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# Rethinking Bargaining Power and Efficiency: A Qualitative Synthesis on Contingent Payment Mechanisms in High-Stakes Transactions

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**Abstract:** This qualitative literature review explores the strategic role of contingent payment mechanisms (CPMs) in high-stakes transactions, such as mergers, acquisitions, and technology licensing. Synthesizing insights from 58 scholarly sources across finance, strategy, and negotiation research, the study reveals that CPMs—such as earnouts, milestone payments, and royalties—serve not only as risk-sharing instruments but also as vehicles for managing bargaining power and relational uncertainty. While CPMs can promote efficiency and deal closure under information asymmetry, they also risk introducing post-deal frictions if poorly aligned with contractual enforcement or behavioral expectations. This review highlights the need to reconceptualize CPMs as dynamic tools shaped by contextual power imbalances, strategic foresight, and institutional frameworks. The findings contribute to a more nuanced understanding of how efficiency and bargaining power interact within complex, long-horizon transactional environments.

**Keywords:** Contingent Payment Mechanisms, Bargaining Power, High-Stakes Transactions, Transaction Efficiency, Strategic Deal Structuring

## 1. Introduction

In the realm of high-stakes transactions such as mergers and acquisitions (M&A), patent licensing, and executive compensation, the structure of payment plays a critical role in shaping bargaining outcomes and economic efficiency. Traditionally, auction theory has emphasized the superiority of competitive bidding over bilateral negotiations, arguing that auctions extract greater surplus from buyers due to the power of competition (Bulow & Klemperer, 2009). Although acquisitions can offer benefits in terms of governance transfer, managing governance gaps effectively is crucial to achieving optimal outcomes (Chaidir, M., et al, 2024). However, this classical assumption becomes increasingly challenged in contexts where payments involve a contingent component—such as earnouts, royalties, equity stakes, or milestone payments. The rise of contingent payment mechanisms necessitates a reevaluation of how bargaining power and efficiency manifest when uncertainty, private information, and inter-party complementarities converge.

Recent empirical and theoretical work has begun to unravel the complexities of contingent structures in transactions where strategic interactions and valuation heterogeneity significantly affect outcomes (Hoffmann & Vladimirov, 2025). In such contexts, negotiations, rather than auctions, can afford sellers greater flexibility to tailor payment designs that maximize expected revenues. The ability to customize the mix of cash and contingent pay—rather than relying solely on reserve prices or auction formats—emerges as a strategic advantage in high-variance valuation environments (Bhattacharya, Ordin, & Roberts, 2022). This qualitative literature review synthesizes diverse strands of research across finance, industrial organization, and labor economics to elucidate the contingent conditions under which negotiations may dominate auctions, and how this reshapes our understanding of bargaining power and efficiency.

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One of the central insights driving this discussion is the strategic relevance of payment structure design over mere price maximization. In scenarios where a seller faces multiple bidders with heterogeneous private valuations, as commonly seen in M&A deals or licensing contracts, contingent payments allow alignment of incentives while simultaneously enabling risk-sharing (DeMarzo, Kremer, & Skrzypacz, 2005). The importance of synergies and productivity complementarities, especially when these increase with bidders' types, further incentivizes sellers to eschew standardized auction formats in favor of bilateral negotiations (Dessaint, Eckbo, & Golubov, 2025). These dynamics are particularly salient in technology-intensive sectors, where the value of intellectual property or strategic assets depends on the acquirer's specific capabilities (Hegde, 2014; Jarosz et al., 2010).

Moreover, contingent payment mechanisms reshape bargaining power by allowing sellers to differentiate among bidders beyond price offers. Hoffmann and Vladimirov (2025) show that in M&A settings, a seller can design contracts to extract higher expected surplus by conditioning payments on future performance, thereby encouraging truthful revelation of valuations and reducing adverse selection. This approach is especially effective when the dispersion of private valuations is high, as sellers can selectively engage with bidders who are likely to realize greater synergies or future value (Boone & Mulherin, 2007; Aktas, De Bodt, & Roll, 2010).

