



The unexpected benefits of final deadlines in negotiation[☆]

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Abstract

Two experiments explored actual and predicted outcomes in competitive dyadic negotiations under time pressure. Participants predicted that final deadlines would hurt their negotiation outcomes. Actually, moderate deadlines improved outcomes for negotiators who were eager to get a deal quickly because the passage of time was costly to them. Participants' erroneous predictions may be due to oversimplified and egocentric prediction processes that focus on the effects of situational constraints (deadlines) on the self and oversimplify or ignore their effects on others. The results clarify the psychological processes by which people predict the outcomes of negotiation and select negotiation strategies.

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Introduction

In his 1980 best-seller, "You Can Negotiate Anything," Herb Cohen advised would-be negotiators that time pressure is a weakness and that negotiators never want to have shorter deadlines than their opponents (Cohen, 1980). Reviews of the research on time pressure in negotiation would seem to support this advice. According to Carnevale, O'Connor, and McCusker (1993, p. 122), "Time pressure produces lower demands, faster concessions, and faster agreement" (see also Druckman, 1994; Stuhlmacher, Gillespie, & Champagne, 1998). In this paper, I question the generality of the conclusion that time pressure is a disadvantage in negotiations. I argue that there are predictable situations in which

negotiators enjoy benefits from shorter final deadlines, but that they tend to miss these opportunities. Understanding and predicting the consequences of final deadlines necessitates a correct understanding of how someone's own time pressure influences that person's opponents. The key insight is that one person's final deadline is also a final deadline for his or her opponent (see Roth, Murnighan, & Schoumaker, 1988). Although this may not appear to be a sophisticated insight, we will see that negotiators often overlook it and make strategic errors as a result.

Final deadlines and time costs

To begin a discussion of time pressure, it is necessary to distinguish final deadlines from time costs. Final deadlines are fixed time limits that end a negotiation. Lim and Murnighan (1994) found that the rate of concessions increases as negotiators approach a final deadline. Although negotiators prefer to concede more slowly than their opponents, all parties must come to an agreement before time runs out if they want to avoid impasse. Negotiators tend to delay and fight for concessions, especially when the potential value of a deal is large and outweighs the cost of delay (Kennan & Wilson, 1989, 1990). They tend to concede only as an

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approaching deadline makes delay costly by increasing the risk of impasse (Ross & Wieland, 1996; Roth et al., 1988). This evidence assumes symmetry in negotiators' positions and time preferences. What are the consequences of asymmetric final deadlines? I believe that this question is misleading, because final deadlines are always symmetric. When one party leaves, the other cannot keep negotiating alone. Thus, the shorter final deadline is the only relevant deadline.

Instead of forcing a negotiation to end, time costs make the passage of time costly. Time costs can be asymmetric in ways that final deadlines cannot. Research shows that when negotiators face different time costs, the agreements that they reach tend to favor the party with lower time costs (Komorita & Barnes, 1969; Rapoport, Weg, & Felsenthal, 1990). The party with higher time costs is more eager to end the conflict quickly and may therefore concede more rapidly (Stuhlmacher et al., 1998). At the same time, the party with lower time costs can more easily threaten delay in order to extract concessions. In a negotiation with time costs, a final deadline can force an agreement, improving negotiators' outcomes by reducing losses due to time costs. However, those benefits may not be shared equally—negotiators with higher time costs benefit more from shorter final deadlines. Yet recent research suggests that this fact is not obvious to negotiators. As a result, they actually resist the implementation of final deadlines that would benefit them because they erroneously predict the consequences of those deadlines.

Predicting the effects of time pressure

Accurately predicting the effects of final deadlines in negotiation necessitates anticipating their influence, not only on the self, but also on others. However, negotiators routinely think too little about others when making predictions about the outcomes of negotiations and selecting negotiation strategies. For example, Ball, Bazerman, and Carroll (1991) have shown that the failure to consider opponents' perspectives leads negotiators to fall victim to the "winner's curse." Similarly, when people are bargaining with a group of others, they are insensitive to the strategies and decision rules of others (Messick, Moore, & Bazerman, 1997). Finally, Camerer and Lovallo (1999) have shown that when deciding whether to compete at all, people focus on their own skills and ignore the skills of their opponents.

