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by

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# See No Evil: Information Chains and Reciprocity in Teams\*

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## Abstract

We study experimentally team production when none, some, or all previous decisions are observable. Transparency has two opposing effects: early movers cooperate to encourage followers to cooperate, while early defections lead to an unraveling in cooperation in later movers. We find that an information chain is as effective in inducing cooperation as full transparency under a production technology with increasing returns to scale. In a social dilemma, information chains induce higher cooperation in early movers compared to zero transparency and in late movers compared to full transparency. Thus, information chains best balance the positive and negative effects of transparency.

*JEL Classification:* C72, C92, D21, H41, J31, M52

*Keywords:* team production, public goods, incentives, externality, information, transparency, conditional cooperation

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## I Introduction

When people make decisions sequentially in a group context, and some actions are observable, the level of transparency in the group can influence behavior in different ways.<sup>1</sup> On one hand, early movers may become more cooperative in order to encourage cooperation by those who observe them. On the other hand, non-cooperative actions by the early movers can create a snowball effect by discouraging others from cooperating.<sup>2</sup> Thus, the design of team environments aimed at facilitating cooperation should consider the optimal level of transparency while taking into account both its positive and negative effects.

In this paper, we experimentally study this question by comparing cooperation under different levels of transparency and different production technologies. We find that the highest levels of cooperation are achieved with both technologies under an information chain, by which each agent observes (and can condition on the action of) her immediate predecessor only. The magnitude and significance of the effects crucially depend on the production technology and on the position of the agent in the production chain.

Our workhorse is a production game in which agents can costly contribute to a joint project. Arguably, most economic activities are performed in a similar social context, where different agents work towards a common goal but each faces individual incentives that may be incongruent to some degree with the common objective. Thus, team performance and the way in which the tension between selfish and social objectives can be alleviated lies at the heart of economic interactions.

This general framework is consistent with two major streams of literature. First, in the labor context, production is often determined by aggregate team performance. On the one hand, individual team members have personal incentives to shirk and free ride on the effort of their peers, while on the other

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<sup>1</sup>This is also true if people can contractually condition on the actions of others rather than through direct observation.

<sup>2</sup>The opposite may apply when contributions of different agents are substitutes, for example in sequential chicken games. This is not the case in the team production environments we study in this paper.

hand, the employer provides the team members with incentives to contribute to team productivity. Accordingly, labor economists have dedicated considerable effort to studying production in a team and to ascertaining optimal ways to incentivize multiple agents to exert effort in team environments.<sup>3</sup>

Second, a similar situation arises in the case of voluntary contributions to public goods. Here too, individuals have the objective of raising contributions for the public good but have a personal incentive to defect and free ride. Numerous theoretical and experimental studies have investigated institutions and environments that facilitate contributions to public goods.<sup>4</sup> More generally, our theoretical and experimental analyses are relevant and carry potential implications to any context in which multiple agents decide whether to make a costly personal investment to improve a group outcome.

In this paper, we focus on one of the basic features of team environments, namely, transparency within the team. Most, although not all, theoretical and experimental studies of team performance deal with the simplest case of simultaneous moves. Conversely, in many realistic situations, some team members are likely to obtain information about the decisions already made by their peers. For example, a Web developer working on a Webpage is aware of the effort invested by the graphic designer in producing the designs for the Webpage and may therefore condition her effort on the quality of the designs; fundraisers often inform potential donors of the money already collected (Romano and Yildirim, 2001).<sup>5</sup> Furthermore, in many economic situations of interest the level of transparency is part of the environment features subject to control by a social planner or a principal. Examples include firm-controlled workplace architecture, fundraisers' choice of the amount and type of information to reveal publicly, or even a journal editor's choice to share previous

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<sup>3</sup>See, e.g., Che and Yoo (2001), Goerg et al. (2010), Hamilton et al. (2003), Holmstrom (1982), Lin (1997), Mohnen et al. (2008), Winter (2004, 2006).

<sup>4</sup>These include, but are not restricted to Andreoni (1988, 1990), Bergstrom et al. (1986), Cornes and Sandler (1986), Fehr and Gächter (2000), Groves and Ledyard (1977), Laffont (1987), Marx and Matthews (2000), Morgan (2000), Ostrom (1999), Varian (1994). For surveys, see Chen (2008), Ledyard (1995).

