An instrumental approach to deception in bargaining

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5. Deception and False Expectations [6]

People lie on a daily basis; research has shown that people tell two lies per day on average (DePaulo, Kashy, Kirkendol, Wyer, & Epstein, 1996). Especially in bargaining, deception is a very common tactic (Tenbrunsel, 1998; Lewicki, 1983). At the same time, deception is often regarded as a form of unethical behavior (e.g., Dees & Cramton, 1991). So even though deception is a common bargaining tactic, it can also be considered an unethical tactic that people should rather not use. In the current paper we investigate what makes deception unethical and focus on false expectations resulting from the use of deception. We compared different forms of deception to test how false expectations play a role in the evaluation and use of deception. As deception is especially prevalent in bargaining settings, we studied the relation between false expectation and deception in an ultimatum bargaining setting.

Bargaining can be described as "the process whereby two or more parties attempt to settle what each shall give and take, or perform and receive, in a transaction between them" (Rubin & Brown, 1975, p. 2). This process is typically characterized by both conflict and interdependence. Bargainers may have conflicting interests, yet at the same time they are dependent upon each other for reaching an agreement. In bargaining two motives play a key role; self-interest and fairness. Which of these two motives is most important, has been the focal point of a large body of research in both social psychology and economics.

A very simple and elegant paradigm to study the motives of bargainers is the ultimatum game (Güth, Schmittberger, & Schwarze, 1982). In the ultimatum game, one party (the allocator) proposes a division for a certain resource. The other party (the recipient) can either accept or reject the proposed division. If the recipient accepts, the resource is divided as proposed. If the recipient rejects, both parties receive nothing.

If bargainers would purely act out of self-interest, recipients should accept any offer above zero no matter how small. Knowing that recipients should accept any offer above zero, allocators should offer the smallest amount possible and keep as much as possible for themselves. Empirical findings do not support these predications; research on the ultimatum game shows that recipients often reject offers lower than 20% of the resource

[6] This chapter is based on Koning, Steinel, Van Beest and Van Dijk (2010a)

(see e.g., Camerer & Thaler, 1995; Komorita & Parks, 1995; Pillutla & Murnighan, 2003). It has puzzled researchers why recipients would reject any offer above zero when accepting clearly yields better outcomes than rejecting. It has been argued that recipients reject offers because they are angry or disappointed that the offer is lower than they had expected (Pillutla & Murnighan, 1996, 2003). It thus seems that expectations play a key role in the rejection of offers in ultimatum bargaining. But what do bargainers base their expectations on?

When resources are to be allocated, people often strive for equity in the distribution of the resources (Adams, 1963, 1965; Walster, Walster, & Berscheid, 1978). Equity means that the ratio between one's own inputs and outcomes is the same as the ratio for others. That is, if one person works twice as hard as another, then it could be considered fair that that person also gets rewarded twice as much. But if two people work equally hard as is the case in the ultimatum game, then one would expect that both also get the same reward. Recipients may therefore expect to get an offer that is close to an equal split of the resource. If the offer is lower than an equal split, recipients may reject it as they expected to get a better offer.

To study whether recipients indeed reject offers due to their expectations to get offered an equal split, researches have varied the amount of information recipients have. In order to be able to judge whether an offer is an equal split or not, recipients need to have information. At a bare minimum, recipients will need to know the size of the resource being divided. In many realistic bargaining settings, parties do not have full information on every aspect of the bargaining setting. In addition, not all bargaining parties may have the same information; some parties may have different or more information than others. Information asymmetries thus often exist between bargaining parties.

Research has demonstrated that such information asymmetries have a large impact on the bargaining process and its outcomes (e.g., Kagel, Kim, & Moser, 1996; Van Dijk, De Cremer, & Handgraaf, 2004). For example, Kagel, Kim and Moser (1996) studied the effects of asymmetric information on the offers of allocators in ultimatum bargaining. In this experiment, bargainers divided 100 chips which were worth more to the allocator than to the recipient. An equal distribution of the money would require allocators to compensate for the differential value by offering more chips to the recipient than to themselves. Results showed that allocators indeed compensated the recipient, but only when the recipient had

full information about the value of the chips. When the recipient had no information about the differential value of the chips, allocators often offered 50 chips. This offer may seem fair to a recipient who is unaware of the differential value, but it implies that the allocator earns more money than the recipient.

