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After the deal: Talk, trust building and the implementation of negotiated agreements

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ABSTRACT

The success of a negotiated agreement depends on implementation and implications for future exchange between the parties. This paper examines structural, affective and contractual factors that influence implementation behavior. Predictions derived from contract theory and recent negotiation theories were tested in two laboratory studies involving the negotiation of an employment contract. In Experiment 1 trust formation facilitated by so-called “cheap” talk and the provision of a sufficient contingent contract promoted vigorous contract implementation. Positive affect induced in the employer prior to negotiation had no discernable effect on subsequent implementation. In Experiment 2 induced employee positive affect did motivate implementation behavior but the effect hinged on the form of the contract. Small talk before contracting increased employee’s willingness to be financially vulnerable in subsequent exchange with the employer. Implications for general negotiation theory are considered.

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“But a fluttering scrap of paper unless it is enforced.” – Georges Clemenceau, Prime Minister of France, describing the Treaty of Versailles, 1919 (Tardieu, 1921).

“No agreement is worth much if it is not vigorously implemented and enforced.” – Richard Holbrooke (2008).

Introduction

Negotiation research has been translated into prescriptive advice for practitioners and popular coursework for business students (Thompson, 2006). The growing interest in the subject reflects the importance and ubiquity of the process. Negotiated agreements provide the basis for business, government, and international relations. But research interest also reflects the development of tractable methods for conducting experiments capable of distinguishing cause and effect. Siegel and Fouraker’s (1960) studies of bilateral monopoly and Pruitt and Lewis’ (1975) investigation of integrative agreements introduced convenient experimental setups that facilitated replication, adaptation, and extension.

Unfortunately these setups do not model contract implementation. In the integrative bargaining setup, subjects negotiate the exchange of points that transfer without cost upon the conclusion of

a deal. The possibility that one party might ignore a promise they made in the contract poses no risk to the welfare of their counterpart. So we know little about the factors associated with the vigorous implementation and enforcement of agreements. Tellingly, the terms “implementation” and “enforcement” appear nowhere in the most recent comprehensive surveys of the negotiation literature (Bazerman, Curhan, Moore, & Valley, 2000; Thompson, Gunia, & Wang, 2010). With the exception of two recent theories (Barry & Oliver, 1996; Gelfand, Major, Raver, Nishii, & O’Brien 2006) the subject has been neglected by researchers despite its practical importance.

The plight of Neville Chamberlain may best illustrate the perils of neglecting to consider implementation in practice. The British prime minister returned to a hero’s welcome after negotiating the so-called Munich Agreement with Adolf Hitler. According to the terms, the German Chancellor promised to resolve further Czech territorial concerns through an international commission in exchange for control over the German populated Sudeten region. To his public, Chamberlain declared “I believe it is peace in our time” explaining more privately that “in spite of the hardness and ruthlessness I thought I saw in his (Hitler’s) face, I got the impression that here was a man who could be relied upon when he had given his word” (quoted by Parker (1993)). Judged by the standards of implementation-free negotiation research, Chamberlain’s deal represented unqualified success. But the negotiation task in those studies lacked the “contractual risks” (Bottom, 1998) the British actually confronted. These risks became apparent in March 1939 as German troops marched into Prague in flagrant

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violation of the deal. Chamberlain was left to protest that Hitler had repeatedly assured him that the Sudetenland “was the last of his territorial ambitions in Europe” (quoted by Parker (1993)).

Difficulties with implementation are hardly restricted to the diplomacy of nation-states. Execution of business agreements, including employment contracts, often generates dissatisfaction, disputes, and enmity. When Jeffrey Katzenberg joined the Disney Corporation, he negotiated a deal that included a bonus to be paid based on profits from projects he worked on for the firm. The firm's later refusal to pay out the bonus eventually led Katzenberg to sue for breach of contract, a case that took years to resolve (Stewart, 2005). Negotiators must manage the process to limit the likelihood such problems arise later. Failing to anticipate downstream risks can turn apparent “wins” at the bargaining table into profound losses away from the table.

Both formal theories of bargaining (e.g. Kalai & Smorodinsky, 1975; Nash, 1950; Rubinstein, 1980) as well as social psychological studies have ignored these concerns. Contract theory is a notable exception (Milgrom & Roberts, 1991; Ross, 1973; Salanié, 1997). Contract theorists study the problem of implementation by focusing on how one party (a principal) can motivate a self-interested, expected utility maximizing agent to vigorously execute an agreement.¹ When costless direct observation of the agent's implementation behavior is not possible, implementation is secured through a contingent agreement linking financial compensation to the agent's observable actions (Salanié, 1997). Whether this theory is descriptive of actual negotiation behavior is unclear since negotiators routinely violate the axioms of expected utility theory (Bottom, 1998; Bottom & Studt, 1993; De Dreu, Carnevale, Emans, & van de Vliert, 1994; Larrick, Heath, & Wu, 2009). Psychological factors treated as irrelevant by contract theory are likely germane to practice.

An implicit underlying assumptions of this body of theory is that “the final contract the parties end up signing is independent of the bargaining process leading up to the signature of the contract” that “the main determinants of contracts are parties' objectives, technological constraints, and outside options” (Bolton & Dewatripont, 2005, p. 7). Social psychological theories recently proposed by Barry and Oliver (1996), Forgas (1998), and Gelfand et al. (2006) conversely linked the problem of securing implementation and future exchange to negotiator affect rather than contingent contracting variables. In this paper we report a series of experiments that examine these distinctive ideas about the determinants of implementation behavior.

In two employment contracting experiments, we study effort invested in implementation. The first study manipulates three factors to yield a test of both contract and social psychological theories: positive affect at the outset of negotiation, the owner's potential profits, and the opportunity to chat. The second experiment further extends this study of post-deal behavior by examining subsequent willingness to engage in risky, value creating cooperative behavior beyond the specified terms of the contractual agreement. The willingness to undertake such actions can be critical for the ultimate success of any deal, but especially an employment contract since these agreements never anticipate all possible downstream circumstances that could create or threaten value (Rousseau & McLean Parks, 1993; Simon, 1951). We conclude by discussing implications of these experiments for more general negotiation theory and for future research. But we start by explain-

ing the contractual and affective factors associated with the contracting and social psychological perspectives.

Positive affect and implementation

To develop a theory explaining negotiator affect, Barry and Oliver (1996) derived certain propositions about implementation and the desire for future interactions with the counterpart. The term affect encapsulates specific intense emotions as well as longer lasting mood states. These different forms influence individual risk taking (e.g. Isen & Geva, 1987) and decision making (e.g. Isen & Means, 1983) but also social judgments and interpersonal behavior (e.g. Bodenhausen, Sheppard, & Kramer, 1994). Positive affect shapes social interactions by broadening the individual's scope of attention (Fredrickson & Branigan, 2005), increasing generosity (e.g. Isen, 1970; Isen & Levin, 1972), and promoting trust (Dunn & Schweitzer, 2005). Even short-lived shifts in affect can produce enduring behavioral changes (Vaugh & Fredrickson, 2006).

Barry and Oliver (1996) distinguished affect experienced during three phases of a negotiation – pre-negotiation, negotiation process, and post-negotiation. Positive affect produced by “the economic outcomes” of the agreement and associated attributions influence the timeliness and quality of negotiator compliance with the agreement. Desire to interact again in the future in turn depends upon this perceived post-negotiation compliance. But the economic outcomes of the negotiation are themselves a product of upstream tactics, concessions, and affect from the process phase which are all in turn influenced by pre-negotiation affect and expectations from the anticipation phase that precedes actual negotiation.

Forgas (1998) published a widely cited series of experiments demonstrating that positive mood induced prior to interaction enhances cooperation between parties during the negotiation process. This included demonstrating that “the mood of the opposition also produced more mood-congruent bargaining strategies and outcomes” (Forgas, 1998, p. 574). This congruence finding is consistent with the widely held notion that emotions can have an ‘infectious’ effect from one party to the other (Hatfield, Cacioppo, & Rapson, 1993). If one party in the negotiation is in a happy mood, this affect could be “caught” by the other party (Barsade, 2002). Happy negotiators will use more cooperative strategies producing jointly crafted deals with more favorable economic outcomes. Forgas (1998) also predicted and found that putting negotiators in a good mood before interactions had the downstream effect of heightening their intentions to “honor” the negotiated agreement though he did not examine their actual behavior.