These focusing errors have an intriguing implication when it comes to time pressure and negotiation. If negotiators under time pressure focus on how that pressure affects themselves, then they will expect a final deadline to hurt them, when in fact it could help them. In Experiment 1, this possibility was tested by asking participants to predict the outcomes of negotiations with

final deadlines. In Experiment 2, participants actually negotiated in the situations that participants in Experiment 1 made predictions about, and they indeed behaved in egocentric ways that led to strategic negotiation errors.

This research makes at least two important contributions. First, it clarifies the processes by which people make predictions about negotiations. By documenting a systematic egocentric error and explaining why that error occurs, the research reveals some of the psychological mechanisms at work in strategic choice. Second, this research demonstrates the potential benefits of final deadlines in negotiation. This second contribution is important because final deadlines have not been adequately distinguished from time costs in the negotiation literature—many studies of time pressure have failed to distinguish them at all. This has led to the mistaken conclusion that time pressure is always bad for negotiators, when in fact it can have benefits.

Experiment 1: Are final deadlines a curse or a benefit?

For negotiators with time costs, shorter final deadlines actually offer a double benefit. First, they limit the potential threat of delay by increasing everyone's interest in a speedy agreement. They can thus lead to more favorable settlement terms. Second, a final deadline caps the potential accumulation of time costs. However, an egocentric negotiator will see shorter final deadlines *not* as a double benefit, but rather as a curse. Egocentric negotiators will expect a final deadline to increase the pressure on them for speedy agreements. I therefore expect that naïve negotiators in this situation will predict egocentrically that final deadlines are a strategic liability.

Method

Participants

Participants were 102 individuals. Of this group, 41 were MBA students at Northwestern University, found in the main gathering area at the Kellogg Graduate School of Management. The remaining 61 participants were undergraduate students, found in gathering places around the campus of Carnegie Mellon University.

Task

Participants were all instructed to take on the role of the seller in a hypothetical negotiation. Participants were given the following brief description of that negotiation:

Imagine that you were to engage in a negotiation in which you would play the role of seller, trying to sell a widget for the highest possible price. All told, it costs you \$1300 to produce each widget, so your bottom line selling price is \$1300. You know

the buyer will not pay more than \$2200. Your goal is to obtain the highest possible profit. In other words, you want to make as much over \$1300 as possible. The buyer knows \$1300 is as low as you'll go. However, you are under extreme time pressure to get a deal quickly. It costs you \$1.67 per second for the time you spend negotiating. You know your opponent does not face these time penalties, but your opponent knows about your time pressure.

Participants were then asked to predict the negotiated sale prices in each of three final deadline conditions: they either faced a final deadline of 10 min, 3 min, or 30 s. In all cases, the buyer was aware of the final deadline.

Results and discussion

Participants' predictions were tested using a single-factor, repeated measures analysis of variance. There was, as expected, a significant effect of deadline length, $F(2, 202) = 14.48$, $p < .001$. Post-hoc contrasts showed that sellers with 10 min to negotiate were expected to obtain significantly ($p < .01$) higher prices ($M = 1740$, $SD = 349$) than sellers with only 3 min ($M = 1614$, $SD = 299$), and that sellers with 3 min to negotiate were expected to obtain significantly ($p < .001$) higher prices than sellers with just 30 s ($M = 1500$, $SD = 410$).

These results are consistent with the hypothesis that negotiators predict egocentrically that final deadlines will hurt their outcomes. Because Experiment 1 involved a hypothetical situation, however, we do not know whether the participants' predictions would be borne out in actual negotiations. Are negotiation outcomes driven by people's expectations, or by the structure of the negotiation situation? Experiment 2, in which people actually carried out the negotiation that participants in Experiment 1 merely read about, answered this question.

Experiment 2: Potential benefits of final deadlines

Experiment 1 showed that people predict egocentrically that shorter final deadlines are a disadvantage. As a result, negotiators who can set final deadlines for their negotiations will probably fail to do so, and will thus be no better off than negotiators who cannot set deadlines. Although I expect that shorter final deadlines are better for the negotiator with higher time costs, that cannot always be the case. Final deadlines can be *too* short. Very short final deadlines may lead to more impasses, simply because there is not enough time for negotiators to reach agreement.

