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**When Does Behavioral Certainty Overcome Environmental Uncertainty: The effects of Regulatory Focus, Environmental Uncertainty and Past Relationship Experience with the Supplier on Decisions against Reported Likelihood of Delivery Failure**

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Abstract

We investigated the independent and joint effects of regulatory focus, nature of past relationship experience with the supplier and environmental uncertainty on decision to (a) give price revision advantage, (b) give deadline extension, and (c) terminate contract and negotiate with another supplier firm against reported likelihood of delivery failure. In an experimental study with 155 Indian managers, we hypothesized and found that prevention oriented buyers, as compared to promotion oriented buyers, had greater tendency to give price revision advantage to the supplier under moderate and high environmental uncertainty but not under low uncertainty. The finding supports regulatory fit theory explanation to the given decision problem but not regulatory focus as a personality trait theory prediction. We found a strong main effect of buyer's past relationship experience with the supplier firm on their decisions thereby strongly supporting predictions based on organizational learning perspective of the behavioural theory of the firm and past research on trust building through past relationship experience based in negotiation as well as international alliance research. We found that buyers are more likely to give price revision advantage, deadline extension or less likely to terminate the contract with supplier with whom they have had long term relationship with no negative experience than with those suppliers with whom buyers have had no experience (new supplier) or occasional negative relationship experiences. Past relationship experience with supplier also showed marginally significant interaction with environment uncertainty in influencing the decisions. Findings strengthen support for regulatory fit and behavioural theory in negotiation research.

## When Does Behavioral Certainty Overcome Environmental Uncertainty: The Effects of Regulatory Focus, Environmental Uncertainty and Past Relationship Experience with the Supplier on Decisions against Reported Likelihood of Delivery Failure

In the real world, managers experience several situations when the suppliers report inability to complete the delivery of goods or services within the deadline and/or demand revision of price due to various constraining contingencies in the current business environment, e.g. rise in cost of materials, shortages or fluctuations in supply of raw materials, labor unrest, etc. The buyer is thus faced with options, e.g. pre-maturely terminate the contract, or continue with the same party providing either upward revision of price terms or extending the date of delivery. Organizations have tried to handle the problem in terms of legal framing (i.e. inclusion of safeguard clauses) of the terms and conditions of a contract. The framing of contract safeguards, though, makes provisions for pre-mature termination, but does not examine the concerns about costs and consequences of task remaining incomplete and continued market demand and supply pressures may force the buyer to nonetheless increase the price or relax the delivery deadline for a new supplier. Therefore the issue is rather unique and does not allow resolution in terms of fixed parameters of contractual framing and is befitting for analysis following the behavioural theory perspective of negotiation and decision making under uncertainty.

A recent paper (Weber, Mayer & Macher, 2011) discusses part of the problem of early termination versus extendibility in terms of framing of the contract clauses with data from one IT hardware/software provider firm. This paper applied propositions from transaction cost economics (Williamson, 1985) and regulatory focus theory (Higgins, 1997, 1998). Even while applying regulatory focus theory, Weber et al.'s (2011) paper confined itself to the contract

framing provisions as duration safeguards against hazards of opportunism as well as to sustain relationship with the supplier. Contract framing clauses are essential to safeguard the implementation but need not be sufficient to resolve critical real world problems in buyer-supplier exchange and contract implementation (Weber et al., 2011).

Following the behavioural theory of negotiation and decision making we interpret framing as part of cognitive process under varied conditions. Lewicki, Saunders & Barry (2006) suggest that “frame is a subjective mechanism through which people evaluate and make sense out of situations, leading them to pursue or avoid subsequent actions” (p. 135). Putnam and Holmer (1992, p. 129) point out that framing helps explain “how bargainers conceive ongoing set of events in light of past experiences.” Putnam and Holmer (1992) also suggested that framing and reframing, i.e. re-evaluation of information and past positions “are tied to information processing, message patterns, linguistic cues and socially constructed meanings” (p. 129). Negotiators may thus adopt different frames based on their personality orientation, cognitions and motivations based on past experience with the suppliers and factors in the background and business context. Recent evidence (Trötschela, Hüffmeier, Loschelder, Schwartze, & Gollwitzer, 2011) indicates that perspective taking helps overcome motivational barriers towards reaching integrative agreements.

Personal cognition and motivation in turn may depend on certain differences in an individual’s personality orientation (Higgins, 1997). The significance of investigating the effects of personality traits on negotiations has also been highlighted by Weber, Mayer, & Macher (2011) and Gelfand, Major, Raver, Nishii, & O’Brien, (2006) among others. Gelfand et al. (2006) investigated the effect of decision maker’s relational self view, a personality trait which determines whether the decision maker views himself/herself as independent from others or

interdependent, on the accumulation of economic and relational capital in negotiations. Lewicki et al. (2006) have provided adequate evidence of personality factors, such as, social orientation, self-efficacy, locus of control, self-monitoring, machiavellianism and the “big five” personality traits impacting negotiation behaviour, process and outcomes.

Managerial goal orientation in negotiation is an important cognitive and motivational consideration influenced by personality factors, such as, regulatory focus – either promotion or prevention focus (Higgins, 1997, 1998). But taking supplier perspective based on past relationship experience and environment uncertainty should moderate the impact of promotion versus prevention goal orientation on negotiation decisions. Specifically, this study examined the individual and joint effects of buyer’s regulatory focus (promotion versus prevention focus), level of environmental uncertainty (low uncertainty represented by a domestic furniture firm versus moderate uncertainty represented by domestic R&D firm versus high uncertainty represented by foreign/global R&D firm), and the nature of buyer’s past relationship experience with the supplier (no past relationship experience represented by a new firm versus long term relationship with occasional negative experience versus long term relationship with no negative experience) on decision to (a) give price revision advantage to supplier, (b) extend deadline to the supplier, and (c) terminate the contract with current supplier and negotiate with another supplier..