The Barry–Oliver model predicts that increased use of integrative strategies resulting from a negotiator's positive mood will contribute to improved economic outcomes (Carnevale & Isen, 1986; Fry, Firestone, & Williams, 1983), satisfaction with the agreement, and post-negotiation positive mood. Satisfaction and positive mood are in turn expected to motivate compliance with the agreement. From the Barry–Oliver model, theory of emotional contagion, as well as Forgas' (1995) AIM model, we derive two basic hypotheses regarding downstream effects of manipulated positive affect on eventual implementation. These hypotheses are denoted SP, for social psychological, to distinguish them from hypotheses derived from contract theory (CT). (See Fig. 1 for a graphical depiction of our predictions.)

Hypothesis SP-1. Parties who enter negotiations in a more positive mood will negotiate agreements that are more vigorously implemented.

¹ Here the term ‘agent’ does not necessarily mean someone who represents a constituency in negotiations (as in Bartunek, Benton, & Keys, 1975; Benton & Druckman, 1974). It refers to any party in contract negotiations who possesses private information germane to the consequences of a deal (Bolton & Dewatripont, 2005).

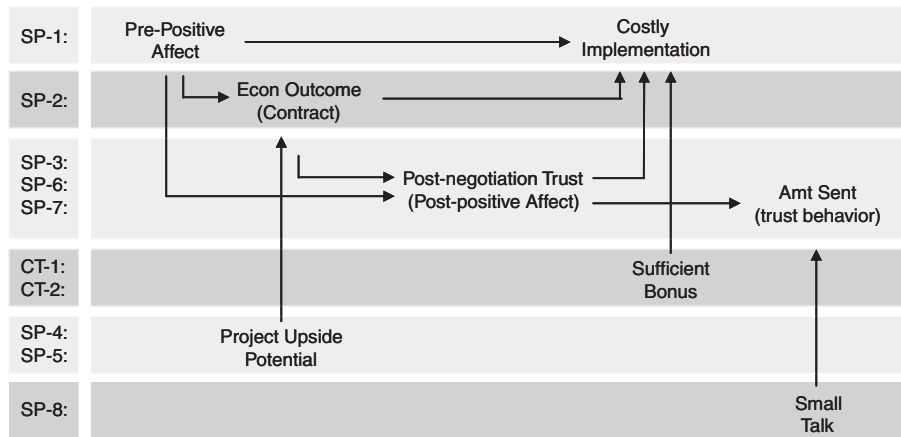


Fig. 1. Overview of predictions.

Hypothesis SP-2. The effect of an initial positive mood on the vigorous implementation of negotiated agreements will be mediated by (a) economic outcomes (i.e. the value of the terms of a negotiated agreement that accrue to a party) and (b) post-negotiation positive affect.

Both the Barry–Oliver and Gelfand et al. (2006) models propose that post-negotiation affect motivates implementation behavior because it reflects qualities of the relationship between the parties. One of the qualities they describe is trust, a complex, multifaceted phenomenon. Often defined as the willingness to take an action that leaves oneself vulnerable based on confident expectations of the intentions of another (Rousseau, Sitkin, Burt, & Camerer, 1998), trust depends on the negotiator's perception of the counterpart's trustworthiness – their ability, benevolence, and integrity (Mayer, Davis, & Schoorman, 1995; McAllister, 1995). According to these theories, as perceptions of trustworthiness increase so should the vigor with which an agreement is implemented.

The two social psychological negotiation theories conceive of trust as an affective-relational product of prior interaction (Lewicki & Bunker, 1996; Lewicki, Tomlinson, & Gillespie, 2006) that influences the implementation of the negotiated agreement. According to McAllister (1995), affect-based trust “demonstrates interpersonal care and concern”. Of the three elements of trustworthiness, affect is most closely connected to perceptions of benevolence. Demonstrating trustworthy behavior promotes a cooperative negotiation orientation (Lewicki & Bunker, 1996) resulting in greater payoffs and joint gain (Olekalns & Smith, 2007). Negotiators experiencing positive post-negotiation affect, including affective aspects of trust, should be more benevolent toward their counterpart and more willing to extend cooperation through to the post-negotiation phase of contract implementation.

Gelfand et al. (2006) used the alternative terminology of relational capital to describe its influence on both implementation and subsequent cooperative exchange that includes “assets of mutual liking, knowledge, trust, and commitment to continuing the relationship” (p. 437). Affective elements within the interaction are believed to promote trust development and tactical choice, which in turn influence both economic and relational outcomes of the negotiation. The nature of these outcomes is said to determine implementation and the desire for future interactions.

Hypothesis SP-3. Post-negotiation affect, including trust in the counterparty will (a) promote vigorous implementation of the agreement, and (b) mediate the effect of economic outcomes of the negotiated agreement on the vigorous implementation of the agreement.

Economic outcomes and contingency

Thompson (1990) introduced a now conventional distinction between psychological and economic measures of negotiator performance. Elaborating on this point, Barry and Oliver (1996) also distinguish between economic and psychological outcomes of negotiation while Gelfand et al. (2006) makes an analogous distinction between economic and relational capital. In defining the concepts Thompson argued that “parties may make provisional offers and counteroffers” but “offers and proposals do not determine outcomes until they are accepted” (p. 516). This is a very accurate characterization of the results of actions taken in integrative negotiation experiments. But, in actual practice outcome determination will occur in the post-negotiation phase when the agreement is implemented.

At the time their offers were accepted, Neville Chamberlain and Jeffrey Katzenberg had particular expectations regarding the economic outcomes of their negotiated agreements with the German government and the Disney Corporation. But moving beyond expectation to economic outcome realization occurred much later, when the parties took action away from the bargaining table. As these examples demonstrate, accepted offers are unlikely to completely determine outcomes in international relations (see e.g. Bottom, 2010) or in employment contracts (Simon, 1951).

Recognition of the importance of implementation led to the development of “contract theory” (CT: Bolton & Dewatripont, 2005; Salanié, 1997) which treats implementation as a decision problem. Skepticism is elemental to the theory; direct promises from another party are not credible unless it can be established that the party will later have a self-interested reason to honor the commitment. Neither psychological aspects of the emergent relationship between parties nor negotiator affect should influence implementation. Contrary to the Barry–Oliver and Gelfand et al. propositions, neither “the economic outcomes” nor “economic capital” from the settlement determine implementation. Only economic outcomes that are made *contingent upon* post-agreement implementation will affect post-negotiation compliance. Although negotiated agreements represent explicit promises to take particular actions in the future, “talk is cheap” in the absence of financial incentives to actually incur the costs of fulfillment. The self-interested actors in the theory would violate any such promises with impunity should it prove advantageous to do so.

This body of theory focuses on how to motivate the implementation effort of one party – the agent. The other party must structure the agreement to provide the agent with an ongoing financial incentive to exert the greatest effort at implementing the agreement. Some negotiation researchers have argued that parties

should craft contingent agreements to create expected value when they have differing beliefs about the likelihood of a future event (Kray, Thompson, & Lind, 2005; Thompson, Loewenstein, & Gentner, 2000). But in negotiation experiments where this type of contingent contracting is feasible and mutually advantageous, subjects generally fail to do this. Unless they have been given prior analogical training or receive specific instructions that encourage them to do it, most subjects either avoid or fail to recognize the advantages of structuring a contingent agreement. But in contract theory, the reason to craft a contingent agreement is different; it is done to align the agent's incentives so that vigorous implementation of the agreement will be a self-interested, utility maximizing course of action.

Post-deal implementation has not been modeled in previous experiments on contingent agreements. In these studies (Kray et al., 2005; Thompson et al., 2000), the economic outcomes of the contingent deals were never actually realized. Rather, expected value creation was imputed from the divergent forecasts of what was considered likely to happen in the future rather than something that actually did happen. Incentive aligning reasons for constructing a contingent agreement have not been studied at all by negotiations researchers. But contract theory logic yields extremely precise hypotheses about the willingness of a party to rely on contingent contracting as well as the link between economic outcomes and contract implementation. This precision is considerably greater than the typical hypotheses derived from social psychological theory – a fact generally held to be a virtue of the theory relative to psychological science. Because of the unusually strong predictions about the terms of the contract, it may prove useful to examine both the literal CT prediction (the strong form) and an alternative weaker form that simply implies a reliance on contingency rather than specifying the precise size of the bonus.

Hypothesis CT-1 (*w*, *weak form*). Employers will offer contracts that align the employee's incentives by offering contingent agreements through the provision of incentive payment (i.e. a bonus). (*s*, *strong form*) Employers will utilize contingent agreements, providing an outcome contingent bonus sufficient to be just enough financial incentive for a rational self-interested employee to choose the highest cost implementation.