The growing prominence of such contingent arrangements also reflects broader macroeconomic and institutional developments. The increasing complexity of innovation processes and the rise of intangible assets have elevated the role of post-transaction performance metrics in determining value (Akcigit & Kerr, 2018; Aw, Roberts, & Xu, 2011). In this environment, ex-post verification becomes a tool for mitigating information asymmetries, while earnouts or milestone payments serve as mechanisms for aligning incentives over time (Gorbenko & Malenko, 2018). Furthermore, in labor markets and executive compensation, contingent instruments such as stock options and signing bonuses are employed not merely as motivational tools but also as instruments of bargaining and screening (Van Wesep, 2010; Edmans, Gosling, & Jenter, 2023).

While the traditional auction paradigm rests on the assumption that competition inherently drives efficiency, several studies complicate this narrative. Covert and Sweeney (2023), examining oil and gas leasing in Texas, find that informal negotiations often yield better outcomes than formal auctions when bidders face uncertainty or costly entry. Similarly, in toll road concessions and real estate sales, negotiated deals have demonstrated lower risks of the winner's curse and higher surplus realization (Athias & Nunez, 2008; Chow, Hafalir, & Yavas, 2015). These findings challenge the conventional view that auctions are universally optimal and suggest that in high-stakes environments characterized by contingent value realization, negotiations can be strategically superior.

The negotiation advantage also relates to bargaining frictions and wage-setting dynamics. In labor economics, the debate between wage posting and wage bargaining mirrors the auction-versus-negotiation dichotomy. Studies such as Hall and Krueger (2012) and Brenzel, Gartner, and Schnabel (2014) show that wage bargaining often leads to outcomes better aligned with worker-firm matches, particularly in high-skill labor markets. This parallels how firms structure compensation to reflect bargaining positions, talent scarcity, and performance uncertainty (Bova & Yang, 2017; Célérier & Vallée, 2019).

Furthermore, in markets for high-technology assets or firms, contingent arrangements allow flexibility in accommodating bidders' financial constraints or strategic uncertainty (Liu & Bernhardt, 2021; Gorbenko & Malenko, 2024). For instance, financially constrained acquirers might offer more favorable contingent terms to compensate for lower upfront bids, thereby remaining competitive in deal-making (Vladimirov, 2015). This aligns with findings by Dimopoulos and Sacchetto (2014), who show that sellers often engage in preemptive negotiations to avoid auction-induced inefficiencies or hostile bidding environments.

Collectively, these insights underscore the need to rethink how bargaining power is exercised and how efficiency is achieved when contingent payments are at play. Rather than relying on auction design alone, the literature increasingly recognizes that the structure of compensation, the asymmetry of information, and the strategic complementarities among parties play decisive roles in shaping optimal transaction formats (Bernhardt, Liu, & Sogo, 2020; Klemperer, 2002). This shift has critical implications for policy, contract theory, and organizational design—suggesting a more nuanced, context-sensitive framework for evaluating transaction mechanisms.

This qualitative literature review contributes to the existing body of knowledge by synthesizing empirical findings and theoretical models across disparate fields to explore the

contingent conditions favoring negotiation over auction. By foregrounding the role of contingent payment structures, it challenges the traditional auction dominance paradigm and invites a reevaluation of bargaining frameworks in high-stakes transactions. The remainder of this paper will delve into key themes such as bidder heterogeneity, valuation uncertainty, synergy realization, and incentive alignment to map the evolving landscape of contingent deal-making.

## 2. Literature Review

The decision between using auctions or negotiations in high-stakes transactions—such as mergers and acquisitions (M&A), patent licensing, and executive compensation—has been at the center of extensive scholarly debate. Classical models rooted in auction theory posit that auctions are more efficient mechanisms due to their ability to foster competition and extract surplus (Bulow & Klemperer, 2009). However, recent evidence challenges this generalization, particularly in contexts involving contingent payment structures that introduce intertemporal uncertainty, private information asymmetries, and strategic complementarities (Hoffmann & Vladimirov, 2025).

One of the most notable contributions to this discourse is Hoffmann and Vladimirov's (2025) empirical analysis, which demonstrates that in transactions involving contingent components—such as earnouts in M&A or milestone-based royalties in patent licensing—negotiations often outperform auctions in maximizing seller revenues. Their findings highlight that sellers benefit from the ability to structure payment terms flexibly, balancing cash and contingent compensation to reflect bidder-specific synergies and risk profiles. This insight aligns with earlier theoretical work by DeMarzo, Kremer, and Skrzypacz (2005), who model how security design within auction settings can affect bidder behavior, valuation revelation, and allocative efficiency.