### ***Promotion and Prevention Focus on Negotiation Related Decision Making***

Economic view of organization believes that buyers and suppliers like all other individuals are rationally bounded; their working memory and cognitive capacity to process information are limited (Simon, 1955). Their preferences are thus contingent on a variety of

factors like contract framing (Bettman, Luce & Payne, 1998; Kahneman & Tversky, 1979; Weber et al., 2011), apart from their personality and cognitive factors. Besides limited cognitive capacity to process information, the contingent nature of preferences is attributed to the existence of multiple goals which buyers try to attain through decision making (Bettman et al. 1998). For instance, a buyer may attempt to enhance his/her career prospects by taking a deal to fruition, quickly, by taking risks, which he/she would not have taken otherwise if he/she were concerned about broader organizational objectives. Behavioural theory of the firm also points out the notions of uncertainty avoidance as well as uncertainty absorption alongside the concepts of psychological issues of attention to goals and quasi-resolution of conflict (Cyert & March, 1992). Further, psychological theories highlight the fact that the process of goal attainment affects the choice of options, all else remaining same (Avnet & Higgins, 2006). Specifically, certain buyer dispositions or process orientations may even alter the degree of satisfaction derived out of a decision outcome (Aaker & Lee, 2001). Avnet and Higgins (2006) observed that the value buyers ascribed to their final choice of product or the decision outcome was higher when the buyer approached the decision task in a manner consistent with his/her goal orientation or proclivity towards attaining the goal. Decision making is often goal directed and buyer's choice of duration safeguard in negotiating with a supplier, for instance, may depend on his or her *regulatory focus* or disposition towards attaining the goal. Regulatory focus represents two distinct motivational states: promotion focus and prevention focus (Higgins, 1997). Buyer's promotion orientation is an individual's inclination towards approaching an ideal outcome in decision making. Prevention orientation, on the other hand, is an inclination towards avoiding negative outcomes and may manifest itself as a buyer's inclination towards adopting strategies to safeguard against the same to ensure a minimum expected outcome (Crowe & Higgins, 1997).

Further, promotion and prevention oriented buyers possess different attitudes towards risk (Crowe & Higgins, 1997; Liberman et al., 1999); promotion oriented individuals are more willing to accept risks as compared to prevention oriented individuals when faced with uncertain situations (Pham & Avnet, 2004). Risky situations foster greater vigilance among prevention oriented individuals along with greater reliance on the substance vis-à-vis the affect or the feeling around the message (Pham, 1998). For instance prevention oriented buyers are more concerned with the usage cost of a product as compared to the enjoyment they may derive out of the same (Wyer, Clore, & Isbell, 1999). This differential importance given to substantive versus affective information is driven by changes in perceived diagnosticity of the information driven by differences in buyers' regulatory focus (Pham & Avnet, 2004). In other words, for promotion oriented buyers the prospect of a fruitful future relationship with a supplier may become more important than previous unsatisfactory relationships that the buyer may have had with the supplier. Herein the prospect of a successful relationship and the expectation of an ideal outcome out of the deal with a supplier may thus become more important for a promotion focused buyer versus prevention focused one. In other words, buyers' regulatory focus may substantially affect how they view a decision task and their approach towards negotiations, an area of research deemed important by social psychologists as well as scholars working in the field of buyer-supplier negotiations (Gelfand et al., 2006). Regulatory focus of goals also makes persons sensitive to gain-loss information. While promotion oriented buyers are sensitive to gains, the prevention oriented buyers are more sensitive to losses. For example, any cues of potential gain and likelihood of profits will propel promotion oriented persons to such goal directed behaviors whereas any inkling of likely loss would send shockwaves to a prevention oriented buyer to preempt any such goal inhibitory move from the opposite party.

Buyer's regulatory focus may represent chronic or stable personality trait, or they may be induced by methods like contract framing and designing (Argyres & Mayer, 2007; Weber et al. 2011). These ideas are, however, not inconsistent; they are in line with the fact that certain psychological traits like self view are malleable and may reflect chronic as well as transient tendencies (Aaker 1999). In this context, we consider the more stable representation of buyer's chronic regulatory orientation. As mentioned earlier, promotion focused buyers are oriented towards achieving ideal outcomes and are motivated towards attaining the same. While the decision tendency to extend a contract implies an inclination towards achieving something ideal, a tendency to terminate an ongoing relationship reflects an orientation towards prevention of expected negative outcomes by assuring the required minimum or mere conformance to the set specifications of a contract (Weber et al., 2011). There is also evidence that buyers are guided and persuaded by their regulatory focus in consumer choice decisions (Lee and Aaker, 2004; Pham and Avnet, 2004).

Further, prevention focused buyers as compared to promotion focused buyers are concerned more with the substantive or tangible information pertaining to a task (Keller, Lee, & Strenthal, 2004). For instance prevention focused buyers may be more concerned with the cost implications of a deal as compared to promotion focused buyers. Moreover, given that prevention focused buyers are guided by safety and security, they may view cost as an expense as opposed to an investment. Promotion focused buyers on the contrary, being driven by the need for nurturance, may view the extra cost burden as an investment towards achieving an ideal end state (Higgins et al., 1994). Viewing a cost as an expense versus an investment is also consistent with the differential temporal perspectives which prevention and promotion focused individuals are observed to exhibit in decision making (Pennington & Roese, 2003). Cost while viewed as



an expense appears as an immediate concern, cost viewed as an investment or an outlay with returns accruing in the future is consistent with a temporally distant perspective. A distant temporal perspective of cost is consistent with promotion focus and an immediate expense perspective of cost is consistent with a buyer's prevention focus (Pennington & Roese, 2003). A distant temporal perspective of cost may also undermine the pain associated with the immediate expected outlay that buyers may expect in negotiating as all future outlays appear less severe as compared to immediate ones even though they are financially equivalent (Soman et al., 2005). Consequently, we propose:

*Hypothesis 1. Promotion focused buyers will have a greater tendency to (a) give price advantage to supplier, (b) extend deadline to the supplier, and (c) terminate the contract with the current supplier and negotiate with another supplier as compared to prevention focused buyers.*

### ***Role of Environmental Uncertainty***

Environmental uncertainty may stem from the lack of ability to monitor the supplier or from difficulty in information transfer between the contracting parties (Jaffe, Trajtenberg, & Henderson, 1993). A low technology business environment, such as, furniture industry is less uncertain while R&D for a manufacturing component is more uncertain; and a global R&D firm operates under the most uncertain environment. Weber et al. (2011) established that with greater geographical distance, the buyer-supplier contract is more likely to contain an extendibility clause versus a termination clause. These researchers posit that with increasing geographical distance duration safeguards play increasingly important roles with the parties involved in the exchange having greater tendency to use the contract to interpret each others' intentions. This

increased tendency to interpret implies that the buyer becomes increasingly cautious and vigilant towards a supplier's intentions as geographical separation increases. Also enactment process (Weick, 1969) in low and moderate uncertainty environments presents greater amenability to anticipate and pro-act to deal with fluctuations in demand supply in order to absorb the cost escalation and margin squeeze. R&D firms however face the unknowns which may overturn the costs completely by reworking and fresh experiments and tests adding to insurmountable cost and time burden. R&D task environments are characterized by long-term time orientation, high interpersonal orientation and less formality whereas operations environments are characterized with short-term time orientation, high task orientation and high formality (Lawrence & Lorsch, 1967). Thus we hypothesize:

*Hypothesis 2: Buyers will show lesser tendency to (a) give price advantage to supplier, (b) extend deadline to the supplier, and (c) terminate the contract with the current supplier when dealing with suppliers from low uncertain environment, e.g. domestic furniture firm, or moderate uncertain environment, e.g. domestic R&D firm as compared to the suppliers from high uncertain environment represented by foreign/global R&D firm.*

***Interaction between Regulatory Focus and Environmental Uncertainty:***

A prevention oriented duration safeguard or termination clause is consistent with a prevention focus as it may heighten the buyer's vigilance towards deviant or opportunistic behavior from the supplier (Weber et al., 2011). Heightened vigilance being consistent with buyer's prevention orientation will persuade them further to follow their natural decision

tendencies (avoidance); buyers will experience *regulatory fit*: a state of increased motivation, between the type of task environment and their prevention focus.

