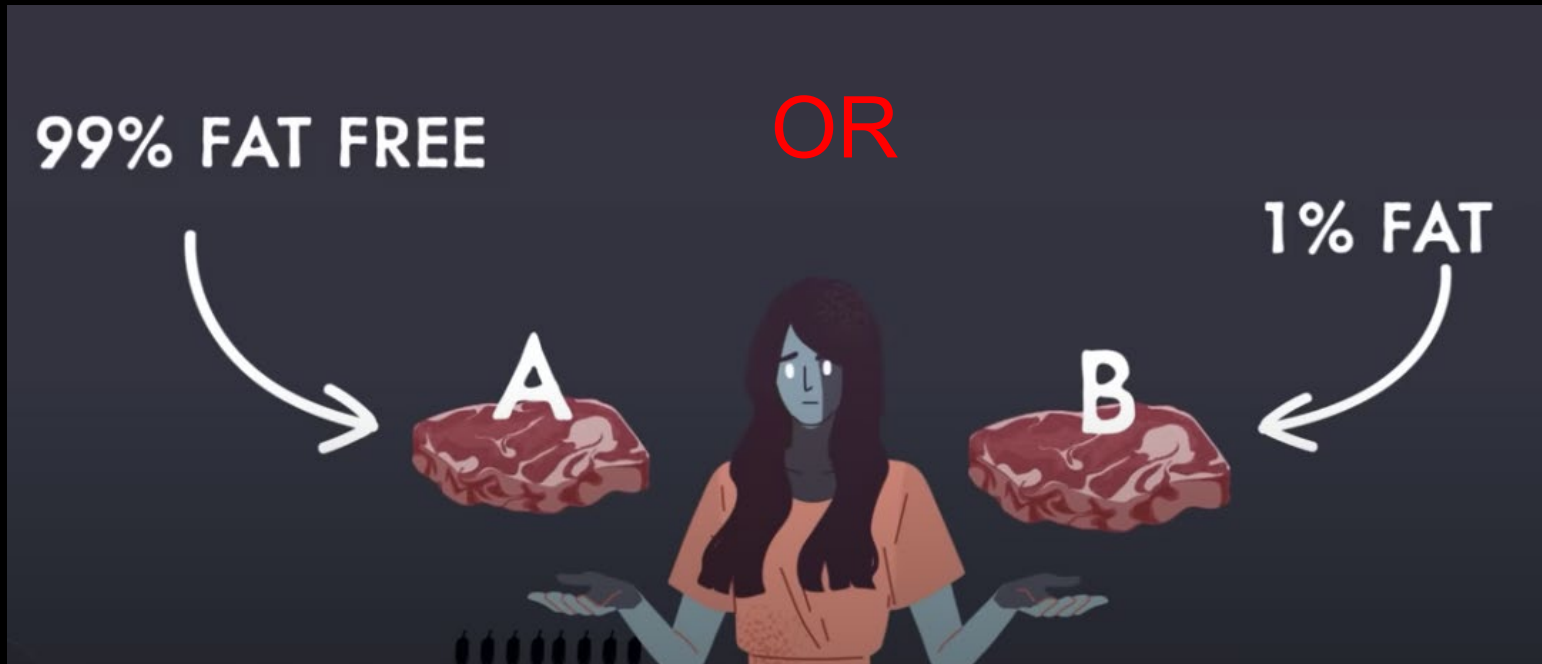
Framing Effect

- Different ways of presenting the same information evoke different emotional responses



Bias

Framing Effect



- Different ways of presenting the same information evoke different emotional responses
- **Identify:** Watch for shifts in your own perception when the same information is phrased differently.

Bias

Framing Effect

Different ways of presenting the same information evoke different emotional responses

- **Use as a Buyer:**
Frame lower offers positively, focusing on shared benefits like affordability or long-term gains.
- **Use as a Seller:**
Present terms in a way that maximises perceived benefits, such as emphasising savings or added value.

