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Starting High and Ending with Nothing:  
The Role of Anchors and Power in Negotiations

Martin Schweinsberg\*, Gillian Ku,

London Business School

Cynthia S. Wang

University of Michigan

National Center for Institutional Diversity and Ross School of Business

AND

National University of Singapore

NUS Business School

Madan M. Pillutla

London Business School

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\* Corresponding author. Address: Organisational Behaviour Department, London Business School, Regent's Park, London NW1 4SA, United Kingdom. Telephone: + 44 20 7000 8929. E-mail address: martins.phd2008@london.edu

### Abstract

Much research suggests that negotiators gain value by making first offers in negotiations. The current research examines the proposition that extreme first offers offend their recipients and cause them to walk away, resulting in an impasse. Results across two experiments support this proposition. As a result, extreme offers can be risky: even though they can anchor counteroffers and final outcomes, bringing benefit to the offerer, they only do so when impasses are avoided. In addition, we find support for the proposition that power moderates the relationship between extreme offers and impasses: although low- and high-power negotiators are equally offended by extreme offers, it is the low-power negotiators who walk away from the negotiation.

Keywords: anchors, first offers, impasses, negotiations

## Starting High and Ending with Nothing:

### The Role of Anchors and Power in Negotiations

Negotiations research has repeatedly shown that final prices are positively correlated with first offers – the more a seller asks for, the higher the final price; the less a buyer offers, the lower the final price (Chertkoff & Conley, 1967; Galinsky & Mussweiler, 2001). As a result, negotiators are often advised to make aggressive first offers i.e., high for sellers and low for buyers (Thompson, 2008).

However, practitioners often refrain from making extreme offers (i.e., unreasonably high for sellers and unreasonably low for buyers) because they are concerned that such offers will offend counterparts and cause them to walk away. These intuitions are consistent with findings showing that impasses are not uncommon, especially if one party is offended by the other (c.f., Pillutla & Murnighan, 1996; Van Kleef, 2010). In the current research, we empirically examine the proposition that extreme first offers will result in more impasses. Additionally, we explore how negotiators' relative power may affect their reactions to first offers by examining whether low- or high-power negotiators are more likely to walk away from extreme offers and why.

#### *First Offers in Negotiations*

A well-established explanation for the positive correlation between first offers and final negotiation outcomes is the anchoring and insufficient adjustment heuristic (Tversky & Kahneman, 1974), which suggests that individuals make estimations by starting with an initial value (the anchor) and adjusting (insufficiently) away from it until a final estimate is reached. Thus, when sellers make aggressive first offers, buyers anchor on the high offers and adjust their value estimations insufficiently (Mussweiler & Strack, 1999), leading to higher counteroffers and final outcomes than if the sellers had made lower first offers (Galinsky & Mussweiler, 2001).

The effect of anchors on judgments and behavior is extensive and robust, extending from numerical estimates (Tversky & Kahneman, 1974; Northcraft & Neale, 1987) to judicial verdicts (Englich & Mussweiler, 2001) and self-perceptions (Gilovich, Medvec, & Savitsky, 2000).

Anchors affect judgments even when individuals know that the anchor is randomly-generated (e.g., Tversky & Kahneman, 1974) and implausibly low or high. For instance, when asked to estimate Gandhi's age at his death, participants were biased by the anchors of 9 and 140 years, even though these fantastic anchors were clearly implausible (Strack & Mussweiler, 1997).

Extrapolating these findings to negotiations is problematic because judgments and behaviors made in interpersonal contexts such as negotiations may differ from the impersonal contexts examined in earlier studies. In negotiations, extreme offers may offend recipients because they violate norms of appropriate behavior (c.f., Pillutla & Murnighan, 1996) and may provoke recipients to walk away from the negotiation (c.f., Brooks & Schweitzer, 2011). Extreme anchors may therefore decrease value to negotiators if their counterparts walk away, leaving the negotiator without a deal.