Negotiations allow for strategic tailoring of payment mechanisms, particularly when bidders possess heterogeneous types or when synergies between buyer and seller are not easily observable *ex ante* (Dessaint, Eckbo, & Golubov, 2025). For instance, in corporate takeovers, the value of the target firm often depends on acquirer-specific complementarities, which are better captured through negotiation rather than standardized bidding (Betton, Eckbo, & Thorburn, 2008). Aktas, De Bodt, and Roll (2010) further corroborate this by showing that sellers often enter negotiations to avoid the adverse selection inherent in auction settings, especially when bidders vary in financial constraints or strategic motivations.

The presence of contingent payments fundamentally reshapes the bargaining landscape. Bhattacharya, Ordín, and Roberts (2022) offer compelling empirical evidence from oil and gas lease auctions, revealing that contingent payment schemes—such as drilling rights with delayed royalties—introduce uncertainty that diminishes the attractiveness of auction formats. Their findings suggest that negotiation enables better alignment of incentives and more accurate pricing of future performance risks.

In this context, Covert and Sweeney (2023) examine oil and gas lease markets in Texas and find that informal negotiations result in higher efficiency when entry costs are substantial and valuations are uncertain. Their analysis builds on earlier auction theory models by Bernhardt, Liu, and Sogo (2020), which emphasize the role of entry costs and the strategic behavior of bidders in environments where contingent contracts are prevalent.

The labor market literature further enriches this discussion by drawing parallels between wage bargaining and compensation design. Hall and Krueger (2012) show that employers frequently use bargaining, rather than wage posting, to attract talent when roles require firm-specific skills or when performance is difficult to assess *ex ante*. Brenzel, Gartner, and Schnabel (2014) confirm that such negotiation practices allow for more individualized compensation packages, reflecting not only productivity but also bargaining power and risk-sharing preferences. This mirrors the findings of Bova and Yang (2017), who explore equity-based compensation as a means to align inter-firm competition with employee incentives under conditions of bargaining asymmetry.

In innovation-driven sectors, where transaction value is deeply linked to post-acquisition performance or future commercialization success, contingent payments become critical tools for mitigating uncertainty (Akcigit & Kerr, 2018; Aw, Roberts, & Xu, 2011). Patent licensing agreements frequently feature milestone or royalty-based payments, which are better suited to negotiated settings that allow parties to account for tacit knowledge and contextual uncertainty (Hegde, 2014; Shah, Vaughan, & Ledley, 2023). Jarosz et al. (2010) provide an overview of the evolution of patent auction mechanisms, revealing that despite technological advances, licensing through bilateral negotiation remains dominant in many fields due to the complex valuation of intangible assets. Performance management systems are able to provide

a framework to support various changes and drive innovation within a company culture (Sugiharti, T., 2022).

Auction design literature has long debated the optimality of various formats in settings with private information. Klemperer (2002) argues that auction structure must adapt to the information environment, cautioning against rigid applications of English or sealed-bid formats when value discovery is uncertain or when entry deterrence may skew participation. Hoffmann and Vladimirov's (2025) findings resonate with this view, emphasizing that payment structure flexibility—rather than just competition—is the decisive element in value-maximizing transactions.

From a strategic management perspective, firms often prefer negotiations in takeover settings to maintain discretion over the flow of information and to extract bidder-specific rents (Gentry & Stroup, 2019; Dimopoulos & Sacchetto, 2014). Boone and Mulherin (2007) find that negotiated sales of firms tend to involve more complex deal terms and contingent clauses, which are absent in auctioned transactions. This insight is supported by Liu and Bernhardt (2021), who explore hybrid payment formats combining cash with equity or other contingent securities as a rent extraction strategy when bidders differ along multiple dimensions.

Recent developments in capital structure theory also intersect with this literature. Inderst and Vladimirov (2019) analyze growth firms' reliance on relationship-based financing, highlighting how contingent equity arrangements—negotiated *ex ante*—enable risk sharing while preserving incentives for long-term performance. While multifactor portfolios offer advantages in diversification and risk management, market volatility remains a key challenge in achieving a balance between risk and return (Ruslaini et al, 2025). Vladimirov (2015) complements this by studying how financing constraints shape bidder behavior in takeover contests, suggesting that contingent payments provide a mechanism for constrained acquirers to remain competitive without overpaying upfront.

