Journal of Economic Behavior & Organization 121 (2016) 29–40

Contents lists available at ScienceDirect

Journal of Economic Behavior & Organization

journal homepage: www.elsevier.com/locate/jebo

Lying about delegation

Angela Sutan [a], Radu Vranceanu [b,*]

[a] LESSAC, ESC Dijon-Bourgogne and LAMETA, 29 rue Sambin, 21000 Dijon, France
[b] ESSEC Business School and THEMA, 105 av. Bernard Hirsch, 95021 Cergy, France

ARTICLE INFO

Article history:
Received 14 January 2015
Received in revised form 20 July 2015
Accepted 30 October 2015
Available online 10 November 2015

JEL classification:
C91
C72
D82

Keywords:
Delegation of responsibility
Uncertain attribution
Communications strategy
Ultimatum game
Dishonesty

ABSTRACT

This paper reports results from a three-player variant of the ultimatum game in which the Proposer can delegate to a third party his decision regarding how to share his endowment with a Responder with a standard veto right. However, the Responder cannot verify whether the delegation is effective or the third party merely plays a "scapegoat" role, while the decision is made by the Proposer himself. In this uncertain attribution setting, the Proposer can send an unverifiable message declaring his delegation strategy. One possible strategy is "false delegation", in which the Proposer makes the decision but claims to have delegated it. In our sample, the recourse to false delegation is significant, and a significant number of potential Delegates accept serving in the scapegoat role. However, there are many honest Proposers, and 20% of all Delegates will refuse to be the accomplices of a dishonest Proposer. Responders tend to more readily accept poor offers in a setup that permits lying about delegation; the acceptance rate of the poor offer is the highest when Delegates can refuse the scapegoat role.

1. Introduction

Decision makers often have no choice but to implement unpopular reforms and occasionally have to pay a high price for them in terms of declining popular support. Delegation can help them to reduce the negative consequences. Nicolas Machiavelli outlined the merits of this solution five centuries ago. In his masterpiece, *The Prince*, Machiavelli wrote, "Princes should delegate to others the enactment of unpopular measures..." Contemporary examples of such delegations abound. As depicted in the Hollywood block-buster *Up in the Air* (2010), which features George Clooney as an HR consultant who flies from town to town to "clean house" and then leaves without a sigh, many law and consulting companies specialize in staff restructuring advice.[1] At a higher decision level, European governments (in France, Italy, and Spain) are passing badly needed but unpopular reforms (higher taxes, increasing labor market flexibility), and many political leaders contend that their choices are being imposed by the "technocratic" *European Commission*. For many years, governments in developing countries blamed the "dictatorship" of the *IMF* or *World Bank* for imposing tough but much needed structural adjustments (Vaubel, 1986; Vreeland, 1999; Smith and Vreeland, 2004).

* Corresponding author. Tel.: +33 01 34 43 31 83.
E-mail addresses: angela.sutan@escdijon.eu (A. Sutan), vranceanu@essec.fr (R. Vranceanu).

[1] We can read on the website of a major firm that "Whether you're transitioning a few people or thousands, [we] have the tools, technology and expertise to help you plan an effective restructuring strategy and manage the outplacement and career transition process from start to finish". Another important company states "Some clients ask us to run the whole redundancy exercise for them whereas others prefer to use as a sounding board".

http://dx.doi.org/10.1016/j.jebo.2015.10.023

The mainstream literature in economics has emphasized that a decision-maker may consider it sensible to hire a delegate to take action on his behalf on the grounds of increased efficiency. There are multiple possible reasons for this behavior: the delegate can possess better expertise or ability, have a lower opportunity cost of time, or stricter preferences that make his threats more credible, thereby strengthening his power in a negotiation process. The delegation problem is nonetheless complex, particularly when the principal cannot perfectly monitor the agent (the delegate). In this case, the latter might well attempt to pursue his own objective, which might diverge from that of the principal. Holström (1977, 1984) was the first to analyze the delegation problem in an imperfect information framework and provided conditions for delegation to be optimal. Following pioneering papers by Lazear and Rosen (1981) and Grossman and Hart (1983), a significant strand of literature has analyzed what compensation schemes allow for the greatest possible alignment between the goals of principals and agents (see Bolton and Dewatripont, 2005).