Previous research (e.g., Galinsky & Mussweiler, 2001) has failed to examine impasses caused by first offers, probably because the typical negotiation experiment conceals the risk of impasses and artificially inflates agreement rates (Galinsky, Ku, & Mussweiler, 2009). Participants are typically assigned to one negotiation partner and are never given the opportunity to negotiate with an alternate counterpart if they are unsatisfied with their current negotiation. As such, participants may implicitly feel pressured to come to a deal. This tendency may be further exacerbated if participants are students in a negotiation class. Indeed, impasses are rare in negotiation studies and are typically excluded from statistical analyses. By using a market

simulation where participants could choose to negotiate with others, we created an ecologically-valid negotiation that allowed us to examine the impact of extreme offers on impasses.

### *First Offers and Power in Negotiations*

Although we assume that extreme offers are generally offensive and result in impasses, we also believe that a negotiator's relative power, which we define as one party's relative dependence on the other (Thibaut & Kelley, 1959), may affect how offers are experienced and/or acted upon. In particular, two explanations suggest how a negotiator's power may affect the relationships among extreme offers, offense, and impasses.

The first explanation suggests that power moderates the extent to which extreme first offers are experienced as offensive. On one hand, research which finds that high-power people experience more positive affect than low-power individuals and that low-power individuals experience more negative affect than high-power individuals (Keltner, Gruenfeld, & Anderson, 2003) suggests that low-power individuals may take greater offense (a type of negative affect) than high-power individuals. On the other hand, high-power individuals may interpret extreme offers as a signal of disrespect and challenge to their position (Kim, Smith, & Brigham, 1998), suggesting that high-power individuals may take greater offense than low-power individuals. Thus, power may affect the relationships among extreme offers, offense, and impasses by influencing the degree to which an extreme offer causes offense.

The second explanation suggests that power could affect the relationship among extreme offers, offense, and impasses by modifying how people react to offense; all negotiators may feel offended by an extreme offer, but low- and high-power negotiators may react differently to this offense. Emotions act as a guide to action (Cannon, 1927; Keltner & Haidt, 1999), including situations that require a "fight or flight" decision (Damasio, 1994; Lang, 1995). Thus, the offense

that follows the receipt of extreme offers may function as a signal to act, whether acting is withdrawing and fleeing to another negotiation or persisting and fighting in the current one. High-power individuals, who have internalized beliefs that their (many) resources can be harnessed to ameliorate any negative situation (c.f., Inesi, 2010), may be less likely to flee even if they are offended. In contrast, low-power individuals are generally more aware of physical and social constraints (Galinsky, Magee, Gruenfeld, Whitson, & Liljenquist, 2008) and are less persistent in goal pursuit (Guinote, 2007b). For them, the offense experienced on account of an extreme opening offer may be a cue to flee and seek goal satisfaction elsewhere. Accordingly, power may affect the relationships among extreme offers, offense, and impasses by influencing the degree to which offense influences impasses.

Thus, we examine two possible explanations by which negotiator power might moderate the relationship between first offers and impasses, and in so doing, reveal the psychological processes by which extreme offers affect impasses.

### Overview of Experiments

We conducted two experiments to examine the impact of extreme offers and power on impasses. Experiment 1 examined the impact of extreme offers and the relative power of negotiators on impasses, counteroffers, and final outcomes. We operationalized power by varying how many alternatives the parties had because power in negotiations is often operationalized as the negotiators' best alternatives to a negotiated agreement (BATNAs; Pinkley, 1995). Experiment 2 sought to replicate the effect of extreme offers on impasses while modifying our operationalization of power. Instead of manipulating the negotiators' alternatives, we manipulated participants' psychological experience of power.

### Experiment 1

Experiment 1 established a market of renters and landlords where participants assumed the role of renters who were negotiating for the lowest possible rent from several landlords. Renters had the opportunity to walk away from the focal negotiation and negotiate with a new counterpart.

