

# The Effect of Past Performance on Expected Control and Risk Attitudes in Integrative Negotiations

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## Abstract

Three experiments examine the relationship between past performance and strategies and risk attitudes in integrative negotiations. We hypothesized that past performance would affect negotiators' willingness to embrace two types of risk: strategic (i.e., information sharing in the present) versus contractual (i.e., uncertainty about the future). Consistent with the hypothesis that past success promotes strategic risk taking, dyads with a history of success were more integrative than dyads with a history of failure in Experiment 1. In Experiment 2, we demonstrated that past performance impacts intentions regarding these two types of risk. Specifically, due to lower expected control over the negotiation process, past failure led negotiators to prefer a contractual risk strategy over a strategic risk strategy. In Experiment 3, we explored one implication of this tendency by showing a greater willingness of past failure negotiators to enter into a contingent agreement, which delays the outcome of the deal until a future point in time. Together these findings indicate that past performance influences not only the *amount* of risk negotiators assume but also the *type* of risk they are willing to embrace.

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A negotiator facing a challenging negotiation may question whether she has what it takes to succeed. If she chooses to focus on how well her last negotiations have unfolded, she may perceive the current negotiation as an opportunity to do even better. In contrast, if she chooses to focus on how poorly her last negotiations have unfolded, she may view the current negotiation as an opportunity to recoup her losses. From a purely rational economic perspective, the parameters of the current negotiation, which are set by the best alternatives to a negotiated agreement of each negotiating party, are exactly the same in each case. Yet, it is easy to imagine that the negotiator's frame of mind will vary across these two instances. The negotiator who views her past performance as quite successful might believe that she has a strong command of the negotiation process, enabling her to share information confidently to craft the necessary trade-offs to reach an integrative agreement. In contrast, the negotiator who views her past performance as unsuccessful might believe that she has relatively little control over the negotiation process, thereby attracting her to negotiation agreements that delay resolution until a future point in time.

In the current paper, we examine how considerations of past performance impact current negotiations. Specifically, we explore how the success versus failure of past performance impacts negotiators' risk attitudes and success at creating value. In so doing, we make several contributions to the literature. First, we demonstrate that negotiators are affected by considerations of past performance. Second, we show that success breeds success when it comes to making trade-offs because past success leads negotiators to enjoy a greater sense of control over the negotiation process than past failures. Third, we show that past performance influences attitudes towards risk in integrative negotiations. Finally, we show that past failure promotes the construction of contingent agreements, a bargaining technique for overcoming barriers to agreement.

## A Temporal Perspective in Negotiations

In reading the empirical literature on negotiation, one might assume that the behavior and outcomes of negotiators at one point in time are inconsequential for their behavior and outcomes in a subsequent, unrelated negotiation. Classic negotiation theory (Raiffa, 1982; Walton & McKersie, 1965), with its root in game theoretic bargaining models, considers factors that are unrelated to alternatives and reservation prices or aggregated market equilibrium to be irrelevant to predicting negotiation behavior. Accordingly, the vast majority of research on the topic of behavioral negotiations examines one-shot negotiations. Most research in this vein examines the impact of various situational and individual difference variables on individual and joint outcomes in a one-shot negotiation context. Whereas this approach has shed much light on the cognitive biases and motivations of individual negotiators at a single point in time, it fails to capture the reality that negotiators bring their previous experiences, both successes and failures, with them to the bargaining table and that these experiences guide their behavior.

Researchers have recently begun to investigate the host of factors that have an impact over time on negotiation processes and outcomes. Specifically, negotiations are impacted by relationships (Greenhalgh & Chapman, 1998; Valley, Neale, & Mannix, 1995),

reputations (Boles, Croson, & Murnighan, 2000; Diekmann, Tenbrunsel, & Galinsky, 2003; Tinsley, O'Connor, & Sullivan, 2002), and repeated interactions (Seale, Daniel, & Rapoport, 2001). Consistent with the idea that what negotiators do at one point in time can have consequences for how they subsequently think, feel, and act, O'Connor and Arnold (2001) demonstrated that negotiators who just experienced an impasse fell prey to a *distributive spiral*, as evidenced by their reduced intentions to be cooperative in a future negotiation, even though the two negotiations were completely independent. In a follow up investigation, O'Connor, Arnold, and Burris (2004) found that impasses at one point in time led to more impasses on a subsequent, unrelated negotiation. When negotiators who had previously failed to reach a deal managed to reach agreement in a subsequent negotiation, they obtained lower joint outcomes compared to negotiators who had not previously failed to reach a deal.<sup>1</sup> The reduced self-efficacy inspired by past failures impaired negotiators' subsequent bargaining performance (O'Connor & Arnold, 2001).