Research: Framing of early registration discount as a penalty or discount?

93% of PhD students registered early when a **penalty fee for late registration** was emphasized, with only **67%** doing so when this was presented as a **discount for earlier registration**



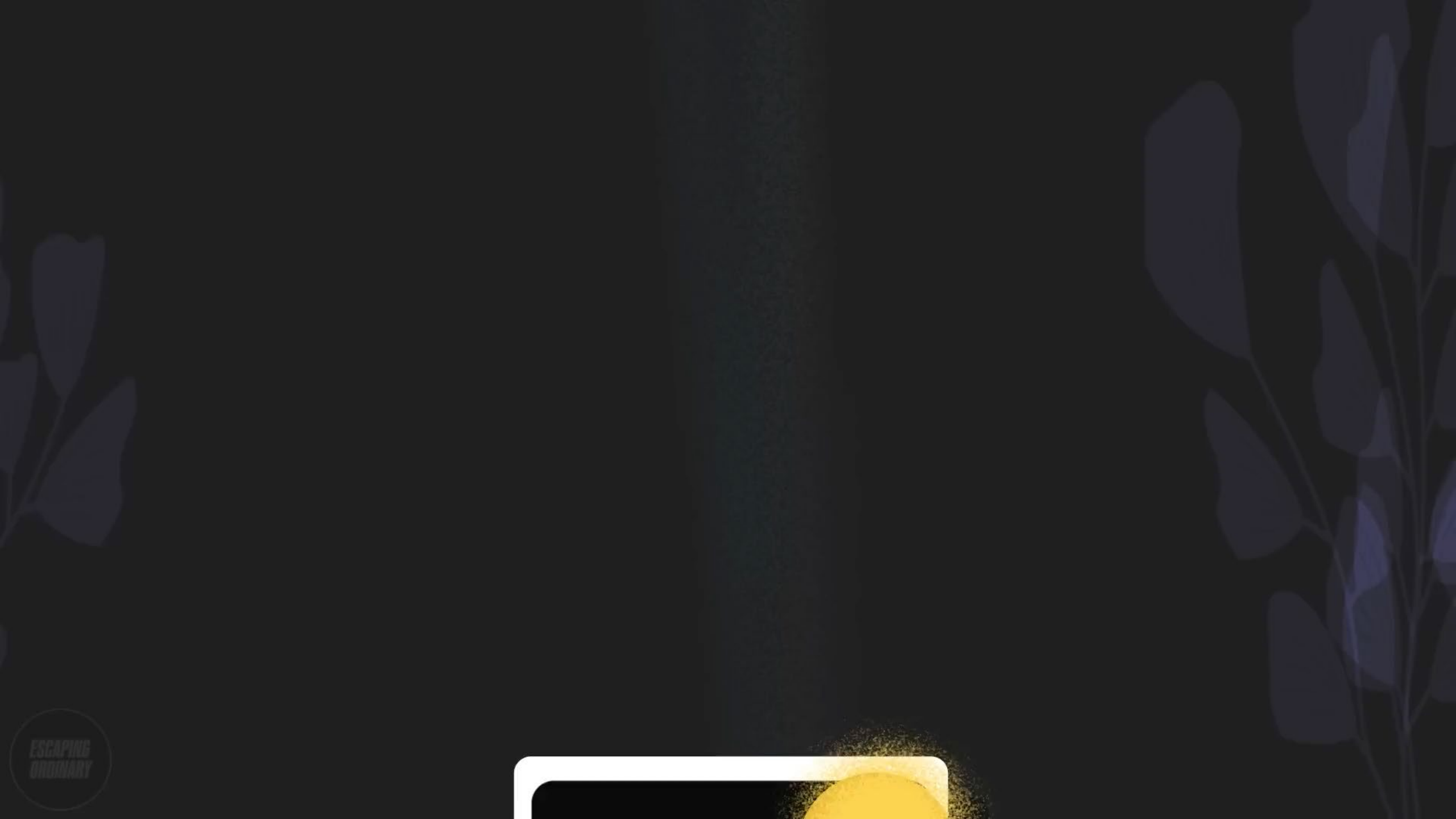
Bias

The Halo Effect and information sequencing



How information is presented and sequenced can cause System 1 to interpret it differently....