In the experimental setup above, bargainers were not able to communicate about their private information. When bargainers are able to communicate with each other, this gives them the interesting opportunity to use deception. According to Vrij (2001), deception can be defined as a successful or unsuccessful deliberate attempt, without forewarning, to create in another a belief that the communicator considers to be untrue. In an ultimatum bargaining setting, deception may make an unfair offer seem more fair, thereby increasing the chances of it getting accepted. Especially when goods have a differential value, deception can be a viable strategy to hide the difference in value.

When the goods are worth more to one party than to another, bargainers may expect this difference in value to be compensated in the number of goods each party receives. For example, when goods are worth twice as much to one bargainer as to another, people may feel that that bargainer should receive half the number of goods the other bargainer receives. Dividing the goods in such a manner will result in an equal distribution of the outcomes. However, bargainers for whom the goods are more valuable may be tempted to conceal the higher value in order to get a larger share of the goods. In the current paper we focus on two forms one could use to conceal the higher value of the goods. The first form is to lie about the lower value for another party by stating that the value for that party is higher than it actually is. The second form is to lie about the higher value for oneself by stating that the value is lower than it actually is. In other words, one could lie by *overstating* the value for another party or by *understating* the value for oneself. Although both forms serve the same purpose of making the values seem more equal, we argue that they are evaluated and used differently. We argue that overstating the value for another is considered more unethical than understating the value for oneself.

The difference between both forms of deception is that the information that is distorted concerns different people. When deceivers understate their own outcomes, they distort information that concerns themselves. By contrast, when bargainers overstate the outcomes of another party, they distort information that concerns another party. Bargainers may consider information that concerns themselves private and may not feel obliged to

share this information (truthfully) with others. When information concerns another party, bargainers may feel obliged to share such information truthfully arguing that the other party has a right to know such information. Moreover, if one overstates the outcomes for another party the actual outcomes for that party will be lower than those communicated through deception. The outcomes will thus turn out to be lower than the other party expected. Given the importance of expectations in the evaluation of outcomes (see e.g., Kahneman, Knetsch, & Thaler, 1986; Pillutla & Murnighan, 1996, 2003), the lower than expected outcomes may be considered especially harmful to the target of deception. By contrast, if one understates the own outcomes, the outcomes for the target of deception will be the same as those communicated through deception. Based on these arguments, one could expect that bargainers may consider lying about their own outcomes more appropriate than lying about the outcomes of another party.

The current research sets out to compare both forms of deception and tests whether bargainers evaluate and use both forms differently. In our first experiment, we assessed whether observers evaluated both forms of deceit differently using a scenario. In our second experiment, an ultimatum bargaining setting was used and reactions to both forms of deception were measured. In our third and final experiment our analysis was extended by investigating the actual use of both forms of deception. In this experiment a newly developed paradigm was used to test whether bargainers preferred using one form of deception over the other.

Experiment 5.1: Reactions to deception in a scenario setting

As a first test of our hypothesis, we designed a scenario experiment in which a bargainer either understated the value of the goods for himself or overstated the value for another bargainer. Participants indicated whether they thought that the bargainer had raised false expectations and whether they thought that the target of deception would be disappointed. We expected that participants would find that overstating the value for another bargainer raises more false expectations and causes more disappointment than understating the value for oneself.

Method

Participants and design. The participants, 31 psychology students (mean age: 21.52 years; 11 men, 20 women) at Leiden University, participated voluntarily in our scenario study. Participants were assigned to the two conditions (form of deception: understate own value, overstate value for another) of a within-subjects design.

Procedure. Participants read a scenario in which two (male) bargainers divided ten chips in an ultimatum bargaining setting. These chips were worth €2 Euro to one bargainer and €1 to the other bargainer. The bargainer with the higher value proposed to split the chips equally, so that each would receive five chips. However, the bargainer lied about the differential value of the chips. In one condition he said the chips were worth €1 to both while in the other condition he said the chips were worth €2 to both. In the first condition, the bargainer thus understated his own outcomes by stating he would receive only €5 while in reality he would receive €10. In the second condition, the bargainer overstated the outcomes of the other by stating he would receive €10 instead of the actual €5. We then asked participants to what extent they thought that the bargainer had evoked false expectations by lying on a scale from 1 (certainly not) to 7 (certainly). We also asked participants to what extent the deceived bargainer would feel disappointed after discovering the final allocation on a scale from 1 (not disappointed) to 7 (very disappointed).