<sup>5</sup>Publishing current levels of donations is now the standard on online fundraising sites such as *www.firstgiving.com*.

reports between reviewers.<sup>6</sup> Accordingly, in this paper, we consider the case in which agents move sequentially and may observe some or all of the previous decisions.

Information about the decisions of other team members may influence an agent's decision under several different assumptions. When some agents have private information about prospective benefits, uninformed agents should rationally revise their beliefs according to the observed actions of the informed agents (Potters et al., 2007; Vesterlund, 2003). Alternatively, in the presence of social preferences, observed actions of previous movers can trigger conditional cooperation (e.g., Clark and Sefton, 2001; Levati et al., 2007) or social comparisons (Gächter, Nosenzo and Sefton, 2010a,b).

Several experimental studies have explored situations in which some players have information about the contributions of other players at the time of making a contribution. However, in all the studies of which we are aware, informed players have perfect information about all previous moves.<sup>7</sup> In contrast, the aim of our experimental investigation is to test the efficacy of partial transparency, and specifically of *information chains*, by which agents observe only the immediate history. Furthermore, we extend this test to different production technologies with the aim to study the interaction of transparency and technology. We develop a theoretical model, following that of Winter (2010), to show that partial transparency is predicted to perform as well as full transparency in inducing cooperation under increasing returns to scale. We proceed to argue that if agents are intrinsically conditional cooperators due to reciprocal preferences, similar effects might be expected even in the social dilemma (or linear public good) induced by a linear production technology. Furthermore, as early movers should be more likely to contribute because they are observed by more potential followers whereas late movers should be less likely

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<sup>6</sup>We thank an anonymous reviewer for suggesting this example.

<sup>7</sup>Theoretical studies include Hermalin (1998), Romano and Yildirim (2001), Varian (1994), Vesterlund (2003). Experimental studies include Andreoni et al. (2002), Chen and Komorita (1996), Coats and Neilson (2005), Dorsey (1992), Gächter, Nosenzo, Renner and Sefton (2010), Kurzban et al. (2001), Kurzban and Houser (2005), Levati et al. (2007), Levati and Zultan (2011).

to contribute because they observe more potential defectors, we predict that the positive effects of transparency decrease along the production chain.

Our experimental results validate the theoretical predictions under increasing returns to scale, with partial transparency resulting in high cooperation similar to that observed with full transparency. The effects of transparency are not evident in early periods, but become apparent over time as group members who play according to the equilibrium prediction prompt their partners to follow suit.

Significant conditional cooperation is also observed in the social dilemma, where the cooperation is not supported by monetary payoffs. Participants are consistently and significantly more likely to contribute if every other participant they observe has contributed. However, the magnitude of conditional cooperation is considerably lower than with increasing returns to scale, so that overall contribution levels do not differ significantly depending on the transparency level. Nonetheless, we find that both full and partial transparency have a significantly positive effect on early movers, whereas full transparency has a significantly negative effect on late movers. As a result, highest contribution levels are observed in the information chain, since it benefits from the positive effect of reciprocity on early movers, while avoiding the detrimental effect on late movers.

The rest of the paper is organised as follows. We present the theoretical arguments and the resulting hypotheses for technologies with increasing returns to scale and linearity in Sections II and III, respectively. In Section IV we develop a formal model underpinning the hypotheses drawn in the preceding sections. Sections V and VI describe the experimental design and results and Section VII concludes.

## **II Transparency with increasing returns to scale**

The interaction between transparency and technology was theoretically studied by Winter (2006, 2010), who characterized the optimal reward mechanisms that can induce effort in teams under different information structures

and different production technologies. His results show that when the production function has increasing returns to scales, i.e., the marginal effect of a single contribution increases in the number of contributions made by other agents, transparency allows these complementarities to be utilized to increase efficiency in equilibrium. Due to the complementarities, an observed contribution by one agent can incentivize the observing agents to contribute as well, thereby enhancing the incentives of the observed agent.<sup>8</sup>

