

Driving a Bargain: Negotiation Skill and Price Dispersion

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Abstract

We develop a measure of managers' negotiation skill based on their vehicle purchase price and connect it to observed negotiated prices in business-to-business contracting. Using proprietary data on insurance claims between hospitals and private insurers, we find that hospital managers with higher negotiation skill achieve better outcomes, both for the average price per service and for identical procedures at the same hospital. Evidence from both management turnovers for natural causes as well as shocks to insurer bargaining position supports a causal interpretation. Lastly, we structurally estimate a model to quantify the impact of managers' personal negotiation skill on hospital bargaining power. Counterfactual simulations imply that heterogeneity in managers' negotiation skills accounts for over 28% of the price dispersion explained by variation in hospitals' bargaining power.