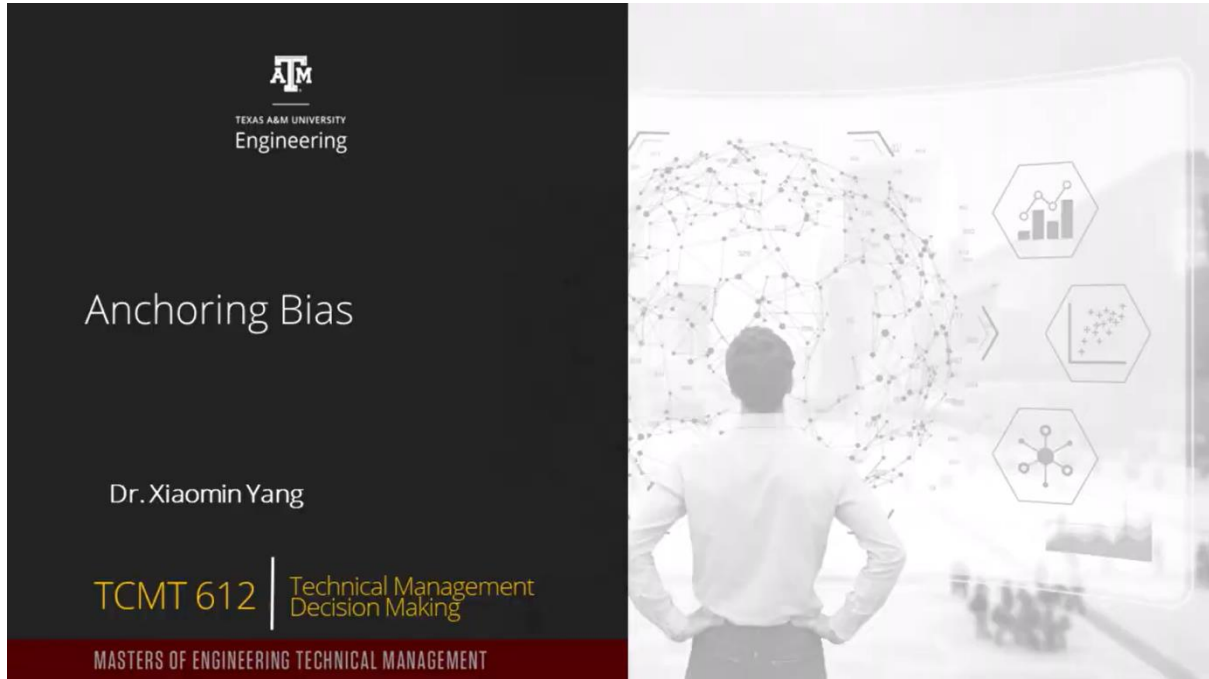


M2L4. Anchoring Bias

Slide #1



The slide cover is divided into two main sections. The left section is a dark grey rectangle containing the Texas A&M University Engineering logo at the top, followed by the title 'Anchoring Bias' in white, the name 'Dr. Xiaomin Yang', and the course information 'TCMT 612 | Technical Management Decision Making' in yellow and white. A red banner at the bottom of this section reads 'MASTERS OF ENGINEERING TECHNICAL MANAGEMENT'. The right section is a light grey image showing a person from behind, standing in front of a large digital screen. The screen displays a complex network diagram with a central node and many connecting lines, along with several hexagonal icons containing different symbols like a bar chart, a line graph, and a network diagram.