However, this clear intuition is not enough to determine the efficacy of different partial-transparency environments. This question was addressed by Winter (2010), who extended the framework to allow for general information structures. Each information structure is represented by an acyclic directed graph, indicating for each pair of agents whether the contribution decision of one is observed by the other. Winter (2010) studied the mechanisms required to induce full cooperation under minimal monetary incentives to characterize under what conditions one information structure involves more transparency, and is thus more favourable for cooperation, than another.<sup>9</sup> The conclusion drawn by him is that one information structure is more transparent than another if the *closure* of the graph representing the latter is included in the closure of the graph representing the former, i.e., if every arc that exists in one also exists in the other (Winter, 2010, Proposition 4, p. 13). In other words, if agent  $i$  observes agent  $j$ , and agent  $j$  observes agent  $k$ , whether  $i$  observes  $k$  directly or not does not affect the optimal mechanism required to extract full contributions from the agents. This result is driven by the fact that the effect of the transparency is maximized when each agent benefits from contributing if and only if she does not observe any defections. In this case, when  $i$  observes  $j$  contributing, she infers that  $k$  has also contributed, otherwise contribution would have been dominated for  $j$ .

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<sup>8</sup>This may lead to paradoxical incentive reversals, as increasing the incentives of the observing agent may remove the incentives of the observed agent. See Klor et al. (2011), Winter (2009)

<sup>9</sup>The question is framed in the labor context, in which a principal determines the rewards of the agents, contingent on the team outcome. Thus, an optimal mechanism is one under which full contributions to the project are part of a weak-perfect Bayesian equilibrium, at a minimal cost to the principal.

It follows that the minimal information structure required to maximize the incentivizing effect of transparency is an *information chain*, such that the agents decide sequentially and each agent observes only the action of her immediate predecessor. In other words, *indirect* transparency can be as efficient as *direct* transparency in facilitating cooperation in teams. This premise is the starting point of our experimental investigation. We create a team production environment in which we can compare behavior under different levels of transparency. We consider three information treatments:

**No information (NI):** Agents do not observe the contribution decisions of other agents.

**Chain information (CI):** Each agent observes only the contribution decision of her immediate predecessor.

**Full information (FI):** Each agent observes the contribution decisions of all previous movers.

Treatments NI and FI are equivalent to the simultaneous and sequential protocols previously studied in the literature, respectively. We construct the environment such that, with increasing returns to scale, all agents contribute in the unique subgame-perfect equilibrium outcome of FI, whereas zero contributions consist a Nash equilibrium in NI. This environment provides the backdrop against which we study indirect transparency, as manifested in our CI treatment. Our first hypothesis addresses the basic effect of transparency while the second reflects the prediction with regard to partial transparency:

**Hypothesis 1.** *Contribution levels in FI are higher than those in NI.*

**Hypothesis 2.** *Contribution levels in CI are as high as those in FI.*

### III Transparency in a social dilemma

Hypotheses 1 and 2 crucially depend on the agents playing reciprocal strategies, such that an agent contributes if and only if everyone she observes has con-



tributed.<sup>10</sup> These strategies can be in equilibrium due to the production technology involving complementarities between the contributions of the agents. Nonetheless, it is possible that transparency may lead to cooperation even without the complementarities induced by the explicit production technology, based on intrinsic reciprocal preferences. The experimental literature provides abundant evidence that people have a preference to cooperate at a personal cost only if others cooperate as well. For example, 32.9% of the participants in the study of Fischbacher and Gächter (2010) responded to full contributions of the other group members by contributing their full endowment.<sup>11</sup>

If a sufficiently large number of agents are conditional cooperators, a contribution made by an observed agent is likely to lead to contributions by subsequent movers. Thus, the effects of transparency predicted under a production technology with increasing returns to scale are also likely to exist under a linear technology, in which there are no complementarities in material payoffs, so that all selfish money-maximizing agents have a dominant strategy to defect. Some support for this conjecture is provided by several field experiments showing that charitable contributions are increased if information about previous contributions is provided (Croson and Shang, 2008; Frey and Meier, 2004; List and Lucking-Reiley, 2002; Shang and Croson, 2009).