### *Pretest*

To determine what constituted extreme vs. less extreme offers in our rental context, 14 participants were asked to imagine renting a room in London. As in the main experiment, pretest participants expected to pay £85-£140 in weekly rent. Moderate first offers (£140) corresponded to the upper limit of participants' price expectations and extreme first offers (£280) were twice as high.

Participants rated how reasonable these offers were (from 1 = not at all to 7 = very much so). Participants judged the extreme offer as less reasonable ( $M = 1.29$ ;  $SD = .47$ ) than the moderate offer ( $M = 3.64$ ;  $SD = 1.34$ ),  $t(13) = -7.26$ ,  $p < .01$ . Additionally, participants rated the extreme offer as significantly below the midpoint of the reasonableness scale,  $t(13) = -21.66$ ,  $p < .01$ , and the moderate offer as no different from the midpoint of the reasonableness scale,  $t(13) = -1.00$ ,  $p = .34$ ).

### *Method*

#### *Participants and Experimental Design*

One hundred and sixty participants (41.3% men, mean age: 23.11 years,  $SD = 3.84$ ) from London Business School's participant pool received £10 for participation and were randomly assigned to a 2 (first offer: extreme vs. moderate) x 2 (power: low vs. high) between-participants design. To increase involvement in the negotiation, three participants who negotiated the lowest rent received a £25 Amazon.co.uk voucher.

### *Rental Negotiation Simulation*

Participants played the role of renters and negotiated with landlords who, unbeknown to participants, were played by a computer program. Participants were instructed to negotiate for the lowest possible rent. They were told that they had identified several rooms of similar size and quality and that they should expect to pay the same amount (£85-140/week) for each room because of their similarity.

Participants were informed that after being randomly assigned to a landlord, the landlord would make the first offer and the participant could react in one of three ways: by making a counteroffer, by seeing how many other rooms were available and deciding whether to negotiate with a new landlord (or return to the current negotiation), or by accepting the landlord's offer.

If participants made a counteroffer, the landlord accepted the renter's offer if it was equal to or higher than the landlord's next pre-determined offer. Otherwise, the negotiation proceeded to the next round and the landlord's pre-determined offer. The landlord's offers decreased according to a payoff schedule that was an intermediate between a cooperative and competitive strategy (e.g., De Dreu & Van Lange, 1995).

If participants chose to see what other rooms were available, they were shown an overview screen with the number of available rooms (held constant at eight) and could either return to the current negotiation or negotiate with a new landlord. To make walking away costly (as it would be in the real world), participants were told that £5 would be added to their final negotiated rent.

The negotiation ended when one side accepted an offer, when the participant chose to walk away to negotiate with another landlord, or after six rounds.

### *Procedure*



Participants received all instructions and materials on a computer. Participants were shown a mock negotiation to ensure they understood the negotiation process. All example offers and counteroffers were displayed as letters (e.g. YYY) to prevent potential anchoring effects (Tversky & Kahneman, 1974).

Next, the simulation reiterated the instructions and background information. After a short wait while the computer supposedly randomly assigned the participant to a landlord, the participant was informed that the landlord was preparing the first offer. Upon receiving the landlord's offer, participants could respond in one of the three ways explained above.

At the end of the negotiation, participants completed post-negotiation measures. If they chose to negotiate with another landlord, they were randomly assigned to a new landlord and a simplified negotiation ensued. We did not track participants' behaviors in this second negotiation.

*First offer manipulation.* The landlord's first offer was either extreme (£280/week) or moderate (£140/week).

*Power manipulation.* We manipulated the parties' relative power by varying the number of renters available in the marketplace. In the low power condition, there were as many renters (ten) as landlords (ten). In the high power condition, there were twice as many landlords (ten) as there were renters (five).

### *Measures*

*Impasses.* We counted the number of participants who walked away from the negotiation immediately after receiving the first offer.