In international and cross-border exchanges, geographical distance also gets entangled with the problems of cultural distance resulting in many types of social, psychological and economic advantages and disadvantages (Bartlett & Ghoshal, 1998). With increasing role of foreign direct investments, the management analysts are beginning to substitute the metaphor of cultural distance to cultural friction (Shenker, Luo & Yehskel, 2008). On the other hand, Bhagat et al. (2007) proposes the concept of global mindset involving personal, organizational and national orientations to operate more effectively in the fast globalizing business world. Thus exchanges with international partners are bound to be marred by cultural differences restraining smooth flow of information and less concession giving behaviors and may even cause friction and conflict due to cultural variations in motivations, and behavior styles, etc. alongside the problems inherent in protection of patent and proprietary knowledge. Bhagat, Kedia, Harveston and Triandis (2002) allude to cultural differences in individualistic versus collectivistic orientation affecting the knowledge creation and transfer across in international negotiations and such differences should be more specially in R&D firms as compared to technologically less complex firms. These uncertainties are more significant in technology, knowledge and research and development exchanges and this will still differ from the decisions toward a low technology and low complexity environment of a furniture industry.

Heightened vigilance being inconsistent with a promotion focus may hinder promotion focused buyer's eagerness in approaching an ideal goal or outcome through negotiation (Higgins, 2002). As mentioned before, promotion oriented buyers are more concerned with higher level construals or abstract ways of thinking on top of adopting a distant temporal perspective in

decision making (Lee et al., 2000). Consistent with this is promotion focused buyer's lesser risk aversion. Thus they may focus more on the positive aspects of a contract with a global supplier: for instance, the possibility of having an improved product or access to new technologies as compared to prevention oriented buyers (Lee, Keller, & Strenthal, 2010). Prevention oriented buyers on the other hand will be more focused on lower level construals or on the concrete and substantive aspects of a contract. For instance they may be more concerned with the expected rise in cost due to the environmental uncertainty consequent of the lack of ability to monitor the supplier (Lee, Keller, & Strenthal, 2010; Förster & Higgins, 2005).

However, a counter-argument suggests that environmental uncertainty leads prevention focused buyers to heighten vigilance or guard against errors of commissions (Higgins, 2002). Heightened vigilance reflects a conservative bias and an aversion towards change (Liberman, Idson, Camacho & Higgins, 1999). While heightened vigilance sustains prevention orientation, it disrupts promotion orientation (Higgins, 2002). Consequently prevention oriented buyers experience greater regulatory fit with higher environmental uncertainty. Individuals experiencing regulatory fit "feel right" about their evaluations and this positive feeling sustains their natural tendencies (Cesario, Grant & Higgins, 2004). While prevention focused buyers exhibit a natural preference for stability, promotion focused buyers show preference for change (Liberman *et al.*, 1999). Thus with greater environmental uncertainty prevention focused buyers may exhibit greater tendency to sustain the ongoing relationship with the existing supplier as compared to promotion focused buyers by extending deadline, giving price advantage, and not termination of contract. However, based on general regulatory-fit theory argument, we formally hypothesize:

*Hypothesis 3: With increasing environmental uncertainty, prevention oriented buyers have a lesser tendency to (a) give price advantage to supplier, (b) extend deadline to the*

*supplier, and a greater tendency to (c) terminate the contract with the current supplier as compared to promotion oriented buyers.*

### ***Buyer's Past Relationship Experience with the Supplier***

Relationship building is the first major element in negotiations. Past experiences build this relationship and positive experiences obviously lead to better and sustained long term relationship whereas negative experiences are likely to contribute to conflict, strain and breakdown of relationship. The connective tissues of trust, forbearance and reciprocity are strengthened by such positive experiences and propensity to opportunistic behaviors is restrained (Ring & Van de Ven, 1994). A new encounter may be responded with caution and suspicion in normal interpersonal exchanges and such a tendency may be quite sharp in inter-organizational contexts. Social psychological literature (Lewicki et al., 2006) suggests three distinct cognitive and motivational issues arising from past relationship experience, viz. trust, reputation and justice. While positive past experience in relationships builds trust and reputation of trustworthiness, some changed conditions may result in perceptions of injustice and unfairness. Schweitzer (2004) observed that repair of trust violations is jeopardized by perceptions of deception. In international alliances also, Krishnan, Martin and Noordenhaven (2006) observed that behaviour certainty was more important for trust formation and alliance performance than environment certainty. Janowicz-Panjaitan and Krishnan (2009) also found that competence based and operating level trust violations were more reparable than integrity based and corporate level violations between alliance partners.

We may thus expect:

*Hypothesis 4: Buyers are more likely to (a) give price advantage to supplier, (b) extend deadline to the supplier, and less likely to (c) terminate the contract with the current supplier with whom they have had long term relationship with no negative experience than suppliers with whom they have had no experience (new supplier) or had occasional negative experiences.*

### ***Interaction between Regulatory Focus and Past Relationship Experience***

Promotion focused buyers are sensitive towards gains and non-gains, prevention focused buyers are sensitive to losses and non losses (Avnet & Higgins, 2006; Higgins et al., 2003). Negative feedback is relevant to a buyer's prevention focus as is positive feedback to his or her promotion focus (Hong & Zinkhan 1995; Idson, Liberman, & Higgins 2000; Maheswaran & Sternthal, 1990). Thus a negative feedback, as reflected in occasional negative past relationship experiences with the supplier, will persuade or motivate prevention focused buyers to sustain their decision tendencies characteristic of their regulatory focus (Higgins, 2002). Promotion focus buyers would show a tendency to be more favourable to occasional negative experience with supplier because of long term past relationship and would consider difficulties faced by the supplier as a situational reason and may not be favorable towards a new firm with no past relationship experience. Thus we expect:

