



Flowers and an honour box: Evidence on framing effects



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ARTICLE INFO

Article history:

Received 16 December 2013

Revised 31 July 2014

Accepted 7 October 2014

Available online 7 November 2014

Keywords:

Honour market

Natural field experiment

Moral appeals

Legal threats

Attribute framing

ABSTRACT

This paper analyses the behaviour of customers in a flower field, where payment is made into an honour box. There is a price indicated for the flowers. However, as no monitoring takes place and the farmer has never enforced formal law, people can decide how much they want to pay. If people were to make a narrow rational choice, they would simply take the unsupervised flowers without paying and the market would collapse. However, payments were and are in general high enough to make considerable profits. The business is flourishing. In the experiment, we left several different messages next to the cashbox to influence payments. Legal threats and moral appeals were studied in similar field settings with mixed results. We hypothesize that legal threats and moral appeals are less important than the context in which people make their decision. Once we indicated that the flower field belonged to a family, turnover and payment rate per customer increased substantially. We also observed a switch to fewer but more expensive flowers. However, no significant results were obtained for other treatments: consulting framing, moral appeal and legal threats. The results show that to understand the market success of a business, we have to investigate the expectations and opinions which people associate with the specific business context.

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1. Introduction

People donate to charities, volunteer without obtaining monetary benefit, give considerable tips in restaurants or pay in honour markets, where nobody is observing, monitoring or enforcing the transaction. This caring for the welfare of others is such a universal phenomenon that economists, who sometimes assume a narrow self-interest of individuals, are increasingly incorporating norms of pro-social behaviour into their models (Fehr and Schmidt, 1999). More recently, economic models have included an innate desire of people to maintain a favourable self-concept (Ostrom, 2005; Benabou and Tirole, 2006; Ellingsen and Johannesson, 2008). People frequently act honestly in economic, political and everyday transaction even if they have the opportunity to be dishonest. On the other hand, many people exploit such situations and behave dishonestly. Examples range from cheating on tax declarations, reporting performance to auditors, theft, fraud and plagiarism to corruption.² In most of these situations, regulatory frameworks provide formal and informal in-

centives for honesty. However, monitoring is often problematic. This article presents a natural field experiment where no legally enforced incentives for honesty exist. In this experiment, we used a variety of framings and evaluated their effectiveness in promoting payment by people.

Companies have started to build business concepts based on people's pro-social preferences and honesty. There are examples of moral markets where customers determine the price they want to pay. For example, the Radiohead album 'In Rainbows', was available for download from the internet in exchange for a voluntary donation; various restaurants and cafés have also developed "pay-what-you-want" (PWYW) or "name your own price" schemes (Kim, Natter, and Spann, 2009; Riener and Traxler, 2012). According to the band's manager, "Radiohead made more money with the album 'In Rainbows' before it was physically released than they made in total with the previous album 'Hail to the Thief'".³ Gneezy, Gneezy, Nelson, and Brown (2010), also reported higher payments for photos taken in an amusement park under the "pay-what-you-want" scheme in comparison with a normal payment system, and Riener and Traxler (2012) found that over a two-year period,

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¹ Empirical work was done while at Albert-Ludwigs-University Freiburg.

² Cf. for example the study on corruption by Fisman and Miguel (2007) or the overview of this topic by Mazar and Ariely (2006).

³ See: <http://musically.com/blog/2008/10/15/exclusive-warner-chappell-reveals-radioheads-in-rainbows-pot-of-gold/>. Similarly, Regner and Barria (2009) found higher payments for online music in pay-as-you-want schemes.

revenues at a pay-what-you-want restaurant in Vienna were higher than they had been before the scheme was implemented, mostly due to a higher number of customers (cf. Kim, Natter, and Spann, 2010 for a more comprehensive overview). Honour markets are related to “pay-what-you-want” schemes in the sense that in both cases, the customer has the de facto choice to determine what she wants to pay; in the honour market, however, paying nothing or less than the indicated price can be interpreted as dishonesty. Thus, the honour market setting allows real world data to be obtained for the prevalence, distribution and determinants of (dis)honesty.