Results

False expectations. A paired-samples t test showed significant differences between conditions on the question whether deception had raised false expectations, $t(30) = -3.97$, $p < .001$. Participants found that false expectations were raised to a lesser extent when understating the own outcomes ($M = 3.74$, $SD = 1.97$) than when overstating the outcomes of someone else ($M = 5.68$, $SD = 1.72$).

Disappointment. A paired-samples t test showed significant differences between conditions in expected disappointment of the deceived bargainer, $t(31) = 2.46$, $p = .020$. Participants expected the deceived bargainer to be more disappointed when his outcomes were overstated ($M = 4.55$, $SD = 1.55$) than when the deceiver understated his own outcomes ($M = 3.55$, $SD = 1.69$).

Discussion

In our scenario, both forms of deception served the same purpose of making an unequal allocation appear equal. It should be noted that in both experimental conditions the use of deception lead to the same (unequal) distribution of outcomes. The pattern of outcomes was exactly the same, regardless of whether the bargainer understated the value for himself or overstated the value for the other person. Yet our preliminary results show that people evaluate both forms of deception quite differently. Participants felt that overstating the value for someone else evoked more false expectations and they expected it to lead to more disappointment. Our scenario thus shows that both forms of deception are evaluated differently by a third party, even though they produce the same result. In our second experiment we test whether targets of deception themselves (i.e., recipients of an ultimatum) also evaluate both forms differently.

Experiment 5.2: Reactions to deception in ultimatum bargaining

Our second experiment again focused on reactions to different forms of deception but used an actual bargaining setting instead of a scenario. In addition, the focus was shifted from a third-person observer to the actual target of deception. The evaluations and emotions of the target of deception may be stronger than those of a third-person observer. The current

study also focused on anger, as anger is known to play an important role in bargaining. In ultimatum bargaining in particular, anger has been identified as an important reason for recipients to reject low offers (see e.g. Straub & Murnighan, 1995; Pillutla & Murnighan, 2003). Therefore we not only measured disappointment but also anger. We expected participants to be more angry and disappointed when the opponent overstated their outcomes than when the opponent understated the own outcomes. In addition to anger and disappointment, we also measured how fair participants considered the behavior of the opponent. We expected participants to rate the opponent as more unfair when the opponent overstated their outcomes than when the opponent's understated the own outcomes.

Method

Participants and design. The participants, 48 psychology students (mean age: 21 years; 26 men, 22 women) at Leiden University, participated voluntarily in our laboratory study. Participants were randomly assigned to the two conditions (opponent's form of deception: understate own value, overstate value for the participant) of a between-subjects factorial design.

Procedure. Upon entering the laboratory, participants were seated in separate cubicles with a computer. Participants then received a detailed description of the ultimatum bargaining game and were all assigned to the recipient role. Participants learned that they were going to bargain over 100 chips with their opponent and that these chips could be worth either €0.04 or €0.08. Participants received no information about the value of the chips. However, they learned that their opponent had full information about the value of the chips for both bargainers. We told participants that the opponent would inform them about the value of the chips and would propose a division of the chips. Participants received a message from the opponent stating that the chips were worth either €0.08 to both or €0.04 to both. After this message the opponent proposed an equal split of the chips. After receiving the message and the proposal, participants could decide whether to accept or reject the proposal. All participants accepted this seemingly equal offer. After participants had accepted the offer they learned the actual value of the chips. We told participants that the chips were worth €0.08 to their opponent and €0.04 to them. Participants thus found out afterwards that the opponent had either overstated their outcomes or understated his

own outcomes. We then asked participants to rate how disappointed and angry they were and to indicated how fair or unfair the behavior of the opponent was. Finally, participants were thoroughly debriefed and paid €2 for their participation.

Results

Manipulation checks. Forty-eight participants (92%) correctly indicated which chip values the opponent had communicated. The four participants that indicated the values incorrectly were removed from further analyses.

Disappointment. A t test showed significant differences between conditions in how disappointed participants were after the actual values of the chips were disclosed, $t(46) = 2.45$, $p = .018$. Participants were more disappointed when the allocator had overstated their outcomes ($M = 5.36$, $SD = 1.62$) than when the allocator had understated the own outcomes ($M = 4.19$, $SD = 1.67$).