Hypothesis CT-2 (*w*). The likelihood of a vigorous implementation of the contract by an employee will be positively associated with the size of the outcome contingent bonus payment stipulated in the contract. (*s*) Only negotiated agreements that provide the employee with a sufficient incentive payment contingent upon the employer's desired outcome will be vigorously implemented.

The contrasting theories presented in the SP hypotheses and the CT hypotheses pit the negotiated agreement's "economic outcomes" against the agreement's direct financial incentives. According to social psychological theory a deal that yields an employee greater profits will motivate greater efforts at implementation. Contract theory instead predicts that greater profits will stimulate greater efforts only if the added effort at implementation maximizes expected utility. It directly follows from the assumptions underlying Hypothesis CT-2 that hypotheses SP-2 and SP-3 should fail. Neither the employee's post-negotiation affect nor the economic outcome of the negotiation is expected to influence whether the party implements the contract terms.

In fact, Hypothesis CT-2 implies that none of the social factors – the potential profits accruing to the counterpart or information exchanged during the negotiation – will influence contract implementation. Because of the common knowledge about all key features of the problem, information exchanged by the parties should constitute cheap talk that has no impact on implementation

behavior. Rational choice yields very strong null predictions about the effect of each of these factors. To make the form of these predictions somewhat more comparable to the SP hypotheses, we incorporated the weaker form versions as well.

By manipulating certain other features of the negotiation problem, additional distinctive hypotheses can be derived. According to Barry–Oliver, not only economic outcomes but perceptions of outcome fairness determine post-negotiation affect and implementation. Employee expectations therefore depend in part on the potential profits of the employer. By implication, a shrewd employer who understands human nature will anticipate that higher potential profits to the employer require commensurately greater compensation to motivate the employee. Equity, or "the distributive justice principle" (Homans, 1958), is a psychological factor that has no bearing on the choices of the self-interested expected utility maximizing actors that populate contract theory. Shifting the potential upside profits an employer could obtain through costly resources invested by the employee would influence negotiation behavior under the Barry–Oliver theory but not under contract theory.

Hypothesis SP-4. Employees will be paid more compensation when the employer has the potential to earn more profits.

Hypothesis SP-5. As the expected value of the contract to the employee deviates from an equal division of the profits, then the employee will expend fewer costly resources on the implementation of the agreement.

Testing implementation behavior

Bottom, Holloway, Miller, Mislin, and Whitford (2006) experimented with an employment contracting problem where issues of implementation can be readily studied. In this game, subjects were randomly assigned to a role of employer (principal) or potential employee (agent) to bargain over compensation for costly action the employee will take toward the successful completion of a project owned by the employer.² To insure that the design of the experiment is consistent with the CT preconditions, the bargaining process in these experiments adheres to the assumptions of that theory and to the conventions of experimental economics (Camerer, 1997). To do otherwise would needlessly complicate interpretation of the results. Any observed violations of CT predictions could be explained away by the failure to establish the necessary preconditions for a legitimate test.

By contrast, the Barry–Oliver and Gelfand et al. models are highly robust to structural or descriptive changes in the negotiation task. They impose no particular conditions regarding the structure of the bargaining interaction so they are open to a very nearly unlimited range of alternative specifications of the experimental setup. Indeed these robust features are generally considered to be virtues of social psychological theory. Describing the negotiation as a bargaining task between a principal and agent (Bottom et al., 2006), a recruiter and candidate (Neale, 1997), an employer and an agent (Schweitzer & Gomberg, 2001), a pair of commodities brokers (Pruitt & Lewis, 1975), a television production company and a television station (Kray et al., 2005), a car dealer and customer (Thompson & Hastie, 1990) or a mall developer and potential tenant (Barry & Friedman, 1998) would not be expected to change the operation of the proposed psychological and economic mechanisms. The predictions do however rest on

² While we view the terms 'employer/owner' and principal, as well as the terms 'employee/candidate' and agent as essentially the same, we used the former terms in our experiment materials and will use them for clarity in our methods and results.

the assumption that contracting between the parties is preceded by an opportunity for the parties to talk. This is the mechanism through which initial affect, trust formation and shifts in affect are predicted to influence compliance at implementation. No emotional contagion can arise if the parties have no opportunity to communicate beyond forwarding a contract offer.

In the original contract theory specified by Ross (1973), an employer makes an offer of wage and bonus to a potential employee who can either decline or accept. Once accepted the employee makes a one-time but private decision regarding the level of costly action to take on behalf of the employer in executing their agreement. Incurring a greater expense increases the probability the employer will profit, whereas incurring less expense diminishes it. Both parties ultimately learn about the profit but because of the stochastic determinants of profitability only the employee knows how much cost they actually incurred in implementation. Remember, the employee's decision was made in private. Previous negotiation experiments that have used an employer-job candidate context (e.g. Neale, 1997; Schweitzer & Gomberg, 2001) have defined bonus pay as guaranteed return for signing the agreement. That is not the type of bonus that Disney Corporation and Jeffrey Katzenberg negotiated where payment was contingent on profits later earned from projects the employee worked on.

For the employment contracting context used here, bonus is similar to the Katzenberg deal. It describes a payment made from the employer to the potential employee contingent upon the employer having earned a high return from the employee's efforts. Implementation is a discrete choice made by the employee to invest more or less money in executing the terms of the deal. Defining vigor of implementation as a discrete decision about how to invest scarce valuable resources permits much more precise measurement of the cost willingly incurred by the employee than would a task based on physical exertion by the employee. In today's knowledge based economy, the implementation of deals may actually be far more reflective of such choices than of arduous physical labor exerted. The latter is also much more difficult to measure with any degree of precision. This setup permits us to test the first three hypotheses. Directly manipulating situational factors (potential profit for the employer and the opportunity for employer and employee to chat) yields a test of Hypothesis CT-2.

Study 1

Method

Participants and design

One hundred and sixty four male and 92 female students, averaging 21 years of age, were recruited through campus-wide advertisements to participate in experiments at a Midwestern US University. Each session was run with an even number of participants ranging from 6 to 14. They were paid a \$5 participation fee plus additional earnings from the negotiation. The latter theoretically ranged from \$0 to \$50.

Participants were randomly assigned to the role of employer or job candidate, then randomly matched with a partner who had been assigned the other role. Each dyad was randomly assigned to a condition in a $2 \times 2 \times 2$, owner mood by talk by upside profit potential, factorial design. The employee makes the implementation decision in our task, so we manipulated owner's mood in Study 1 to examine whether it influenced contracting behavior and subsequent employee perceptions and actions.

Procedure

Participants were assigned to a computer workstation. The computer program randomly assigned them to a role, randomly

formed dyads from these assigned roles, then randomly determined the dyad's condition in the factorial design. The experimenter distributed instructions describing the negotiation problem, reading these aloud to all subjects to insure common knowledge. Instructions informed participants that owners held property rights to a risky project that could generate a profit only if the owner hired a contractor to work on the project. To persuade the job candidate to become an employee, the owner could present the candidate with a guaranteed cash payment and/or a payment contingent upon the financial success of the project. We refer to the first of these as a wage and the latter as a bonus. Upon receiving the offer, the job candidate could choose to reject or accept it. Rejection meant the owner could not complete the project so neither party would earn any further profits. Accepting the offer presented the new employee with the further choice between expending a higher (\$8.50) or lower (\$5.00) amount to finish the project.

The expense the employee incurred to finish the project determined whether it had an 80% or a 50% chance of success. A failed project returned a \$10 profit to the owner. We manipulated the upside potential so that a successful project returned \$30 in the low upside condition and \$50 in the high upside condition. The employee's implementation decision was private; their choice was never revealed to the owner. The subsequent success or failure of the project was disclosed to both parties. Owners were paid their participation fee plus the project profits minus compensation they paid their employee. The latter consisted of the agreed upon fixed payment plus any contingent payment if the project succeeded. Job candidates received their participation fee plus compensation owed them under the contract less costs they incurred in completing the project.

According to CT, the bonus must exceed a certain amount in order to motivate a high-cost implementation decision by the employee. Given the parameters of the bargaining problem, the "sufficient bonus" (SB) in this experiment must be at least \$11.67.³ Any lesser bonus would leave the lower cost implementation as the expected utility maximizing option for a CT employee.

Before bargaining, all subjects completed a short quiz testing their understanding of the instructions. The experimenter provided additional instruction to anyone who missed a quiz question until that information was properly understood. As they waited for the next stage of the experiment to begin, participants viewed a two minute video clip that depicted either penguins interacting or colored sticks piling up. These screen "diversions" were chosen because they have been shown to reliably elicit positive and neutral affect (Fredrickson & Branigan, 2005; Gross & Levenson, 1995).