Beyond the negotiations literature, decision theorists have recognized that decision makers' histories impact current decision-making. The term "decision framing" describes "that portion of (an individual's previous) knowledge...that the decision-maker brings to bear on the particular situation in order to endow that situation with meaning" (Beach & Mitchell, 1998, p. 13). Consistent with this idea, Thaler and Johnson (1990) observed that risk-taking behavior was affected by prior gains and losses. Specifically, they documented a "house money effect" in which risk seeking increased following prior gains and a "break-even effect" in which outcomes that offered a chance to break even were especially attractive following prior losses. This research builds on prospect theory (Kahneman & Tversky, 1979) and its recognition that choices are influenced by the manner in which options are coded and edited. In general, this body of research suggests that past performance impacts how much risk decision-makers embrace. In the current research, we consider not just how much risk negotiators are willing to assume, but rather the type of risk that they incorporate into their integrative bargaining strategy.

## Two Types of Risk in Negotiations

The central question of the current research is what effect considerations of past performance have on negotiators' current risk attitudes and performance. We distinguish between two types of risk that are relevant to negotiations. First, *strategic risk* concerns the exposure negotiators experience when they share information about their preferences and priorities (Roth, 1977). Negotiators who share information about their preferences and priorities run the risk of being exploited during the negotiation process by a party who is willing to engage in contentious bargaining tactics (Pruitt & Rubin, 1986). For example, one party can falsely claim that he cares as much about an issue as the focal negotiator and fake a concession on this issue in exchange for a concession on another

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<sup>1</sup>Although impasses are a rational outcome when a better alternative exists to what is being offered in the current negotiation, and in that sense could be considered a success, negotiators tend to encode impasses psychologically as failures (O'Connor & Arnold, 2001).

issue in which the two negotiators' priorities truly are identical. Despite the risk inherent in disclosing information, negotiators who do so are better able to create joint value by constructing mutually beneficial agreements (Thompson, 1991).

In contrast to strategic risk's emphasis on sharing information in the present, *contractual risk* concerns the exposure negotiators face when uncertainty about the future exists (Bottom, 1998). Contractual risk derives from two factors (Ring & Van de Ven, 1994). First, the value of negotiation agreements is often not fully known at the time in which an agreement is made. For example, a buyer of a new technology may negotiate a purchase price on the assumption that the technology will be widely disseminated while also recognizing that how the product actually performs in the marketplace will not be known until a future point in time. Second, the possibility exists that one's negotiating partner will not honor the terms of the agreement at some point in the future. Despite these possible negative consequences, a willingness to embrace contractual risk can facilitate integrative agreements by allowing negotiators to avoid impasses and instead build on their different predictions of the future (Bazerman & Gillespie, 1999).

## Past Performance and Risk Attitudes

In developing our hypotheses concerning the relationship between past performance and risk attitudes, we consider the role of self-efficacy. Negotiators who have recently experienced a negotiation impasse, which often gets encoded as a failure even when it is the rational conclusion to a negotiation, have been shown to feel less self-efficacy compared to negotiators who have recently reached an agreement (O'Connor & Arnold, 2001). Building on this observation, we expected negotiators whose recent negotiation failures are made salient will experience lower bargaining self-efficacy and sense of control over the negotiation process and may thereby be reluctant to embrace the risk inherent in sharing information at the bargaining table. As a result, we expected past failures to limit the attractiveness of strategic risk and therefore impair negotiators' attempts at creating value through trade-offs compared to negotiators who have experienced recent successes.

In contrast to the negative effect of failure on attitudes towards strategic risk, we expected past failure to increase negotiators' willingness to embrace contractual risk for two reasons. First, contractual risk often derives from factors that are unknown or uncontrollable during the negotiation (Bottom, 1998), which is congruent with the loss of perceived control experienced after failure. Second, contractual risk often means delaying an outcome until the future, which might be particularly appealing to negotiators who are concerned about their current negotiating ability. Overall, we expected past failure to promote contractual risk taking and to facilitate integrative agreements by allowing negotiators to build on their different beliefs about the future, such as through a contingent agreement (Bazerman & Gillespie, 1999). We hypothesized that expectations of control would mediate the relationship between past performance and risk attitudes.