*Offense.* We measured participants' offense by asking them to indicate on 7-point scales (from 1 = not at all to 7 = very much so) how insulted, angry, and annoyed they were with the

first offer. Responses were averaged to form an index of offense (Cronbach's  $\alpha = .81$ ).

*Counteroffers.* We measured participants' counteroffers immediately after they received the first offer.

*Final outcome.* Final outcome was measured as the offer that either the participant or the landlord accepted.

### *Results and Discussion*

Extreme first offers led to more impasses: 28.8% (23 out of 80) of the participants who received an extreme first offer walked away from the negotiation immediately after receiving the first offer compared with only 13.8% (11 out of 80) of negotiators who received a moderate first offer (Table 1). Logistic regression analysis revealed that the odds of walking away increased by 1.60 (Wald = 5.24,  $p = .02$ ;  $CI_{95} = 1.07, 2.38$ ) when participants received an extreme offer compared to when they received a moderate offer. Neither the effect of power nor the first offer  $\times$  power interaction was significant (Wald = .54,  $p = .47$  and Wald = .07,  $p = .79$  respectively).

We suggested that extreme offers cause differential amounts of offense in low- vs. high-power negotiators or that low-power negotiators walk away when experiencing the same level of offense as high-power negotiators (because offense cues a flight response for low-power individuals but not for high-power ones). In analytical terms, this means that power moderates the relationship between extreme offers and offense or between offense and impasses.

We tested these two alternative explanations using moderated mediation analysis (Edwards & Schurer Lambert, 2007). To test the first explanation, we examined whether power moderated the relationship between first offers and offense. We only found a main effect of first offers: negotiators were significantly more offended by extreme first offers ( $M = 5.27$ ;  $SD = 1.56$ ) than by moderate first offers ( $M = 4.30$ ;  $SD = 1.87$ ),  $F(1, 156) = 12.52$ ,  $p < .01$  (Table 2).

Neither the main effect of power ( $p = .50$ ) nor the first offer  $\times$  power interaction ( $p = .72$ ) were significant predictors of offense. These results suggest that extreme first offers offended low- and high-power negotiators equally.

To test the second explanation, we tested whether power moderated the relationship between offense and impasses and did not find a significant offense  $\times$  power interaction (Wald = .30,  $p = .58$ ). Thus, power did not moderate either the relationship between extreme offers and offense or between offense and impasses.

Since we did not find any evidence for either of the two moderated mediation models, we investigated whether a simple “first offer  $\rightarrow$  offense  $\rightarrow$  impasses” mediation model is supported by our data (Baron & Kenny, 1986). First offers predicted impasses (Wald = 5.24,  $p = .02$ ) and the mediator, offense,  $\beta = .27$ ,  $p < .01$ . When first offers and offense were entered simultaneously, first offers reduced to marginal significance in predicting impasses (Wald = 3.00,  $p = .08$ ), but offense remained significant (Wald = 3.84,  $p = .05$ ). Bootstrap estimates of the indirect effect based on 5000 samples (Shrout & Bolger, 2002) revealed that the indirect effect of first offers on impasses via offense was significant ( $CI_{95} = .002, .329$ ), lending further support to this mediation.

We also explored the effects of extreme offers on counteroffers and final negotiated outcomes. We focus our analyses on final negotiated outcomes since they provide a more meaningful assessment of the true costs and benefits of extreme first offers and only provide information about counteroffers to establish that we find the reliable effect of anchors on counteroffers.

For counteroffers, we only had data for 126 (78.8%) participants because 34 participants walked away upon receiving the first offer. We replicated the common anchoring effect on counteroffers when we coded impasses as missing data (e.g., Galinsky & Mussweiler, 2001).