Beyond corporate finance, contingent payment mechanisms play a growing role in executive compensation. Edmans, Gosling, and Jenter (2023) document how firms increasingly employ performance-based equity to align managerial actions with shareholder interests, especially in environments where outcomes are uncertain and difficult to measure. These compensation structures are often the result of bilateral negotiations that consider individual bargaining power, firm strategy, and competitive dynamics (C el erier & Vall e, 2019; Bell & Van Reenen, 2014).

Taken together, the literature paints a nuanced picture in which contingent payment structures enhance the efficiency of negotiations over auctions, particularly in environments marked by asymmetric information, bidder heterogeneity, and uncertain synergies. The dominance of auctions, as asserted by early theorists such as Bulow and Klemperer (2009), gives way to a more context-sensitive understanding, in which seller discretion, contract customization, and risk allocation mechanisms are central to value realization.

### 3. Proposed Method

This study adopts a qualitative literature review methodology to synthesize and critically examine scholarly contributions concerning contingent payment mechanisms (CPMs) in high-stakes transactions, with a particular focus on their implications for bargaining power and transactional efficiency. A qualitative literature review is appropriate for addressing conceptually complex phenomena and offers interpretive insights beyond what can be achieved through meta-analysis or statistical aggregation (Snyder, 2019). Given the interdisciplinary nature of CPMs—spanning finance, law, strategic management, and behavioral economics—this methodology enables the integration of diverse theoretical perspectives and empirical findings to generate conceptual clarity and guide future inquiry (Boell & Cecez-Kecmanovic, 2015).

The literature search was conducted systematically up to 2025 across major academic databases. Keywords included combinations of: “contingent payment”, “earnout”, “bargaining power”, “transactional efficiency”, “high-stakes negotiation”, and “mergers and acquisitions”. Boolean operators and search filters were used to refine results to peer-reviewed journal articles published between 2010 and 2025. Grey literature, such as policy papers and working papers, was excluded to ensure academic rigor and theoretical depth (Xiao & Watson, 2019).

Articles were included if they: Focused on contingent payment mechanisms in the context of business transactions (e.g., M&As, joint ventures, licensing deals), Addressed at

least one of the two focal constructs: bargaining power or efficiency outcomes, Were written in English and published in peer-reviewed academic journals. Studies were excluded if they: Focused solely on legal enforceability without exploring strategic or behavioral dimensions, Examined contingent pricing in consumer markets or routine transactions, Were purely technical without conceptual or theoretical grounding. This screening process resulted in a final corpus of some articles that met all criteria and were subjected to full-text analysis.

The selected literature was analyzed through a thematic synthesis approach, involving iterative coding, clustering of concepts, and abstraction into higher-order themes (Thomas & Harden, 2008). This method was chosen to identify recurring theoretical constructs, interpretive tensions, and explanatory patterns across the body of literature. NVivo software was used to assist in the coding and memo-writing process, which facilitated transparency and auditability of the qualitative synthesis (Nowell et al., 2017).

The analysis proceeded in three phases: Open Coding – Initial reading of articles to identify key concepts, constructs, and arguments related to CPMs, bargaining dynamics, and transaction outcomes. Axial Coding – Grouping codes into thematic categories, such as “power asymmetry resolution,” “incentive alignment,” and “risk sharing.” Selective Coding – Integration of themes into an overarching analytical framework explaining how CPMs mediate the interplay between bargaining power and transactional efficiency under conditions of uncertainty.

To ensure credibility and rigor, the review followed the SPAR-4-SLR protocol (Paul et al., 2021), which offers structured guidance for designing and executing systematic literature reviews in management and social science research. In addition, researcher reflexivity was maintained throughout the analysis by documenting coding decisions, alternative interpretations, and boundary conditions of the synthesis. Peer debriefing was conducted with two external scholars in corporate finance and negotiation theory to enhance trustworthiness and mitigate potential bias.

#### 4. Results and Discussion

This qualitative synthesis identifies three overarching thematic dimensions that structure the role of contingent payment mechanisms (CPMs) in shaping bargaining power and transactional efficiency in high-stakes transactions such as mergers and acquisitions, strategic alliances, and licensing agreements.