We deviated from previous research that had negotiators actually experience an impasse in an initial negotiation by simply emphasizing recent success versus failures of

a negotiation role. Because experiencing an entire negotiation prior to a critical second negotiation renders it impossible to control for all variables, such as skill, motivation, and mood, that could increase the similarity between negotiation experiences over time, in the current research we simply primed negotiators' previous experiences. Because our manipulation blatantly activated a hypothetical performance history, we expected any impact that it had on risk attitudes and integrative negotiations would result from the stored knowledge that was made accessible by our manipulation (Higgins, 1996). Essentially, we expected to activate beliefs and attitudes that would be consistent with past negotiation success versus failure. In so doing we were able to eliminate the possibility that third variables were accounting for the effect of past performance on current risk attitudes.

## Overview

We conducted three experiments to explore whether considerations of past performance affect attitudes towards risk in integrative negotiations. Experiment 1 was designed to conceptually replicate and extend the work of O'Connor et al. (2004) by demonstrating that considering past negotiation successes increases joint gain relative to considering past negotiation failures. In Experiment 2, we explored the effect of past negotiation performance on the type of risk that negotiators are willing to accept. In this experiment, we also found that negotiators' perceptions of control mediate the relationship between past experiences and risk preferences. Experiment 3 explored whether past negotiation failures increase negotiators' willingness to construct a contingent contract, or a bet that makes the ultimate outcome dependent on some future event. Overall, the present set of studies demonstrate that the consideration of past negotiation performance has predictable effects, some beneficial and some detrimental, on a range of integrative negotiation strategies.

## Experiment 1

The first experiment explored whether past negotiation successes would lead to higher joint gain in a present negotiation than would past negotiation failures. Rather than adopting the approach employed by O'Connor and Arnold (2001) in which negotiators actually experienced a negotiation success or impasse, in the current experiment we took a subtler approach by informing negotiators of the recent successes versus failures of their negotiation role and then having them engage in an integrative negotiation task. One advantage of this approach is that it allows us to avoid equating impasses, which can be a successful outcome in relation to an agreement below one's BATNA, with failure. In addition, this approach allows us to rule out the possibility that successful negotiators bring better skills to the table than unsuccessful negotiators. To test our hypothesis, both members of the negotiating dyad received the same success versus failure prime. Consistent with O'Connor et al. (2004), our key dependent variable was joint gain, or the sum of the two negotiators' outcomes.

## Method

### *Participants and Design*

Participants were 38 MBA students who were enrolled in a course on negotiations. The experiment was conducted in the fifth week of the course. Nineteen dyads took part in the negotiation. The experiment had a single-factor, between-subjects design with two levels of past performance (success versus failure).

### *Procedure and Stimulus Materials*

A week before the negotiation exercise took place, each of the participants was given a confidential packet of materials describing their role in and the general nature of the upcoming negotiation exercise. At the time that participants prepared for the negotiation, they were not told who their partner would be for the actual negotiations. The negotiation involved the selling and purchasing of a syndicated television show (Tenbrunsel & Bazerman, 1997). The price per episode of the show was a distributive issue. Two integrative issues were also included.<sup>2</sup> The financing of the package was more important to the seller whereas the number of times each episode could be aired was more important to the buyer. By making a trade-off on these issues, value could be created. The range of possible outcomes was \$0-\$5.08. Participants were given one hour to complete the negotiation.

### *Experimental Manipulations*

The packet of materials also contained the key experimental manipulations. Both members of each dyad were given the same past performance condition. All negotiators were told, "After each deal that you complete, your manager ranks your performance relative to other negotiators within the organization according to standard criteria, such as where the agreement lies in relation to your reservation price and target. Of course, raises and bonuses within the organization are determined in part on the basis of these figures." Negotiators who were randomly assigned to the *past success* condition were then told, "Your performance so far this year has been particularly impressive, so anything that you negotiate now is just 'icing on the cake'." Negotiators who were randomly assigned to the *past failure* condition were told, "Your performance so far this year has been particularly dismal so anything that you negotiate now is potentially a step toward getting you 'out of the red'."

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<sup>2</sup>Readers familiar with this exercise will also know that it was possible for participants to construct a contingent agreement, which is our key dependent variable in Experiment 3. We do not discuss this variable in the current experiment because virtually no dyads included one. This floor effect is consistent with our experience administering this exercise in MBA negotiation courses. The idea of constructing a contingent agreement is not obvious to lay negotiators and only occurs once the idea has been introduced and demonstrated in class (which had not occurred prior to the current experiment).

