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"I was going to offer $10,000 but…": The effects of phantom anchors in negotiation☆

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ABSTRACT

Negotiators commonly attach phantom anchors—retracted and aggressive figures—to their actual and less aggressive offers. For example, a seller might say, "I was going to ask for $10,000, but I can offer $8000." Drawing from research on anchoring, we predict that offer-makers will economically benefit from offers with phantom anchors. Drawing from research on interpersonal perceptions, we test competing hypotheses indicating that phantom anchors might elicit perceptions of manipulativeness or benevolence, with economic implications. Finally, we explore situational conditions that could moderate these perceptions. Five studies show that negotiators using offers with (versus without) phantom anchors receive less aggressive counteroffers and more beneficial agreements in both distributive and integrative negotiations, but also seem more manipulative. Situations portraying the phantom anchor-actual offer combination as a true concession, however, dampen manipulativeness perceptions. Overall, the results suggest that phantom anchors represent a powerful yet risky and understudied value-claiming strategy in negotiations.

1. Introduction

One of the most well-known and well-documented decision heuristics is anchoring (Klein et al., 2014): a cognitive bias whereby individuals make uncertain judgments by insufficiently adjusting from other figures, relevant or irrelevant ("anchors"; Tversky & Kahneman, 1974). Anchors influence decisions in a wide variety of domains, including decisions about how much to purchase (Wansink, Schneider, Carter, & White, 1998), what to bid in an auction (Beggs & Graddy, 2009), and which investments to choose (Andersen, 2010).

Anchoring has also been extensively documented in the domain of negotiation. Research in this area mostly examines the anchoring effects of first offers, consistently showing that first offers exert a strong anchoring effect on counteroffers and final settlement prices (e.g., Adair, Weingart, & Brett, 2007; Ames & Mason, 2015; Janiszewski & Uy, 2008; Loschelder, Stuppi, & Trötschel, 2014; Schaerer, Loschelder, & Swaab, 2016; Schaerer, Swaab, & Galinsky, 2015; Sinaceur, Maddux, Vasiljevic, Nückel, & Galinsky, 2013). Notwithstanding some critical boundary conditions identified in the last few years, like the possibility that first offers may reveal sensitive information (e.g., Loschelder, Swaab, Trötschel, & Galinsky, 2014; Loschelder, Trötschel, Swaab, Friese, & Galinsky, 2016) or disadvantage the first mover in the presence of information asymmetry (Maaravi & Data, 2017), first offers generally influence final prices in a direction that benefits the offerer. Indeed, this effect holds up despite a number of plausible moderators such as cultural context, structure of the negotiation, or power differentials (Barry, Lewicki, & Saunders, 2015; Gunia, Swaab, Sivanathan, & Galinsky, 2013). This robust effect apparently emerges because negotiators across cultures and contexts cognitively anchor on the first offer, making counteroffers and agreeing to settlement prices that assimilate to the first offer across various circumstances (Galinsky & Mussweiler, 2001).

Although anchoring effects have mainly been studied in the context of single-issue first offers (cf. Gunia et al., 2013), past work suggests that other numerical values in a negotiation may also influence subsequent offers (Whyte & Sebenius, 1997). For example, recipients of range offers (e.g. "I want $7200 to $7600") anchor on both ends of the range when making counteroffers (Ames & Mason, 2015). Moreover, negotiators often anchor on their poor alternatives, making weak offers reflective of their low-power positions (Schaerer et al., 2015). The

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current research highlights another potentially important numerical figure that could influence negotiators' judgments: a phantom anchor, by which we mean a retracted and aggressive figure attached to a real and less aggressive offer. For example, a car seller might say: "I was going to ask for $10,000, but I can offer $8000." In this case, $10,000 represents the phantom anchor and $8000 the real offer. We suggest that that the phantom anchor could influence the buyer's judgments despite its retraction. Indeed, the phantom anchor could be especially potent if the seller added an explanation such as: "because I like you" or "because I don't feel like haggling." While not a necessary component of every phantom anchor, such an explanation could help justify the phantom anchor's unavailability (Gunia et al., 2018; but also see Maaravi, Ganzach, & Pazy, 2011).

Phantom choice options (i.e. options "that look real but are unavailable at the time a decision is made"; Pratkanis & Farquhar, 1992, p. 105) have been documented in many types of judgment contexts, including those that involve decoy values (Farquhar & Pratkanis, 1987; Pettibone & Wedell, 2007), counterfactual thinking (Miller, Turnbull, & McFarland, 1990) and delay of gratification (Mischel, 1974),[3] but theory and research on their effects in negotiation is limited. Theoretically, Lax and Sebenius (2006) described similar phenomena in the form of "flexible but extreme offers" and "non-offer offers," meaning indirectly relevant statements or figures that negotiators can mention to justify extreme offers. Empirical research on phantom alternatives, in turn, has mainly focused on the unavailable alternatives that negotiators may have in their minds (Pinkley et al., 2017; Pinkley, 1995). More broadly exploring phantom choice options in negotiation is the goal of the current research. Our main prediction is that offers containing phantom anchors will elicit more favorable counteroffers and final agreements for offerers than offers without phantom anchors. The logic for this prediction is as follows.