Extreme offers ( $M = \text{£}108.19$ ;  $SD = \text{£}47.93$ ) resulted in higher counteroffers than did moderate first offers ( $M = \text{£}87.90$ ;  $SD = \text{£}18.41$ ),  $F(1,122) = 10.56$ ,  $p < .01$ ,  $\eta^2 = .08$ .

For final outcomes, we only had data for 35 (21.9%) participants because 125 participants walked away or did not reach an agreement during the six rounds. Thirty (18.8%) participants were in the moderate first offer condition and only 5 (3.1%) were in the extreme first offer condition. We conducted three analyses to provide a more nuanced assessment of the true costs of impasses and their effect on final outcomes. In all analyses, individuals who did not come to an agreement after six rounds or moved on to another negotiator in any round other than the first round were treated as missing data because their lack of agreement was an artifact of the negotiation simulation. In the first analysis, when Round 1 impasses were coded as missing data (consistent with Galinsky & Mussweiler, 2001), extreme first offers ( $M = \text{£}228.00$ ;  $SD = \text{£}44.38$ ) resulted in significantly higher final outcomes than moderate first offers ( $M = \text{£}103.37$ ;  $SD = \text{£}17.67$ ),  $F(1,31) = 202.97$ ,  $p < .01$ ,  $\eta^2 = .87$ . When Round 1 impasses were coded as 0, extreme first offers ( $M = \text{£}40.71$ ;  $SD = \text{£}90.55$ ) resulted in significantly lower final outcomes than moderate first offers ( $M = \text{£}75.63$ ;  $SD = \text{£}48.75$ ),  $F(1,65) = 4.07$ ,  $p < .05$ ,  $\eta^2 = .06$ . Finally, when Round 1 impasses were coded as  $\text{£}80$ , the lowest final deal realized, there was no difference in final outcomes between extreme ( $M = \text{£}106.43$ ;  $SD = 60.20$ ) and moderate first offers ( $M = \text{£}97.10$ ;  $SD = \text{£}18.34$ ),  $F(1,65) = .86$ ,  $p = .36$ .

Findings from Experiment 1 show that extreme first offers led to more offense, which resulted in more impasses. Extreme offers resulted in higher counteroffers from people who stayed on to negotiate, replicating findings from previous negotiation studies. However, the benefit from these higher counteroffers needs to be weighed against the loss of potential negotiation partners. Final outcomes, which are a better measure of the efficacy of negotiation

tactics, were higher with extreme opening offers *only when* impasses were excluded from the analysis. When first offer-induced impasses were coded as £0 or £80, landlords were disadvantaged by making extreme offers or received no gain from them respectively.

Counter to our expectations, power moderated neither the effect of offers on participants' offense nor on impasse rates. This could be because our manipulation of low power was weak or because our structural manipulation of power was conflated with the extremeness of the offer, i.e., renters who did not have many alternatives may not have seen extreme offers as particularly extreme. Thus, we manipulated power as a psychological mindset in Experiment 2.

### Experiment 2

Experiment 2 continued to examine the impact of extreme first offers on impasses and used a different power manipulation to test our hypotheses about the moderating effect of power. We followed recent research which primes the mindset of low- and high-power individuals to study the psychological processes underlying the cognitions, affect, motives, and behaviors of powerful individuals (Keltner et al., 2003).

To examine the robustness of our findings, Experiment 2 used the same rental negotiation simulation as Experiment 1, but with a few changes. First, the experiment was conducted in Singapore with business school students who may have greater knowledge of and training in negotiations. Second, Experiment 1's random assignment of participants to counterparts may have resulted in more impasses than normal due to a lack of consistency pressures (Staw, 1981). In Experiment 2, participants chose their counterpart. Third, our performance incentive may have inadvertently increased risk-taking. Thus, Experiment 2 changed the incentives to lottery tickets (for chances of winning cash prizes) based on performance. Finally, Experiment 1 measured the mediator at the end of the negotiation simulation, which may have resulted in distal and distorted

reports. In Experiment 2, the offense mediator was measured before continuing with more rounds of negotiations. As such, we focus our analyses on impasses after the first offer and do not examine counteroffers and final negotiated outcomes as these may be biased by our post-offer questions.