ATM
TEXAS A&M UNIVERSITY
Engineering

Anchoring Bias

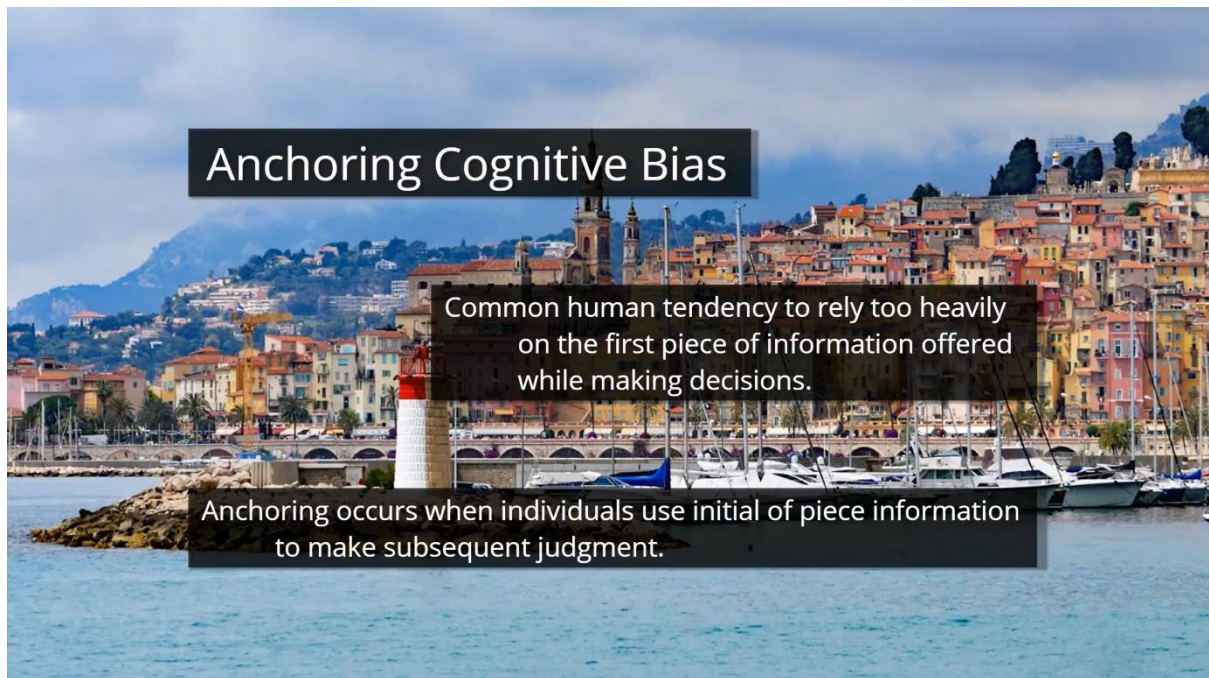
Dr. Xiaomin Yang

TCMT 612 | Technical Management
Decision Making

MASTERS OF ENGINEERING TECHNICAL MANAGEMENT

In this topic, we will discuss anchoring bias.

Slide #2



Anchoring Cognitive Bias

Common human tendency to rely too heavily on the first piece of information offered while making decisions.

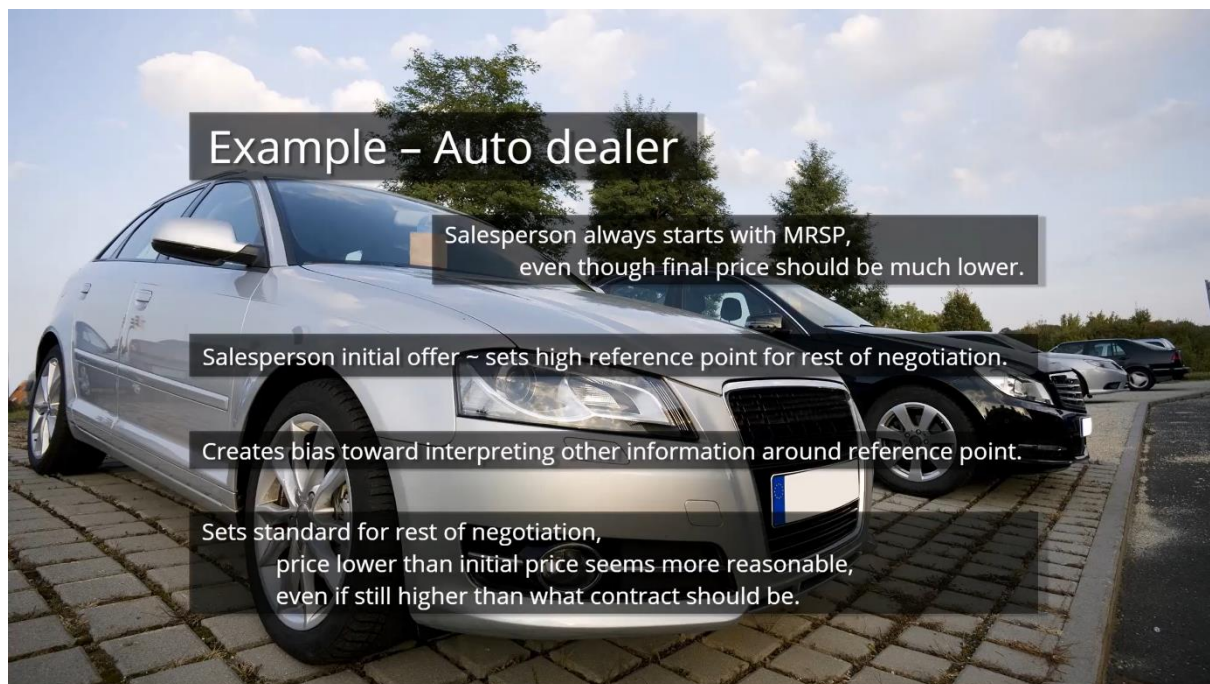
Anchoring occurs when individuals use initial of piece information to make subsequent judgment.