## Results and Discussion

All dyads reached an agreement. We hypothesized that dyads in the past success condition would achieve higher integrative outcomes than past failure dyads. To test this hypothesis, we conducted a one-way ANOVA on the overall value of the deal. As expected, past success negotiators ( $M = \$4,611,850$ ,  $SD = 495,071$ ) achieved higher joint outcomes than past failure negotiators ( $M = \$4,046,722$ ,  $SD = 499,610$ ),  $F(1, 17) = 6.1$ ,  $p < .05$ .

Negotiators created more value when they came to the table with a history of success than with a history of failure. The finding that joint gain was affected by considerations of past performance suggests the negotiation process was influenced by the cognitions negotiators brought with them to the bargaining table. The current findings build on the work of O'Connor et al. (2004) by demonstrating that activating beliefs about past negotiation success versus failure is sufficient to influence integrative outcomes. Because both negotiators were randomly assigned to conditions, we can be assured that negotiators reminded of past successes did not enter the negotiation with a higher skill set than negotiators reminded of past failures. Instead, we argue that they differed in their attitude toward sharing information which positively impacted joint gain. In the next experiment, we explored whether past performance impacts risk attitudes.

## Experiment 2

In the current experiment, we sought direct evidence that negotiators' risk attitudes are affected by past performance by exploring negotiators' strategic intentions prior to a hypothetical negotiation. Another goal of the current experiment was to examine whether perceived control mediates the relationship between past performance and risk attitudes. As argued by O'Connor and Arnold (2001), a defining characteristic of self-efficacy is the belief in the ability to exercise control over events (Bandura, 1982). Following failure, individuals have a strong tendency to make external attributions in order to preserve self-esteem (Lee & Tiedens, 2001; Weiner, Amirkhan, Folkes, & Verette, 1987) and external attributions indicate a lack of control over the situation (Lee & Robinson, 2000). Each of these factors led us to predict that past failure negotiators would expect to have less control over current negotiations than past success negotiators.

To test these hypotheses, we provided negotiators with information about their past negotiation performance in a manner similar to Experiment 1. Following the past performance manipulation, individuals then indicated their perceptions of control, a critical aspect of self-efficacy that we expected to relate to risk preferences. Finally, they chose between two negotiation strategies consistent with strategic versus contractual risk. The former strategy pertained to the sharing of information in the upcoming negotiation and the latter pertained to relying on forecasts of the future to determine an agreement's value.

## Method

### *Participants and Design*

Participants were 99 undergraduate business students at a large western university. Participants took part in an experiment on negotiations in partial fulfillment of course credit. In addition to completing the scenario questionnaire pertinent to the current study, participants completed several other unrelated tasks. The experimental design included past performance (success versus failure) as a between-subject factor. Participants randomly received either the theater manager or sales manager role in the scenario they read.

### *Scenario*

The scenario described a negotiation between the sales manager of a theater production company and the manager at a local theater regarding the production of an off-Broadway show. All participants were told that the sales manager and theater manager had agreed that the show would be a co-production, which meant that both parties would expect to share costs and potential profits. The scenario described that the two parties had been discussing how to divide costs and potential profits for several weeks, and that both parties wanted to agree to a price to bring the show to the theater. The price was expected to reflect the expected ticket sales and profits.

At this point, the past performance manipulation occurred. Participants in the *past success* condition read:

So far this year, you have done a fantastic job booking shows and you have made money. This means that the theater (production company) has made money and you personally will benefit from the money that you have made. Further, this means that you have already exceeded expectations for yearly profits, and therefore any profits attained for booking the current production will just be “icing on the cake”. Regardless of these recent successes, it is critical that you book a show for the theater (this show) for the week in question.

Participants in the *past failure* condition read:

So far this year, you have done a miserable job booking shows and have lost money. This means that the theater (production company) has lost money and that you personally will not have the money that you might have made. Further, this means that you have already failed to reach minimal expectations for yearly profits, and therefore any profits attained for booking the current production will be a step toward getting you “out of the red.” Regardless of these recent failures, it is critical that you book the theater (this show) for the week in question.

All participants were told that, in preparation for the upcoming negotiation between the two parties, they would need to decide on an appropriate risk management strategy given their current financial position. Participants were reminded that negotiations involve uncertainty “because it is difficult to be certain how your negotiating partner will use the information you reveal or whether the forecasts that you use to determine your bargaining position are accurate.” Two risk strategies were then described that corresponded to strategic risk and contractual risk, respectively:



The risk of laying the cards on the table: This type of risk involves the possibility of the other negotiator taking advantage of information that you reveal about your preferences and priorities among issues. For instance, if you were buying a car and let the dealer know you really wanted one specific color, the dealer might charge you a higher price for a car with the color that you want than the dealer would if he/she thought you were flexible about the color issue and your heart was not set on any particular car.