*Hypothesis 5: Compared to promotion focused buyers, prevention focused buyers will have lesser tendency to (a) give price advantage to supplier without revising deadlines, (b) give extended deadline advantage to the supplier without any additional price advantage, and a greater tendency to (c) terminate the contract with the current supplier and negotiate with another suppliers when they have had no negative past relationship*

*experiences with the supplier than when they have had either occasional negative past relationship experiences or no past experience, e.g. a new supplier.*

### ***Interaction between Environmental Uncertainty and Buyer's Past Relationship Experience with the Supplier***

Based on behavioural theory of decision making under uncertainty discussed in preceding sections, we can extrapolate that the buyers in more uncertain environments would search for alternative resolutions or quasi-resolution of such conflict-prone delivery problems by uncertainty avoidance and uncertainty absorption, which is influenced by the nature of past relationship experience. Learning theory perspectives (Argyres & Mayer, 2007) suggest that organizational memory through long term accumulated past experiences acts as a facilitator in uncertainty absorption whereas occasional negative experience or no past experience may act as inhibitor and may rather direct buyers toward uncertainty avoidance. In dealing with low or moderately uncertain environments, buyers may be more cautious and vigilant and monitor the exchanges with suspicion in case of no experience or occasionally negative past experiences with the supplier. In high uncertain environments, no negative past relationship experience is indicative of their trustworthiness and would be less suspected in such delivery conflict situations. We therefore hypothesize:

*Hypothesis 6: In dealing with suppliers from low uncertainty environments, e.g. domestic furniture firm or moderate uncertain environments, e.g. domestic R&D firm, buyers will show lesser tendency to (a) give price advantage to supplier, (b) extend deadline to the supplier, and show greater tendency to (c) terminate the contract with the current supplier when they have had no experience (new firm) or had occasional negative experience than when they have had no negative experience. In dealing with suppliers*

*from high uncertainty environments, such as, foreign/global R&D firm, buyers will show greater tendency to (a) give price advantage to supplier, (b) extend deadline to the supplier, and a lesser tendency to (c) terminate the contract with the current supplier with when they have had no negative experience than when they have had either no experience (new firm) or occasionally negative past experience with the supplier.*

***Interaction between Regulatory Focus, Environmental Uncertainty and Buyer's Past Relationship Experience with the Supplier***

Prevention oriented buyers may be more concerned to safeguard the delivery problems by uncertainty avoidance approach and this tendency should be more marked in low or moderate uncertainty environments and where they have either no past experience or occasionally negative experience with the suppliers. Promotion oriented buyers are more likely to salvage the conflicting delivery problems by uncertainty absorption and should therefore be less reactive to termination decision especially when they have even occasional negative or no past experience with the supplier from more complex environments as compared to low or moderate uncertainty environments. We thus expect that promotion and prevention focused buyers would respond differently to the combined situations of low/moderate/high task uncertainty and new firm/occasionally negative / no negative past experience. There is however inadequate basis to hypothesize precisely how three factors would interact. We can simply hypothesize:

*Hypothesis 7: Prevention and promotion focused buyers would show lesser tendency to (a) give price advantage to supplier, (b) extend deadline advantage to the supplier, and a greater tendency to (c) terminate the contract with the current supplier under different*



*conditions combining past relationship experience with the supplier with levels of environmental uncertainty.*

## **Method**

### ***Participants:***

Participants were drawn from volunteers among managers attending management development programs at two premier institutes of management in India. One hundred and fifty five participants (147 male and 8 female) volunteered. The average age was 38.42 years with SD = 8.40 years. The total work experience of participants ranged between 2-35 years with Mean = 14.37 years and SD = 7.84 years.

### ***Design:***

We employed a 2 (regulatory focus: promotion versus prevention) X 3 (levels of environmental uncertainty: domestic furniture supplier firm versus domestic R & D supplier firm versus foreign R&D supplier firm) X 3 (buyer's past relationship experience with supplier: new firm versus firm with whom buyer had a long term relationship with occasional negative experience versus firm with whom buyer had a long term relationship with no negative experience) repeated measures multi-factor ANOVA model having repeated measures on last two independent variables (Winer, Brown, & Michels, 1991).

### ***The Questionnaire:***

The complete questionnaire consisted of three episodes of buyer's exchange with a supplier firm reporting inability to fulfill service delivery at contracted price and time deadlines – one episode for each type of environmental uncertainty followed by items of decisions: *(a) give price advantage to the current supplier, (b) extend deadline to the current supplier, and (c) terminate*

*the contract with the current supplier* under each of the three contexts of past relationship experience with the supplier – (a) no experience (new firm), (b) occasionally negative experience, and (c) no negative experience. The episodes were followed by another section of items on regulatory focus of promotion and prevention and a third section on demographic data. These measures are detailed below:

*Episodes of Independent and Dependent Variables:*

For manipulation of level of task and environmental uncertainty, three episodes (see Appendix 1) were designed where a supplier, after successful first phase of supply execution of the specified quality and quantity, is shown to report inability to supply the specified items at the original price or time deadlines due to market demand supply gaps and consequent price escalations. Episode 1 was designed as a *domestic furniture supplier* firm contracted by a service firm as the buyer requiring supplies for equipping new office, Episode 2 was presented as a *domestic R&D* firm contracted for the supply of a component for a manufacturing firm as buyer, and Episode 3 was described as a *foreign/global R&D* firm contracted by a buyer manufacturing firm. Each episode was followed by three conditions of second independent variable of nature of buyer's past relationship experience with the supplier- (a) no relationship experience (new firm), (b) long term relationship but occasional negative experience, and (c) long term relationship with no negative experience. For each condition of nature of past experience with the supplier firm, the participants were requested to respond to three dependent measure items on a 7-point scale ranging from strongly disagree to strongly agree. The three dependent measure items were: (a) *give price advantage to the current supplier*, (b) *extend deadline for the current supplier*, and (c) *terminate the contract with the current supplier*.

***Regulatory Focus:***

The participants filled out the regulatory focus instrument, an adapted and modified version from Winterheld and Simpson (2011) as applicable to buyer–supplier relationship context. Winterheld and Simpson’s measure had eighteen items with nine items each for promotion and prevention focus. On the basis of a confirmatory factor analysis, five items for the promotion oriented regulatory focus, and six items for prevention orientation - revealing single factor variance contribution of 49.8% and 44%, respectively were retained. For promotion focus items, alpha coefficient was .74 and for prevention focus revealed the alpha coefficient of .73 which was considered adequate for a new instrument (Nunnally, 1978). Appendix 2 provides the promotion and prevention focus items.

