

THE ANCHORING EFFECT IN NEGOTIATIONS

Raise the Anchor Back on Board – How to Protect Yourself from the Anchoring Effect!

Friederike Horlacher

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Name : Friederike Horlacher

Student ID : 01/790435

E-mail address : friederike.horlacher@uni-konstanz.de

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The anchoring effect is a classic and robust cognitive judgment bias (Tversky & Kahneman, 1974). It describes the approximation to a previously presented value, the so called anchor value, when people make an estimate. In negotiations, the first offer works as an effective anchor value and is highly predictive for the negotiation outcome (Galinsky & Mussweiler, 2001). To reduce the disadvantageous effect of the first offer made by the opponent, the negotiator has to focus on information contradicting this anchor value. This is achieved with my tool recommending taking the opponent's perspective or by considering the opposite.

DESCRIPTION: “What should be covered?”

Single / collective or mediated negotiation?

This tool is designed for single negotiation situations.

When to use it?

When you failed to make the first offer in a negotiation and if you want to protect yourself from the effect of the anchor value on the final negotiation outcome.

Setting / Timing?

Directly at the beginning of a negotiation when the other negotiator puts an anchor which doesn't satisfy your interests.

Group size?

Because the tool is designed for single negotiations, the group size should not exceed two negotiators or negotiation parties.

Areas of application?

The tool can be used in any judgment or decision making situation that may be influenced by an anchor value. The anchoring effect is a robust simplifying heuristic occurring in situations of judgmental uncertainty in which the judging person has access only to a limited amount of information (Tversky & Kahnemann, 1974). These situations can include negotiations which deal with price determination or exchange of value. Such negotiations can occur in the working context (e.g., negotiating about the price of an acquisition of an external company), and the familiar settings (e.g., negotiations about the amount of pocket money given to children), in leisure time activities (e.g., negotiations about the price of souvenirs on a bazar), etc.

Another important area of application, in which the exerted influence of anchor values to the final outcome has to be considered, is the trial situation in which a judge or the jury members have to decide about the sentence or more general the punishment of a convict.

Objectives / purpose

The objective of the tool is to reduce the own negotiation disadvantage of an anchor value that is set by the other party and to ensure the final outcome meets your interests.

What material is needed?

None, but the more information you have regarding the situation of the other party, the easier it gets to apply the following tool. Therefore you should try to spend enough time exploring the interests of and the alternatives given to your opponent before starting the negotiation to.

Scientific Background

In single negotiations the interests of the buyer and the seller often don't match each other at first. Sellers seek to get paid more for delivering the same or less and buyers try to get the same or more for paying less. So the buyer and the seller seek to start the negotiation in a way that serves their interests best by intuitively putting a low or a high price when beginning the negotiation. The advantage of placing the first offer in a negotiation is a widely proven phenomenon (e.g., Tversky & Kahneman, 1974; Mussweiler, Strack & Pfeiffer, 2000). The negotiated outcome will favor the one who sets the first offer, resulting higher outcome in case of a seller's first offer and lower outcome for a buyer's first offer (Galinsky & Mussweiler, 2001).

The responsible cognitive heuristic is called an anchoring effect and describes the unconscious assimilation of a numeric estimate to a previously considered standard (Tversky & Kahneman, 1974), meaning that people are unconsciously influenced in numerous estimation tasks by previously presented numbers.

The most commonly used model to explain the anchoring effect is the selective accessibility model by Mussweiler and Strack (1999a).

The model is based on two basic cognitive principles a) the hypothesis-consistent testing (the selective model) and b) the semantic priming (the accessibility model). In a standard anchoring paradigm the person, who makes a judgment, is firstly confronted with a numeric standard in a comparative task, e.g., the test subjects were asked if a new car (German average) costs more or less than 40.000 DM (Mussweiler & Strack, 1999b). The person now conducts hypothesis-consistent testing to answer the question, means he or she tests if the presented value is equal to the true value. To test the hypotheses, people look for available information that appears diagnostic for them, so that it contains meaningful information about the asked dimension, e.g., different German car brands and their prices. Trope and Liberman (1996) found out, that information is perceived as especially diagnostic if it confirms the hypothesis and is therefore called hypothesis consistent. So “participants solve the comparative task by selectively generating semantic knowledge that is consistent with the notion that the target’s value is equal to the anchor” (Mussweiler & Strack, 1999b, p. 138).

Let’s go back to the car example: while looking for the answer, the person generates information justifying the high average price of 40.000 DM, for example, expensive German car brands, such as Audi, BMW and Mercedes (Mussweiler & Strack, 1999b) because it appears especially significant and diagnostic for the decision process. So a selective recall of information takes place.

In the second task, the absolute estimation task, the estimate is biased in the direction of the anchor since the judge bases his or her estimate primarily on the information most easily accessible (Higgins, 1996). The higher accessibility of previously recalled information is known as semantic priming. Due to the former selective recall in comparative task the most easily remembered information is hypothesis confirm and therefore anchor consistent. If the person is asked afterwards to give an absolute estimate about the magnitude of a value, e.g., “How much does an average German car cost?”, his or her estimate will be biased in the

direction of the anchor value (Mussweiler & Strack, 1999a; Mussweiler & Strack, 1999b; Tversky & Kahneman, 1974).

First offers in negotiations can serve as anchor values augmenting the selective accessibility of anchor consistent knowledge (Galinsky & Mussweiler, 2001). Galinsky and Mussweiler (2001) demonstrated that the final outcome of a negotiation, e.g., amount of salaries, depended significantly on the height of the first offer; resulting in higher salaries if the first offer was made by the employee or in lower salaries in case of a employer's first offer.

