Organizational Behavior and Human Decision Processes 147 (2018) 127–146

Contents lists available at ScienceDirect

Organizational Behavior and Human Decision Processes

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

Conflict of interest disclosure as an expertise cue: Differential effects due to automatic versus deliberative processing

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ARTICLE INFO

Keywords:
Conflict of interests
Disclosures
Persuasion
Trust
Sponsored content
Bloggers
Automatic and deliberative processing
System 1 and system 2 processing

ABSTRACT

Disclosure—informing advice recipients of the potential bias of an advisor—is a popular tool to manage conflicts of interest. However, conflict of interest disclosures usually compete with a host of other information that is important, relevant or interesting to the advisee. Across one field study and five experiments, we examine the effect of conflict of interest disclosures in a realistic and context-rich setting (online blogs) in which the disclosure is short, clear and conspicuous (as desired by many regulatory bodies) but embedded in the context of other competing information. Our findings show that, in contrast to much of the prior research on conflict of interest disclosures, recipients who read a blog post containing a conflict of interest disclosure report increased trust in the blogger and evaluate the blogger, the blogger's recommendation, and the sponsoring organization more favorably than recipients who read a post with no disclosure. The effect is driven by disclosure acting as a heuristic cue to infer greater trust in the blogger's expertise and consequently greater persuasion. The inference of greater expertise and its effect on persuasion are mitigated when recipients deliberate on the disclosure. We discuss implications of these findings for organizations, advisors, consumers and policy makers.

1. Introduction

Advisors, experts and opinion leaders across a range of professions often face a conflict of interest (COI), that is, a potential clash between their professional responsibilities (i.e., providing good quality, unbiased advice to others) and self-interests (e.g., financial gain). For instance, physicians may receive incentives or gifts from pharmaceutical companies (Sah & Fugh-Berman, 2013; Sah & Loewenstein, 2010), financial advisors may receive greater commissions if their clients buy certain products (Boatright, 2000), and bloggers may receive money or other material gifts from companies for reviewing a product or service. These and other similar situations create a COI because the advisor (e.g., physician, financial advisor, blogger, etc.) has an incentive to provide recommendations that benefit them, whether or not the recommendations are best for the advisee. Thus, COIs create the possibility of biased advice.

A common approach to managing such conflicts is disclosure (Sah, 2017); that is, informing the advisee of the possible COI of the advisor. Along these lines, the U.S. Securities and Exchange Commission (SEC) requires registered investment advisors to disclose when they receive a commission for referring clients to solicitors or brokers (2010). Similarly, the U.S. Federal Trade Commission (FTC) requires that bloggers in social media explicitly disclose to their online readers any COIs, including incentives or payments to recommend a product or service (2013). The rationale is that disclosure will alert recipients to the COI, so they can accurately adjust for any potential bias. Disclosure decreases the information gap between an advisor and the advisee, and, at least in theory, leads the advisee to make a more informed decision (Crawford & Sobel, 1982).

Considering the emphasis on disclosures as the preferred method for managing COIs, a question that naturally arises is whether disclosures are effective and prompt judgment correction. Extant research has revealed mixed results about the effects of COI disclosures on advisors and advisees. Among advisors, COI disclosure can lead to both increased or decreased bias in advice relative to advisors who do not disclose (Sah, 2018). When advisors increased the bias in their advice with disclosure, advisees were often worse off because, although they discounted the advice that came with a COI disclosure, they did not discount enough to overcome the increased bias (Cain, Loewenstein, & Moore, 2011), perhaps due to anchoring effects (Tversky & Kahneman, 1974). Importantly, these studies focused primarily on the advisors and did not examine advisees' perceptions of their advisors. In particular, trust in the advisors was not examined. When trust in advisors was recorded, as expected, COI disclosure led advisees to reduce trust in

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https://doi.org/10.1016/j.obhdp.2018.05.008
Received 5 March 2017; Received in revised form 7 May 2018; Accepted 14 May 2018

advisors (Hwong, Sah, & Lehmann, 2017; Sah & Feiler, 2018), although in some situations disclosure simultaneously increased social pressures on advisees to comply with the advisor's recommendation (Sah, Loewenstein, & Cain, 2013, 2018). However, recent research examining the effect of disclosure in information-rich environments suggests that disclosures may increase trust and compliance (Abendroth & Heyman, 2013; Sah, Fagerlin, & Ubel, 2016).

In this paper, we focus on how recipients process COI disclosures from their advisors in a realistic and context-rich environment and examine the effect of a moderating variable, automatic versus deliberative processing of the COI disclosure. Specifically, we show that COI disclosure can *enhance* evaluations of advisors and their persuasiveness when COI disclosures are processed automatically. This effect occurs because COI disclosure acts as a heuristic cue to infer greater trust in the advisors' expertise, an effect we call "*disclosure's expertise cue*." We find that this effect is mitigated and sometimes reversed when recipients deliberate on the COI disclosure. This moderating effect of automatic vs. deliberative processing may help to reconcile earlier research showing disparate outcomes of COI disclosure.

Next, we review the literature on COI disclosures and outline our research hypotheses. We then present empirical evidence from one correlational field study and five experiments that manipulated the presence versus the absence of COI disclosures. We conclude by discussing implications of our findings for organizations, advisors, consumers and policy makers.