A pilot test randomly assigned 49 other participants to watch one of these two clips before completing "The Emotion Report Form" (ERF) (Ekman, Friesen, & Ancoli, 1980; Fredrickson & Branigan, 2005) which includes three items that represent positive affect (joyful, happy, amused). Coefficient alpha for the ERF composite of these three items was .87. Pilot participants reported significantly more positive affect after viewing the penguin clip (Mean = 7.50) than the sticks clip (Mean = 4.0), $p < .05$.

In the experiment itself, half of the owners were randomly assigned to watch the positive affect video while the other half watched the neutral one. All job candidates watched the neutral clip. After viewing the video, dyads in the Talk condition were then

³ Choosing the high-cost implementation action costs \$3.50 more than choosing the low-cost implementation action within the parameters of our experiment (\$8.50 vs \$5.00) and translates into a 30% greater likelihood of earning the contingent bonus offered. A bonus of \$11.67 therefore provides just enough incentive for a rational agent to choose the highest cost implementation since the extra 30% chance at that bonus provides an expected gain equal to \$3.51.

Table 1
Summary statistics and correlations for Study 1.

		Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1	Employee expenditure	1.66	.55	1										
2	Owner's pre-negot. affect	.50	.50	.03	.87									
3	Talk	.48	.50	.08	.11	1								
4	Upside potential	.45	.50	-.09	-.03	.01	1							
5	Wage	6.57	3.55	.03	.06	.30**	-.05	1						
6	Bonus	11.49	6.09	.42**	.18	.15	-.41**	-.23**	1					
7	Sufficient bonus	.54	.50	.33**	.14	.05	-.52**	-.29**	.81**	1				
8	Owner's benevolence	2.37	.82	.21*	-.03	.33**	-.02	.29**	.19*	.05	.85			
9	Owner's integrity	3.03	.60	.28**	.05	.41**	-.04	.25**	.29**	.14	.74**	.74		
10	Owner's trustworthiness	2.70	.64	.27**	.02	.41**	-.04	.21*	.28**	.12	.93**	.93**	.89	
11	Employee post-neg. affect	2.85	.74	.16	-.04	.18*	-.09	.14	.12	.08	.24**	.27**	.26**	.75

Correlations on the diagonal have been replaced by coefficient alpha for all multiple item scales.

* Significance at 10% level for two-tailed *t*-tests.

** Significance at 5% level for two-tailed *t*-tests.

*** Significance at 1% level for two-tailed *t*-tests.

given a 10 min period in which to engage in open text messaging. This provided an opportunity to discuss the issues or other subjects of interest. They were not permitted to text any message that would disclose their identity. Dyads assigned to the No Talk condition moved directly to contracting. If the job candidate accepted a contract, then the owner's project was completed by the choice of an implementation investment decision by this new employee. The success or failure of this project, whether it realized the upside potential value or the \$10 minimum, was then determined by a random number generator with the probability determined by the employee's implementation decision.

Before learning economic outcomes, subjects completed a series of post-negotiation questionnaires. These items collected information about demographics, post-negotiation affect, perceptions of the counterpart, and trust. Post-negotiation affect was measured with the ERF used in the pilot study. Additional items measured perceptions of the counterpart's benevolence and integrity, derived directly as dimensions from Mayer and Davis' (1999) measure of perceived trustworthiness. Examples are "The [employer/employee] is very concerned about my welfare," and "I never have to wonder whether the [employer/employee] will stick to his/her word." After debriefing, participants were paid privately in cash.

Results

Table 1 shows descriptive statistics for key variables. We first describe analysis of the impact of the manipulated factors on the negotiation itself, focusing particularly on the decisions made by the employer about the terms of the contract offer. This is followed by analyses testing the predictions related to employee expenditure.

The negotiation

All but four of the contracts offered included a non-zero bonus (97%). A chi-square goodness of fit test indicates that the sample of contracts offered is not significantly different from the prediction that all incorporated contingent agreements (chi-square with one degree of freedom = .13, $p = .724$). CT-1w was supported. Fifty-three percent of the employers offered bonus contracts less than \$11.67, averaging \$7.12 ($SD = 3.26$).

The strong form CT-1s predicted that employers would not only offer contingent contracts, but that those contracts would be equal to a bonus sufficiently high to motivate high implementation costs. The mean bonus offered was \$11.49, which is not statistically significantly different from the test value of \$11.67 for a sufficient bonus according to a one sample *t*-test ($p = .74$). CT-1s was supported.

A MANOVA with contract terms as the dependent variables and the experimental design factors as the independent variables

yielded significant main effects for Upside, $F(1, 123) = 16.16$, $p < .001$ and also Talk, $F(1, 123) = 11.38$, $p < .001$. Owners provided more remuneration when the upside potential was \$50 (Mean Wage = \$6.72; Mean Bonus = \$13.77) than they did when it was lower (Mean Wage = \$6.40; Mean Bonus = \$8.74), providing support for Hypothesis SP-4. In addition, owners who chatted with the job candidate prior to contracting provided significantly more compensation (Mean Wage = \$7.68; Mean Bonus = \$12.48) than those who did not (Mean Wage = \$5.56; Mean Bonus = \$10.60). The owner's positive affect had no effect on compensation nor did the interaction term.

Determinants of employee expenditure

Implementation behavior by the employee was a discrete choice from a set of three alternatives. A variable called expenditure was constructed to reflect the ordinal value of money the employee spent on completing the owner's project. This variable was assigned the value 0 if the employee spent nothing on the project (this happened when the offer was rejected), assigned 1 if the employee spent \$5 completing the project, and assigned 2 if the employee spent \$8.50.

Estimates for an ordered logit model with expenditure as the response variable and the manipulated variables as the predictor variables are summarized as Model 1 in Table 2. The owner's pre-negotiation positive affect did not determine expenditure nor did the interaction between owner's pre-negotiation positive affect and talk (see Model 2). Hypothesis SP-1 was not supported. SP-2 predicts that (a) economic outcome, and (b) post-negotiation affect would mediate the effect of pre-negotiation positive affect on implementation. On the basis of the four step sequence recommended by Baron and Kenny (1986) and Judd and Kenny (1981), step one of this mediation test sequence failed because of the failure of Hypothesis SP-1.⁴

To test the predicted effects of post-negotiation affect and trust on implementation (SP-3a) we examined both the employee's reported positive affect after the negotiation as well as the employee's perceptions of the owner's trustworthiness. Recall that this latter variable would be classified as part of post-negotiation affect in the Barry and Oliver (1996) model. It constitutes "relational capital" in the Gelfand et al. (2006) models. As summarized under Model 4 in Table 2, we find that owner trustworthiness as

⁴ Some scholars have argued that Step 1 is not necessary for establishing mediation (e.g. Kenny, Kashy, & Bolger, 1998, p. 260). We examine post-negotiation affect (trust and emotion) by testing Step 2 of mediation and find that neither perceptions of principal trust (Table 3, Model 8), nor post-negotiation affect (Model 10) were predicted by pre-negotiation affect. So Hypothesis SP-2 predicting mediation was not supported.

Table 2
Models predicting employee expenditure in Study 1.

Independent variable	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Coeff.	SE	Coeff.	SE	Coeff.	SE	Coeff.	SE	Coeff.	SE	Coeff.	SE
Owner's pre-negot. affect	-.073	.393	-.542	.643	-.218	.441					-.287	.419
Talk	.298	.383	1.094	.740	-.312	.460					.142	.403
Upside potential	.559	.399	.051	.663	-.384	.511					-.155	.528
Talk × upside			-.714	.819								
Upside × pre-negot. affect			1.590**	.807								
Talk × pre-negot. affect			-.730	.823								
Wage					.095	.063			.047	.066	.048	.066
Bonus					.236***	.051			.233***	.045		
Employee's post-negot. affect							.054*	.036	.046	.039		
Owner's trustworthiness							.062**	.028	.031	.035		
Sufficient bonus											1.663**	.603
Log-likelihood	-92.289		-89.843		-78.069		-77.623		-64.113		-86.702	
Wald χ^2	2.520		7.340		26.670***		8.49**		32.18***		11.000**	
N	128		128		128		114		114		128	

Ordered logistic regressions with Huber White robust standard errors.

* Significance at 10% level for two-tailed *t*-tests.

** Significance at 5% level for two-tailed *t*-tests.

*** Significance at 1% level for two-tailed *t*-tests.

Table 3
Models of steps in mediation analyses testing Hypotheses 2 and 3.