For scoring, participants’ responses on the items from each factor were averaged to compute prevention and promotion scores for each participant. Then, a difference score was computed as the difference between participants’ promotion and prevention scores. A median split was done on this difference score and participants were classified as promotion oriented (n=78) or prevention oriented (n=77).

***Procedure:***

Each participant was presented with the questionnaire consisting of three episodes followed by the decisions to (a) give price advantage to supplier, (b) extend deadline to the supplier, and (c) terminate the contract with the current supplier on the given seven point rating scale under three conditions of nature of past relationship experience. The questionnaire was administered to participants in small group situation and the entire instrument filling took about 30-40 minutes. After completing the questionnaire, each participant was asked a few questions regarding control of likely artifacts of demand characteristics, etc. The participants were later debriefed about the purpose of the study.

## Results

The three dependent measures - (a) give price advantage to supplier, (b) extend deadline to the supplier, and (c) terminate contract with current supplier, were separately analyzed by performing repeated measures ANOVA design. The results have been summarized in Table 1.0.

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Insert Table 1.0 about here

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### *Decision to give higher price advantage to supplier without revising deadline:*

The ANOVA model provided F- ratios for testing hypotheses for the main and interaction effects. As shown in Table 1, results failed to reveal the significant main effect of promotion versus prevention regulatory focus of buyers on their decision to give higher price advantage to the supplier. Thus, hypothesis 1 that promotion focus managers would decide to give higher price advantage to the supplier than the prevention focused buyers was rejected at  $p < .05$  level of significance.

The findings however showed main effect of environmental uncertainty (EU) of the supplier firm, i.e. buyers differed significantly across domestic furniture firm, domestic R&D firm and foreign R&D firm in their decision to give higher price advantage to the supplier firm under such reported delivery failure constraint. Thus hypothesis 2a was supported at  $p < .05$  level of significance. The EU main effect size index- eta squared was .02. Specifically, buyers differed in their decision to give higher price advantage to the foreign R&D supplier firm than to a domestic furniture firm (Mean = 3.43, SD = 1.58 vs. Mean = 3.14, SD = 1.43,  $t(154) = 2.52$ ,  $p < .05$ ). Buyers did not differ in their decision to give higher price advantage to the domestic R&D supplier firm and a domestic furniture supplier firm (Mean = 3.32, SD = 1.57 vs. Mean =

3.14, SD = 1.43,  $t(154) = 1.60$ , *ns*). Buyers did not differ in their decision to give higher price advantage to the foreign R&D supplier firm and the domestic R&D supplier firm (Mean = 3.43, SD = 1.58 vs. Mean = 3.32, SD = 1.57,  $t(154) = .94$ , *ns*).

Furthermore, the interaction between promotion versus prevention regulatory focus and environmental uncertainty was also found significant at  $p < .05$  level (eta squared estimate of the effect size = .02). The interaction was plotted using means of pairs of groups as shown in Figure 1.0. The figure shows that the means for prevention focused buyers were marginally higher for foreign/global R&D firms (Mean = 3.66, SD = 1.65) than the promotion focused buyers in same level of environmental uncertainty (Mean = 3.19, SD = 1.48),  $t(153) = 1.86$ ,  $p \leq .06$ . For prevention focused buyers, means were significantly higher for foreign R&D supplier firms (Mean = 3.66, SD = 1.65) than domestic furniture firms (M = 3.09, S.D. = 1.52),  $t(76) = 3.68$ ,  $p < .001$ . Means were significantly higher for prevention focused buyers and foreign R&D supplier firms (Mean = 3.66, SD = 1.65) than for promotion focused buyers dealing with domestic furniture firms perceptions (Mean = 3.19, SD = 1.35),  $t(153) = 1.94$ ,  $p \leq .05$ . For domestic R & D firms, mean of prevention focused buyers (Mean = 3.51, SD = 1.65) was not different than that of promotion focused buyers (Mean = 3.14, SD = 1.48),  $t(153) = 1.47$ , *ns*. Furthermore, for domestic furniture firms, mean of prevention focused buyers (Mean = 3.09, SD = 1.52) was not different than that of promotion focused buyers (Mean = 3.19, SD = 1.35),  $t(153) = -.42$ , *ns*. Figure 1.0 shows near parallel lines for prevention and promotion oriented buyers in foreign/global R&D and domestic R&D firms whereas the two lines cross-over domestic furniture firm. Thus, an interaction between regulatory focus and environment uncertainty was found but the nature of interaction was opposite than expected in hypothesis 3.

Insert Figure 1.0 about here

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Results also revealed strongest main effect of buyer's past relationship experience with the supplier firm (PES) on their decision to give higher price to the supplier under condition of likely delivery failure. The PES main effect size index - eta squared was .33. Thus hypothesis 4a was very strongly supported by the data. Specifically, buyers differed in their decision to give higher price advantage to the supplier firm with whom buyer had long term no negative experience than to a new supplier firm (Mean = 4.09, SD = 1.65 vs. Mean = 2.87, SD = 1.60,  $t(154) = 9.59, p < .001$ ). Buyers also differed in their decision to give higher price advantage to the supplier firm with whom buyer had long term no negative experience than to a supplier firm with whom buyer had long term but occasional negative experience (Mean = 4.09, SD = 1.65 vs. Mean = 2.93, SD = 1.35,  $t(154) = 12.18, p < .001$ ). Buyers did not differ in their decision to give higher price advantage to a new supplier firm and a supplier firm with whom buyer had long term but occasional negative experience (Mean = 2.87, SD = 1.60 vs. Mean = 2.93, SD = 1.35,  $t(154) = -.45, ns$ ).

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Insert Figure 2.0 about here

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The two-way interaction between regulatory focus (RF) and past experience with supplier (PES) was not at all significant thereby rejecting hypothesis 5a. This suggested that promotion focused and prevention focused buyers did not differentiate across three levels of past experience with supplier in their decision even though they differentiated across three levels of environment uncertainty.