The risk of rolling the dice: This type of risk involves the possibility that you are led astray because the estimates on which you base your negotiating preferences are inaccurate. For example, you were willing to buy Car A at a higher price than Car B because you believed Car A would retain its value and command a higher resale value than Car B. Because the actual resale values of the two cars will not be known until the future unfolds, you may end up overpaying for Car A relative to Car B.

### ***Dependent Variables***

Our primary dependent variable was a dichotomous variable that assessed which of the two types of risk, labeled “laying your cards on the table” versus “rolling the dice,” was more acceptable as a negotiating strategy given the current financial position. Immediately after reading the frame manipulation and prior to reading the description of the two risk strategies, participants responded to the following question using a 9-point scale (endpoints: “no control at all,” “complete control”): how much control do you expect to have over this negotiation?

## **Results**

### ***Perceived Control***

To assess the degree to which our past performance manipulation affected participants’ perceived control in the upcoming negotiation, we conducted an ANOVA, including past performance as a between-subjects factor and role as a covariate. Consistent with our hypothesis, participants in the past success condition ( $M = 6.73$ ,  $SD = 1.15$ ) indicated a higher degree of expected control than participants in the past failure condition ( $M = 5.44$ ,  $SD = 1.67$ ),  $F(1, 96) = 20.80$ ,  $p < .001$ .

### ***Preferred Risk Strategy***

To examine participants’ attitudes towards strategic and contractual risk, we conducted a chi-squared analysis, including past performance as a between-subject factor. Consistent with our hypothesis that failure primes would lead to a preference for contractual risk, 75% of participants whose role had experienced a past failure preferred the “roll the dice” strategy, whereas only 53% of participants whose role had experienced a past success preferred this strategy. Whereas past failure led to a clear preference for a strategy that embraced contractual risk, past success did not produce any clear preference for managing risk. This difference across conditions was statistically significant,  $\chi^2(df = 1, n = 99) = 5.20$ ,  $p < .03$ . No other effects were statistically significant.

### ***Relationship Between Variables***

To test whether perceived control mediated the relationship between past performance and preferred risk strategy, we conducted a hierarchical regression predicting preferred risk strategy in which negotiator role was entered in the first model and past performance and perceived control were entered in the second model. Preferred risk strategy was predicted by perceived control,  $\beta = .24$ ,  $t(95) = 2.37$ ,  $p < .05$ , but not by past performance,  $\beta = .12$ ,  $t(95) = 1.19$ ,  $p = .24$ . We next conducted a modified Sobel test to determine whether the reduction in the significance level was statistically significant and indeed it was,  $Z = 2.65$ ,  $p < .01$ . The amount of control negotiators expected to have in the negotiation mediated the relationship between past performance and negotiation risk strategies.

### **Discussion**

Past performance influenced the type of risk negotiators preferred. Negotiators whose role had experienced recent success thought they would have greater control over the negotiation compared to those whose role had experienced a recent failure, which then impacted risk strategies and behavioral intentions. Negotiators with a history of failure showed a clear preference for contractual risk relative to strategic risk. Negotiators who approached a negotiation after considering past failures were more willing to adopt a bargaining strategy that left the ultimate value of the deal unknown until a future point in time. A lack of willingness to embrace strategic risk can leave money on the table by preventing negotiators from making optimal trade-offs that maximize joint gain, consistent with Experiment 1's findings. By showing a willingness to reveal information to their negotiating counterpart about their preferences and priorities, negotiators with a history of success are in a better position to maximize joint outcomes than negotiators with a history of failure.

A key contribution of the current study is the demonstration that expected control mediated the relationship between past performance and future bargaining intentions. Previous research has found that self-efficacy moderates the relationship between past performance and future bargaining intentions (O'Connor & Arnold, 2001). A core aspect of self-efficacy is the expectation of control (Bandura, 1982). Our mediation analysis suggests that past performance impacted the control negotiators expected to have, which in turn affected their future bargaining intentions.

## **Experiment 3**

Although the previous experiment demonstrated a greater preference for contractual risk among past failure negotiators, it is not clear what significance this preference has for negotiation performance in and of itself. To explore this question further, in the next experiment we examined the impact of past performance on the construction of a contingent contract, or a bet that makes the ultimate outcome dependent on some future event. By embracing contractual risk, the construction of contingent contracts should be enabled.