Predictor variable	Perception of owner trustworthiness				Employee's post-negotiation affect			
	Model 7		Model 8		Model 9		Model 10	
	Coeff.	SE	Coeff.	SE	Coeff.	SE	Coeff.	SE
Wage	.843***	.172			.338**	.150		
Bonus	.483***	.117			.192**	.084		
Pre-negotiation owner affect			.241	1.525			.156	1.299
R^2		.207	0		.055		0	
$F(x)$		16.850***	.030		4.100**		.010	
N		116	116		126		127	

OLS regressions with Huber White robust standard errors.

* Significance at 10% level for two-tailed *t*-tests.

** Significance at 5% level for two-tailed *t*-tests.

*** Significance at 1% level for two-tailed *t*-tests.

perceived by the employee predicts employee expenditure on the project ($p < .05$). Employee post-negotiation positive affect is marginally predictive ($p < .10$). These findings provide partial support for SP-3a.

Hypothesis SP-3b predicts that post-negotiation affect mediates the impact of economic outcome on implementation behavior. Step one was partially supported, as noted above. Step two tests whether economic outcome predicts forms of post-negotiation affect. As summarized in Table 3, wage and bonus predict perceptions of trustworthiness (Model 7) and also post-negotiation affect (Model 9). Step two in the mediation test is supported. Step three tests whether post-negotiation affect predicts implementation when wage and bonus are also included as predictors. Neither form of post-negotiation affect is predictive when these variables are included in Model 5, so Hypothesis SP-3b is not supported.

The significant predictive power of bonus provides support for CT-2w (Model 3). The stronger CT-2s predicted that only a sufficient bonus would motivate expenditure – implementation behavior would be a step function of bonus. To test this strong form prediction, we estimated Model 6 which includes a binary “sufficient bonus” (SB) term equal to 0 if the bonus was less than \$11.67 and equal to 1 if the contract was greater than \$11.67. This term was also a significant predictor. Contracts offering sufficient bonuses predicted expenditure by contractors. Hypothesis CT-2s was supported.

We test Hypothesis SP-5 by examining whether contracts that offer a more equitable distribution of potential profits between

the employee and owner are more likely to motivate high employee expenditure. Fig. 2 shows the distribution of the contract terms according to the two different upside conditions. The solid lines represent the family of solutions providing an equal division of expected social surplus conditional on the Pareto efficient high employee expenditure. Every point on the line in the \$30 upside condition yields both individuals an expected net benefit of \$8.75, while the line in the \$50 condition yields individuals an expected net benefit of \$16.75 to each party. To test our hypothesis we created a variable, ‘distance’, measuring the absolute value distance from the offered contract to the equal division line.

The contracts offered in the \$30 upside condition were on average closer to the equal division line than those in the \$50 condition ($Mean_{30} = 5.02$, $Mean_{50} = 9.61$, $t = 4.43$, $p < .001$). Using an ordered logistic model, we regressed expenditure on distance from equal split. Distance is a significant negative predictor of expenditure, $\beta = -.11$, Wald $\chi^2(1) = 9.49$, $p < .01$. The more the expected value of the contract to the employee deviates from the equal division of profits, the lower the likelihood of high expenditure at contract implementation. Hypothesis SP-5 is supported.

The talk manipulation affected post-negotiation trust and affect. Talk increased the employee's perception that the owner was trustworthy, $F(1, 115) = 5.85$, $p < .01$. Following a period of open talk with the employee, owners were perceived to be more trustworthy ($Mean = 33.40$) than those who had no such opportunity ($Mean = 27.71$). We coded for the specific content of messages exchanged in the Talk condition to facilitate analysis of the impact of

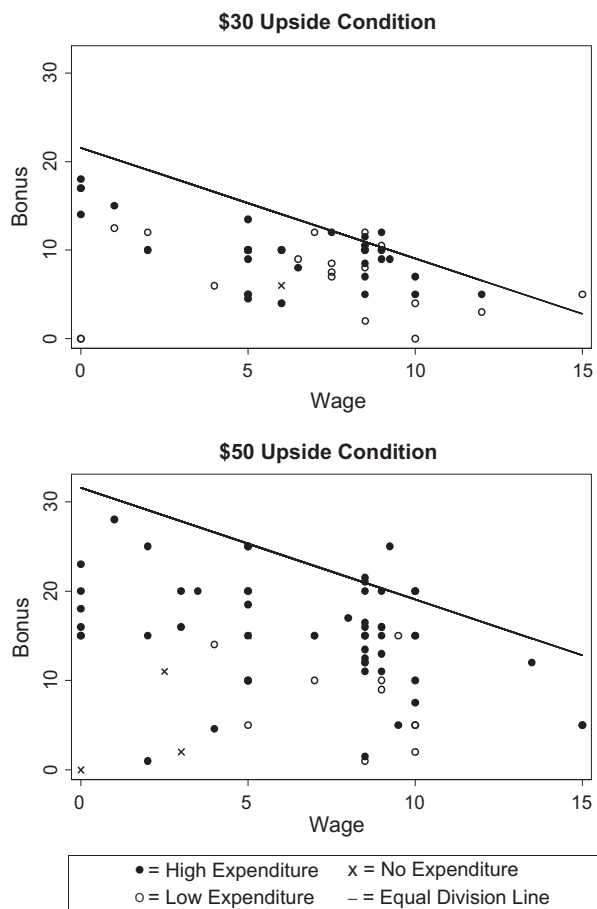


Fig. 2. Owner contracts offered and employee effort expended as a function of upside condition and distance from equal expected division line in Experiment 1.

affect during the anticipation stage on the subsequent negotiation process and implementation. Two independent raters, blind to the hypotheses, coded the messages using classifications derived from previous studies (i.e. Bottom et al., 2006; McGinn & Keros, 2002). The initial coding for the two raters showed a high degree of correspondence, $R_{wg} = .60$. After the two discussed the basis for discrepancies, they recoded the messages and R_{wg} increased to 1.00.

In the Talk conditions, aspects of the messages exchanged between the parties were associated with perceived trustworthiness. Trustworthiness was lower when the counterpart used more threats ($r = -.41, p < .001$) and when the general tone of the discussion was competitive ($r = -.51, p < .001$). One conversation that ended with low perceptions of trustworthiness, for example, included the following exchange of messages. Candidate: "How about a higher bonus?" Owner: "No. We have a deal." Candidate: "Hmmm... ok then, I will just have to pick action lo." Trustworthiness was higher when the parties engaged in small talk, conversation seemingly unrelated to the task at hand ($r = .37, p < .004$). We also coded for the amount of time subjects spent engaging in this small talk and found that the more time spent on small talk, the more trustworthy the counterpart seemed (for employer $r = .31, p < .05$; for employee $r = .34, p < .01$).

Discussion

The results from the experiment rendered mixed verdicts on the social psychological and contract theories of negotiated agreement and implementation behavior. The simple link between economic outcomes and deal implementation proposed by the social

psychological theories was not supported. Guaranteed payments to the employee did not predict high investment in implementation. The provision of a sufficient bonus, as predicted by contract theory, was the best predictor of employee willingness to invest resources on completing the project successfully. Even the very precise predictions of the strong form version of the hypothesis proved consistent with the results.

But other implications of contract theory were rejected. The upside potential of the project to the owner led to greater compensation for the employee even though contract theory predicted that the sufficient bonus would not be changed. Talk also proved to be far from cheap in this context. The opportunity to engage in free chat prior to the formal contract led to significantly more employee compensation and enhanced perceptions of trustworthiness. Perceived trustworthiness of the employer, a variable that Barry and Oliver classified as post-negotiation affect, that Gelfand et al. (2006) classified as "relational capital," proved in turn to be a significant predictor of expenditure on implementation. By enhancing the vigor of implementation, relational capital increased the owner's expected financial return from the project. A deal is "but a fluttering scrap of paper", or worse, unless it is vigorously implemented. Factors that build trust, whether structural or social psychological in nature, determine these returns.

The positive affect of the employer going into the negotiation, "the anticipation phase" in the Barry–Oliver theory, had less dramatic effects on the terms of the agreement than had been observed in previous negotiations experiments (Carnevale & Isen, 1986; Forgas, 1998). The contagious mood-congruent cooperation predicted in Hypothesis SP-1 was not observed. Forgas (1998) found that subjects whose counterparts had experienced mood elevation reported more intentions to honor their deals with this person. But mood elevation did not translate into actual post-deal behavior here. The far greater financial incentives for participants in this experiment may have muted some of the impact seen in prior studies. Carnevale and Isen (1986) paid their subjects a wage of \$4 to negotiate independent of the terms of negotiated deals that had no implementation phase. Forgas (1998) found particularly strong effects among students recruited to bargain over hypothetical issues in exchange for course credit. It is evidently more difficult for a mood elevated negotiator to "get their way" when the other party must sacrifice financial wealth to make it happen.

