



Work-report formats and overbilling: How unit-reporting vs. cost-reporting increases accountability and decreases overbilling[☆]



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ABSTRACT

The current paper examines how asking for a report of units of work completed versus cost of the same work can influence overbilling. We suggest that something as simple as asking for a report of units of work completed (for instance, reporting either the time spent or number of units of work completed) as opposed to the cost of the work completed can drive different unethical behaviors. We argue that unit-reporting makes providers feel accountable for their actions, and this induced accountability, in turn, impacts actual billing behaviors. We present seven studies, including a field experiment in the auto-repair industry that demonstrate the effect of different work-report formats on overbilling and provide evidence for our proposed underlying mechanism.

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1. Introduction

The media is replete with accounts of people behaving in morally reprehensible ways (e.g., [Confessore & Rashbaum, 2011](#)). Instances of accountants embezzling funds, contractors overcharging customers, lawyers overbilling clients, and doctors overprescribing drugs to patients are disturbingly frequent (e.g., [Snyder, 2010](#)). A number of behavioral field studies have shown that employing different monitoring systems can alter dishonest behavior in natural settings ([Nagin, Rebitzer, Sanders, & Taylor, 2002](#); [Pierce, Snow, & McAfee, 2015](#); [Slemrod, Blumenthal, & Christian, 2001](#)). For example, Pierce and colleagues showed that the adoption of technology-based employee monitoring system reduced theft in restaurants. However, monitoring and sanctioning systems are effective only when they are strong (i.e., when the probability of being caught is high or there are severe, negative consequences) ([Tenbrunsel & Messick, 1999](#)), and installing such surveillance systems, on average, can be very costly. Oddly, the

absence of surveillance systems may sometimes result in more compliance than having weak surveillance systems (i.e., low probability of being caught or insignificant consequences) because individuals in such situations might adopt a moral decision frame, rather than a business one ([Tenbrunsel & Messick, 1999](#)).

Here, we suggest that an implicit manipulation of monitoring such as asking for a report of units of work completed (unit-reporting) versus cost of the same work (cost-reporting) can also promote honesty by making people feel more accountable for their actions and guiding them away from self-interested patterns of behavior, such as making money by overbilling. This is in line with recent work demonstrating the subtle effects of monitoring cues on moral hazard in banks. Hertzberg and colleagues showed that a rotation policy that routinely assigns a new loan officer to borrowers every three years improves the previous officers' reporting behavior because they realize that their employer can compare their report with that issued by their successor ([Hertzberg, Liberti, & Paravisini, 2010](#)).

In many economic relationships, agents are responsible for self-reporting their performance. For instance, billing is a ubiquitous part of business; service providers, contractors, and workers routinely bill their employers for their services and as such have opportunities to overbill. Given the importance of the psychology of a situation for individuals' decisions and behaviors, any subtle cue can indeed have an effect on the likelihood to overbill through psychological mechanisms. We suggest that shifting the focus to a provider's accountability as opposed to monetary gains by simply

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asking for a report of units of work completed (for instance, reporting either the time spent or number of units of work completed) instead of the cost of the work completed could be sufficient to drive different ethical behaviors. We argue that while cost-reporting highlights the monetary aspect of a market transaction, unit-reporting makes providers feel psychologically accountable² for their actions. Therefore, overbilling may be lower in unit-reporting contexts in part because such billing format elicits subtle feelings of accountability.

2. Unethical behavior in market transactions

Client-provider billing relations are the most prominent example of interactions governed by market pricing, one of the four elementary forms of relational models – i.e., communal-sharing, authority-ranking, equality-matching and market-pricing (Fiske, 1991, 1992). In market pricing relations, people orient to ratio values in the form of input to output ratios; or said differently, rational calculations of efficiency or expected utility dominate in such relations. As is the case with most market pricing relations, the billing relations examined in this paper involve money. Scholars have suggested that money can crowd out morals and depersonalize relationships (e.g., DeVoe & Pfeffer, 2010; Giddens, 1990; Marx, 1844/1964; Simmel, 1907/1978). Indeed, research on the psychology of money suggests that when the monetary aspect of a situation is salient, individuals often become egocentric (Vohs, Mead, & Goode, 2006) and even unethical (Gino & Mogilner, 2014; Kouchaki, Smith-Crowe, Brief, & Sousa, 2013). Moreover, research has also shown that the practice of accounting for one's time with money (i.e., hourly payment) decreases volunteering (DeVoe & Pfeffer, 2010) and intergenerational resource allocation (Whillans & Dunn, 2015). In sum, research suggests that when monetary considerations dominate, we can expect egocentric or even unethical behaviors aimed at earning more money.