Contingent agreements are essentially bets that make the ultimate outcome dependent on some future event. These agreements help to create perceived value and avoid impasses because they facilitate the construction of a deal that simultaneously incorporates two divergent forecasts of the future (Bazerman & Gillespie, 1999; Kray, Thompson, & Lind, 2005). For example, one negotiator may have a fairly conservative estimate of a good's future earning potential relative to his or her negotiating partner. Instead of arguing over the value of the good or walking away from the table, negotiators can construct a contingent agreement and determine its value at a future point in time when the earning potential is realized. Contingent agreements help to avoid impasses in the present. Because uncertainty is built into the deal, negotiators' attitudes towards contractual risk should impact the attractiveness of contingent agreements.

Whereas a willingness to engage in strategic risk is required to share information about preferences and priorities, a willingness to engage in contractual risk is required to construct a contingent agreement. We expected the greater willingness of negotiators who have experienced past failures to embrace contractual risk, as shown in Experiment 2, to increase their preferences for contingent agreements. Instead of actively working to maximize one's outcome in the present, accepting a contingent agreement puts the value of the deal into the hands of external forces, which should be more appealing for a negotiator who does not expect to be in control of the negotiation. Furthermore, a contingent agreement delays the outcome to the future, which may appeal to negotiators with a history of failures.

If our hypothesis is supported, then it suggests a potential upside to past negotiation failures: a greater willingness to construct a contingent agreement in the future. Although contingent agreements increase perceived value rather than actual value (because one party will ultimately lose the bet), acceptance of a contingent contract can be an *integrative* bargaining strategy when it allows a deal to go through that would end in impasse if both parties continued to disagree about their forecasts of the future. Somewhat ironically, we expected that past failure could prevent impasses in the present by providing a greater willingness to construct a contingent agreement instead.

To test our hypothesis, we conducted a study in which past performance histories were provided before presenting participants with a scenario involving conflicting forecasts of the future. Participants were told that their negotiating partner had proposed a contingent agreement as a way of resolving this difference. Our primary dependent variable was their likelihood of entering into the proposed agreement.

## Method

### *Participants and Procedure*

Participants were 48 students who were enrolled in a course on negotiations. The experiment had a single-factor, between-subjects design with two levels of past performance (success versus failure). Participants read the following scenario:

Imagine that you and a sibling have just inherited a working farm whose main crop has a volatile price. Your sibling has doubts about the price that the crops will command next

season, and believes that revenues will be low. You, on the other hand, are confident that the next season will be spectacular and revenues will be high. The two of you argue for days and nights about the price of the crop for next season. Your sibling wants to sell the farm for a fixed amount rather than depend upon shares of an uncertain revenue stream. Your sibling wants to sell now because he/she believes the price of the crop will fall; you want to hang onto the farm because you believe the price of the crop will increase.

Negotiators who were randomly assigned to the *past success* condition read, “Your business performance so far this year has been particularly impressive, so anything that you reap from this farm deal is just ‘icing on the cake’. These recent successes notwithstanding, you do not have sufficient funds available to buy your sibling out at this time.” Negotiators who were randomly assigned to the *past failure* condition read, “Your performance so far this year has been particularly dismal so anything that you reap from this farm deal is potentially a step toward getting you ‘out of the red’. These recent failures notwithstanding, you do not have sufficient funds available to buy your sibling out at this time.” All participants then went on to read:

Then, your sibling proposes a bet to you: You keep the farm for another season. If the price of the crop falls below the current price of \$10 per unit (as your sibling thinks it will), you will sell the farm and your sibling will get 50% of today’s value of its worth (\$5 per unit); you will get the rest. However, if the price of the crop rises (as you think it will), you will buy your sibling out for 50% of today’s value of the farm (\$5 per unit), and keep all of the additional profits for yourself. As you see it, you have three options. You can either (a) enter into the proposed agreement; (b) do not enter into the agreement, but instead continue to persuade your sibling to agree to keep the farm for another year and split the profits or losses 50/50; or (c) do not enter into the agreement, but instead concede to your sibling’s desires and agree to sell the farm.

As the main dependent variable, participants were asked to indicate their likelihood of entering into the proposed agreement with their sibling. This variable was measured on an 11-point scale, ranging from 0–100%, with 10% increments.