Consequently a person should always try being the one who makes the first offer to ensure an advantageous negotiation outcome. That is essential because who offers first, anchors first.

To enhance the positive impact of the anchoring effect in one's favor, Loschelder, Stuppi, and Trötschel (2013) recommend using a more exact first offer value as an anchor. A more precise anchor seems to contain more relevant information about the value of the negotiation object and works stronger as an orientation value for the other party. That results in turn in a significantly better outcome for the first-offer-party. For example don't set the first offer when selling a bike at 100€, but at 104€ to extend the impact of the anchor.

But what happens if a person can't make the first offer because the negotiation party anticipates him? Should he or she just leave the negotiation to prevent an outcome that would not meet his interest?

To prevent the influence of someone else's anchor on the own negotiation decisions, it's necessary to reduce the selective accessibility of anchor-consistent information. One measure to accomplish that is the following tool.

Description and practical example

To explain the usage of the tool more practically, we will use a bike selling process as an example. Imagine you are a student at the University of Konstanz looking for a replacement for your stolen bike. You find a used one online and meet the seller to negotiate about the price. Of course you are interested in paying the lowest possible price, knowing meanwhile that the seller won't share this interest. The seller comes up with the first offer and demands 150 €. So the anchor is set.

Based on the selective accessibility model (Mussweiler & Strack (1999a) the central advice given by my tool is:

Reduce the anchoring effect by thinking about information that is inconsistent with the first offer by 1. taking the opposite's perspective and 2. consider-the-opposite.

Let's look at the two aspects separately.

First "*taking the opposite's perspective*": the perspective-taking ability is a strong predictor of distributive outcomes (Bazerman & Neale, 1983) resulting in advantageous negotiation outcomes, e.g., higher concession of the other party, for the perspective-taking party.

Taking the opponent's perspective can also help to draw the attention to information that is inconsistent with the anchor and contrary to an expected outcome (Galinsky & Mussweiler, 2001). On what kind of information should you actually focus when changing the perspective during a negotiation? There are two types of prices you can focus on in a negotiation: the target price and the reservation price. The target price represents the ideal price respectively for the seller and the buyer. However the reservation price marks the minimum (in case of a seller) or the maximum (for a buyer) price, a negotiation party would pay before canceling the current negotiation (Raiffa, 1982).

Galinsky and Mussweiler (2001) found out that negotiators who focused on the opponent's reservation price made extremere counteroffers to the first offer and achieved a better final outcome compared to the negotiators with the opponent's reservation price focus. Focusing on the opponent's reservation price led to a stronger focus on anchor inconsistent information and diminished therefore the anchoring effect remarkably. The consideration of the opponent's reservation price reduced also the capacity of the anchor value predicting the final outcome.

Reduce the anchoring effect by thinking about information that is inconsistent with the first offer by 1. *taking the opposite's perspective* and 2. *consider-the-opposite*.

So ask yourself: *What is the minimum (if you are the buyer) or the maximum (in case you are the seller) price your opponent would accept before leaving the negotiation inconclusively?*

Consider-the-opposite (Lord, Lepper & Preston, 1984) is another effective technique to reduce the anchoring effect, because it reverses the hypothesis-consistent testing bias caused by the anchor value and turns it for your better. If you are confronted with an anchor at the beginning of a negotiation this influences your hypothesis about the negotiation outcome and works as an orientation value. Hence you are likely to look for information that confirms the anchor value what can result in a less advantageous negotiation outcome for yourself.

So it's again about finding a way to focus on anchor inconsistent information to reduce the anchoring effect. Fischhoff (1982) explained, that "such contradictory evidence was apparently available to subjects in memory or imagination, but not accessible without a restructuring of the problem" (p. 428). But how can you achieve such a restructuring of the situation to access contradictory evidence? You can achieve such a restructuring of the situation by imagining a different first offer of your opponent. Try to reverse the situation to the opposite so you can profit from the confirmation bias, because you will look for information that is consistent with the imagined, reversed situation and so completely contradictive to the anchor value.

Reduce the anchoring effect by thinking about information that is inconsistent with the first offer by 1. taking the opposite's perspective and 2. *consider-the-opposite*.

2. Ask yourself: *How would I have reacted if the opponent had made a very high (if you are the seller) or a very low (if you are buyer) first offer?*

If we go back to our example we can apply to methods to reduce the anchor effect of the first offer. 1. Think about the minimum he would accept for the bike, maybe 30€ because it's an old bike, he seems set on selling soon it and many other people are also selling their bikes. Or 2. you can also ask yourself 'what would I be willing to pay, if he had demanded 40€ at the beginning?'.

Those questions will help you to focus on information that the seller does not share with you to achieve a high selling price, e.g., the bad condition of the brakes or the light system. That will help you to overcome the anchoring effect and resulting in a better negotiation outcome.

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Der Anker-Effekt in Verhandlungen

Hängen Sie sich nicht an fremde Haken, sondern werfen Sie den Anker selber aus!

Erste Gebote wirken in Verhandlungen als sogenannte Anker (Tversky & Kahneman, 1974), das heißt sie beeinflussen maßgeblich das Verhandlungsergebnis. Höhere erste Gebote führen häufig zu höheren Verkaufspreisen und umgekehrt. **Versuchen Sie darum in einer Verhandlung stets das erste Gebot abzugeben.**

Falls dies nicht gelingt, sollten Sie sich auf **Informationen konzentrieren**, die **mit dem Einstiegsgebot nicht übereinstimmen** sind. Als Käufer konzentrieren Sie sich auf wertmindernde Eigenschaften und als Verkäufer auf wertsteigende Aspekte des Objekts.