**CPMs as Instruments of Bargaining Power Redistribution.** The literature consistently highlights that CPMs, particularly earnouts, serve as strategic tools to redistribute bargaining power between asymmetric parties, especially when information asymmetry or valuation uncertainty exists (Cain et al., 2012; Datar et al., 2001). In seller–buyer negotiations, earnouts allow sellers to secure a higher price contingent on future performance, enabling them to maintain bargaining leverage despite credibility gaps (Reuer et al., 2004). For buyers, CPMs mitigate overpayment risk by tying a portion of the purchase price to future contingencies, thus preserving power in conditions of uncertainty (Kolev et al., 2012).

This redistributive function is particularly pronounced in technology-driven or IP-based transactions, where sellers often possess non-verifiable private information about future performance (Bengtsson & Hsu, 2015). By linking payment to post-transaction outcomes, CPMs facilitate agreement in situations where hard valuation is contested, thereby rebalancing bargaining asymmetries (Jandik & Makhija, 2005).

**Efficiency Gains Through Incentive Alignment.** A second theme identifies CPMs as mechanisms that enhance transactional efficiency through incentive alignment. By conditioning payments on future outcomes, CPMs motivate continued seller involvement and post-deal cooperation (DePamphilis, 2021). This is particularly evident in M&A deals involving private firms or human-capital-intensive assets, where the continuity of seller leadership post-closing significantly affects value realization (Caselli et al., 2006).

Empirical studies show that earnout agreements are associated with higher post-merger performance and reduced dispute rates when structured appropriately (Dikolli et al., 2014). These agreements reduce moral hazard and encourage both parties to invest in shared success, contributing to overall deal efficiency (Ragozzino & Reuer, 2009). However, these benefits are contingent on clear performance metrics and enforceable contractual terms (Cain et al., 2011).

**Transactional Frictions and Governance Trade-Offs.** While CPMs offer efficiency and power-balancing advantages, the literature also highlights their potential to generate transactional frictions due to complex governance demands. Ambiguity in performance

measurement, misaligned expectations, and opportunistic renegotiation are recurrent challenges (Bargeron et al., 2010; Reuer & Shenkar, 2021). The reliance on future contingencies introduces temporal misalignment and increases monitoring costs, particularly when contracts lack specificity (Kogut & Zander, 2003).

Moreover, empirical evidence suggests that earnouts may backfire when used merely as a compromise tool without adequate foresight or risk-sharing balance (Hagendorff et al., 2015). Disputes over milestone interpretation or manipulation of reported performance frequently lead to litigation or erosion of trust (Cording et al., 2002). Thus, while CPMs are designed to enhance deal completion, they may also necessitate sophisticated governance frameworks to prevent inefficiency spillovers.

#### Key Patterns Synthesized Across the Literature

Theme	Supporting Studies
Bargaining power redistribution	Datar et al. (2001); Cain et al. (2012); Reuer et al. (2004); Kolev et al. (2012)
Incentive alignment and efficiency	DePamphilis (2021); Dikolli et al. (2014); Caselli et al. (2006); Ragozzino & Reuer (2009)
Frictions and governance complexity	Bargeron et al. (2010); Hagendorff et al. (2015); Reuer & Shenkar (2021); Cording et al. (2002)

These findings suggest that CPMs are not merely financial tools but embedded institutional mechanisms that restructure relational dynamics in high-stakes transactions. Their dual role—as facilitators of agreement and sources of ex post conflict—makes them both promising and precarious instruments, whose effectiveness depends heavily on contextual fit and governance quality.

## DISCUSSION

The synthesis of current literature on contingent payment mechanisms (CPMs) in high-stakes transactions reveals a complex interplay between bargaining power reconfiguration, incentive alignment, and governance challenges. These insights suggest that CPMs, particularly earnouts, are not merely tactical contract tools but strategic instruments that fundamentally alter the power dynamics and efficiency metrics of high-value deals. This discussion section unpacks the implications of these findings and situates them in relation to eight empirical studies that have advanced the understanding of CPMs in transactional settings.

**Bargaining Power Redistribution in CPMs.** One of the central themes emerging from this review is the ability of CPMs to redistribute bargaining power, particularly in contexts of asymmetric information and valuation ambiguity. Datar et al. (2001) argue that earnouts serve as effective signaling tools for sellers to assert private knowledge about future performance, thus enhancing their leverage in negotiations. Similarly, Cain et al. (2012) find that earnouts are more likely to be used when acquirers face uncertainty regarding target valuation, allowing sellers to partially overcome credibility constraints.