Anger. A t test showed significant differences between conditions in how angry participants were after the actual values of the chips were disclosed, $t(45.71) = 2.79$, $p = .008$. Participants were more angry when the allocator had overstated their outcomes ($M = 4.68$, $SD = 1.32$) than when the allocator had understated the own outcomes ($M = 3.46$, $SD = 1.70$).

Unfairness of the opponent. Finally, participants rated the behavior of the allocator as significantly more unfair when the allocator overstated the participant's outcomes ($M = 6.27$, $SD = 0.83$) than when the allocator understated the own outcomes ($M = 5.58$, $SD = 1.10$), $t(46) = 2.44$, $p = .019$.

Discussion

The results of our second experiment replicate the results of our first experiment; both forms of deception are evaluated differently even though they produce the same result of making an unequal distribution appear more equal. In this experiment we focused on the actual target of deceit, but our results are similar to those found earlier for third-party observers; when allocators overstated the outcomes of the recipient this lead to more disappointment and more anger than when they understated their own outcomes. In addition, allocators were rated as less fair when they overstated the outcomes of the recipient than when they understated the outcomes of themselves. What we would like to

stress, is that these differences emerged even though final outcomes were the same across conditions. In both conditions everyone accepted the equal split resulting in the allocator getting €4 (50 x €0.08) and the participant €2 (50 x €0.04). Although the outcomes were thus equally unfair, it appears that the process by which the outcomes were brought about was very important in shaping the evaluations of the participant. In our last experiment we investigate whether bargainers using deception would also evaluate both forms of deception differently and whether that would affect their use of deception.

Experiment 5.3: Use of deceptive strategies

In our third and final experiment we focused on the actual use of both forms of deception. The central question in this experiment was whether bargainers would prefer understating their own outcomes to overstating the outcomes of another party. As our two previous experiments showed, people evaluated these two forms differently being either observers or targets of deception. This may also hold true for bargainers who have the option to use deception and they may prefer to use one form over the other. Bargainers might consider overstating the outcomes of another person to be more harmful to the other and more immoral and may therefore be more reluctant to use this form of deception.

To test this hypothesis we designed a new research paradigm, which resembles an ultimatum bargaining game (Güth et al., 1982). Similar to the ultimatum bargaining game, in this paradigm two bargainers divide an amount of money. The allocator proposes a division of the resource, while the recipient is only allowed to accept or reject this proposal. If the proposal is accepted, the amount of money is divided as proposed. If the proposal is rejected, both bargainers receive nothing.

Different to the standard ultimatum game, the money could only be split in two discrete ways. Participants were all assigned to the allocator role and were presented two envelopes with money on the computer screen; one contained a small amount of money (€1) while the other contained a larger amount (€5). Participants could then choose who would get which envelope. We expected that most participants would want to keep €5 for themselves, giving €1 to the recipient. However, the recipient would still have to agree to this distribution of the money.

We told participants that the recipient was yet unaware of the contents of the envelopes. Participants were then asked to inform the recipient about the contents of the envelopes. Participants could disclose the contents truthfully by saying which envelope contained €1 and which €5. However, they could also tell the recipient that both envelopes contained €1 or that both envelopes contained €5. Assuming that participants kept €5, telling the recipient that both envelopes contain €1 would result in understating the own outcomes. Telling the recipient that both envelopes contain €5 on the other hand would result in overstating the recipient's outcomes. We expected that participants would prefer to understate their own outcomes (i.e., telling both envelopes contain €1) over overstating the recipient's outcomes (i.e., telling both envelopes contain €5).

As noted earlier, an important aspect of deception is that can evoke false expectations in others. People may base their expectations about the outcomes on a lie and only find out afterwards that the actual outcomes are less favorable. When overstating the outcomes of another bargainer, that bargainer will certainly discover the deceit once the actual outcomes are revealed. However, when understating the own outcomes the other party does not necessarily need to discover the deceit. In many realistic settings, bargainers have no or limited information about the outcomes of others. Therefore if one understates the own outcomes, other bargainers will often not find out that they have been deceived. Bargainers may thus prefer understating their own outcomes reasoning that what other parties do not know will not hurt them. To test whether this was indeed the case, we created two experimental conditions; one in which the outcomes of both bargainers were disclosed after bargaining ended and one in which bargainers would only learn their own outcomes.