2. The effectiveness of conflict of interest disclosures

In principle, COI disclosures reduce the information gap between the advisor (i.e., the message source) and the advisee (i.e., the message recipient), and should serve as a warning to recipients alerting them of a potential bias in the recommendations or opinions of the advisor. This warning should set in motion a deliberate judgment correction process, which would lead to less favorable judgments of the advice and of the advisor (Martin, Seta, & Crelia, 1990; Meyers-Levy & Malaviya, 1999). Research on advice-taking, source credibility, and persuasion knowledge also proposes that claims made by agents who are perceived to be potentially biased will be discounted (Campbell & Kirmani, 2000; Friestad & Wright, 1994; Kelley, 1973; Van Swol, 2009). The disclosure literature primarily provides support for this effect; COI disclosure has generally been shown to reduce trust in the advisor (Hwong et al., 2017; Kesselheim et al., 2012; Sah & Feiler, 2018; Sah & Loewenstein, 2014; Sah et al., 2013, 2018).

Even though COI disclosures have been shown to decrease trust in the advisor, they do not always result in decreased compliance with the advice. In fact, previous research has shown that even in contexts where disclosures lead to lower trust in the advisor, advisees may show greater compliance because of social pressure (i.e., they do not want to appear distrustful of the advisor, particularly when their responses are visible to the advisor) and because of their desire to help the advisor (Sah et al., 2013, 2018). Importantly, advisees reported decreased trust in advisors who disclosed a COI, even when compliance was sometimes increased.

Decreased trust in the advisor because of COI disclosure is perhaps the intent of FTC and SEC regulations that require such disclosures: it may be reasonable for advisees to correct their judgments due to the disclosure bringing attention to uncertainty in the advice quality. However, decreased trust may be an overcorrection at times. For instance, Sah and Feiler (2018) documented a "*disclosure penalty*" effect, which refers to recipients' decreased trust in their advisors for merely possessing a COI. This penalty exists even when the advice is of good quality and recipients have full information to assess the advice quality, and even when advisors sacrifice their self-interest to give good quality advice. The disclosure penalty can thus lead to valuable advice being ignored if the correction process "over-shoots."

In contrast, it is possible that recipients may ignore or overlook disclosures (Ben-Shahar & Schneider, 2011; Rose et al., 2018). This may occur because judgment correction requires adequate levels of cognitive resources to encode and facilitate elaboration of the COI disclosure and the integration of its implications into judgments (Campbell & Kirmani, 2000; Johar & Simmons, 2000). Recipients may fail to incorporate the implications of the disclosure in the absence of adequate motivation, ability, and opportunity to process the disclosure.

Because deliberation on the disclosure and consequently judgment correction may be the intended purpose of implementing COI disclosures, if advisees do not incorporate the implications of the disclosure in their processing, the disclosure may be perceived to have "failed," at least from the regulator's standpoint. From this perspective, COI disclosures function as a warning. Prior research has demonstrated that for warnings to be effective, recipients must see or hear the warning, understand its meaning, and use the inference to make informed decisions (see Mayhorn & Wogalter, 2010 for the communication-human information processing model). Specifically, for successful delivery of a warning, recipients must pay adequate attention to the stimuli, which requires, first, switching attention from a primary activity to the warning, and second, maintaining attention on the warning to internalize it before comprehending its meaning (Cowley & Wogalter, 2011; Laughery & Wogalter, 2006; Mayhorn & Wogalter, 2010). Many variables may block or interfere with this path, such as competing information which causes cognitive overload and distraction, as well as the length and number of disclosures which may overwhelm recipients who could lose the motivation to process the information (Ben-Shahar & Schneider, 2011). In order to make disclosures more effective, the FTC issued guidelines for online disclosures that advocate the four "P's" of disclosure: prominence, presentation, placement and proximity, as well as the need for clear and conspicuous disclosures to be just-in-time (Federal Trade Commission, 2013).

3. Increased source credibility and persuasiveness with conflict of interest disclosure

In the preceding section, we highlighted two outcomes for recipients' perceptions of their advisors' trustworthiness when processing a COI disclosure: (1) reduced trust, due to a judgment correction process (Hwong et al., 2017; Kesselheim et al., 2012; Sah & Feiler, 2018; Sah & Loewenstein, 2014; Sah et al., 2013, 2018); or (2) no effect on trust, presumably due to insufficient available resources for processing the disclosure (Ben-Shahar & Schneider, 2011).

A third outcome is also possible—increased trust in the advisor. In this paper, we attempt to reconcile this outcome (increased trust) with the other two possible outcomes (decreased trust or no effect on trust) from COI disclosure. Specifically, we hypothesize that COI disclosures could have a *favorable* effect on recipients' perceptions of the advisor (source credibility) and the advisor's persuasiveness when the disclosure is processed automatically. Evidence supporting this effect comes from two different domains: word-of-mouth marketing and medical decision making.

In the word-of-mouth marketing domain, several papers report that disclosure of a COI had a positive effect on trust or the persuasiveness of the agent (Abendroth & Heyman, 2013; Abendroth, 2012; Carl, 2008; Tuk, Verlegh, Smidts, & Wigboldus, 2009). In a correlational study, Carl (2008) reports evidence from surveys with word-of-mouth agents (e.g., brand ambassadors) and their conversational partners. The results suggest that agents who explicitly disclose partnerships with brands during the word-of-month conversation (compared to discovery of the partnership after the word-of-mouth event) are trusted more. Specifically, perceptions of the agent's trustworthiness (integrity) and goodwill towards the partner (benevolence) increased with the presence of disclosure, although there were no differences with regards to the agent's expertise. Moreover, disclosure was not associated with persuasion variables such as intent to use or purchase behaviors, though it was associated with the likelihood that partners would pass on the