## Results and Discussion

We hypothesized that past performance failures would increase the attractiveness of contractual risk, as evidenced by one’s willingness to enter into a contingent agreement. To test this hypothesis, we conducted a one-way ANOVA on the likelihood judgments (reported as percentages), including past performance as a between-subjects factor. As expected, negotiators whose role had experienced past failures ( $M = 70.42$ ,  $SD = 20.74$ ) were significantly more likely to enter into the proposed agreement than participants whose role had experienced past successes ( $M = 52.29$ ,  $SD = 27.19$ ),  $F(1, 47) = 6.74$ ,  $p < .01$ . A history of failure facilitated negotiators’ willingness to construct a contingent agreement.

Building on the findings of Experiment 2 in which past failure negotiators showed a greater preference for a bargaining strategy that involved contractual risk, the current study’s findings show one implication of this tendency: past failures may facilitate the

construction of contingent agreements as a means of resolving conflicting forecasts of the future. Utilizing a contingent agreement as a means of resolving this type of difference requires that negotiators are comfortable assuming contractual risk. If negotiators assume their current performance will be consistent with their past, then negotiators who have experienced failure may prefer to delay the outcome until the future. Likewise, their reduced sense of control is congruent with the idea that the future is unknowable in the present, which may make contingent agreements particularly appealing. Given the potential for contingent agreements to enable deals to go through that would otherwise end in impasse (Bazerman & Gillespie, 1999), this study's findings demonstrate that past failures can facilitate one type of integrative negotiation strategy.

Although this study provides support for our hypothesis about the relationship between past failures and contingent agreements, we must acknowledge its limitations. In particular, by holding constant the other negotiator's outcome regardless of whether market conditions improved or worsened, the focal role was asked to assume all of the upside gain and downside loss of the gamble. Well-constructed contingent agreements involve risk sharing (Bazerman & Gillespie, 1999). Individuals may avoid contractual risk in general when asked to assume the majority of risk, and this tendency may be stronger for negotiators with a history of success. With high self-efficacy at the bargaining table, successful negotiators may be more resistant to accepting a "bad deal." Future research is needed to determine whether the contingent agreement's structure interacts with past performance.

## General Discussion

The results from three experiments elucidate the relationship between past performance and integrative negotiations. Consistent with the lingering effect of impasses from one negotiation to another (O'Connor et al., 2004), negotiation performance is also influenced by knowledge of past success versus failure. Specifically, in Experiment 1 we showed that negotiators who approached a negotiation in a role that enjoyed a history of success created more value than negotiators who came to the table in a role with a history of failure. We believe that this effect occurred because negotiators with a history of success were more willing to embrace strategic risk, which involves sharing information about their preferences and priorities, than negotiators who had experienced recent failures. The findings of Experiment 2 support this interpretation. When given a choice, past failure negotiators opted for a bargaining strategy that incorporated contractual risk over strategic risk, whereas past success negotiators showed an equal willingness to embrace the two types of risk. In Experiment 3, we showed that past failure can increase a negotiator's willingness to accept a contingent agreement as a means of resolving different forecasts of the future. Because contingent agreements allow deals to go forward that might otherwise end in impasse (Bazerman & Gillespie, 1999), they create perceived value at the time at which the deal is made. In addition to providing more experimental control, another advantage of studying past performance through roles rather than actual performance is that it speaks to the influence of negotiator cognitions on performance.

We also provided evidence that differences in perceived control accounted for the relationship between past performance and attitudes towards strategic versus contractual risk. Consistent with the idea that negative outcomes lead to external attributions, past failure negotiators expected to have less personal control in their upcoming negotiation than past success negotiators. We found that low levels of perceived control led past failure negotiators to clearly prefer contractual risk over strategic risk.

### Limitations and Future Research Directions

Although the current research focused on expected control as a cognitive mechanism linking past performance with risk preferences and integrative negotiations, it is important to consider other possible routes through which past performance may impact negotiation, such as motivation and affect. Higgins (1998) distinguished between a promotion-focus, which concerns striving towards rewards, and a prevention-focus, which concerns minimizing losses or maintaining the status quo. By having negotiators bargain over rewards they would receive versus give up (Bottom & Studt, 1993) or aiming to meet their aspirations versus their obligations (Galinsky, Leonardelli, Okhuysen, & Mussweiler, 2005), promotion-focused negotiators have been shown to be more successful at creating value than their prevention-focused counterparts. Because we did not measure regulatory focus and know of no research to date that has linked regulatory focus to individuals' expectations of control, we can only speculate about the relationship between regulatory focus and past performance. However, the pattern of findings in Experiment 1 is certainly consistent with the possibility that past performance impacts negotiators' motivational orientations. In addition to motivation, considerations of past performance may also impact affect. It seems reasonable to expect past successes to elevate negotiators' moods. As positive moods have been shown to improve integrative performance (Carnevale & Isen, 1986), affect may be an additional avenue through which the past impacts the present.