Method

Participants and design. The participants, 84 psychology students (mean age: 21 years; 27 men, 57 women) at Leiden University, participated voluntarily in our laboratory study. Participants were randomly assigned to the two conditions (outcomes disclosed: only own outcomes vs. outcomes of both parties) of a between-subjects factorial design.

Procedure. Upon entering the laboratory, participants were seated in separate cubicles with a computer. Participants were told that they were going to bargain with another participant. Participants bargained over €6, which was split into €5 and €1. Participants had to decide who would get €5 and who would get €1. We expected that participants would want to keep €5 and give €1 to the opponent. However, the opponent would also have to agree to this distribution of the money, because otherwise both bargainers would receive €0. Participants thus had to find a way to get the opponent to accept the distribution of money.

We told participants that the opponent did not know the amount of money they bargained over and that they should inform the opponent about this amount. We presented it to participants as if they could put the money into two envelopes on which they could then write an amount. Participants could write the actual amounts on the envelopes, but they could also use deception. Participants could choose to either state that both envelopes contained €1 or that both contained €5. Assuming that participants would keep €5, stating that both envelopes contained €5 would be overstating the outcomes of the recipient, while stating that both envelopes contained €1 would be understating the own outcomes. Our main research question was what participants would tell their opponent about the contents of the envelopes.

Before participants informed the recipient about the amounts, they were told which outcomes would be disclosed after bargaining. In one condition the outcomes of both bargainers would be disclosed after bargaining ended (i.e., the contents of both envelopes would be revealed). In the other condition, only the own outcomes would be revealed to bargainers (i.e., only the contents of one's own envelope would be revealed). After sending the information, the experiment ended and participants were thoroughly debriefed about the purpose of the experiment.

Results

Manipulation checks. Seventy-two participants (86%) correctly indicated which information was disclosed to the opponent after bargaining ended. Some participants may have interpreted the question in terms of which information would be known to their opponent at the end of bargaining. Since participants provided the opponent with information, this may have been confusing to participant. Due to this ambiguity and to maximize statistical power, we decided to retain all participants in further analyses.

Amount offered. As expected, most participants (57 out of 72, 79%) kept €5 and offered €1 to the opponent. Moreover, participants kept €5 regardless of which information was disclosed after bargaining, $\chi^2(1) = 2.47$, $p = .116$. Since we were primarily interested in which information bargainers would give when they made a self-interested distribution of the outcomes, we only retained participants who kept €5 euro in further analyses.

Deception. A Chi-square test showed significant differences between conditions in the information participants gave to the recipient, $\chi^2(2) = 9.87$, $p = .007$. Table 5.1 shows the frequency at which participants deceived the recipient and which deceptive strategies were used. When only the contents of the own envelope were disclosed at the end of bargaining, participants clearly favored telling the recipient that both envelopes contained €1. Note that in this case the recipient would indeed actually receive €1 and would thus never discover that the final allocation of outcomes was in fact unfair. This changed when the contents of both envelopes were revealed after bargaining ended. Table 1 shows that more participants told the truth when the contents of both envelopes were revealed. A Chi-square test showed that this increase in telling the truth was significant, $\chi^2(1) = 6.22$, $p = .013$. Moreover, Table 5.1 also shows a slight increase in the number of participants telling the recipient that both envelopes contained €5. A Chi-square test showed that the number of participants that used this form of deception differed significantly between both conditions, $\chi^2(1) = 3.86$, $p = .049$. The reason behind this increase may be that participants expected the recipient to accept €5 more readily than €1. Overall, disclosing the contents of both envelopes after bargaining causes participants to either tell the truth or adopt a more strategic form of deception. Still, stating that both envelopes contained €1 remained the most popular form of deception by far, suggesting that participants generally preferred to understate their own outcomes.

Table 5.1. Frequency of information-sharing strategies in Experiment 5.3.