The two-way interaction between environment uncertainty (EU) and past experience with supplier (PES) showed marginal significance at  $p < .08$  level (eta squared estimate of the effect size = .01). The interaction was plotted using means of pairs of groups as shown in Figure 2.0. Post-hoc tests indicated that for supplier firms with whom buyers had long term and no negative experience, (i) buyers differentiated significantly between foreign R & D suppliers ( $M = 4.27$ ,  $S.D. = 1.91$ ) and domestic R & D suppliers ( $M = 4.01$ ,  $S.D. = 1.95$ ),  $t(154) = 2.07$ ,  $p < .05$ , (ii) buyers did not differentiate between foreign R & D suppliers ( $M = 4.27$ ,  $S.D. = 1.91$ ) and domestic furniture suppliers ( $M = 3.99$ ,  $S.D. = 1.94$ ),  $t(154) = 1.82$ , *ns*, (iii) buyers did not differentiate between domestic R & D suppliers ( $M = 4.01$ ,  $S.D. = 1.95$ ) and domestic furniture suppliers ( $M = 3.99$ ,  $S.D. = 1.94$ ),  $t(154) = .09$ , *ns*. Post-hoc tests also indicated that for supplier firms with whom buyers had long term and occasional negative experience, (i) buyers differentiated significantly between domestic R & D suppliers ( $M = 3.08$ ,  $S.D. = 1.77$ ) and domestic furniture suppliers ( $M = 2.77$ ,  $S.D. = 1.64$ ),  $t(154) = 2.15$ ,  $p < .05$ , (ii) buyers did not differentiate between foreign R & D suppliers ( $M = 2.94$ ,  $S.D. = 1.70$ ) and domestic R & D suppliers ( $M = 2.77$ ,  $S.D. = 1.64$ ),  $t(154) = 1.17$ , *ns*, (iii) buyers did not differentiate between domestic R & D suppliers ( $M = 3.08$ ,  $S.D. = 1.77$ ) and foreign R & D suppliers ( $M = 2.94$ ,  $S.D. = 1.70$ ),  $t(154) = .98$ , *ns*. Post-hoc tests also indicated that for new supplier firms, (i) buyers differentiated significantly between foreign R & D suppliers ( $M = 3.07$ ,  $S.D. = 2.00$ ) and domestic furniture suppliers ( $M = 2.67$ ,  $S.D. = 1.83$ ),  $t(154) = 2.91$ ,  $p < .01$ , (ii) buyers did not differentiate between foreign R & D suppliers ( $M = 3.07$ ,  $S.D. = 2.00$ ) and domestic R & D suppliers ( $M = 2.89$ ,  $S.D. = 1.91$ ),  $t(154) = 1.23$ , *ns*, (iii) buyers did not differentiate between domestic R & D suppliers ( $M = 2.89$ ,  $S.D. = 1.91$ ) and domestic furniture suppliers ( $M = 2.67$ ,

S.D. = 1.91),  $t(154) = 1.42$ , *ns*. Thus hypothesis 6a was not fully supported but showed direction for partial support.

The three-way interaction effect of regulatory focus, environmental uncertainty and past experience with supplier (RF X EU X PES) was not found significant and thus hypothesis 7a was rejected.

***Decision to extend deadline:***

The results of repeated measures ANOVA with the dependent variable - decision to extend deadline are also reported in Table 1.0. The results revealed only one significant main effect of past experience with the supplier at  $p < .001$  level of significance. The PES main effect size index - eta squared was .25. Thus hypothesis 4b was very strongly supported by the data. Specifically, buyers differed in their decision to extend deadline for the supplier firm with whom buyer had long term no negative experience than to a new supplier firm (Mean = 4.98, SD = 1.33 vs. Mean = 4.52, SD = 1.37,  $t(154) = 4.99$ ,  $p < .001$ ). Buyers also differed in their decision to extend deadline for the supplier firm with whom buyer had long term no negative experience than to a supplier firm with whom buyer had long term but occasional negative experience (Mean = 4.98, SD = 1.33 vs. Mean = 3.88, SD = 1.43,  $t(154) = 9.70$ ,  $p < .001$ ). Buyers also differed in their decision to extend deadline for a new supplier firm than a supplier firm with whom buyer had long term but occasional negative experience (Mean = 4.52, SD = 1.37 vs. Mean = 3.88, SD = 1.43,  $t(154) = 5.49$ ,  $p < .001$ ). No other main and interaction effects were however found significant for the dependent variable - decision to extend deadline.

***Decision to pre-maturely terminate:***

The results of repeated measures ANOVA with the dependent variable - decision to pre-maturely terminate the contract are also reported in Table 1.0. The results revealed only one



significant main effect of past experience with the supplier at  $p < .001$  level of significance. The PES main effect size index eta squared was .18. Thus hypothesis 4c was very strongly supported by the data. Specifically, buyers differed in their decision to prematurely terminate the contract with the supplier firm with whom buyer had long term no negative experience than with a new supplier firm (Mean = 3.10, SD = 1.59 vs. Mean = 4.05, SD = 1.49,  $t(154) = -7.28$ ,  $p < .001$ ). Buyers also differed in their decision to prematurely terminate the contract with a supplier firm with whom buyer had long term no negative experience than with a supplier firm with whom buyer had long term but occasional negative experience (Mean = 3.10, SD = 1.59 vs. Mean = 3.89, SD = 1.40,  $t(154) = -6.06$ ,  $p < .001$ ). Buyers did not differ in their decision to prematurely terminate the contract with a new supplier firm and a supplier firm with whom buyer had long term but occasional negative experience (Mean = 4.05, SD = 1.49 vs. Mean = 3.89, SD = 1.40,  $t(154) = 1.41$ , *ns*). No other main and interaction effects were however found significant for the dependent variable - decision to pre-maturely terminate the contract.

Generalizing across the three decision situations: (a) giving price advantage, (b) extending deadline, and (c) pre-maturely terminating the contract with the current supplier the most significant factor is past relationship experience. The main effect of regulatory focus does not differentiate in the decision process but the same interacts under different conditions of environmental uncertainty to impact the decision of the buyer to give price advantage only. The three levels of environmental uncertainty discriminated in suggesting price advantage decision in favor of the supplier. Past relationship experience also interacts across some levels of environmental uncertainty, but not all levels, in deciding to give price advantage to supplier.

## **Discussion**

The findings highlight four theoretical arguments from negotiation and decision making theory in general and buyer-supplier exchange in particular. Firstly, findings reveal that cognitive motivational variable of regulatory focus does not impact the buyer's decision which is specific in the context and context related variables of environmental uncertainty (concerning task and business context) and past relationship experience with the other party (concerning the social context) play a vital role. The generalized disposition of promotion versus prevention focus of buyers is not overriding the salience of information cues inherent in the business environment or the social context of transactions. Risk taking propensity or cautious and vigilant attitude of promotion versus prevention focused buyers in the given context is supportive of regulatory-fit theory as buyers are compelled to resolve a conflict in the case of reported likelihood of delivery failure and the demands placed by the environmental uncertainty faced by suppliers is relevant and salient for pursuit of the goal and task completion. Therefore prevention focus buyers tend to obviate the likelihood of delivery failure over weighing the safeguard clauses to fulfill transaction cost theory and instead give greater price advantage to the current supplier (Lee, Keller, & Strenthal, 2010; Förster & Higgins, 2005, Pham & Avnet, 2004). Thus our findings indicate regulatory focus bias of cognition and motivation is more prone to prevention-worthy or promotion-worthy situation of environmental uncertainty rather than as a generalized tendency. The surprising evidence of opposite direction of interaction effect of regulatory focus and environmental uncertainty indicates that prevention oriented buyers gave higher price advantage to the supplier which may be explained by behavioral theory perspective which states that aspiration level of managers influences their attention to goals (Cyert & March, 1992). Lewicki et al. (2006) also identify aspiration level as a type of 'frame' employed by negotiators. Therefore, prevention oriented buyers are expected to heighten their motivation to avoid