Anchoring is another cognitive bias.

Anchoring describes the common human tendency to rely too heavily on the first piece of information offered while making decisions.

When making decisions, anchoring occurs when individuals use an initial piece of information to make subsequent judgments.

Slide #3



For example, when we go to an auto dealer to purchase a new car, the salesperson always starts with the manufacturer's recommended sale price, even though we all know the final price should be much lower than the MRSP.

However, the salesperson's initial offer sets a high reference point for the rest of the negotiation.

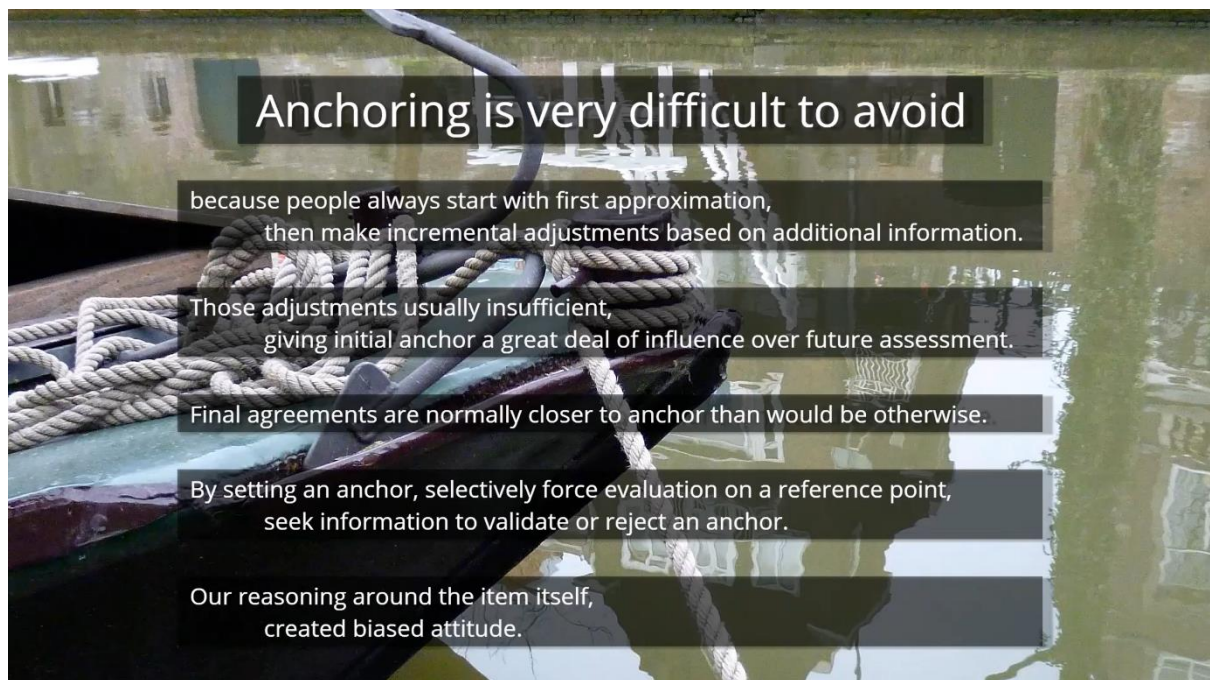
Once an anchor is set, our judgments are made by adjusting away from the reference point.