In experimental economics, the analysis has shifted beyond efficiency motives to note that decision makers occasionally resort to delegation to "shift the blame" or "shirk on responsibility", which in turn allows them to extract more surplus in negotiations.[2] Coffman (2011), Bartling and Fischbacher (2012) and Oexl and Grossman (2013) provide empirical evidence in support of this conjecture. They study a variant of the classical Dictator game, where the beneficiary of the transfer can punish the dictator. The latter can delegate the giving decision to a third party, or not. Results indicate that individuals are prone to punish unfair or unkind behavior, but punishment is lower if the unkind decision was delegated. The severity of the sanction appears to be related to both unkindness and the causal responsibility of the delegator. Thus, as pointed out by Bartling and Fischbacher (2012), "responsibility attribution can effectively be shifted and, second, this can constitute a strong motive for delegation of a decision right". Hamman et al. (2010) construct an experiment demonstrating that even if punishment is not possible, principals in a dictator game delegate their decision to "diffuse responsibility"; as noted, "principals do not feel that they are behaving unfairly because they do not directly take immoral actions; they simply hire agents" (p. 1843). Fershtman and Gneezy (2001) analyze an ultimatum game with perfect information (Güth et al., 1982) in which Proposers can delegate the offer to a third party; offers are of the standard take-it-or-leave-it type.[3] Thus, the benefit of delegation is neither informational (the delegate does not have superior information) nor of the commitment type. Responder acceptance rate of poor offers turns out to be larger when offers are made by delegates rather than by the Proposer himself, likely because Responders can no longer blame the Proposer for the "unfair" outcome or potentially because Responders are reluctant to punish the delegate.

Thus, if delegation allows diffusing the principal's responsibility and shifts the balance of a negotiation in his favor, then a principal might falsely claim that he delegated the decision in order to reap the benefits related to the transfer of authority while simultaneously avoiding the risk that the delegate pursues a goal that diverges from his own goal.

There is a growing body of experimental economics literature on lying and deception that seeks to reveal what motivates individuals to resort to such questionable communication methods. In an influential paper, Gneezy (2005) employs an original sender–receiver experiment to demonstrate that when subjects can reap a positive benefit from lying, many subjects do so, even if this involves a loss for their partner. Another important finding of these empirical studies is that humans exhibit some form of aversion to lying, although its extent can vary greatly from one individual to another.[4]

Our aim in this paper is to determine whether individuals would lie about delegation in the specific context of the ultimatum game and how potential Delegates would behave when asked to play a "scapegoat" role. The analysis is thus situated at the intersection of two strands of experimental research: research on lies and research on delegation. Our paper can be seen as an extension of the above-mentioned paper by Fershtman and Gneezy (2001). While they analyze the impact of effective delegation, in this paper we allow the Proposer to lie that he has delegated the allocation decision to a third party, the Delegate, while he has actually made the decision himself. Of course, he also can tell the truth. The message is genuine "cheap talk", in the sense that it is not binding and the Responder has no means to verify it.

As in a standard ultimatum game, in our experiment the Responder can accept or reject the offer. When delegation is authentic, the delegate has an active role: he determines the split of the pie between the Proposer and the Responder. When the Proposer lies about delegation, the delegate acts as a scapegoat; he makes no decision and merely represents a straw man who serves as an alibi for the principal. Hiring a Delegate, be him "active" or just a scapegoat, comes with a cost for the Proposer as the "wage" of the Delegate. It is important to compensate the third party for playing his scapegoat role, not only because one must cover his opportunity cost of holding this "job", but also because paying him makes the lie credible. If the Proposer does not require any service from the third player, the latter will earn nothing and the pie will be shared between the Proposer and the Responder. This should make credible a Proposer's claim that he did not use a delegate. The compensation scheme of the third party is common knowledge, and so is the distribution of gains.

In order to allow for lies, the game must have an imperfect information structure. We will ensure that the Responder, who observes the offer and the message, *cannot detect lies*. In other words, an offer and a message should not fully reveal the action undertaken by the Proposer. In particular, when the Responder receives a poor offer and is told that the Proposer

---

[2] See Di Pei (2015) for a theoretical approach to such "responsibility shifting". See Huck et al. (2004) for a paper on delegation in financial markets.

[3] See Güth and Kocher (2014) and Van Damme et al. (2014) for a review of the key advances in choice theory delivered by thirty years of experiments with the ultimatum game, and Oosterbeek et al. (2004) for an interesting meta-analysis of 37 papers with 75 results from ultimatum games.

[4] As a non-exhaustive list of relevant papers, see: Croson et al. (2003), Sánchez-Pagés (2006), Vanberg (2008), Mazar et al. (2008), Lundquist et al. (2009), Charness and Dufwenberg (2006, 2010), Erat and Gneezy (2012), Ariely (2012), Kriss et al. (2013), and Besancenot et al. (2013).