Furthermore, I expect that negotiators' expectations will have a stronger influence on negotiated outcomes when final deadlines are extremely short. Evidence shows that short deadlines allow negotiators fewer opportunities to explore and revise erroneous beliefs

(De Dreu, Koole, & Oldersma, 1999). This effect was first documented by Luchins (1942), in a classic monograph on the power of functional fixedness. Luchins showed that short deadlines reduced people's ability to solve problems whose solutions violate their assumptions. Similarly, Kruglanski and his colleagues have shown that time pressure increases primacy effects, reliance on stereotypes, and anchoring effects, because people fail to revise early impressions of others (Heaton & Kruglanski, 1991; Kruglanski & Freund, 1983). If people enter a negotiation expecting a short final deadline to be a strategic liability (consistent with the results of Experiment 1), then that expectation is likely to reduce their aspirations, weaken their demands, and result in worse outcomes.

Experiment 2 put actual negotiators in the situation about which participants in Experiment 1 made predictions. After their negotiations, these participants were asked to make the same predictions as participants in Experiment 1. I expected them to show more insight into how final deadlines influence negotiation outcomes, and to predict more accurately the outcomes of bargaining sessions they had not themselves experienced.

Method

Participants

Participants were 96 persons, primarily MBA students and undergraduates, who were recruited from the Northwestern University community in Evanston, IL. This recruitment was carried out through electronic mail, campus mailings, and solicitations in classes.

Task

Participants negotiated the price of a widget, as described earlier. Prices below 2200 points were profitable to the buyer, whereas prices above 1300 points were profitable to the seller. Participants were instructed to maximize their own payoffs. Sellers faced time costs in the form of a time penalty of 1.67 points per second for every second spent negotiating. All time costs, final deadlines, and point payoffs were known to both parties.

The final deadline manipulation affected only the sellers. Buyers were always told that they had 10 min to negotiate. Each seller was given a final deadline of 10 min, 3 min, or 30 s. Pre-testing established that 10 min was more than enough time for people to come to agreement on this simple problem, agreement was common within 3 min, and 30 s was too short.

In all three final deadline conditions, negotiations continued (and the seller's time costs accumulated) until an agreement was reached or time ran out. There was also a fourth opt-out condition, in which both the buyer and seller had 10 min to negotiate, but either party could declare an impasse at any point, halting the accumulation of the seller's time costs. This condition was

important because it allowed me to test whether negotiators impose deadlines on themselves when they have the option of doing so.

Procedure

Each participant negotiated six rounds in the same role against different opponents. All negotiations took place through computer-mediated written communication. When they arrived at the laboratory, participants were seated at computers and given instructional packets to guide them through their negotiations. The instructions said:

You will be negotiating against partners who will be seated at other computers, and who will remain anonymous. You will communicate via written messages sent via computerized 'chat.' You will negotiate against a different person each time. In each negotiation round, you will be negotiating over the sale of one widget, a fictional commodity.

Each computer displayed the time and every message sent was labeled with a time tag indicating exactly how much time had elapsed.

Participants were paid based on their negotiating outcomes (an average of approximately \$12 per person) immediately after the laboratory session. They were also entered into a lottery for a \$100 prize. There was a separate lottery for each role (buyer and seller), and each participant's probability of winning was directly proportional to his or her performance. After the experiment ended, these lotteries were run and two participants were paid.

Before each round of their negotiation, participants were asked about their aspirations for the coming round. At the end of all six rounds, participants also received descriptions of all three final deadline conditions in the experiment. They were then asked to predict negotiation outcomes (sale prices) for each of the three conditions, as the participants in Experiment 1 did. They were also asked to give written explanations for their predictions. Finally, they were paid, thanked, debriefed, and dismissed.

Participants' written explanations were coded for statements reflecting the insight that a final deadline for one negotiator also ends a negotiation for the other.

This coding was completed independently by two readers blind to the experimental hypotheses. A third coder resolved disagreements.

Results

A summary of the means and standard deviations across conditions for the dependent measures can be found in Table 1.

Sale prices

I first analyzed the negotiated sale prices, leaving impasses as missing values, in a $4 \times (6)$ mixed effects analysis of variance. Only sellers' data were analyzed, but given the dyadic nature of the outcomes, the same results hold for both buyers and sellers. There was a statistically significant effect of treatment condition, $F(3, 20) = 3.81$, $p < .05$. Post-hoc contrasts revealed that sellers with a 3-min final deadline obtained significantly ($p < .05$) higher prices ($M = 1664$, $SD = 108$) than did sellers with a 10-min final deadline ($M = 1575$, $SD = 124$). And sellers with a 30-s final deadline obtained significantly ($p < .05$) lower prices than did sellers with either a 3-min final deadline or in the opt-out condition. Neither round, $F(5, 16) = 1.22$, ns , nor its interaction with treatment condition, $F(15, 54) = .82$, ns , had significant effects on sale prices.

