

Critically discuss the advantages and disadvantages of the use of anchoring in negotiation situations with integrative potential

Zhu Bingnan

The Dickson Poon School of Law King's College London, Somerset House East Wing, Strand Campus, London, UK, WC2R 2LS.

Abstract: *In this essay, the author discusses the advantages and disadvantages of the use of anchoring in integrative negotiation. Firstly, the essay introduces relevant definition, including Anchoring Effect, Distributive Negotiation and Integrative Negotiation. In the second part of the essay, the advantages of the utilization of anchoring are argued from three separate perspective. In the third sector of the essay, two advantages of anchoring are discussed. In the procedure of the discussion of the advantages and disadvantages, the author applies both his practical experience and theoretical knowledge to illustrate his view. Finally, the author concludes all discussions above and draws the conclusion about the use of anchoring in the integrative negotiation that when taking an integrative negotiation, full preparation should be made in advance to find an appropriate point of anchoring, which is conducive to bringing a win-win situation even for an integrative negotiation.*

Keywords: *anchoring, anchoring effect, integrative negotiation, distributive negotiation*

1. Introduction

As is mentioned in the article, anchoring is one of the most robust cognitive heuristics. The terminology “Anchoring Effect” means when people need to make a quantitative estimate of an event, they will take some specific values as the starting value, which is like an anchor that constrains the estimate. For example, when making a decision, people tend to attach more importance to the information they acquire at the beginning, and they are more likely to be influenced by others’ opinions. In fact, when estimating a new thing, both the good and bad are fairly relevant. The use of anchoring can bring both advantages and disadvantages to the user in all negotiation situations, including integrative negotiation. Therefore, how to position the starting point can be of great importance.

In this essay, I will make a discussion on the benefits and drawbacks of the use of anchoring during the process of integrative negotiation. Firstly, in the first section, I will introduce some relative and important definitions on this topic such as “anchoring”, “distributive negotiation” and “integrative negotiation”. Secondly, in the second part of the essay, I will talk about the advantages of using anchoring during an integrative negotiation from three aspects, including getting more benefits, facilitating a deal, and creating the possibility of finding common interests and further cooperation. I will also give some examples from both my research and hypothetical case experience in the class to support my views. The third part of the essay involves the disadvantages of the utilization of anchoring when making an integrative negotiation where two main points are applied. The first one is an inappropriate anchoring may lead to a failure of a negotiation. The other one is the information produced by inadequate background investigation before making an anchoring may result in a loss of benefit both directly and indirectly. Similarly, in order to illustrate the views clearly, I will give some examples to support them, including some experience from the hypothetical cases in our class and some practical examples from my research. Finally, in my conclusion section, I will conclude the advantages and disadvantages of the use of anchoring discussed above and point out how to choose a good starting point as an anchor when making a negotiation to get more benefits and avoid potential losses from my perspective.

2. Relevant definition

2.1 Anchoring effect

In general, the anchoring effect refers to a phenomenon of bias in judgment that an individual's judgment, estimate, or decision in an uncertain situation will be influenced by the initial information, which makes the subsequent estimate biased toward the initial anchor. Empirical studies show that there are significant anchoring effects in many fields where negotiations are common such as political activities, judicial practice, commercial negotiation, medical diagnosis, price expectation, consumption, investment, operation, and management.

The anchoring phenomenon was first found out by Tversky and Kahneman. In their wheel of fortune experiment, they found that the initial value could impose great influence on the subsequent judgment and estimation, which meant that the estimated value would be biased towards the initial value. In their experiment, a low initial value caused the estimate to be low, and a high initial value caused the estimate to be high, which clarified that low anchors could lead to lower estimates, and high anchors can result in higher estimates. Therefore, during a negotiation, it is of great significance to choose an appropriate anchor because the anchor can bring different influences on the negotiators according to their choice.

2.2 Distributive negotiation and integrative negotiation

Distributive negotiation is a negotiation under zero-sum conditions; that is, one party gets the benefit while the other party pays the cost, which is a win-or-lose negotiation. Usually, in a distributive negotiation, the tactics of the negotiating side are mainly to try to make the opponent agree to their specific goal or get as close as possible to it. The process of this negotiation is to clarify the justice of the negotiators' goals and try to make the other side feel that he should be generous with you to make the deal. Although what we need to discuss is the influence of anchoring in an integrative negotiation, the effect of anchoring can appear both in distributive negotiations and integrative negotiations. In some situations, such as the view that a right anchor can bring greater benefit when making the first offering, the anchoring effect can work in both distributive and integrative negotiations.