likelihood of delivery failure whereas promotion oriented buyers are more prone to provide concessions or rewards for normal goal fulfillment or ‘good news’ but not for reporting ‘bad news’ of likelihood for failure. The findings of this study thus support the counter-argument that preventive focused buyers “feel right” to evaluate uncertainty as a cue to seek stability and thus avoid uncertainty and rather look for stability in ongoing relationship rather than likely disruption or absorption of uncertainty of new relationship under greater environmental uncertainty as compared to promotion focused buyers (Cesario, Grant & Higgins, 2004; Liberman, Idson, Camacho, & Higgins 1999).

Secondly, the finding of significant main effect of environmental uncertainty supports contingency theory argument that higher level of uncertainty demands higher differentiation, i.e. formality, interpersonal orientation and time-orientation and greater collaboration and integration (Lawrence & Lorsch, 1967). The finding is also closer to Weber et al.’s (2011) position on geographical distance as a complexity dimension and even extends the implication of geographical distance in tune with international business perspective of global mindset (Bhagat et al. 2007) and cultural differences especially in dealing tacit knowledge creation and transfer (Bhagat et al., 2002). The present study included three environmental uncertainty levels, e.g. domestic furniture firm, domestic R&D, and foreign/global R&D firm which encompass differences in terms of task and business uncertainty and the information-knowledge transfer complexity in global R&D as compared to domestic R&D and so the finding holds stronger ground than Weber et al.’s (2011) finding.

Third, the findings overwhelmingly support the importance of past relationship experience as assurance against environmental pressures and demands. The external environmental uncertainty can be overcome by behavioral certainty through supplier history of

consistently positive experience. The long term relationship with no negative experience builds trust and safeguards against opportunism and this needs reciprocation and forbearance from the opposite party in exchange. The finding also strengthens the argument of “connective tissue” of interpersonal exchange in general (Lewicki et al, 2006), and in explaining international alliance performance and stability (Krishnan et al, 2006; Ring & Van de Ven, 1994) and repairing violations of trust which are not based on integrity-based or at corporate level (Janowicz-Panjaitan, M. & Krishnan, 2009) and perceptions of deception jeopardizes repair of trust violation. (Schweitzer, 2004). Further, the trustworthiness potential of the supplier sensitizes the proclivity of buyers to give concessions to the supplier when operating in rather uncertain environments than in less uncertain environments, alluded by marginally significant interaction effect.

Fourth, findings revealed spectacularly significant effect of past relationship with no negative experience across all three dependent variables of giving higher price advantage or extended deadline or early termination but other main and interaction effects were observed only on price concessions. This strengthens the trustworthiness reputation argument of the other party for general concessions (Lewicki et al., 2006) whereas cognitive-motivational biases and dispositions might propel them to respond to information cues of environment uncertainty and social context of past relationship experience.

Future research is required to directly examine the role of aspiration level of managers using experimental manipulations to focus on the “faming” explanation of negotiation theory and behavioral theory. Like regulatory focus, other personality factors, e.g. machiavellianism, aggressiveness, self monitoring and self efficacy, or cognitive motivational biases of buyers need closer study from experimental as well as field investigations.



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Table 1.0: Summary of Analysis of Variance

<u>Sources of Variance</u>	<u>df</u>	<u>Price Revision</u>			<u>Deadline Revision</u>			<u>Terminate</u>		
		<u>Sum of Squares</u>	<u>Mean Square</u>	<u>F (Eta Squared)</u>	<u>Sum of Squares</u>	<u>Mean Square</u>	<u>F (Eta Squared)</u>	<u>Sum of Squares</u>	<u>Mean Square</u>	<u>F (Eta Squared)</u>
<u>Between Groups</u>										
RF	1	21.38	21.38	1.39	16.82	16.82	1.46	10.35	10.35	.79
Within-group (Error)	153	2349.46	15.36		1767.07	11.55		1990.92	13.01	
<u>Within Subjects</u>										
EU	2	19.20	9.60	3.42* (.02)	1.21	.61	.16	.35	.17	.05
EU X RF	2	21.29	10.66	3.79* (.02)	2.61	1.31	.35	1.19	.59	.18
(EU) X Subject Within (Error)	306	858.71	2.81		1132.41	3.70		995.57	3.25	
PES	2	435.68	217.84	73.60** (.33)	291.19	145.59	52.09** (.25)	238.69	119.35	32.92** (.18)
PES X RF	2	.83	.42	.14	.58	.29	.11	.43	.21	.06
(PES) X Subject Within (Error)	306	905.73	2.96		855.26	2.80		1109.29	3.63	
EU X PES	4	8.24	2.06	2.12† (.01)	5.22	1.30	1.19	10.64	2.66	1.80
EU X PES X RF	4	1.46	.36	.38	6.15	1.54	1.40	2.41	.60	.41
(EU X PES) x Subject Within (Error)	612	593.89	.97		670.39	1.09		903.21	1.48	

\* $p < .05$ , † $p < .08$ , \*\* $p < .001$ . RF: Regulatory focus; EU: Environmental uncertainty; PES: Buyer's past experience with supplier

Figure 1.0: Showing interaction effect of environmental uncertainty and regulatory focus on the decision to give higher price advantage to supplier without revising deadline