Watch this video....



ESCAPING
ORDINARY

Bias

Halo Effect and information sequencing

We focus more on what is presented to us first – the sequencing of information is critical

Be Critical of First Impressions: **ENGAGE SYSTEM 2**


- | | |
|-------------------------|--|
| Example: | A confident opening boosts credibility, even without evidence. |
| Identify: | Critically assess substance beyond initial presentation.
Avoid conflating style with merit. |
| Use as a Buyer: | Disrupt polished pitches with targeted questions. Focus on facts early in the discussion. Request Additional Context |
| Use as a Seller: | Lead with key strengths and strong visuals and sequence: Open with benefits, then discuss challenges |



Action

Using Bias to Improve your Negotiations

- **Anchoring Bias:** Set a strong anchor early to shape perceptions.
- **Framing Effect:** Highlight benefits and reframe risks as opportunities.
- **Loss Aversion:** Emphasise what the other party risks losing by not agreeing.
- **Halo Effect:** Build credibility and trust early in the discussion.
- **Sunk Cost Fallacy:** Redirect focus from past investments to future gains.
- **Concessions:** Frame concessions as mutual wins, not losses.



Negotiation Hacks: Cognitive Bias Tools Cheat-Sheet

Bias	What It Is	How to Use in Negotiation	How to Guard Against It	How to Use: Buyer Perspective	How to Use: Seller Perspective
Action Bias	Preference for acting over doing nothing, even if action isn't required.	Create a sense of urgency or frame inaction as a loss.	Avoid rushing into decisions without sufficient analysis.	Create urgency to make the seller offer a better deal quickly.	Frame inaction as risky for the buyer to encourage a faster decision.
Anchoring Bias	Relying too heavily on the first piece of information presented.	Set the initial offer to shape expectations.	Be cautious of anchoring decisions to the first offer received.	Set a low initial offer to anchor the seller's expectations.	Set a high starting price to anchor the buyer toward a favourable deal.
Authority Bias	Tendency to trust authority figures even when they might be wrong.	Use credible figures to support your position.	Scrutinise claims, even from experts, to ensure alignment with your interests.	Use data from credible third parties to challenge seller claims.	Leverage expert endorsements to build credibility for your offer.
Availability	Overestimating the	Highlight recent or	Ensure recent events	Reference recent	Highlight recent

DON'T LET YOUR LITTLE SISTER PARTY-CRASH YOUR NEGOTIATION!

System 1 **WILL** party-crash, it's perfect conditions for her to show up...

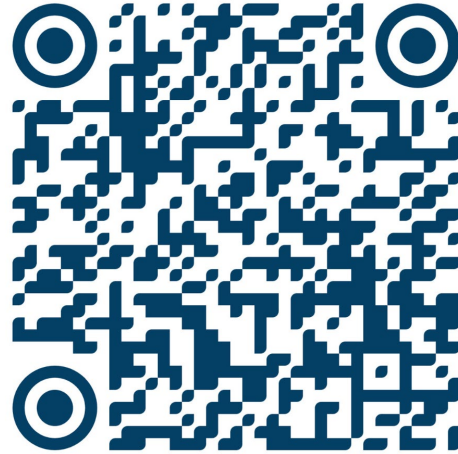
- ☐ You have done this many times before – you are an expert!
- ☐ There's information overload
- ☐ Time constraints and time pressure
- ☐ You are tired
- ☐ You want cognitive ease

EQUALS



Actively wake up System 2:

**SLOW DOWN
ASK MORE QUESTIONS
REFRAME
FOCUS ON FACTS
EMBRACE THE COGNITIVE EFFORT**



Grab the slides...

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