In our research work, we study the behaviour of customers in a flower field. Due to prohibitive marketing costs, the farmer uses an honour system, as first analysed in literature by Dawes and Thaler (1988). Our setting has fixed prices for flowers and is thus distinct from the pay-what-you-want situation. The customer can go directly to the unattended flower field, cut the number and variety of flowers she wants and leave the indicated sum of money in a cashbox. Since the flower field is not supervised by the farmer, the business relies completely on the honesty of customers. Prices are indicated on a poster and a cashbox is provided for the money. Monitoring by the farmer hardly ever occurs and during twenty years in business no formal enforcement has ever taken place. The cultivation of the flower field is a huge and risky financial investment for the farmer, whereas the customer’s decision to pay or not to pay is an individual moral decision.⁴ A unique (significant) difference between honour market and pay-what-you-want schemes is that no interaction between farmer and customer takes place. Being observed or assuming that one is being observed has been shown to make an important difference (Milinski and Rockenbach, 2007; Powell et al., 2012). In this case, decisions do not rely on social pressure, but only on intrinsic motivations to pay.⁵ PWYW is a marketing tool often used as an introductory offer, for example when a new restaurant is opened (Kim, Natter, and Spann, 2009). In the case of the flower market, the main reason for applying an honour system is related to high transaction costs. It would be prohibitive to employ somebody to sell the flowers. The farmer’s earnings would not be higher if he marketed his flowers via normal flower shops, as wholesale prices are much lower. The farmer offers high quality flowers at reasonable prices; the customer can choose the flowers by herself, so that the act of purchasing already creates a feeling of benefit for the customer. Moreover, the farmer might reach other customers by using this method which would not be possible if he sold the goods through flower shops. Similar to the findings of Charness and Cheung (2013), the farmer experienced that payments are considerably lower if no reference price is mentioned. Therefore, he does not combine this honour system with a de jure PWYW scheme, i.e. no price is indicated and the customer is legally allowed to set the price. The narrow economic prediction based on rationality and selfishness of this investment is that there should be no supply, because the farmer will predict – through backward induction – that any rational selfish actor passing by his field will pick flowers without leaving the voluntary contribution in the collection box beside the field. Nevertheless, the business is thriving and many farmers in Germany use flower fields based on the honour system as a business concept. Customers profit from

the higher quality and freshness of the flowers, the “flexible” opening hours and the “experience” of cutting the flowers themselves. The farmer with whom we implemented the quasi-experiment operates 24 flower fields in the Black Forest region of Germany. He is also an active consultant for 600 farmers in Germany, Austria, France, Belgium and some new customers in Denmark (apparently with very high turnover in Denmark). Some of his clients have up to 100 fields and for most of the farmers, flower fields based on the honour system are not an additional side income but their main income source.

Our study has many similarities to the work of Haan and Kooreman (2002), who studied the sale of candy bars in Dutch companies, or of Levitt (2006), who analysed the sale of bagels in US companies, and most notably to the study of Pruckner and Sausgruber (2013), who studied an honour system for selling newspapers in Austria.⁶ In all three cases, customers knew the prices of the products and could leave the indicated money in a cashbox. Also, it is likely that the service would be discontinued once payments fall below a certain threshold. One major contribution of our paper is that we, similar to Pruckner and Sausgruber (2013), exogenously manipulate the situation by leaving different messages which are intended to increase the honesty of the customer. We first replicate the messages used by Pruckner and Sausgruber (2013), Fellner, Sausgruber, and Traxler (2013) and Apesteguia, Funk, and Iriberry (2010) that aim to increase honesty by means of moral appeals and legal threats. The “legal” treatment is a message that changes the customer’s perception of legal enforcement, while the “moral” treatment is a message intended to stimulate existing moral norms. While Pruckner and Sausgruber (2013) find that moral appeals slightly increase payment by those who pay positive amounts (but do not decrease the number of cheaters) and legal threats have no effect, natural field experiments using moral and legal messages show that legal threats can have a positive effect on registering to pay broadcasting fees (Fellner, Sausgruber, and Traxler, 2013) or returning books to the library (Apesteguia, Funk, and Iriberry, 2010). The innovation of our study is that we add two more treatments that alter the context of the decision situation. While moral and legal treatments focus on “how” to increase honesty, we design two new treatments that focus on “who” is asking for honesty. The above divergent evidence on the use of moral appeals and legal threats suggests that the results may be driven by some important context information. Most importantly, it makes a difference whether the seller is a large business enterprise, as in the case of the newspapers, or a small family enterprise, such as the bagel man (Levitt, 2006) or the man who sold the candy bars (Haan and Kooreman, 2002). The results of these studies suggest that payment rates (defined as money paid over and above the sum which was due) vary between 80 and 90 per cent for small businesses and 5 per cent for larger companies. Additionally, while newspapers and flowers are private goods, returning books to a library and paying broadcasting fees refers to goods which belong to an institution or which are in the public domain.

Starting from the assumption that the framing of an experimental setting has a significant effect on behaviour (Gächter, Orzen, Renner, and Starmer, 2009; Hoffman, McCabe, and Smith, 1996), we are mainly interested in two questions, in which we formulate the following hypotheses:

⁴ The annual variable investment in one field (lease, seeds and contracted labour, not counting the family workforce) varied between €4000 and €16,000, depending on the size of the field and the varieties planted. The profit margin for a 1-ha flower field is estimated at between €4000 and €6000.

⁵ Seller and buyer do not see each other as is the case in “pay-as-you-want” restaurants and do not have to give their credit card details (including 45-pence payment charge) as in the case of the Radiohead album. There is a high degree of anonymity and the farmer’s fields are widely dispersed. The field analysed, for example, is situated approximately 20 km away from the farm. Often there is little social pressure. However, this depends on the number of customers on the field.

⁶ There are also laboratory experiments on honesty (cf. Fischbacher and Heusi, 2008 or Mazar et al., 2008). However, Levitt and List (2007) suggest that individuals’ prosocial behaviour is likely to depend on the nature and degree of others’ scrutiny, the context in which a decision is embedded and the selection of participants. According to these dimensions, our flower study can be generalized more easily than lab experiments.

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