However, the coin of conditional cooperation has two sides. Thus far we have considered positive reciprocity, i.e., the tendency to be kind to those who are kind, either due to the explicit incentives structure or to an intrinsic propensity for conditional cooperation. The analysis of equilibria under increasing returns to scale reveals how increased transparency utilizes positive reciprocity, inducing observed agents to contribute in order to motivate their followers to contribute as well. Nonetheless, Incorporating an intrinsic preference for reciprocity suggests an additional opposite effect of negative

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<sup>10</sup>We distinguish between *reciprocal preferences* and *reciprocal strategies*. The latter do not necessarily reflect the former, as in our equilibrium analysis under increasing returns to scale.

<sup>11</sup>See also Ashley et al. (2010), Brandts and Schram (2001), Fischbacher et al. (2001), Guttman (1986), Keser and Van Winden (2000), Kurzban and Houser (2005), Levati and Neugebauer (2004), Levati and Zultan (2011). Gächter (2007) provides a recent review.

reciprocity, namely, late movers who would have contributed in the absence of information about their predecessors' decisions may withhold contributions once observing defection. Accordingly, we hypothesize that both positive and negative reciprocity play a role in contribution decisions and have an increasing effect as transparency increases. Furthermore, the effect of positive reciprocity diminishes along the production chain, as later movers are observed by fewer agents and therefore have a decreasing incentive to motivate future movers. Conversely, the effect of negative reciprocity is enhanced along the production chain, as later movers have a higher probability of observing defection. Our third hypothesis reflects this effect:

**Hypothesis 3.** *The propensity to contribute is affected by an interaction of the transparency level and the position in the production chain. Agents who move early in the production chain are more likely to contribute as transparency increases from NI to CI and FI, whereas this effect is reversed for agents who move late in the production chain.*

#### IV Model

A team consists of a set  $N$  of  $n$  agents who contribute to a joint project. Each agent  $i$  decides whether to contribute to the project ( $s_i = 1$ ) or to defect from contributing ( $s_i = 0$ ). Contributing agents pay a personal cost  $C$ , which is fixed and equal for all agents. The outcome of the project is given by a production technology  $p(k) \in \mathbb{R}$ , where  $k = \sum_{j \in N} s_j$  is the number of contributing agents, and  $p$  is increasing in  $k$ . The benefit that agent  $i$  receives from the project depends on a commonly-known individual benefit factor  $b_i$ . The overall payoff for  $i$  is therefore:

$$\pi_i = p(k)b_i - s_i C$$

The set of agents that an agent  $i$  observes is denoted  $K_i$ . Therefore, the information available to agent  $i$  is  $I_i = \{s_j, j \in K_i\}$ . The strategy of agent  $i$  is a function  $s_i : 2^{|K_i|} \rightarrow \{0, 1\}$ , indicating whether  $i$  contributes or defects

as a function of the information she observes, i.e., the contribution decisions of all agents in  $K_i$ . The three information structures given above can now be defined thus:

NI:  $K_i = \emptyset$  for all  $i \in N$

CI:  $K_i = \{i - 1\}$  for all  $i \in N$

FI:  $K_i = \{1, 2, \dots, i - 1\}$  for all  $i \in N$

### *A Equilibrium with increasing returns to scale*

A technology with increasing returns to scale is characterized by  $p(k + 1) - p(k) > p(k) - p(k - 1)$  for all  $k$ . For such a technology, the vector of benefit factors  $b$  can be constructed such that all agents contribute in the unique subgame-perfect equilibrium of the game corresponding to FI, whereas mutual defection can be sustained in a Nash equilibrium of the game induced by NI. More specifically, the equilibrium strategy of each agent in FI is to contribute if and only if she observes full contribution. We achieve this by imposing two conditions on  $b$ :

$$(1) \quad b_i \geq \frac{C}{p(n) - p(i - 1)} \quad \forall i \in N$$

$$(2) \quad b_i < \frac{C}{p(n - 1) - p(0)} \quad \forall i \in N$$

Condition (1) ensures that each agent has the monetary incentive to contribute if by that she increases the number of contributing agents from the full set of her predecessors to the full set  $N$ . Condition (2) is sufficient to guarantee that no agent can increase her payoff by contributing if at least one other agent did not or will not contribute.