That creates a bias toward interpreting other information around a reference point.

After the initial price is offered for a new contract, it sets the standard for the rest of the negotiation.

So, the price lower than the initial price seems more reasonable, even if it is still higher than what the contract should be.

Slide #4



A lot of studies have shown that anchoring is very difficult to avoid because people always start with the first approximation and then make incremental adjustments based on additional information.

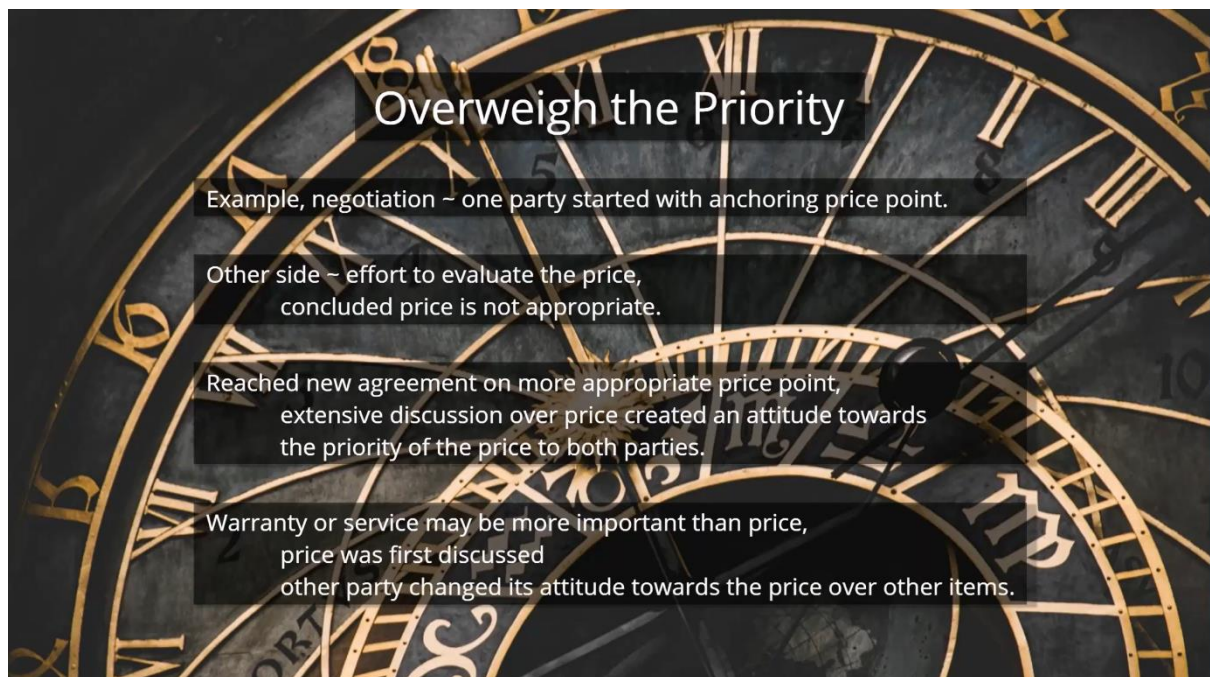
Those adjustments are usually insufficient, giving the initial anchor a great deal of influence over the future assessment.

This results in final agreements that are normally closer to the anchor than would be otherwise.

By setting an anchor, a person will selectively force his valuation on a reference point and seek information to validate or reject an anchor.

Even though we reject an anchor, our reasoning around the specific item itself has created a biased attitude.

Slide #5



The decision maker may overweigh the priority of that specific item.