### *Method*

#### *Participants and Experimental Design*

68 undergraduate business school students (41.2% men, mean age: 22.13 years,  $SD = 1.22$ ) engaged in this experiment for course credit in Singapore. To increase involvement in the negotiation, participants were informed that final negotiated rents would be converted to lottery tickets and that lower final deals would earn more lottery tickets and therefore create higher chances of winning one of five \$25 cash prizes. We used a 2 (first offer: extreme vs. moderate) x 2 (power: low vs. high) between-participants design.

#### *Procedure*

The materials in Experiment 2 were equivalent to those in Experiment 1 but adjusted to the Singaporean context. Because it is unusual for Singaporean undergraduates to negotiate the rent for an apartment, we asked these business school students to take on the role of a CEO negotiating the rent of an office building.

Prices were also adjusted to reflect local real estate prices: thus, participants expected to pay between \$34,000-\$56,000 weekly rent for each building. As in Experiment 1, participants were told they would have to add a small amount (\$500) to their final negotiated rent if they walked away from the negotiation.

After seeing the mock negotiation and a summary of the negotiation procedure, participants chose an office building/landlord to start their negotiations. Participants were then

informed that the landlord was preparing an offer. Upon seeing the first offer, participants chose to counteroffer (without indicating the actual counteroffer amount), walk away, or accept the offer and then responded to questions about the first offer.

*First offer manipulation.* The landlord's first offer was either extreme (\$112,000/week) or moderate (\$58,000/week).

*Power manipulation.* We used a power manipulation adapted from Blader & Chen (2010). Participants first read about the role of a CEO who was either high or low in power. For example, the CEO and their company had attained a great deal of (little) power and that they controlled a large (minor) amount of resources relative to other companies in their industry (Blader & Chen, 2010). Additionally, participants were asked to write a few sentences about what it would feel like to be the CEO in this high- or low-power position.

### *Measures*

*Manipulation check.* Participants indicated on a 7-point scale (from 1 = none at all to 7 = a lot) how much power they and their company had.

*Impasses.* As in Experiment 1, we only counted participants who walked away immediately after receiving the first offer.

*Offense.* As in Experiment 1, participants reported their offense by indicating on 7-point scales (from 1 = not at all to 7 = very much so) how insulted, angry, and annoyed they were with the first offer. Responses were averaged to form an index of offense (Cronbach's  $\alpha = .90$ ).

### *Results and Discussion*

Participants in the high power condition reported that they had more power ( $M = 5.79$ ,  $SD = 1.24$ ) than those in the low power condition ( $M = 3.62$ ,  $SD = 1.35$ ),  $t(66) = -6.89$ ,  $p < .01$ , demonstrating that our power manipulation was successful.

Consistent with findings from Experiment 1, extreme first offers led to more impasses: 30.3% (10 out of 33) of participants who received an extreme offer walked away from the negotiation immediately after receiving the first offer compared with only 11.4% (4 out of 35) of participants who received a moderate first offer (Table 3). Logistic regression analysis showed that the odds of walking away increased by 17.5 when the offers were extreme rather than moderate (Wald = 5.95,  $p < .05$ ;  $CI_{95} = 1.76, 174.42$ ). Power had no significant effect on impasses (Wald = .73,  $p = .39$ ), but there was a significant first offer x power interaction (Wald = 3.95,  $p < .05$ ). A contrast analysis showed that this interaction was caused by the high number of impasses when low-power negotiators received an extreme offer (53.8%) compared with impasses in the remaining experimental conditions (12.7%; Wald = 7.12,  $p < .01$ ; Table 3).

Next, we tested the explanations for why power affects the relationship among extreme offers, offense, and impasses using the same moderated mediation analyses as in Experiment 1.