Impasse rates were also affected by treatment conditions. In particular, the rate of impasse in the 30-s final deadline condition was higher (32%) than in any of the other conditions (8%, on average). In a regression predicting impasses, dummy variables were used to represent the 10-min, 30-s, and opt-out conditions, and the 3-min deadline condition was used as the reference condition. The 30-s final deadline condition was the only significant predictor, $B = 2.09$, $p < .001$, $R^2 = .09$. None of the other conditions differed significantly from the reference condition.

Sellers' outcomes

To see whether shorter final deadlines would strategically benefit the negotiator facing greater time costs, I also compared sellers' outcomes across the four

Table 1
Mean aspirations and outcomes in the four treatment conditions (Experiment 2)

	Deadline			
	30 s	3 min	10 min	Opt-out
Sale prices	1553 ^a (144)	1664 ^c (108)	1575 ^{a,b} (124)	1624 ^{b,c} (119)
Impasse rates	32% ^a	11% ^b	6% ^b	7% ^b
Sellers' outcomes (points)	136 ^{a,b} (176)	171 ^a (195)	64 ^b (303)	71 ^b (220)
Negotiation lengths (seconds)	21 ^a (9)	92 ^b (51)	118 ^{b,c} (140)	135 ^c (101)
Aspirations (seller)	1691 ^a (155)	1788 ^b (108)	1715 ^{a,b} (137)	1755 ^b (149)
Aspirations (buyer)	1556 ^a (152)	1556 ^a (87)	1546 ^a (130)	1560 ^a (136)

Note. Standard deviations are in parentheses. Means with different superscripts are significantly different from each other.

treatment conditions. This analysis differs from the analysis of negotiated sale prices in that it includes both impasses (zero negotiated payoff) and time costs (1.67 points per second spent negotiating). Again, I carried out a $4 \times (6)$ mixed effects analysis of variance. As before, only treatment conditions had a significant effect, $F(3, 44) = 7.18$, $p < .01$. Post-hoc contrasts revealed that sellers with a 3-min final deadline obtained significantly ($p < .05$) better outcomes ($M = 171$, $SD = 195$) than did sellers with 10-min final deadlines ($M = 64$, $SD = 303$) or those in the opt-out condition ($M = 71$, $SD = 220$). No other contrasts were significant.

The reason why low sale prices in the 30-s deadline condition did not translate into low outcomes is that sellers benefited from low time costs. To explore differences in the length of the negotiations, another $4 \times (6)$ mixed effects analysis of variance was performed. The only significant effect was for treatment condition, $F(3, 44) = 10.80$, $p < .001$. Post-hoc contrasts revealed that the negotiations in the 30-s final deadline condition were significantly ($p < .05$) shorter than those in the other three conditions. And negotiations in the 3-min deadline condition were significantly ($p < .05$) shorter than those in the opt-out condition (see Table 1).

Correlates of outcomes

Although differences in final deadlines clearly influenced outcomes, it is possible that they did so by changing negotiators' aspirations. If that were true, then it would suggest that negotiators were either good at anticipating outcomes and adjusted their aspirations accordingly, or that negotiators' expectations created self-fulfilling behavior. I tested the predictive value of buyers' and sellers' aspirations for negotiated outcomes using an ANCOVA in outcomes, where treatment condition was the independent variable and the two kinds of aspirations were covariates. Both the aspirations of buyers, $F(1, 232) = 120.40$, $p < .001$, and those of sellers, $F(1, 232) = 32.58$, $p < .001$, were significant predictors of outcomes, and the treatment condition effects remained significant, $F(3, 232) = 7.68$, $p < .001$. The latter fact indicates that the effects of the treatment conditions on negotiated outcomes were not perfectly mediated by changes in the negotiators' expectations.

I also examined the effects of the treatment conditions on the participants' aspirations. Sellers' aspirations were strongly influenced by the treatment conditions, $F(3, 276) = 6.87$, $p < .001$. The pattern of results was like the pattern for negotiated sale prices. But the treatment conditions had no significant effects on buyers' aspirations ($M = 1555$, $SD = 128$), $F(3, 281) = .18$, *ns*. This makes sense if the buyers were thinking egocentrically, only paying attention to their own constraints and ignoring those of their opponents. The buyers' deadlines, after all, did not vary across the treatment conditions.