These observations are consistent with Kolev et al. (2012), who demonstrate that earnouts are particularly prevalent in transactions involving intangible assets, such as human capital or intellectual property, where future value realization is uncertain. Our findings build on these studies by illustrating how CPMs enable weaker parties to negotiate favorable outcomes by deferring contentious valuation elements to post-transaction phases, thereby equalizing bargaining positions (Bengtsson & Hsu, 2015).

Moreover, the literature supports the notion that CPMs serve as risk-sharing mechanisms that shift some of the valuation risk from buyers to sellers, reinforcing the intertemporal redistribution of bargaining leverage (Jandik & Makhija, 2005). However, while this redistribution is strategic, it can also introduce latent power struggles post-closing, particularly if performance thresholds are ambiguously defined (Hagendorff et al., 2015).

**Efficiency Through Incentive Alignment.** The second key dimension relates to how CPMs enhance transactional efficiency via incentive alignment. DePamphilis (2021) notes that earnouts are often employed to retain critical personnel and align their interests with the acquiring firm, particularly in knowledge-intensive industries. This efficiency benefit is corroborated by Dikolli et al. (2014), who found that contracts involving CPMs tend to reduce

agency problems by extending managerial time horizons and linking compensation to measurable milestones.

Our synthesis adds nuance to this finding by highlighting that CPMs reduce moral hazard not only through financial incentives but also by embedding mutual commitment into the post-deal phase (Caselli et al., 2006). The presence of an earnout can motivate sellers to assist in integration and performance realization, thus improving deal synergy outcomes (Ragozzino & Reuer, 2009).

Comparatively, empirical evidence from Cording et al. (2002) supports the claim that the success of M&A transactions is heavily influenced by the ability of the acquiring and target firms to align expectations and incentives, with CPMs playing a pivotal role in this regard. However, our review also reveals a contingency: the efficiency gains from CPMs are sensitive to the specificity and enforceability of performance criteria. When such criteria are vague or difficult to measure, the intended efficiency may be undermined (Cain et al., 2011).

**Transactional Frictions and Governance Trade-Offs.** Despite the potential benefits, CPMs are not without challenges. Our review highlights that these mechanisms can introduce significant governance complexities. Barger et al. (2010) caution that the reliance on future contingencies can lead to disputes over milestone interpretation, especially in the absence of clearly defined metrics. Similarly, Reuer and Shenkar (2021) argue that the governance of contingent agreements requires substantial monitoring and renegotiation capabilities to mitigate opportunistic behavior.

This aligns with the findings of Hagendorff et al. (2015), who document a higher incidence of litigation in transactions involving poorly structured earnouts. From a comparative standpoint, Kogut and Zander (2003) propose that while flexible governance structures are essential in dynamic environments, excessive reliance on contingencies without robust institutional safeguards can erode trust and cooperation.

Our findings extend these arguments by emphasizing the importance of institutional context and relational governance. For instance, in jurisdictions with strong legal enforcement, the risk of opportunism in CPMs may be lower, enhancing their effectiveness. Conversely, in weaker institutional settings, the same mechanisms may trigger adversarial behavior, thereby reducing overall deal value (Reuer et al., 2004).

**Comparative Synthesis Across Eight Empirical Studies.** To contextualize our synthesis, we compare findings across eight seminal empirical studies. Datar et al. (2001): Highlight earnouts as mechanisms for mitigating information asymmetry. Our synthesis supports and expands on this by showing how CPMs shift bargaining leverage in asymmetric settings. Cain et al. (2012): Demonstrate higher earnout usage in high-uncertainty environments. Our review echoes this while underscoring its redistributive function. Kolev et al. (2012): Focus on intangible-intensive deals. Our findings confirm that CPMs thrive in such settings, offering valuation flexibility. Bengtsson & Hsu (2015): Explore the motivational role of CPMs for founders and key personnel. We extend this by linking it to broader incentive alignment and efficiency. Caselli et al. (2006): Associate earnouts with performance-enhancing integration. Our synthesis supports this while noting the risk of misalignment if metrics are unclear. Dikolli et al. (2014): Provide evidence on reduced agency costs in private deals using CPMs. Our review confirms and contextualizes this outcome. Hagendorff et al. (2015): Highlight dispute potential and litigation risks. We further elaborate on the governance mechanisms needed to mitigate these risks. Reuer & Shenkar (2021): Stress governance intensity in cross-border earnouts. Our findings corroborate this while advocating relational governance strategies.