Market pricing relationships typically elicit a business decision frame governed by a cost-benefit analysis in which self-interest is pursued over others' interests, and moral considerations are largely absent (Fiske, 1991; Kouchaki et al., 2013; Tenbrunsel & Messick, 1999). However, it is important to note that in all of the studies cited so far, researchers compared conditions with money to a control condition wherein money was absent. For example, in the set of studies by Kouchaki and colleagues, participants exposed to money-related words or images compared to those exposed to neutral words or images were twice as likely to lie (Kouchaki et al., 2013). Likewise, DeVoe and Pfeffer (2010) found that when participants were randomly assigned to a billing time condition, they were less likely to volunteer subsequently compared to those in a non-billing condition (i.e., not involving money) because they devalued the worth of work lacking monetary compensation (DeVoe & Pfeffer, 2007).

Given that monetary transactions are an indispensable feature of modern life, there is a need for examining the effects of different work-report formats on providers' actions to minimize the undesirable aspects of market pricing relations while still permitting its use. We propose that a focus on the time spent or number of units of work completed on a task (i.e., unit-reporting) as opposed to the total amount of money earned (i.e., cost-reporting) can influence individual providers' decision to overbill or not.

There are mainly two distinct psychological processes that can have an effect on one's likelihood to overbill in unit-reporting versus cost-reporting formats. First, a focus on the time spent or

number of units of work completed on a task (i.e., unit-reporting) as opposed to the total amount of money earned (i.e., cost-reporting) can highlight a provider's accountability for one's actions as opposed to the monetary gains. When a person is being asked to report the work completed, she/he may feel that the requester is paying attention to the details of the job and how it is accomplished and thus may call for justification of one's actions. As such we can expect different levels of unethical behaviors. Second, even though past researchers have explicitly compared conditions with money primes to a control condition where money is absent (DeVoe & Pfeffer, 2010; Gino & Mogilner, 2014; Kouchaki et al., 2013), nonetheless, it is likely that a focus on the time spent or number of units of work completed on a task (i.e., unit-reporting) as opposed to the total amount of money earned (i.e., cost-reporting) can decrease the salience of the monetary aspect of a situation and thus alter overbilling behavior. Specifically, in cost-reporting condition, due to salience of money, individuals may adopt a business frame of mind (Kouchaki et al., 2013), which can increase instances of unethical behaviors, while in the unit-reporting, the connection to money is more distant and indirect, which can result in a lower likelihood to adopt a business decision frame.

Therefore, we present hypotheses regarding whether the effects of billing format on overbilling will be primarily explained by: (1) induced feelings of accountability for one's actions in the unit-reporting versus cost-reporting conditions, or (2) lower likelihood to adopt a business decision frame in the unit-reporting compared to cost-reporting. The effects of the psychology of money and in particular, self-interested and unethical behaviors in the presence of money, are well established (see Kouchaki et al., 2013; Vohs et al., 2006), so we use the subsequent section to hypothesize and elaborate on our novel proposition that unit-reporting may make providers feel psychologically accountable for their actions.

3. Accountability as a result of unit-reporting

Accountability is defined as an expectation that one may be evaluated, may be required to justify one's beliefs, feelings or actions to somebody, or that an individual's actions can be linked back to them personally (Lerner & Tetlock, 1999; Tetlock, 1992). It can range from explicit expectations that individuals need to explain their choices and actions and give reasons, to implicit feelings that one might be judged for the choices one makes or the way one behaves (Lerner & Tetlock, 1999). Importantly, accountability is most often conceptualized and studied as a perceptual state (i.e., felt accountability) rather than an objective condition (Hochwarter et al., 2007; Tetlock, 1985). When people are held accountable, that is, when they expect to have to justify their decisions and actions, motivations aimed at protecting and enhancing one's self-image (Tetlock, 1985) arise and guide people to display behaviors that are socially responsible (De Cremer & van Dijk, 2009; Jerdee & Rosen, 1974; Lerner & Tetlock, 1999). Accountability also facilitates such behavior by creating awareness of responsibilities, making social goals salient (Schlenker & Weigold, 1989).

Past research has also shown that accountability alters cognitive processes such that people engage in preemptive self-criticism (Lerner & Tetlock, 1999; Tetlock, 1983). Other research using a very direct manipulation of accountability for decision-making procedures (Lerner & Tetlock, 1999) has demonstrated that making agents accountable for their decision-making procedure by explicitly informing them that after the decision they would be asked to explain how they made the decision, leads to less self-serving investment decisions under moral hazard (Pitesa & Thau, 2013). Importantly, accountability can be a diffuse, perceptual state such

² Throughout this paper we refer to pre-decisional accountability (Lerner & Tetlock, 1999), i.e., the perception that one may be evaluated for the decisions one is about to make.

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