We first tested whether power moderated the relationship between first offers and offense. We found that negotiators were marginally more offended by extreme ( $M = 5.19$ ;  $SD = 1.51$ ) than moderate ( $M = 4.42$ ;  $SD = 1.74$ ) first offers,  $F(1, 64) = 3.75$ ,  $p = .06$  (Table 4). Neither power ( $p = .98$ ) nor the first offer x power interaction ( $p = .82$ ) was significant, suggesting that extreme first offers were equally offensive to low- and high-power negotiators.

In the second analysis, we found that the power x offense interaction tended towards significance (Wald = 2.02,  $p = .16$ ). Given that interaction effects are generally difficult to detect in these analyses (Kiernan, Kraemer, Winkleby, King, & Taylor, 2001), we conducted a follow-up analysis using bias-corrected bootstrapped estimates to test the relationship between offense and walking away for high- and low-power negotiators separately. Results showed that the



offense caused by first offers led low-power negotiators to walk away more ( $CI_{95} = .003, .251$ )<sup>1</sup>, but not high-power negotiators ( $CI_{95} = -.101, .018$ ). This analysis provides some support for the hypothesis that the offense caused by extreme offers led to a flight response by low-power negotiators.

Experiment 2's results on impasses add confidence to our claim that extreme offers increase the risk of people walking away from negotiations. Additionally, power moderated the relationship between offense and impasses. It appears that power moderates the relationship by affecting who walks away from the negotiation following offense: all negotiators feel offended by extreme offers, but only offended low-power negotiators walk away from the negotiation.

### General Discussion

Although past research has repeatedly demonstrated the robust nature of anchoring first and aggressively in negotiations (Chertkoff & Conley, 1967; Galinsky & Mussweiler, 2001), findings from Experiments 1 and 2 show that “starting too high” with extreme offers may have detrimental effects for the negotiator making the first offer because extreme offers increase the risk of impasses. Additionally, across two experiments, we found that extreme first offers were offensive to both high- and low-power negotiators. Experiment 2 suggests that, although extreme offers offended all negotiators equally, only low-power negotiators reacted by leaving the focal negotiation.

Finally, Experiment 1 found that extreme offers anchored counteroffers and final outcomes, bringing value to the offerer *only if* the deal was completed. If impasses are coded as zero or as the lowest final deal realized, extreme offers bring no value or actually result in poorer final outcomes to the offerer. This finding should be interpreted with caution given the small and

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<sup>1</sup> Bias-corrected 95% confidence intervals were derived through OLS estimates for 1<sup>st</sup> and 2<sup>nd</sup> stage equations. The estimates for linear and logistic regression analyses were comparable.

uneven sample size due to impasses or otherwise missing data.

The current research has contributed theoretically to our understanding of extreme anchors in interpersonal interactions with power differences, empirically by designing a more realistic experimental paradigm for studying negotiations, and practically by highlighting the dangers of extreme offers.

Theoretically, we examine an important economic outcome – impasses – which is understudied (Babcock & Loewenstein, 1997) and often ignored (e.g., Galinsky & Mussweiler, 2001). Additionally, extreme and implausible anchors, which are linearly and positively correlated with intrapsychic judgments (e.g., Mussweiler & Strack, 2001), do not seem to have similar effects in negotiations. Unlike other situations where anchors affect individuals' intrapsychic cognitions and judgments, extreme first offers in negotiations generate additional interpersonal emotional reactions that can lead to detrimental outcomes: extreme first offers offend recipients, which leads negotiators to seek better outcomes elsewhere. Thus, rather than gaining an advantage by affecting the recipient's beliefs about what is appropriate and possible in negotiations, extreme anchors may have the reverse effect of leaving the offerer without a deal. Examining the effects of anchors and other cognitive biases in interpersonal and social contexts may thus be an interesting avenue for future research.