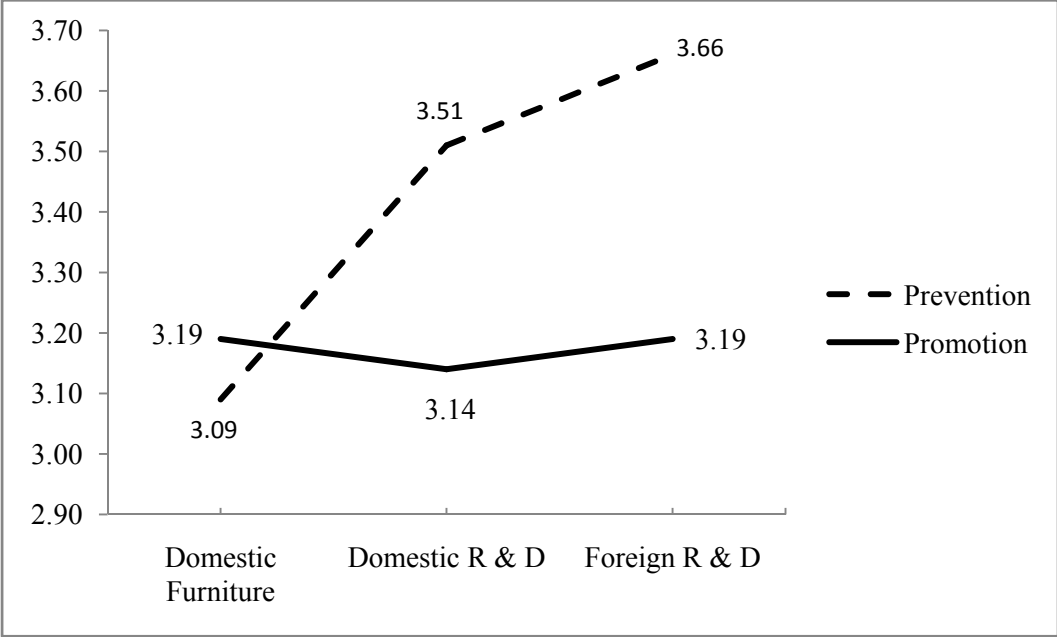
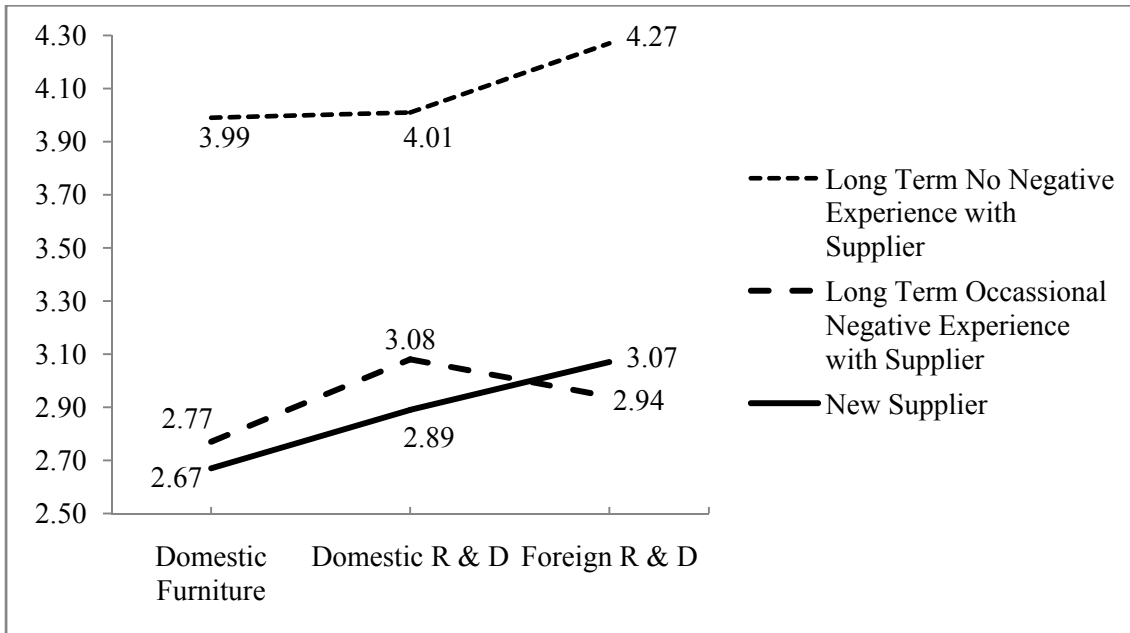


Figure 2.0: Showing interaction effect of environmental uncertainty and buyer's past experience with supplier on the decision to give higher price advantage to supplier without revising deadline



## Appendix 1

Episode 1: You are a manager of a service company and your firm had given a contract for supply of furniture to a **domestic** firm on agreement to supply the specified one-third quantity in three stages and payment at the end of each stage as 25%, 25% and 50% respectively. After the first batch of delivery in right quantity and quality, the supplier received the agreed 25% payment of price, but demanded a higher price for the remaining two-third supplies in the next two time stages and extension in the date for delivery by two more months because of various interrelated reasons including shrinking supply of basic materials, rise in material costs, etc.

Episode 2: You are a manager of a manufacturing firm and your company had signed a contract with a **domestic R&D firm** for development of a component for your major equipment towards improving the quality and quantity of production. The agreement involved monitoring and evaluation of supplier performance in three phases of two months each with payment to be made after satisfactory evaluation of performance in each stage as 25%, 25% and 50% respectively. After two months of the first phase of performance, the domestic R & D firm has requested for an extension of the next two phases by one month each due to some developmental glitches in the implementation of original design and for reworking the design for same level of quality and productivity and also demanded increasing the residual payment by fifty percent at the end of the next two evaluation stages.

Episode 3: You are a manager of a manufacturing firm and your company had signed a contract with a **foreign/global R&D firm** for development of a component for your major equipment towards improving the quality and quantity of production. The agreement involved monitoring and evaluation of supplier performance in three phases of two months each with payment to be

made after satisfactory evaluation of performance in each stage as 25%, 25% and 50% respectively. After two months of the first phase of performance, the foreign/global R & D has requested for an extension of the next two phases by one month each due to some developmental glitches in the implementation of original design and for reworking the design for same level of quality and productivity and also demanded increasing the residual payment by fifty percent at the end of the next two evaluation stages.



## Appendix 2

### Promotion Focus Items:

1. I typically strive to fulfill the hopes and dreams I have in dealing with my suppliers.
2. In general, I am striving to nurture, grow, and enhance relationships with suppliers.
3. I often think about how I can achieve (or create) successful relationships with suppliers.
4. I primarily strive to create my “ideal relationships” with suppliers – to fulfill my dreams and aspirations regarding business relationships.
5. I typically focus on the success (e.g., a fruitful long term association) I hope to achieve in my relationship with suppliers.

### Prevention Focus Items:

1. I frequently think about how I can prevent failures in negotiating with suppliers.
2. I often worry that I will fail to accomplish my goals while dealing with suppliers.
3. While negotiating with suppliers, I often fear that I may be responsible for any unfavorable outcomes (e.g., loss, delay) that might result.
4. Overall, I am more oriented toward preventing negative outcomes in negotiating with suppliers than I am toward achieving positive outcomes.
5. My major goal in my organization right now is to avoid becoming a corporate failure.
6. In general, I am focused on preventing negative events in negotiating with suppliers.