The mixed pattern of these results points toward the need for fuller specification of each set of theories; neither provides a sufficient model of negotiation. The rational choice model that represents the basis for contract theory must be amended to reflect affective and relational factors that produced significant effects for upside potential and talk. The link between small talk, tone, and implementation indicates that the communication process treated as irrelevant in the model is highly relevant in practice. Social psychological theories of negotiation captured these relevant features but did not adequately specify the factors that determine implementation. The right hand side variables in these theories require some reformulation. Classifying the product of negotiated agreement as an "economic outcome" or "economic capital" will not yield a workable framework because it fails to distinguish contingent from non-contingent forms.

We sought to better understand the causal relations between these key variables by explicitly manipulating talk and contract terms in our second study. Because we did not find that the impact of positive owner affect spilled over to subsequent "mood congruent" implementation behavior, we sought to test whether directly manipulating the employee's affect would generate stronger affect infusion effects on employee decisions. Finally, we set out to test predictions from social psychological theories of negotiation specifying that relational capital from a negotiated agreement will produce subsequent mutually beneficial exchange between the

parties (Gelfand et al., 2006). Unlike one shot games that terminate with the success or failure of a project, employment contracts have this extended reciprocating pattern. We set out to test whether trust building and enhanced implementation from an initial negotiated deal deepens trust and promotes more mutually beneficial returns in future dealings between the parties.

Study 2

In addition to replicating and clarifying key results from the first study, Study 2 tests the link between initial negotiation, implementation, and subsequent informal exchange. Vigorous efforts to successfully execute the commitments made in an initial contract should further build perceptions of the ability, integrity and benevolence of the counterpart. More trust is expected to diminish perceived risk in future exchange that promises mutual benefit even absent any explicit negotiation of commitments.

Hypothesis SP-6. Enhanced perceptions of the employer's trustworthiness formed during an initial negotiation will lead the agent to take increasing risks, including non-contracted exchange.

Forgas (1998) previously found that negotiators in a positive mood were more likely "to get their way" in deals they reached with their counterparts. But the owner positive affect in the anticipation stage did not here spill over to subsequent "mood congruent" implementation actions by the other party. In Study 2 we directly manipulate the employee's affect to test whether mood elevation yields stronger affect infusion effects on employee implementation decisions.

Positive affect preceding the formal contracting as well as the form of the contract offered by the employer should each influence the agent's willingness to engage in future mutually beneficial exchange not governed by contract. But we predict that employee's perception of the owner's trustworthiness will be the crucial determinant. Positive mood and a generous wage contract are not expected to motivate future, non-contractual positive exchange behavior when benevolence and integrity are missing.

Hypothesis SP-7. The effects of positive emotions on future prosocial behavior as well as the effects of contracts on future prosocial behavior will be mediated by perceptions of trustworthiness.

The opportunity to engage in chat was manipulated in Study 1. Some subjects elected to use that opportunity to engage in small talk. Those who did so built trust in their counterpart. Other researchers have also found that conversation about seemingly irrelevant matters can have important workplace effects. In an exploratory study of small talk between supervisors and employees in a manufacturing plant, Moutoux and Porte (1980) found that this practice positively impacted worker attitudes. Small talk is thought by some to promote social cohesiveness, reducing the tension of a potentially threatening or competing situation (Coupland, 2000). In negotiation contexts it may help parties build rapport, fostering a relationship based on mutual liking.

Morris, Nadler, Kurtzberg, and Thompson (2002) tested these predictions in an implementation free experiment. Although small talk (here called "schmoozing") had no significant effect on the terms of a negotiated agreement, it did have a significant positive impact on self reported willingness to engage in future exchange with a negotiating counterpart. Their task had no opportunity to actually test that willingness since interaction terminated at the point of agreement.

In Study 2 we attempted to manipulate small talk directly to examine its link to actual engagement in financially risky future exchange. Based on the social psychological theories, the opportu-

nity to engage in small talk preceding an exchange should improve relations and liking, thereby promoting greater non-contractual, constructive employee behavior in future exchange.

Hypothesis SP-8. An opportunity to engage in small talk before the contract will lead to greater constructive, risky behavior in future exchange.

Testing post-negotiation informal exchange

To introduce an opportunity for informal exchange after the contracting and deal implementation, we added a second stage exchange after the negotiation task used in Study 1. This second stage examined employee risk taking as well as the employer's revealed trustworthiness. This extension was a variation of Berg, Dickhaut, and McCabe (1995) two person "investment game," often dubbed the "trust game" (Schweitzer, Hershey, & Bradlow, 2006). Choice sets for the actors are sequenced so that the first mover must determine how much money to risk on the choice the second person will make. In the original setup, subjects are anonymously paired, endowed with \$10, and assigned to the role of sender or receiver. Senders choose a fraction x of their endowment ($0 < x < 10$) to pass to the receiver keeping the remainder, $10 - x$. The experimenter triples the value of x then passes this product to the receiver. The receiver chooses an amount y from this product ($0 < y < 3x$) that is returned to the sender.

Berg et al. interpreted the amount passed by the sender as degree of trust because it literally represents "a willingness to bet that another person will reciprocate a risky move at a cost to themselves"; the amount returned to the sender by the receiver provides a measure of the receiver's trustworthiness (Camerer, 2003, p. 85). In a meta-analysis of over 143 replications and extensions of this trust game played in countries around the world, Johnson and Mislin (2010) found that senders passed an average of 49% of their initial endowment to the receiver. In Experiment 2 we endowed the employee with \$10 then assigned them the sender role. This setup a test whether small talk and initial contract bargaining influenced subsequent non-contractual cooperation in the employment relationship.

Method

Participants and design

A total of 130 undergraduate and graduate students (65 dyads) were recruited for an experiment on decision making at a private university in the Midwestern United States. The average age of participants was 22 years. Forty percent were female. Recruiting advertisements posted around campus indicated that subjects would be paid in cash based upon the decisions they made.

Subjects were randomly assigned to roles of owner or potential employee and to dyads. The pairs then engaged in a bargaining task similar to that in Experiment 1. After the employee made a decision regarding financial expenditure toward implementation, they were endowed with \$10 and given instructions to the investment problem. Certain complexities of the social interaction and contract form observed in Experiment 1 were fixed in this experiment to facilitate hypothesis testing regarding implementation behavior and subsequent exchange. Dyads were randomly assigned to conditions in a $2 \times 2 \times 2$, contract form by small talk by employee affect factorial design.

In Experiment 1, employee expenditure on contract implementation was a discrete choice from three alternatives. To increase sensitivity of this measure, employees were now given a choice of expenditures from the continuum ranging from \$2.50 to \$5.00. As the cost to employee of this investment in implementation

increased, so did the probability of the project succeeding. This varied linearly from a \$2.50 cost to the employee with a 50% chance of project success to a \$5.00 cost associated with 80% chance of success. This choice continuum was presented to subjects both as a formula and in a table of values.⁵ In this experiment, a successful project generated \$15 in profits for the owner while failure left only \$5.

Procedure

After receiving instructions on the basic bargaining task, participants completed a brief quiz to insure understanding of the task. Anyone who missed a question received additional instruction from the experimenter until they could answer correctly. While waiting for the next stage of the experiment to begin participants viewed the positive or neutral affect video clip appropriate to their condition. In contrast to experiment one, pre-negotiation positive affect was manipulated for the job candidate rather than the owner. All owners watched the neutral video clip.

Following the video, half the dyads were assigned the 3-min small talk task while the other half proceeded directly to contracting. The small talk manipulation was based on an adaptation of instructions from the “schmooze” condition in Morris et al. (2002). Dyads were explicitly directed to learn three things they shared in common but they were prohibited from discussing anything relevant to the experimental task, the contracting, or the implementation decision.

The contracting stage followed. Participants were randomly assigned to the role of owner or job candidate then informed of this assignment via their computer terminal. The contract terms offered by participants in the owner role to the job candidate were manipulated in this experiment to clarify findings from Experiment 1. Instructions and on-screen information indicated to owners that the contract form would be pre-determined. On-screen information for the employee suggested that this form would be a choice made by the owner.⁶

Owners assigned to the contingent contract form sent the candidate a \$10 bonus contract, payable only in the event the project succeeded but not if it failed. This bonus was theoretically sufficient to motivate a maximum level of employee expenditure toward implementation if the negotiators follow contract theory. Owners assigned to the guaranteed pay contract form sent the candidate an \$8 offer, payable regardless of project outcome. The contract forms yielded equal expected employee payoff conditional on the investment in a high cost expenditure on implementation by the employee.⁷ But the guaranteed contract is risk free while the contingent contract shifts financial risk from the owner to the employee.⁸

Upon receipt of the contract, all candidates were prompted to choose the expenditure they wished to make toward implementation of the contract. As in Study 1, we assured candidates that their

decision was private. All subjects then completed a questionnaire that included the assessment of trustworthiness of their counterpart that we used in Experiment 1 as well as the emotion report checklist.