**Proposition 1.** *Conditions (1) and (2) guarantee that all agents contribute in the unique subgame-perfect equilibrium of FI if and only if they observe full contributions.*

*Proof.* To show that any defection of a single agent suffices to guarantee that all other agents strictly reduce their payoff by contributing, write  $k$  for the number of agents other than  $i$  that contribute if  $i$  contributes. Thus, if  $i$  contributes, she obtains  $b_i p(k+1) - C$ . Because  $p(\cdot)$  is increasing,  $i$  obtains by defecting at least  $b_i p(0)$ . The change in payoff from defection to contribution is therefore smaller than  $b_i [p(k+1) - p(0)] - C$ , which, by Condition (2), is negative as long as  $k < n - 1$ .

It follows directly that, in equilibrium, any defection by an agent in  $K_i$  leads to a defection by  $i$ . It remains to be shown that the converse is also true, i.e., if all agents in  $K_i$  contribute,  $i$  contributes as well in equilibrium. First, note that in FI,  $i \in K_j$  for all  $j > i$ , implying that by defecting  $i$  leads all agents  $j$  to defect as well, thus obtaining a payoff of  $b_i p(i-1)$ . Conversely, if  $i$  contributes, all agents  $j$  will also contribute. This can be shown by backward induction. Assuming that all agents  $j$  contribute when observing full contributions,  $i$  increases her payoff by  $[b_i p(n) - C] - [b_i p(i-1)]$  by contributing, which is non-negative by Condition (1). Condition (1) also implies that the assumption holds for agent  $n$ , hereby completing the backward induction proof. *End of proof.*

As in Winter (2010), Conditions (1) and (2) also ensure that full contribution is a sequential equilibrium in CI.<sup>12</sup> However, there also exist sequential equilibria in which none of the agents contributes. For example, when  $s_i = 0$  for all  $i$  and all  $I_i$ , i.e., all agents defect regardless of their information. The difference between FI and CI is rooted in the beliefs of an agent who observes her immediate predecessor contributing. In the equilibrium of FI, she directly observes that all previous movers have also contributed, whereas in CI she can only deduce this from the observed contribution. When the sequential equilibrium in which all agents defect is considered, it is sequentially rational for the agent to keep her prior belief that unobserved agents have defected and attribute the observed contribution to a tremble.

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<sup>12</sup>Winter (2010) considered weak implementation of perfect Bayesian equilibria, although the result easily extends to sequential equilibria. Proposition 2 below can be extended to prove a full-implementation result.

Nonetheless, in the environment we consider, which corresponds to the optimal mechanism of Winter (2010), we can obtain a stronger result if we impose a weak constraint on rational beliefs:

**Proposition 2.** *Conditions (1) and (2) guarantee that all agents contribute in the unique sequential equilibrium of CI that satisfies the requirement that all assessments attribute zero probability to all strictly dominated strategies.*<sup>13</sup>

*Proof.* As shown in the proof to Proposition 1, it is strictly dominated for an agent to contribute if she observes a defection. Therefore, if agent  $i$  observes agent  $i - 1$  contributing, she cannot rationally believe that any agent in  $K_{i-1}$  has defected. Applying this argument recursively, we find that  $i$  believes that all previous movers have contributed. Now the backward induction can be applied as in the proof to Proposition 1. *End of proof.*

In the unique equilibria of FI and CI described in propositions 1 and 2, zero contributions are ruled out as an equilibrium essentially by the decision of the first mover to contribute, thus triggering a chain of contributions by all agents. Conversely, in NI the lack of information flow between agents does not allow to exclude the equilibrium in which none of the agent contribute.<sup>14</sup>

### *B Equilibrium with linear technology*

A linear production technology  $p(k)$  is defined as one in which the marginal contribution  $d = p(k + 1) - p(k)$  is fixed for any  $k$ . It follows that a selfish money-maximizing agent contributes iff  $b_i \geq C/d$ . Since both  $C$  and  $d$  are exogenous, each such agent has a dominant strategy either to contribute or to defect. In other words, the actions of the other agents do not affect the

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<sup>13</sup>This requirement was raised by Kreps and Wilson (1982, Section 8) in their paper that introduced the notion of sequential equilibria. It is implied by many refinements of sequential equilibria such as justifiable equilibrium (McLennan, 1985), intuitive criterion (Cho and Kreps, 1987), perfect sequential equilibrium (Grossman and Perry, 1986), and stable set (Kohlberg and Mertens, 1986).