Outcome predictions

Recall that after their negotiations, participants were asked to imagine themselves as a seller in another negotiation, and to predict the sale prices they would receive under deadlines of 10 min, 3 min, or 30 s. Because they were now experienced negotiators, I expected the participants to have insights into the strategic consequences of deadlines in negotiation, insights that would help them correctly predict outcomes under negotiation conditions that they had not experienced.

The accuracy of participants' predictions was tested using a $2 \times 4 \times (3)$ mixed effects analysis of variance. The independent variables were original role (buyer vs. seller), treatment condition, and imagined length of final deadline. There was, indeed, a significant effect of imagined deadlines, $F(2, 164) = 29.58$, $p < .001$. However, the participants' predictions did not match the earlier actual outcomes. Instead, they were consistent with the naïve predictions made by participants in Experiment 1. Post-hoc contrasts showed that sellers with a 10-min final deadline were expected to obtain significantly ($p < .001$) higher prices ($M = 1708$, $SD = 206$) than sellers with a 3-min final deadline ($M = 1638$, $SD = 161$), who in turn were expected to obtain significantly ($p < .001$) higher prices than sellers with a 30-s final deadline ($M = 1560$, $SD = 155$). Participants across both roles and all treatment conditions tended to predict this pattern of outcomes—there were no significant interaction effects in the analysis. The main effect of original role was not significant either, but there was a significant main effect of treatment condition, $F(3, 82) = 4.86$, $p < .01$. Post-hoc contrasts showed that participants expected sale prices to be significantly ($p < .05$) lower when there was a 30-s final deadline ($M = 1549$, $SD = 162$) than when there was a 3-min deadline ($M = 1694$, $SD = 116$), or a 10-min deadline ($M = 1658$, $SD = 151$), or the possibility of opting out ($M = 1651$, $SD = 98$). Thus, participants in conditions where the actual sale prices were low also predicted low sale prices. Experience did not seem to provide any deep insight into the strategic dynamics of time pressure. Instead, it led participants to develop superficial expectations that other negotiations would produce outcomes similar to their own.

Another way to explore whether strategic insight influenced the participants' responses was to analyze their written explanations for their predictions. Of the 96 participants, 87 offered written explanations. The two coders analyzed those explanations for evidence of insight. They agreed in 92% of their evaluations. Seventeen (20%) of the explanations reflected a realization that a final deadline for one negotiator also ends the negotiation for the other. To test whether that insight affected participants' predictions, I conducted a $2 \times 2 \times 4 \times (3)$ mixed-effects analysis of variance. The independent variables were insight (yes or no), original

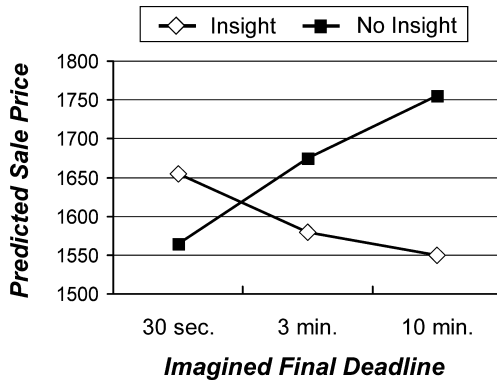


Fig. 1. Mean sale prices predicted by participants in Experiment 2.

role, original treatment condition, and imagined length of final deadline. The only significant effects were a main effect for insight, $F(1, 67) = 5.81$, $p < .05$, which was qualified by the expected two-way interaction between insight and imagined deadline length, $F(2, 66) = 12.90$, $p < .001$. Participants who lacked insight predicted that longer final deadlines were better for the seller, whereas insightful participants predicted that shorter final deadlines were better. This pattern is illustrated in Fig. 1. To test these differences, I compared insightful and non-insightful participants with respect to how many *more* points per minute of negotiation (given the three deadlines) the sellers were expected to obtain. This figure was significantly lower for insightful participants ($M = -32.48$, $SD = 64.55$) than for participants who lacked insight ($M = 56.39$, $SD = 54.47$), $t(86) = 5.83$, $p < .001$.