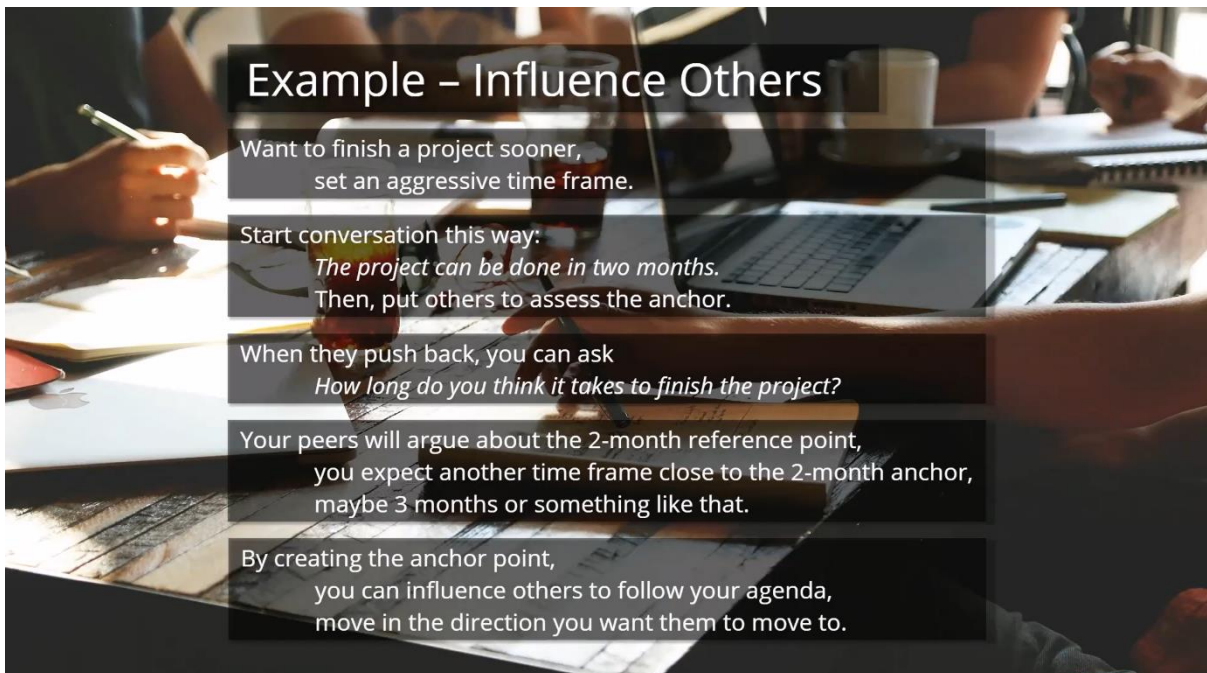
For example, in negotiation, one party starts with an anchoring price point.

The other side spends significant effort to evaluate the price and concludes that the price is not appropriate.

Even though they reached a new agreement on a more appropriate price point, their extensive discussion of the price created an attitude toward the priority of the price to both parties.

Other items, such as warranty or service, may be more important than price, but because the price was first discussed, the other party changed its attitude towards the price over other items.

Slide #6



Example – Influence Others

Want to finish a project sooner,
set an aggressive time frame.

Start conversation this way:
The project can be done in two months.
Then, put others to assess the anchor.

When they push back, you can ask
How long do you think it takes to finish the project?

Your peers will argue about the 2-month reference point,
you expect another time frame close to the 2-month anchor,
maybe 3 months or something like that.

By creating the anchor point,
you can influence others to follow your agenda,
move in the direction you want them to move to.

You can use the anchoring effect to influence others to move toward the direction you want them to move.

For example, if you want to finish a project sooner than later, you want to set an aggressive time frame, you can start the conversation this way.

The project can be done in two months, and then you put others to assess the anchor.

When they push back, you can ask how long do you think it takes to finish the project.

Very likely, your peers will argue with you about the two-month reference point, and you will expect them to come up with another time frame close to the two month anchor, maybe three months, or something like that.

By creating the anchor point, you can influence others to follow your agenda and move in the direction you want them to move in.