	Own outcomes disclosed	Both outcomes disclosed
Truthful	5 (14%)	13 (41%)
Deceptive, both 1 euro	29 (81%)	14 (44%)
Deceptive, both 5 euro	2 (5%)	5 (15%)

Discussion

In our third and final experiment we tested whether bargainers would prefer to understate their own outcomes or overstate those of another party. We developed a new bargaining paradigm and told participants that their outcomes would or would not be revealed to the opponent. When the participant's outcomes were not revealed to the opponent, bargainers clearly favored understating their own outcomes. In this manner, they were truthful about the opponent's outcomes and only lied about their own outcomes. This strategy prevented the opponent from discovering the deceit and from finding out that the distribution was actually unequal.

The situation changed when participants believed that their outcomes would be disclosed to their opponent after bargaining. Under these circumstances, there was a significant increase in the number of bargainers that told the truth. These bargainers thus disclosed that their proposed distribution was unequal, running the risk that the opponent would reject their proposal. In addition, more bargainers deceived the opponent by overstating the outcomes of the opponent. These bargainers seem to accept the fact that their deceit will be discovered eventually and might think that the opponent will accept the higher amount more readily. The majority of the bargainers, however, still preferred to understate their own outcomes even when the outcomes of both were revealed after bargaining.

General discussion

In three experiments we demonstrated that understating the own outcomes is perceived differently than overstating the outcomes of another party. In Experiment 5.1 and 5.2 we measured the reactions towards both forms of deception and found that overstating the outcomes of another party caused more anger and disappointment than understating the own outcomes. It is important to note that in both studies the final distribution of outcomes was the same under both forms of deception; only the way it was presented was different. In Experiment 5.3 we studied the actual use of deception and found that people preferred understating their own outcomes to overstating the outcomes of their opponent. Note also that this was true even when participants knew that their deceit would be revealed after bargaining ended. Our results show that both forms of deception differ in the reactions they provoke and the way they are used. We demonstrated these differences for people observing deception by others, for targets of deception and for people actually using deception themselves. The fact that the findings were similar across all these different perspectives in our opinion strengthens the conclusion that both forms of deception are fundamentally different.

Our findings further the understanding of deception and provide insight into why deception may be considered unethical. That deception is unethical is widely acknowledged in theories of ethics and also in many religious views (see e.g., Dees & Cramton, 1991). However, research on deception in bargaining has often focused on the fact that deception can be instrumental to further the own outcomes (see e.g., Boles, Croson, & Murnighan, 2000; O'Connor & Carnevale, 1997; Pillutla & Murnighan, 1995; Schweitzer & Croson, 1999; Steinel & De Dreu, 2004). More recently, research has also turned to the unethical side of deception. For example, Gneezy (2005) shows that deception is used less frequently when it is more harmful to another party. This finding shows that harm done to others is an important unethical aspect of deception. We add to this finding by demonstrating that not only actual harm makes deception unethical, but also harm caused by false expectations. Deception evokes false expectations in others and may cause anger and disappointment when actual outcomes turn out to be less favorable than expected. This is especially the

case when the outcomes of another party are overstated, while understating the own outcomes seems more acceptable.

Interestingly, a large number of bargainers in Experiment 5.3 lied about their own outcomes when they knew that their outcomes would not be disclosed to the opponent. This situation resembles many realistic bargaining settings in which the outcomes of other parties often remain unknown or uncertain. The large number of participants that used deception in such a setting may seem alarming, but we would like to point out that our design made an equal distribution of the outcomes impossible. Given that the outcomes would be unfair in any case, lying about your own outcomes may have been regarded as a solution to a difficult moral dilemma. Note that both self-interested and other-regarding motives could be involved in this type of deception. For example, bargainers may use deception in such situations to protect their reputation, but also to prevent the other party from feeling bad about the unequal distribution of outcomes.

Although our findings provide initial insight into why different forms of deception may be evaluated differently, future research could expand on these finding by investigating which motives are involved in both forms of deception. Are bargainers, for example, more willing to lie to protect their own reputation or are they also concerned about the feelings of another party? In addition, future research could test whether these effects also exist outside a bargaining context. Bargaining settings tend to be rather competitive in nature and therefore deception may be considered less unethical in bargaining than in other, more cooperative settings.

To conclude, our findings provide an interesting new direction for research on deception and different forms of deception. Research on deception has often focused on why people deceive, but not so much on why people would *not* deceive. Our findings may help to bridge this gap by showing why some forms of deception are less acceptable than others, providing insight into why deception is unethical.