Discussion

Experiment 2 produced further evidence that negotiators view short final deadlines as a strategic weakness, but it also revealed the inaccuracy of such beliefs. Sellers with the most time to negotiate had the worst outcomes. Yet both the experienced negotiators in Experiment 2 and the naïve participants in Experiment 1 predicted that sellers would obtain better prices when they had more time to negotiate. Participant's written explanations for their predictions often suggested that they were focusing on themselves. For example, one participant wrote, "Time constraints create a 'fire sale' environment where the seller is more likely to accept a lower 'ask' price. The seller has less time to haggle in this situation." This explanation fails to take into account the fact that the buyer also has less time to haggle, and suggests an egocentric viewpoint that focuses on the effect of the final deadline on the self, rather than a rational analysis.

If negotiators were not disabused of their egocentric predictions even after playing the role of the seller with a long final deadline, then it is unlikely that they would choose to impose a deadline on themselves. Sellers in the opt-out condition had the option of imposing a deadline

and declaring an impasse at any point. They could have opened their negotiations by threatening to declare an impasse after 3 min if there was no agreement. This would have created a moderate final deadline. However, they did not use this strategy. Their negotiations include few threats to declare an impasse. Only 7% of negotiations in the opt-out condition ended by declared impasse, and none of the negotiations in that condition opened with a threat to declare an impasse. In fact, their negotiations were somewhat longer than those in the 10-min final deadline condition.

Another noteworthy feature of the negotiated outcomes in Experiment 2 is that sale prices in the 30-s final deadline condition were very low. This is at least partially attributable to participants' naïve expectations about the consequences of a short final deadline for the seller. Sellers in this condition began their negotiations believing that short final deadlines were a strategic liability, so their low aspirations may have created a self-confirming prophecy.

General discussion

The participants in my experiments made erroneous predictions about the effects of final deadlines on negotiation. Those predictions, and the explanations participants gave for them, imply a psychological prediction process that is too simple and that focuses on the self, rather than considering others' roles in producing social outcomes. In predicting how deadlines influence negotiation outcomes, participants overlooked how final deadlines would influence others, focusing instead on how such deadlines influenced themselves. As a result, their predictions showed consistent errors that led to errors in selecting negotiation strategies. For example, they failed to self-impose deadlines when it would have helped them to do so.

Limitations and future research

Although participants in Experiment 2 did not seem to learn much from their negotiating experiences, it is possible that other kinds of experience would be useful. All participants experienced just one kind of final deadline. Maybe experience with deadlines of different lengths would be more useful. And maybe switching roles, to experience both sides of the negotiation, would be useful for providing insight into the behavior of others. To help clarify the psychological processes at work in these sorts of social predictions, future research should collect more detailed process data to learn exactly how negotiators make predictions and what sorts of causal factors they consider.

Although some research has shown that exposure to others can reduce self-centered biases (Wade-Benzoni,

Tenbrunsel, & Bazerman, 1996), neither exposure to opposing negotiators nor experience with the negotiation situation was enough to allow participants in my experiments to correct their predictions. Maybe this was because participants assumed competition with their opponents, even when their interests were aligned. When people expect to compete with others, they often assume that their own interests are in opposition to those of their opponents (Thompson, 1990; Thompson & Hastie, 1990). This assumption may have interfered with seeing that final deadlines influence both sides similarly. This reasoning suggests that the effects reported here occur only in situations of explicit or implicit competition, and would not occur in situations that participants view as more cooperative. Future research should examine egocentric predictions in domains outside negotiation, where people are less likely to make assumptions of conflict.

Conclusion

The prediction biases revealed here were remarkable in their durability, even in the face of material incentives to do well, and despite relevant experience. Past research has shown that social perceivers are astonishingly insensitive to the powerful effects of situational constraints on the behavior of others (Jones & Harris, 1967; Pietromonaco & Nisbett, 1982), even when the perceiver is the one who has induced the constraint (Gilbert & Jones, 1986). Nevertheless, one context in which we might hope that people could understand and avoid this problem is negotiation. Negotiation has tremendous practical importance. We face negotiations every day, negotiations in which our own outcomes—the prices we pay, the salaries we receive, or the coalitions we build—depend on the ability to select the right strategies and tactics. Anticipating how constraints on others will influence their behavior is critical to our success. Yet the evidence presented here suggests there may be blind spots in our strategic vision.

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