

## Initiating Salary Discussions With an Extreme Request: Anchoring Effects on Initial Salary Offers<sup>1</sup>

TODD J. THORSTEINSON<sup>2</sup>

*Department of Psychology and Communication Studies  
University of Idaho*

Two studies were conducted to examine the effects of implausible anchors on initial salary offers. Participants provided a salary offer to a candidate after receiving a relevant anchor and an implausible anchor. The results of Study 1 indicated that a high implausible anchor influenced salary offers, even in the presence of the relevant anchor. Study 2 examined whether a more extreme implausible anchor would also affect salary offers. The results indicated that both the high anchor and the extremely high anchor led to higher salary offers than did the control condition.

In baseball's offseason of 2009, Scott Boras, the agent for baseball free agent Manny Ramirez, reportedly told teams that his client expected a contract of \$100 million over 4 years (Schmidt, 2009). This extreme contract demand may have acted as an anchor, which teams may have used to determine an appropriate counteroffer. Making an extreme initial offer or demand can be effective in negotiations, as it can serve as the anchor for a counteroffer (Galinsky, Leonardelli, Okhuysen, & Mussweiler, 2005; Galinsky & Mussweiler, 2001; Magee, Galinsky, & Gruenfeld, 2007; Ritov, 1996). However, this tactic is not without risks, as the other party may choose to end negotiations, believing that the first party is unwilling to negotiate seriously (Lewicki, Barry, & Saunders, 2010). When Manny Ramirez signed a 2-year contract for \$45 million with the Los Angeles Dodgers, it was believed that the Los Angeles Dodgers were the only team actively pursuing the player (Witz, 2009).

Most job candidates lack the leverage in salary negotiations that an elite professional athlete possesses, especially in the current job market. Job candidates may be reluctant to initiate salary negotiations for fear that the employer may end negotiations (e.g., because the candidate's salary demands are too high), or they may fear providing a salary expectation that is lower

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<sup>2</sup>Correspondence concerning this article should be addressed to Todd J. Thorsteinson, Department of Psychology and Communication Studies, P.O. Box 443043, University of Idaho, Moscow, ID 83844-3043. E-mail: tthorste@uidaho.edu

than what the employer is willing to pay. However, if a job candidate waits for the employer to initiate salary negotiations, the employer has the ability to set the anchor with their initial offer.

Although research has examined the effects of anchoring in negotiations (e.g., Galinsky & Mussweiler, 2001), the effects of anchors have not been examined in salary negotiations. In addition, research on anchoring in negotiations has primarily examined relevant anchors (for an exception, see Whyte & Sebenius, 1997) and has not focused on how implausible anchors may affect salary negotiations. The purpose of the present research is to examine how implausible anchors may affect initial salary offers, even in the presence of relevant anchors. In the sections that follow, research on negotiations and how anchoring may affect salary negotiations is discussed.

### Anchoring in Negotiations

Research on judgment and decision making has documented the robust effects of irrelevant anchors on numeric estimates (Chapman & Johnson, 2002; Jacowitz & Kahneman, 1995; Tversky & Kahneman, 1974). Anchoring has been found to occur for many types of judgments, such as housing prices (Northcraft & Neale, 1987), willingness to pay for consumer products (Ariely, Loewenstein, & Prelec, 2003; Nunes & Boatwright, 2004), and sentencing decisions (Englich & Mussweiler, 2001).

Anchoring effects are also likely to occur in negotiations. Research on negotiations has demonstrated that extreme initial offers can lead to larger final offers than more moderate initial offers (Benton, Kelley, & Liebling, 1972; Chertkoff & Conley, 1967). First offers may serve as an anchor for a counteroffer (Galinsky et al., 2005; Galinsky & Mussweiler, 2001; Magee et al., 2007; Ritov, 1996). Galinsky and Mussweiler randomly assigned participants to play the role of buyer or seller and to negotiate the purchase of a pharmaceutical plant. An anchoring effect was found, such that the purchase price was higher when the seller made the first offer, compared to when the buyer made the first offer.

Anchoring may be an important mechanism in the establishment of starting salary offers. Bazerman (2006) speculated that a job applicant's current salary may serve as an anchor for a potential employer when determining what they should offer the job applicant. Alternatively, a job applicant's pay expectations may serve as an anchor (Major, Vanderslice, & McFarlin, 1984). Major et al. asked participants to examine the credentials of a fictional applicant, who had provided his or her pay expectations. Participants recommended a higher salary for applicants who provided higher salary expectations than applicants who had provided lower salary expectations.

However, these anchors could be seen as relevant, as they may be appropriate pieces of information to consider when deciding on a candidate's salary. Anchoring research in the judgment and decision-making literature has focused on anchors that are clearly irrelevant (Chapman & Johnson, 2002; Tversky & Kahneman, 1974), but the effects of irrelevant anchors in the context of a salary negotiation have not been examined.

### *Plausible and Implausible Anchors*

Job candidates may want to initiate salary negotiations so that their salary request serves as the anchor for a counteroffer. However, employers may react negatively to candidates who initiate salary negotiations, especially women candidates (Bowles, Babcock, & Lai, 2007). Incorporating a joking comment about implausible salary expectations may be a relatively easy way for job candidates to establish a high anchor and minimize negative reactions from employers.

Research on anchoring effects has shown that implausible anchors can affect people's judgments (Mussweiler & Strack, 1999, 2001; Strack & Mussweiler, 1997). Bazerman (2006) speculated that "any anchor that creeps into the discussion is likely to have an inappropriate effect on the eventual offer, even if the anchor is 'ignored' as being ridiculous" (p. 30).

O'Quin and Aronoff (1981) found that humor was an effective tactic in a two-person negotiation context. In their study, one of the negotiators was a confederate of the experimenter. After the two parties negotiated a price for a painting that was within \$10,000, the confederate provided a final offer. The confederate's final offer was delivered without humor ("Well, my final offer is \$\_\_\_") or with humor (the confederate smiled and said, "Well, my final offer is \$\_\_\_, and I'll throw in my pet frog"). The size of the final offer varied, so the participant was asked to make a small, medium, or large concession. Humor was found to be effective, as it elicited a larger proportional concession from the participant than did the offer that was delivered without humor. The size of the demand also had an effect, such that a small demand produced a higher proportional concession than did a high demand. However, there was no interaction between humor and demand, indicating that the effectiveness of humor was similar across the different levels of demands. Humor may be an effective way for job candidates to introduce outrageous or implausible anchors.

### *Multiple Anchors in Negotiations*

Providing an implausible starting salary may not have an effect if employers anchor on other information, such as the job candidate's current salary or