Before learning the outcome of the risky project in the contracting exercise, participants received instructions for the investment game. Prior to this time, they had not been given any indication that there would be another task to complete. Employees were endowed with \$10 and assigned the role of sender. They were instructed to decide how much, if any, of the \$10 they wished to pass to their employer. Upon receiving three times the amount passed by the employee, the owners then chose how much of that to return to the employee. Once this non-negotiated exchange was completed, subjects filled out a final questionnaire then learned the disposition of the risky project. Project outcomes were determined using the probabilities associated with the costs employees elected to incur. Following debriefing, participants were paid in cash for their earnings in the two stages of the experiment. Owners received project profits less compensation paid to their employee plus three times the amount the employee sent to them in the investment game less the amount they returned to the employee. Employees earned compensation paid by their employer less expenditure toward implementation plus their investment game stake less any amount they forwarded to the owner plus whatever the owner returned to them.

Results

Table 4 contains descriptive statistics and correlations of the variables in experiment 2. Sixty-two of the 65 potential employees accepted the contracts offered by their counterpart owner. On average, those employees chose to expend \$3.51 in implementing the agreement. The video clips manipulated employee affect in the proper direction. Internal consistency of responses to the three positive emotion items from the checklist (joyful, happy, amused) was quite high, $\alpha = .95$. Positive affect reported on this scale by those who viewed the positive clip ($M = 4.77$, $SD = 1.84$) exceeded that reported by subjects assigned to the neutral condition ($M = 1.90$, $SD = 2.07$, $p < .001$).

Table 5 presents OLS regressions predicting the employee's expenditures on implementation.⁹ Model 1 reveals insignificant main effects for contract type, pre-negotiation positive affect, and opportunity for small talk on employee expenditure. But the interaction between contract form and pre-negotiation affect was significant as the estimates under Model 2 indicate. From this interaction effect, plotted in Fig. 3, it can be seen that outcome contingent bonus pay increased employee expenditure on implementation only when their affect was initially neutral ($t = 2.643$, $p < .05$). It had no effect after the infusion of positive affect for the employee.

Post-negotiation informal exchange behavior

Funds passed to owners by employees in the second stage investment game ranged from nothing at all to \$10 with a mean of \$7.10. Owners returned funds ranging from \$0 to \$15 with a mean of \$6.19. We tested Hypothesis SP-6 by examining whether the amount sent in the investment game was predicted by employee's perceptions of owner trustworthiness after the negotiation. Consistent with Experiment 1, we found that integrity and benevolence perceptions were highly correlated ($r = .58$, $p < .001$). When combined into a single 11 item composite measure of perceived trustworthiness, the measure had considerable internal

⁵ Success rate = $(3/25)(\text{Action Cost}) + (1/5)$.

⁶ A manipulation check at the end of the experiment revealed that, with the exception of four individuals, the participants assigned to the role of job candidate believed the terms of the contract they received were determined by the owner. Four subjects did not believe the owner chose the terms so these subjects were excluded from subsequent analyses.

⁷ Expected payoff for agent with: Bonus contract = $[(\$10) * (80\%) + (\$0) * (20\%)] - \$5.00 = \3.00 ; Wage contract = $[(\$8) * (80\%) + (\$8) * (20\%)] - \$5.00 = \3.00 .

⁸ This establishes an experimental test of the direct link between economic outcomes and implementation behavior suggested by the two social psychological theories. Given the general predisposition of risk aversion for gains (Kahneman & Tversky, 1979), the risk free wage contract represents a more attractive economic outcome than the risky bonus contract. Because the wage is guaranteed irrespective of action, it will not motivate a rational, self interested agent to provide a high-cost implementation of the deal. Rational choice theory predicts that only the contingent form of payment embodied in the bonus can generate a vigorous implementation of the deal.

⁹ As in Study 1, we conducted our analyses by literally treating job candidate quit decisions as zero cost expended toward the implementation of the contract. We also analyzed the data omitting these observations but found no significant differences in our results.

Table 4
Summary statistics and correlations in Study 2.

		Mean	SD	1	2	3	4	5	6	7
1	Employee expenditure	3.51	1.27	1.00						
2	Employee pre-negot. affect	.50	.50	-.07	.80					
3	Contract form	.50	.50	.02	-.03	1.00				
4	Small talk	.50	.50	.16	.03	.00	1.00			
5	Dollars sent	7.20	3.40	.21*	-.03	-.11	.13	1.00		
6	Dollars returned	6.46	6.07	.16	.05	.09	.17	.57***	1.00	
7	Owner trustworthiness	32.25	6.54	.18	.25**	-.48***	-.07	.41***	.16	.89

Correlations on the diagonal have been replaced by coefficient alpha for all multiple item scales.

* Significance at 10% level.

** Significance at 5% level.

*** Significance at 1% level.

Table 5
Models predicting costly implementation action in Study 2.

Independent variable	Model 1		Model 2	
	Coeff.	SE	Coeff.	SE
Employee pre-neg. affect	-.193	.327	.845*	.488
Contract form	.013	.327	.433	.562
Small talk	.541*	.324	.758*	.451
Contract × pre-neg. affect			-1.264**	.640
Pre-neg. affect × small talk			-.829	.638
Small talk × contract			.409	.639
R ²	.053		.151	
F()	1.14		2.890**	
N	61		61	

OLS regressions with Huber White robust standard errors.

* Significance at 10% level for two-tailed *t*-tests.

** Significance at 5% level for two-tailed *t*-tests.

*** Significance at 1% level for two-tailed *t*-tests.

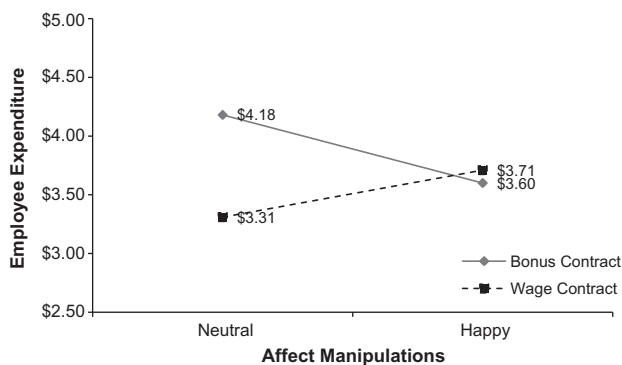


Fig. 3. Interaction effect of contract form and pre-negotiation affect on costly implementation in Study 2. Note that the mean differences in costly implementation for the neutral condition are significant ($t = 2.642, p < 0.05$) while the differences for the happy condition are not significant.

consistency, $\alpha = .88$. Model 4 in Table 6 indicates that perceptions of trustworthiness formed during the initial transaction predicted money sent by the employee to the owner in the second stage investment game. Hypothesis SP-6 was supported.

We tested for the mediation predicted by Hypothesis SP-7 although the step one test predicting money passed to the owner was not supported. Kenny et al. (1998) have argued that Step 1 is not required for establishing mediation, so we proceeded further to test whether the affect and contract manipulations predicted perceptions of trustworthiness in Step 2. As can be seen from the estimates under Model 3 in Table 6, both effects were significant. Employees who viewed the positive affect clip perceived the owner as more trustworthy ($M = 34.07$) than those who viewed the

neutral clip ($M = 31.03$). Employees who received a bonus perceived the owner to be more trustworthy ($M = 35.16$) than those who received the wage ($M = 29.06$).

Step 3 of the mediation test, summarized in Model 5, was also satisfied. Trustworthiness perceptions predicted money passed to the owner by the employee in the second stage investment game while controlling for pre-negotiation affect and contract form. The Sobel (1982) test statistic ($Z = 1.78, p < .08$) was marginally significant. So there appears to be some indication consistent with Hypothesis SP-7 that perceptions of trustworthiness mediated the impact of contract form and affect on subsequent informal exchange between the parties.

Model 5 indicates that small talk increased the money sent by the employee to the owner in the second stage task ($\beta = 1.42, p < .05$), providing support for Hypothesis SP-8. When given the opportunity to engage in small talk before the negotiation, there is a .41 standard deviation (\$1.42) increase in the amount sent by the employee in the investment game. Small talk also had a significant main effect (Model 6) on the amount returned by the owner. After schmoozing, owners returned more passed money ($M = \$7.33$) to their employees than did those who moved immediately into contracting ($M = \$5.25$). Neither the employee's initial mood nor the contract form had a significant effect on this behavior.