<sup>14</sup>There is still an equilibrium in which all agents contribute. Goerg et al. (2010) have shown that the existence of a Pareto- and risk-dominated equilibrium in which no agent contributes is enough to significantly harm coordination and reduce contribution levels.

monetary incentives of an agent, and thus the equilibrium analysis is not affected by the information agents acquire about the decisions made by previous movers. More specifically, if  $b_i < C/d$  for all  $i \in N$  and  $\sum_{i \in N}(b_i d) > C$ , the game is a social dilemma, in which all agents have a dominant strategy to defect, but the outcome of full contributions Pareto-dominate the outcome of zero contributions.

Now consider behavior when agents have an intrinsic tendency for reciprocity. We choose to model reciprocity tendencies in line with the principle of *concern withdrawal* (Charness and Rabin, 2002). The model is designed to capture the following principles: (a) agents are willing to pay some monetary cost in order to benefit their group; (b) some agents are more intrinsically cooperative than others; and (c) this preference for cooperation is withdrawn if the other members of the group (are known to have) misbehaved.<sup>15</sup>

For analytical simplicity, we incorporate reciprocal preferences into our model by assuming that the cost of contribution for agent  $i$  who did not observe any defection is  $C - \theta_i$ , where  $\theta_i \in \mathbb{R}_+$  is the individual psychological reduction in the cost of cooperation and is distributed in the population according to a continuous and differentiable cumulative distribution  $F$  with positive density everywhere. On the other hand, if agent  $i$  did observe defection, she withdraws her concern for the group and maximizes her monetary payoff. This assumption allows us to draw several conclusions, the first of which is reflected in Proposition 3:

**Proposition 3.** *The probability of contribution in NI under a linear technology and with reciprocal preferences is given by  $1 - F(C - b_i a)$ .*

See the appendix for the proof. Note that contributions are increasing in the benefit factor  $b_i$ . The effect of transparency can now be characterized thus:

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<sup>15</sup>More general models of reciprocity in extensive games were developed by, e.g., Dufwenberg and Kirchsteiger (2004) and Falk and Fischbacher (2006). However even these formidable efforts are unable to analyze a game with imperfect information across stages, as in our CI treatment. Developing a general model is thus beyond the scope of the current study.

**Proposition 4.** *With reciprocal preferences, expected contributions in FI and CI are higher than NI for first movers and vice versa for last movers.*

We defer the detailed proof to the appendix. However, the intuition is straightforward. According to the principle of concern withdrawal, agents in FI and CI who observe defection never contribute while those who do observe defection are as likely to contribute as their counterparts in NI. Thus, the positive effect of transparency is mediated by the implicit threat of future movers to reciprocate defection with defection. This threat diminishes along the production chain, and is non-existent for the very last mover. The negative effect of reciprocity is given by the probability of an agent observing defection, which is non-existent for the first mover and increases along the production chain. In other words, with increased transparency, a first mover only faces increased incentives due to (anticipation of) positive reciprocity whereas a last mover only faces diminished incentives due to negative reciprocity. In general, the negative effect of reciprocity increases along the production chain whereas the positive effect decreases, although the latter is subject to restrictions on individual differences in the benefit factor  $b_i$ .

We see that reciprocal preferences alter the equilibrium analysis under a linear technology. To complete the picture, note that the analysis of FI and CI with increasing returns to scale remains unchanged. Condition (1) still holds for agents who do not observe defection when  $C$  is replaced with  $C - \theta_i < C$ . Condition (2), in turn, trivially holds for agents who observe defection. Proposition 1 therefore remains valid with reciprocal preferences.