Past research on anchoring in non-negotiation situations shows that anchors that are not directly relevant to the decision can still have potent effects. In one of the most well-known demonstrations, Tversky and Kahneman (1974) asked participants to judge the percentage of African countries in the United Nations against a low (10%) or high (65%) anchor. Although these anchors came from the ostensible spin of a wheel with no relevance to judgments about Africa, the anchors nevertheless influenced such judgments strongly: participants who received the high anchor estimated the percentage of African nations in the United Nations to be higher than those who received the low anchor. This is just one example. More or less relevant anchors have been shown to influence decisions in many other contexts, ranging from consumer purchasing decisions (Wansink et al., 1998) to judicial verdicts (Englich, Mussweiler, & Strack, 2006) to real estate transactions (Northcraft & Neale, 1987). Indeed, a recent many-labs replication deemed anchoring one of the strongest psychological effects (Klein et al., 2014).

Similarly, in negotiation, even when a numerical anchor is demonstrably unreliable, it can affect important negotiation parameters. For example, Whyte and Sebenius (1997) provided negotiators with an anchor indicating the amount their counterpart might be willing to pay. Yet, this anchor was then portrayed as a misunderstanding arising from the use of a foreign language translator who was difficult to understand—a fact that would seem to cast doubt on the anchor's reliability and relevance to subsequent judgments. Nevertheless, the anchor significantly influenced first offers as well as reservation and target prices. Effects like these presumably occur because people who hear an anchor and then need to make an ambiguous judgment have a hard time "unhearing" the anchor. It stays in their working memory even if they explicitly try to dismiss it (Wegner, Schneider, Carter, & White, 1987), and thus they incorporate it into their judgments.

If irrelevant anchors can influence judgments so strongly, we predict that phantom anchors, which do provide some marginally relevant information about the offerer's initial intentions, will too. To test this prediction, we generally compare the effects of offers containing phantom anchors (e.g., "I was going to ask for $10,000, but I can offer $8000") against the effects of offers with the same available figure ($8000) but no phantom anchor. Given the predicted anchoring effect of the retracted and aggressive figure ($10,000), we expect that offers with phantom anchors will lead the counterpart to make less aggressive counteroffers and agree to less aggressive final prices (benefitting the negotiator who used the phantom anchor):

Hypothesis 1. Offers with (versus without) phantom anchors will lead to more economically favorable counteroffers and final prices from the offerer's perspective.

1.1. Phantom anchors and interpersonal perceptions

While the anchoring effects of offers on subsequent offers are certainly important, recent work also studies the effects of offers on interpersonal perceptions, which matter because they can influence whether negotiators implement an agreement or want to deal with one another again (Mislin, Campagna, & Bottom, 2011)—and because of their impact on subsequent offers (e.g., Loschelder et al., 2014). Much of the research on the interpersonal effects of offers focuses on the way offers are made. For example, precise versus round first offers suggest that the offerer is knowledgeable and thus elicit more favorable counteroffers (Loschelder et al., 2014; Mason, Lee, Wiley, & Ames, 2013). Additionally, negotiators who add arguments to their first offers are seen as attempting to persuade their counterparts versus provide information, and subsequently receive more aggressive counteroffers (Maaravi et al., 2011). Finally, the rationale attached to an offer can influence perceptions of the offerer's limits and trustworthiness, with implications for both relational and instrumental outcomes (Lee & Ames, 2017).

Building on this line of research, we argue that, whatever their anchoring benefits, phantom anchors may also influence offer-recipients' perceptions of the offerer, which could exacerbate or dampen any anchoring effects on economic outcomes. Interpersonal perceptions could exacerbate anchoring effects, increasing the economic influence of offers with phantom anchors, if offer recipients see the combination of a phantom anchor and actual offer as an indication of the offerer's benevolence. Given that the phantom anchor is less attractive to offer recipients than the actual offer that immediately follows it, offer recipients could see the actual offer as an attempt to benefit them or treat them favorably, i.e., as a signal of benevolence. Since perceptions of benevolence signal trustworthiness (Mayer, Davis, & Schoorman, 1995) and negotiators tend to reciprocate their counterparts' trustworthy behavior (Brett, Shapiro, & Lytle, 1998; Gunia, Brett, Nandkeolyar, & Kamdar, 2011; Putnam & Jones, 1982; Weingart, Thompson, Bazerman, & Carroll, 1990), it is plausible that offer recipients could respond to offers with phantom anchors by making substantive concessions of their own. In other words, theory provides reason to suspect that the interpersonal perception of benevolence could exacerbate the anchoring effects of offers with phantom anchors. This suggests the first part of a competing hypothesis:

Hypothesis 2a. Offers with (versus without) phantom anchors will lead to heightened perceptions of benevolence, which will exacerbate the anchoring effects of these offers.

At the same time, negotiators often come to the bargaining table assuming that their interests are diametrically opposed to their

[3] It is perhaps useful to note that the literature on phantom choice options appears agnostic as to the reason behind the disappearance of the phantom option from the choice set. That is, the phantom option may be unavailable at the time of the decision for any reason. In this paper, we explore the specific situation in which the phantom option is unavailable because the offerer has retracted it.