Discussion

The two social psychological theories that address negotiation implementation have emphasized the importance of economic outcomes from the deal. But in Experiment 2, the contract form had no effect on employee expenditure in implementation. Working under the contingent contract employees provided suboptimal expenditures given their financial incentives. Under the guaranteed contract, they actually provided more expenditure than was in their own financial best interest. The exogenous infusion of positive affect through the use of a video clip succeeded in making these job candidates happier. While this initial happiness did have an impact on their willingness to expend resources on behalf of the owner, the effect was complex.

The impact on implementation hinged on the form of the contract extended by the employer. Incentive alignment through a contingent agreement generated more vigorous implementation only when the job candidate was neutral in affect. Mood elevated employees were insensitive to these contingencies. Although this relationship was not predicted, it would appear that those in a happy mood may be more attentive to relational considerations than to guileful financial calculation. This is consistent with Waugh and Fredrickson's (2006) findings.

In Experiment 1, the initiative taken by the dyad to engage in small talk was strongly associated with the effectiveness of deal implementation. The requirement to engage in small talk did not

Table 6
Models predicting trustworthiness and dollars sent in investment game.

Predictor variables	Perception of owner trustworthiness		Dollars sent by employee in investment game				Dollars returned by owner	
	Model 3		Model 4		Model 5		Model 6	
	Coeff.	SE	Coeff.	SE	Coeff.	SE	Coeff.	SE
Employee pre-neg. affect	2.951***	1.456			–1.106	.850	–.104	1.623
Contract form	–6.237***	1.456			.910	.870	2.243	1.716
Small talk	–1.033	1.446			1.420**	.808	2.974**	1.548
Perception of owner trustworthiness			.212***	.057	.277***	.074	.249	.165
R ²	.304		.166		.242		.107	
F()	8.440***		13.760***		3.750**		1.420	
N	60		60		60		60	

OLS regressions with Huber White robust standard errors.

* Significance at 10% level for one-tailed *t*-tests.

** Significance at 5% level for one-tailed *t*-tests.

*** Significance at 1% level for one-tailed *t*-tests.

enhance employee implementation in the second experiment in the same way. The experimental manipulation that dissociated contract terms from small talk appears to have negated its impact on implementation decisions. But it did not negate its impact on subsequent non-contractual exchange.

The requirement to “schmooze” had significant financial implications for owners because of these downstream behaviors. Employees were more willing to make themselves financially vulnerable to the owner after chatting with them informally prior to contracting. With the impact of this talk, owners themselves proved to be more trustworthy. They returned more of the money passed to them even though there was no further shadow of the future that financially justified any strategic decision to do so.

These results underscore the importance of trust building for ensuring cooperative behavior away from the bargaining table after the deal has been reached. In an experiment where agreements were never really implemented, Morris et al. (2002) found that small talk led negotiators to express a greater willingness to engage in future exchange with their counterparts. This experiment demonstrated that the impact of small talk extends beyond hypothetical willingness; it enhanced downstream exchange in a way that proved mutually beneficial in terms of financial outcomes.

Conclusions

The quotations that began this paper reflect a fundamental truth about negotiation that has been badly neglected by researchers. The fact is that a negotiated agreement yields few if any direct outcomes, economic or otherwise. Agreements represent explicit promises to engage in certain actions at some point in the future. The more immediate the action the more confidence one may have that promises will be kept. Regardless of timing, it is when those promises are actually kept that the parties anticipate that truly meaningful consequences will follow. The precise consequences they envision may or may not actually materialize because negotiator forecasts are often erroneous, sometimes even systematically biased (Bottom, 1998). Promises of action are not always kept (Schweitzer et al., 2006).

The neglect of implementation in negotiation research has most likely been a result of the absence of a tractable model for studying them. The widely emulated multiple issue framework of Pruitt and Lewis (1975) was designed to test integration, not implementation. Negotiation researchers must begin to examine other settings where negotiation entails promise making and promise keeping as well. The employment contracting problem used here illustrates

how the vigor of implementation can be studied in a setting with considerable control and precision of measurement.

Our results provided mixed support for the social psychological and rational choice theories of implementation behavior. A general behavioral theory of negotiation must recognize the importance of contingent agreements in aligning incentives, but also be sensitive to affective state. Incentives are not merely financial in nature. The social psychological theories identify other relevant considerations that determine negotiator incentives, shape implementation behavior, and long run economic outcomes. Barry and Oliver (1996) combined several related factors under the heading “post-negotiation affect”. This category included both emotional states such as anger or happiness as well as the complex concept of trust. As the present studies demonstrate, trust is built through the talk that comprises the negotiation process. Because it has a significant impact on implementation, it determines financial outcomes of a deal. This impact even extends beyond the terms of the immediate deal by opening opportunities for profitable future exchange of a more tacit, non-contractual, sort.

Aspects of this talk unrelated to the task at hand are considered to be “cheap talk” under rational choice. The studies here indicate just how important this rapport building (Morris et al., 2002) really is for the financial returns from negotiated agreements. Gelfand et al. (2006) referred to this trust building as part of “relational capital,” predicting it would have an independent effect on implementation, somehow separate from economic outcomes. Our results confirm the importance of trust building for implementation, but also suggest the need for further elaboration of the right hand side of this model.

Because negotiated agreement does not translate directly into economic outcomes, we found that profits earned by owners from negotiated agreements were partly determined by trust. As Neville Chamberlain and Jeffrey Katzenberg learned to their dismay, an approach to negotiation that secures the promise of attractive returns may turn out to be a pyrrhic victory if it comes at the expense of trust building. Not only opportunities for future exchange may be in jeopardy, but the fulfillment of the promises in the current agreement as well.

These two experiments represent only a starting point for the study of implementation behavior, hopefully not an end point. Limitations associated with these designs open up opportunities for further research in a number of directions. As an anonymous reviewer pointed out, the stylized nature of the interactions in these experiments represent a somewhat lenient test of contract theory. Bargaining was embedded in an employment contracting context where owners communicated with job candidates in a highly structured manner. The laboratory setting controlled social factors that naturally vary in relations between employer and employee.

This control enabled us to test specific predictions from the social psychological and contract theories. Of course doing this naturally raises legitimate questions about generalizing to other contexts. Future studies must establish how robust these results are to variation in context.

The two experiments demonstrated motivating properties of positive emotions. Negative emotions such as anger, fear or guilt also arise naturally as part of the negotiation process. They may have different impact on implementation. The employment contracting context itself has facets that could influence implementation in a way that differs from other forms of negotiated agreement. The constraint that limited variable implementation to only the employee was very useful from the standpoint of experimental control but not representative of the wider class of negotiation contexts. A setting that permits the parties some discretion over their choice of counterpart is also likely to influence the dynamics of negotiation and implementation.

Despite various limitations the experiments shed important light on a neglected facet of the negotiation process. In the case of employment contracts made in nations with well established legal systems, parties who believe that a promise was not honored may have recourse to the judicial system to compel enforcement. A highly successful executive in the film industry, Jeffrey Katzenberg oversaw the revitalization of Disney's animation business in the 1980's. He departed the firm in 1994 with considerable acrimony after being overlooked for an expected promotion. When Disney refused to pay out the bonus payment promised to him, Katzenberg initiated a very expensive legal proceeding to compel Disney to honor its commitment. He claimed that their failure reflected only personal animosity from the firm's CEO Michael Eisner toward him. In 1999 he won this case with the arbitrator ruling that Disney was required to pay him for profits plus interest on films such as "The Lion King" as well as sale of merchandise tie- in such as t-shirts and games (Fleeman, 1999).

But third party intervention in disputes of this kind to enforce compliance entails its own costs and risk that are even more problematic in international relations. Neville Chamberlain's negotiations with Adolf Hitler took place after he had already intervened to resolve prior disputes over the implementation of the provisions of the Treaty of Versailles. As Chamberlain learned to the world's lasting regret, securing one's desired terms in a negotiated agreement can sometimes prove to be a hollow victory. Military action may be the only way to compel fulfillment of the terms of a deal in such a context.

Negotiators ignore these fundamental sources of uncertainty at their peril. Theories of negotiation must encompass the implementation process if they are to be at all applicable to such complex cases. Although these experiments represent a start, much more empirical study will be needed to fully understand the process. Even so, normative prescriptions for business, government, and diplomatic negotiators must begin to stress this most basic aspect of effective negotiation practice.

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