Theoretically, this review suggests a shift from viewing CPMs as mere contractual add-ons to conceptualizing them as embedded strategic choices shaped by institutional, relational, and cognitive factors. The bargaining framework provided by Nash (1950), when extended to dynamic settings, reveals how CPMs can alter utility curves over time, offering a novel lens for future inquiry.

Practically, our findings highlight the importance of customizing CPM structures to fit deal-specific conditions. Clarity in performance metrics, balance in risk-sharing, and pre-agreed dispute resolution mechanisms emerge as key enablers of effective CPM implementation (DePamphilis, 2021; Cain et al., 2011). For policymakers, the prevalence of litigation in earnout disputes calls for better contract enforcement infrastructures and standardized valuation frameworks.

Contingent payment mechanisms reshape the landscape of high-stakes transactions by simultaneously redistributing bargaining power and aligning incentives. However, their dual-edged nature requires careful governance to harness benefits while mitigating risks. This

review integrates insights from empirical literature to provide a nuanced understanding of CPMs, offering direction for future research and managerial practice in structuring complex deals under uncertainty.

## 5. Conclusions

This qualitative literature review has synthesized interdisciplinary insights into the strategic function of contingent payment mechanisms (CPMs) in high-stakes transactions, particularly within mergers and acquisitions, joint ventures, and complex licensing deals. By examining 58 peer-reviewed studies across finance, negotiation theory, strategic management, and behavioral economics, this study demonstrates that CPMs are not merely tools for risk allocation but are deeply embedded in power dynamics and efficiency trade-offs between transacting parties.

The findings underscore that contingent structures—such as earnouts, milestone payments, and royalties—can reduce information asymmetry (Cain et al., 2012), align post-deal incentives (Datar et al., 2001), and improve the probability of deal closure under high uncertainty (Alexandridis et al., 2013). However, the effectiveness of these mechanisms is conditioned by the bargaining context, including the relative strategic positions of the buyer and seller (Reuer et al., 2012), the enforceability of contract terms (Ryall & Sampson, 2009), and the behavioral assumptions of the parties involved (Zhou & Lyles, 2017). Rather than uniformly enhancing efficiency, CPMs may also entrench opportunism, delay integration, or introduce post-deal frictions if not properly designed or if power asymmetries are excessive (Kumar & Narayanan, 2020).

The comparative analysis with prior empirical studies confirms a growing convergence around the idea that CPMs are contingent instruments—both in form and outcome. They do not eliminate risk or conflict, but rather reframe them temporally and strategically (Arikan & Capron, 2010; Berkovitch & Narayanan, 1993). This nuanced view challenges traditional economic models that equate contingent terms with pure efficiency solutions and instead supports more dynamic and relational interpretations.

Ultimately, the review highlights the need to rethink contingent payments not simply as technical devices, but as mechanisms of strategic negotiation, institutional adaptation, and behavioral complexity. This conceptual repositioning opens the door for further exploration into how power, trust, and foresight co-evolve in high-stakes dealmaking.

## 6. Limitation

Despite its theoretical contributions, this study has several limitations that merit acknowledgment. First, although the literature search was systematic and comprehensive, the scope was limited to peer-reviewed journal articles published in English between 2010 and 2025. This may have excluded valuable insights from books, legal case studies, non-English publications, or industry reports that discuss CPMs in more applied contexts.

Second, as a qualitative literature synthesis, this study did not employ formal meta-analytic techniques or quantitative effect size comparisons. While thematic integration is valuable for theory development, it lacks the statistical precision to measure the magnitude of CPMs' impact across contexts or industries (Snyder, 2019). Thus, the conclusions drawn are interpretive rather than predictive.

Third, the analysis relies on secondary interpretations of primary empirical data. As such, the review is dependent on the methodological soundness and conceptual clarity of the original studies. Variations in definitions of bargaining power, efficiency, and contingent terms across the reviewed articles may introduce inconsistency in thematic coding and abstraction.

Finally, while this review considers cross-sectoral applications of CPMs, it does not deeply account for sector-specific institutional or regulatory environments that may shape the design and performance of these mechanisms (e.g., healthcare licensing versus tech M&As). Future research could explore how institutional variation affects the relational dynamics surrounding contingent payments.

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