Integrative negotiation is the negotiation under the condition of win-win results. The premise of these negotiations is that there is at least one possible way to reach a win-win agreement. Integrative negotiation can take a variety of methods. For example, the negotiator can choose to avoid some minor issues and mainly focus on a principal issue with most time and energy. Another example is that sometimes negotiators can choose to adopt a compromise approach, giving up some interests in order to gain something more valuable. To make an integrative negotiation successful, there must be three basic elements, including attitude foundation, behavior foundation and information foundation. Firstly, attitude is based on sincerity, a willingness to share information and ask specific questions candidly. Secondly, the basis of behavior is to master good negotiation skills, including not letting personal emotions affect the negotiation, not making premature judgments and judging the possible agreement according to objective standards. Information foundation means having a clear understanding of the focus of both parties' interests, the best solution and the efforts that one negotiator should make. When considering the best anchor in an integrative negotiation, apart from good negotiation skills, sincerity and full understandings of the negotiation are both essential elements to make an appropriate choice of an anchor.

Compared with distributive negotiation, the aim of integrative negotiation is more inclined to find a win-win solution for the negotiating issue. In this kind of negotiation, the two parties are competitive but not hostile. During the procedure of integrative negotiation, not only should the negotiator take his own interests into account but also should consider the needs, interests and attitude of the other party. That's why the use of anchoring in an integrative negotiation can bring both advantages and disadvantages. An appropriate anchor in the integrative negotiation can truly contribute to a smooth procedure and satisfying result. On the contrary, an inappropriate anchor may make the negotiation difficult and even lead to no deal. The advantages and disadvantages of the use of anchoring will be discussed in detail in the following parts of the essay.

3. The advantage of the use of anchoring in an integrative negotiation

3.1 Facilitating making the first offer to gain more benefits for the user

Both in distributive and integrative negotiations, we can apply the tactic of making first offers, which

can help us to shape the perception of our reservation value in the other party's eyes without ruining the negotiation. Even if in an integrative negotiation, there is still a competitive relationship between parties. In this situation, the use of the first offer can definitely cause an anchoring effect and therefore put the user in an advantageous position. From this aspect, we can use anchoring when making the first offer to find the hidden value during the negotiation. A good example of this first offer attempt is the car sale case mentioned in our class. In this case, the bottom line of the seller is 8000 dollars and the most that the buyer can offer is 10000 dollars, which causes a bargaining range of 2000 dollars to be negotiated. Under the circumstance, the seller can use anchoring to make the first offer. For instance, the seller can offer 12000 dollars at the beginning, which is a little bit higher than the expected amount of the buyer but not too much higher. So that the negotiation between the seller and buyer can continue and the seller can adjust the price based on the first offer, which shapes a quite high price perception in the buyer's eye. Finally, the seller is very likely to gain a higher selling price, such as 9500 dollars. But even in this situation, the negotiation is still a win-win one because the buyer still saves 500 dollars. It is just that the seller earns more benefits. Based on the example above, we can know that using anchoring properly when making the first offer can bring more benefits to the user in a negotiation.

3.2 Contributing to employment cooperation by using anchoring appropriately

Base on fully investigating and gaining more information, negotiator like employers can choose an appropriate anchor to reach an agreement with more benefits. Research in China shows that the compensation of executives is significantly affected by anchoring. It is quite common that listed companies use competitors' compensation as an anchor when deciding the compensation of their executives. Another example from our class can also illustrate the view that the good use of anchoring caused by information asymmetry can put the user in an advantageous position. In the golden lemons case, I was the representative of the broadcaster Ltd. Even if at that time, the situation was extremely urgent for us, and we needed Jack as a host desperately. I still reached an agreement with Jack with much lower pay than CEO's expectation based on our information asymmetry. Although it was a dilemma for us at that time and Jack was the only one we can turn to, we knew Jack was going through a low point in both his life and career and he also needed money very much because of his drug scandal, which was exactly our bargaining chips negotiating with him. It was due to this background information that we could offer a lower price at the first offering and keep it through the whole negotiation without making any concession. All these examples show the importance of the good use of anchoring brought by information asymmetry especially, during an employment negotiation.

3.3 Exploring more common interests and creating the possibility of further cooperation

Motivation plays an essential role in negotiations, which can influence a lot of aspects of negotiations such as personal strategies, cooperating behavior, competing behavior and negotiation results. Motivation can be divided into two main kinds of classification: social motivation and epistemic motivation, which together influence the whole negotiation process. When it comes to social motivation, it means a preference for a specific distribution of benefits between the negotiator and the opponent, which can be divided into prosocial motivation and self-interested motivation. For those who are with self-interested motivation, they are always eager to maximize their own interest, regardless of the interests of the opponent. For this kind of negotiator, it is very difficult for them to reach a win-win agreement in an integrative negotiation. However, people who are with prosocial motivation tend to pursue equitable distribution, making the interests of themselves and their opponent maximum at the same time. Motivation makes strategy and behavior different. Self-interested motivation makes negotiators adopt competitive strategies such as withholding some information, threatening the opponent and even suspecting the intention of the other party while prosocial motivation negotiators are more likely to apply cooperative strategies such as sharing information, considering the negotiation equitable and building a trust relationship. Obviously, compared with those with self-interested motivation, prosocial motivation negotiators are more likely to succeed in an integrative negotiation by finding out more common interests and building further cooperation.