Experiment 2 also points to the interesting possibility that although all negotiators are offended by extreme offers, power moderates how negotiators respond: low-power negotiators interpret offense as a signal to move away from an aversive situation (Keltner, Young, Heerey, Oemig, & Monarch, 1998), but high-power individuals who feel the same emotion don't move away. Recent findings (Keltner et al., 2003) suggest that power changes how people process information (Fiske, 1993; Smith & Trope, 2006; Guinote, 2007a). Our results suggest that we can

expand the domain of information processing to include internal, psychological states such as emotions. Additionally, although our findings show that low-power negotiators are offended *by the first offer* (and walk away to find another deal), future research should consider the circumstances under which high-power individuals will walk away. For instance, if high-power individuals feel *personally* offended by the offerer's lack of respect, they may be more likely to walk away.

These theoretical insights have been accompanied by empirical contributions. By providing negotiators with the opportunity to negotiate with an alternative counterpart when unsatisfied with the current one, our experiments have created more ecologically-valid negotiation interactions. In doing so, they have highlighted the limitation of existing paradigms, which have masked the possibility of impasses (e.g., Galinsky & Mussweiler, 2001). Coding the small number of impasses typically found in negotiation studies as missing data may not be a problem if impasses are indeed rare. However, given our results, it appears that impasses may not be uncommon when using ecologically-valid negotiation paradigms. Thus, findings from previous studies that have coded impasses as missing data may have concealed the financial costs of starting too high.

Practically, our experiments highlight the risk associated with anchoring too aggressively in negotiations: The risk-return perspective suggests that any increase in risk should be compensated with an increase in final outcomes (Markowitz, 1959). From this perspective, the increased risk of impasses associated with extreme first offers along with our finding that final outcomes remain equal on average indicates that the tactic of opening with extreme offers is not a good one for offerers. Additionally, we investigated the role of power in negotiations. Rather counter-intuitively, our results suggest that negotiators need to be particularly careful not to be

too aggressive when negotiating with low-power counterparts as extreme behaviors may lead them to walk away from the negotiation, leaving offerers without a deal.

### Conclusion

The current research demonstrates that the robust effects of extreme and implausible anchors in judgmental and behavioral tasks do not apply in a straightforward manner to negotiations. By considering the interpersonal effects generated by anchors and by creating a marketplace of buyers and sellers, our work suggests that extreme first offers can be risky in negotiations because they offend recipients and increase the risk of impasses. Additionally, by examining the moderating role of power, we see that low-power negotiators who receive extreme offers may be the most likely to walk away from the negotiation.

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Table 1

Number and percentage of impasses immediately after receiving the first offer (Experiment 1)

First offer	Power		
	Low	High	
Moderate (£140)	6 (14.6%)	5 (12.8%)	11 (13.8%)
Extreme (£280)	13 (32.5%)	10 (25.0%)	23 (28.8%)
	19 (24.1%)	15 (18.5%)	

Table 2

Mean and Standard Deviation for feelings of offense (Experiment 1)

	Power	
	Low	High
Moderate (£140)	4.26 (1.93)	4.34 (1.83)
Extreme (£280)	5.13 (1.57)	5.51 (1.55)

*Note.* Standard deviations are reported in parentheses.

Table 3

Number and percentage of impasses immediately after receiving the first offer (Experiment 2)

First offer	Power		
	Low	High	
Moderate (\$58,000)	1 (6.3%)	3 (15.8%)	4 (11.4%)
Extreme (\$112,000)	7 (53.8%)	3 (15.0%)	10 (30.3%)
	8 (27.6%)	6 (15.4%)	

Table 4

Mean and Standard Deviation for feelings of offense (Experiment 2)

	Power	
	Low	High
Moderate (\$58.000)	4.36 (1.87)	4.25 (1.55)
Extreme (\$112.000)	5.18 (1.74)	5.19 (.74)

*Note.* Standard deviations are reported in parentheses.