An exploration of potential moderators of the relationship between past performance and integrative performance would be worthwhile. Individual difference variables that may impact how strongly the past influences the present include locus of control, self-esteem, and implicit negotiation beliefs. For example, Kray and Haselhuhn (2007) demonstrated that incremental theorists, or individuals who believe negotiating ability can be improved through hard work and persistence, outperform entity theorists, or individuals who believe that negotiating ability is fixed and difficult to improve. We suspect that incremental theorists will be less likely to allow past failures to limit their success in the present than entity theorists, who may let the past have an undue influence on their current negotiations. Another factor that may determine whether negotiators are drawn to their past failures versus successes is optimism. It seems reasonable to expect that individuals who habitually perceive the glass to be half full would naturally focus on their past successes to a larger degree than negotiators who perceive the glass to be half empty (McFarland & Miller, 1994).

The current research focused on a focal negotiators' performance history. Linking the current findings to information about negotiating partners' past performance, as

indicated by their reputation, would be worthwhile. More specifically, a reputation for distributive success reduces concessions in the present (Tinsley et al., 2002), yet our research suggests distributive success increases the ability to create value in the present. Although both the current research and this earlier work explored how past negotiations impact current negotiations, they are distinguished by the fact that past performance is an intrapersonal phenomenon and reputation is an interpersonal phenomenon. An interesting direction for future research involves the simultaneous comparison of the interpersonal and intrapersonal phenomena derived from past negotiation experiences on both distributive and integrative outcomes.

One goal of the current research was to develop an appreciation for the temporal component of negotiations. As such, we examined how cognitions about the past impact present negotiations. Yet many questions involving temporality merit consideration in future research. For example, one factor that may moderate the impact of the past on the present is the degree of similarity between a current negotiation and past performance contexts. Past performance with a repeated negotiating partner may have a particularly pronounced effect on current negotiations compared to negotiations with a new partner or under very different circumstances. Another consideration is whether past performance impacts the degree to which negotiators engage in temporal discounting by valuing the present more than the future (Frederick, Loewenstein, & O'Donoghue, 2003). The reluctance of past success negotiators to enter into an agreement that defers the outcome to the future may reflect more temporal discounting resulting from their current enjoyment of positive outcomes. In contrast, negotiators plagued by past failures may discount the future relatively little; instead they may actually prefer the future if they foresee similarly negative outcomes on the horizon.

An interesting question to pursue is whether considering past negotiation successes has a downside in that it exacerbates the overconfidence bias (Bazerman & Neale, 1982; Neale & Bazerman, 1985) that plagues many negotiators. By focusing on past successes, negotiators might perceive more control than is warranted and thereby fall prey to overconfidence when making predictions about the future. Bazerman and Gillespie (1999) argue that contingent agreements work to stomp out egocentric biases because they provide objective feedback about the accuracy of negotiators' predictions. The findings from Experiment 3 showing a disinclination of past success negotiators to embrace a contingent agreement might suggest a lost opportunity to develop more accurate beliefs, and thereby improve their negotiating performance over time.

## **Practical Implications and Conclusion**

Given how powerful our manipulations were for influencing subsequent negotiations, it is easy to imagine a savvy negotiator manipulating whether their partner perceives the negotiation through a lens of prior success or failure, depending on what type of influence they hope to exert. A tight-lipped partner may be less reluctant to reveal critical information for formulating trade-offs after they have been praised for their history of recent successes. One the other hand, negotiators would be wise to encourage their negotiating partner to reflect on their past failures to open them up to the possibility of

a contingent agreement. Because experienced negotiators are likely to have a repertoire of successes and failures under their belt, this research suggests that negotiators who consciously pick and choose which past experiences to reflect upon at which point in time will be in a good position to take advantage of the power that resides within their beliefs about the past.

In conclusion, this research adds to our understanding of the psychological factors that influence integrative negotiations. The results presented here are consistent with the growing body of evidence suggesting that negotiations do not occur in a vacuum. Instead, how negotiators perform at one point in time, or simply how they believe they have performed, influences their integrative bargaining strategies and performance in the present. On an optimistic note, both considerations of past successes and past failures provide opportunities for expanding the pie. It is our hope that, by understanding the factors that influence whether negotiators are more open to embracing strategic versus contractual risk, the likelihood of leaving money on the table will be reduced.

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