As for epistemic motivation, it refers to the individual's desire to establish and maintain a large amount of correct information and to understand the surrounding environment. People with higher epistemic motivation can understand the meaning of emotional expression of the other party during the negotiation, whose ways of behavior and results of negotiation are relatively consistent. However, for negotiators with lower epistemic motivation, their choice of strategies and acquisition of interests are obviously regulated by the emotion of the other parties. Epistemic motivation varies from individuals

and is influenced by environmental elements such as time pressure, noise and fatigue degree.

Social motivation and epistemic motivation influence the whole process of negotiation together. In order to find a win-win solution in an integrative negotiation, the negotiator must try his best to acquire as much information as possible and take into consideration both the interests of himself and the other party. Based on these elements, one can create a larger possibility of finding common interests and exploring further cooperation when using anchoring during a negotiation. The navy navigation case in our class can be taken as an example to clarify the view. In this hypothetical practice, I was on behalf of the sales manager of Moon Microsystem. Due to epistemic motivation, I got to know as much information as possible, gaining the fact that Stealth Incorporated was in a tight spot and had almost no choice. Simultaneously, based on my documents of recent contracts, I needed to make preparations for the inquiry and bargain about the price from that company. Apart from that, social motivation demanded that I should take some of their interests as well. Because I wanted to earn money, reputation and prospect from the order, I cannot ignore their position, arguing a too high price that they cannot afford and accept at all, which was very likely to ruin the whole negotiation. Therefore, I tried to make the first offer at a quite high price as an anchor but not too high to be accepted and left some margins for them to argue. Finally, we made a deal at the price of 3650 pounds per unit with an additional clause that they could pay by installment so they would not have too much pressure. At the same time, we even had a long-term cooperation intention that in the future they would give us more orders and we can offer them a better price than now. From the example, we can see that an appropriate anchoring can help to make a contribution to further cooperation by finding more common interests so as to reach a win-win situation in an integrative negotiation.

To draw a conclusion, based on full information collection and decent background investigation, we can find a good point to put our “anchor” to make an appropriate first offer that can bring more benefits. At the same time, this kind of appropriate anchoring can also put negotiators like employers into an advantageous position when making employment cooperation. Additionally, good anchoring can facilitate finding common interests between negotiation parties and contribute to further cooperation in the future.

4. The disadvantage of the use of anchoring in an integrative negotiation

4.1 Influencing the process and result of the negotiation

Without sufficient cognition about the background of the negotiation and the reservation value of the other party, we are very likely to set an inappropriate point as our anchor during a negotiation, which can lead to a lot of negative influence on the process and the result of the negotiation. Firstly, cognitive factors can affect our integrative negotiation process where fixed pie awareness can significantly prevent us from finding out common interests between each other and therefore, influences the win-win negotiation result.

The fixed pie awareness refers to a self-centered indifference on the other party of the negotiation, with which the negotiator tends to simply perceive the preference of the other party as a mirror image of their own preference. This cognitive bias stems from the tendency to consider one's own priorities as those opposed issue by the other party. Research shows that most individuals enter a negotiation with a fixed pie awareness that goes throughout the whole negotiation process, leaving a large number of potential integrative benefits on the table. In this situation, it is of great difficulty to find common interests between the parties of the negotiation and reach a win-win agreement. At the same time, this kind of insufficient cognition can also influence the result of the negotiation. The problem of the premium in the Mergers and Acquisitions (M&A) can fully illustrate the view. Research in China shows that according to the samples of M&A events of A-share listed companies in China from 2004 to 2006. Although the M&A premium decision is dominated by rational factors, there is also some degree of anchoring effect, which shows situational differences according to different decisions. Based on this fact, companies with inadequate background investigation or insufficient cognitions are always forced to pay a higher price when making a mergers and acquisition issue because they lack information advantages and, therefore, cannot choose an appropriate anchor during the procedure of the negotiation. However, if a consultant is employed in the M&A transaction, the negative effect of anchoring in the M&A decision may be mitigated because, at this point the use of consultants is actually a remedy for information gaps. So, it can be concluded that fixed pie awareness can bring a negative influence on our cognition of the whole negotiation, leading to insufficient cognition and false judgment. Under the circumstance, we are very likely to choose an inappropriate anchoring in the negotiation and finally get an unsatisfying result.

4.2 Leading to failure of the negotiation

During an integrative negotiation, the use of inappropriate anchoring may even make the whole negotiation into a great dilemma and finally get failed. Two failure experiences in my hypothetical practice in our class are examples for this statement. Firstly, in the NEXTER case, in order to accomplish my task to get as much money as possible to solve the cash flow problem of the company, I did not prepare to make any concession during the negotiation. However, I overestimated the bottom line of the other party, using too high anchoring as my first offer, which made me seemed difficult to negotiate without showing my sincerity. Therefore, the whole process of the negotiation became extraordinarily tough, but I did not realize it at that time. So, I stubbornly insisted on my goal to gain 7 million pounds from the other party, which finally made our negotiation failed without any deal reached. After the failure I thought over where I did something wrong, and I realized that I mistakenly estimated the situation. In this negotiation, I needed to lower my expectation on the final goal and chose a lower anchor at the beginning, which might facilitate the process of the negotiation and make the negotiation successful in the end. Secondly, I failed in Holland Park estate negotiation as a buyer due to my lack of relevant knowledge. Without knowing anything about the housing price in London at the beginning, I tried to search for something useful on the Internet. However, I did not make adequate investigation, only relying on information from one website through google, which made my estimate about the price of the apartment go wrong. Therefore, I made my first offer at a quite low price as my anchor, which might have provoked my opponent into thinking that I was not quite sincere about this negotiation and was trying to use some negotiating tactics to get more for myself. Based on this background, our negotiation got into an embarrassing spot. On the one side, I held the comprehension that my counter party wanted too much in the negotiation by setting a high price and thought that he might have gained some information about my confidential need. On the other hand, my counter party also considered me as extremely greedy because of my first offer. Therefore, one of the most important elements in an integrative negotiation, "trust" collapsed between us, which ultimately led to the failure of the negotiation. My reflection on the negotiation is that I should have done more background research on things that I do not know much about, such as estate in London to determine the true price of that apartment so that I could choose the right anchor as my first offer based on useful information. To sum up, the wrong utilization of anchoring can truly result in the failure of the negotiation in some situation. Therefore, we must make every endeavor to choose the right point at the beginning to make the negotiation.

5. Conclusion

To draw a conclusion, based on all discussions mentioned above, the use of anchoring can bring both advantages and disadvantages to integrative negotiation. On the one hand, a right anchoring can facilitate the whole process of the negotiation and help the user to gain more benefits from the result of the negotiation. On the other hand, the wrong use of anchoring can make the negotiation procedure quite tough and difficult and, to some extent, even lead to a failure of the negotiation. However, in my opinion, it is of great significance to use anchoring in an integrative negotiation because by using some skills, we can try to avoid the disadvantages of using anchoring. For example, epistemic motivation has a moderating effect on fixed pie awareness. High epistemic motivation leads to high-quality information exchange and deep processing procedures, which enables negotiators to have more accurate understanding of the negotiation situation, thus to. Reverse cognitive bias and obtain high-quality, consistent agreement. By full preparation and right cognition about the negotiation, negotiators can choose the point of anchoring as appropriately as possible, which can bring a win-win situation for an integrative negotiation in the end.

References

- [1] Chen Shihua, Li Weian. 'The anchoring effect of M&A premium decision [J]. [2016] *Economic Research Journal*
- [2] De Dreu C K W, Koole S, Steinel W. 'Unfixing the fixed pie: A motivated information processing account of integrative negotiation[J] ' [2000] *Journal of Personality and Social Psychology* 975
- [3] Furnham, Adrian, and Hua Chu Boo. 'A Literature Review of the Anchoring Effect.' [2011] *The Journal of Socio-economics* 40.1: 35
- [4] Jiao Jie Zuo. 'A review of anchoring effect in economics [J]. [2019] *Cooperative Economy and Science & Technology*, 34
- [5] Kramer R M , Carnevale P j . 'Trust and inter group negotiation [M]' (Oxford , UK :Blackwell

Publisher, 2001

[6] *Kruglanski A W . 'The psychology of being "right" : The problem of accuracy in social perception and cognition[J] . [1989]Psychological Bulletin 395*

[7] *Qian Liyang, Zhang Qian, Lei Zhuanying. 'Research Progress of Integrative Negotiation,' [2010] Journal of Binzhou University,26(03):102*

[8] *Tversky A,Kahneman D'Judgment under uncertainty: Heuristics and biases' [1974] Science 1124*

[9] *Xu Qian. 'A review of anchoring effects at home and abroad'[2015]. Cooperative Economics and Science, :94*

[10] *Zhang zhen, Huang fuguang. 'Progress in Psychological Science' [2007] 518*

[11] *Zheng Liming. 'Overview of the anchoring effect of estimation judgment in uncertain situation [J]'[2013]. Modern Management Science, 47*