## V Experimental design and procedure

Participants in the experiment interacted in groups of four in a repeated form of the team production game outlined in Section IV. To test our hypotheses regarding the interplay of information and production technology in a team setting, we manipulated the production technology and the level of transparency to create a 3x2 between-subject design. The three transparency treatments reflect the three information structures NI, CI and FI, whereas the two produc-

TABLE 1  
PRODUCTION TECHNOLOGIES

Production technology	# of contributors				
	$k = 0$	$k = 1$	$k = 2$	$k = 3$	$k = 4$
<b>IRS</b>	180	190	220	310	500
<b>LIN</b>	180	260	340	420	500

tion technology treatments are designed to be either with increasing returns to scale (**IRS**) or linear (**LIN**). The experimental technologies are presented in Table 1.

As can be seen in the Table, the output in both treatments is increasing in the number of contributors, with  $p(0) = 180$  and  $p(4) = 500$ . The intermediate values vary with the treatment, with the return from a single contribution increasing from 10 to 190 in IRS, compared to LIN, in which the return from each single contribution is fixed at 80.

The cost of contribution was fixed in all treatments to be  $C = 650$ . In accordance with Conditions (1) and (2), the benefit factor was fixed at  $b_i = 4$  for the first and second movers, and at  $b_i = 5$  for the third and fourth movers.<sup>16</sup> Therefore, the monetary incentives in the LIN technology constitute a social dilemma: every agent loses money by contributing, whereas her payoff is higher if all four agents contribute compared to the equilibrium outcome (cf. Section B). The six treatments and the pure equilibria for selfish money-maximizing agents described in Section IV are summarized in Table 2.

The sessions were conducted in June 2010 at the computerized Max Planck Experimental Laboratory in Jena. Each session was composed of 32 participants interacting in 8 groups, all in the same treatment. For each of the six treatments we ran two sessions, i.e. 12 sessions + 1 pilot with 400 participants in total. The participants were students at the Friedrich Schiller University of Jena. The experiment was programmed using z-Tree (Fischbacher, 2007),

<sup>16</sup>The mean marginal per-capita return (MPCR) is therefore approximately 0.55.



TABLE 2  
EQUILIBRIA IN THE DIFFERENT TREATMENTS

	IRS	LIN
<b>NI</b>	(0,0,0,0),(1,1,1,1)	(0,0,0,0)
<b>CI</b>	(1,1,1,1)	(0,0,0,0)
<b>FI</b>	(1,1,1,1)	(0,0,0,0)

Note: 0=defect, 1=contribute.

and the invitation of participants was managed using ORSEE (Greiner, 2004), which guaranteed that no subject participated in more than one session. Experimental earnings were specified in Experimental Currency Units (ECU), which were converted to euros at the end of the experiment at a conversion rate of 150 ECU = 1€. Final payoffs ranged from 5€ to 18€, with an average of 11.73€ per participant.

At the beginning of the experiment, participants read the instructions in private, after which the instructions were read out aloud to ensure common knowledge, and additional questions were answered privately. Participants were not aware of the existence of other technology and information treatments.<sup>17</sup> Once all participants had indicated that they understood the instructions, a practice phase commenced, in which participants were given the opportunity to simulate the experiment by playing in all four roles repeatedly.

At the beginning of the experimental phase, participants were randomly assigned into groups of four. Each group interacted over twelve periods in a partners design. At the beginning of each period, the participants in the group were (re)assigned to roles, determining the order of moves within the period (denoted by the letters *A, B, C, D*).<sup>18</sup> Each participant, in her turn, received information about previous moves within the period according to the

<sup>17</sup>We used a labor framing following Goerg et al. (2010). A translation of the German instructions is provided in the appendix.

<sup>18</sup>To keep the procedure consistent, we employed the same sequential protocol in all treatments, including NI, which is equivalent to a simultaneous-moves game.

experimental treatment (NI, CI or FI) and decided whether to contribute or not. An on-screen calculator was provided to help the participants work out possible payoffs for different decisions (see screenshot in the appendix). Next, the participants were asked to state their expectations about the decisions of the other group members, excluding those they were informed about. Finally, the participants were informed about the number of contributors in their group and of their own period earnings.

At the end of the experiment, one period was randomly selected for payoff. An additional 150 ECU were awarded for a correct expectation, randomly chosen from the expectations made in the non-payoff periods. Before leaving the lab participants were asked to fill out a short questionnaire and were paid out individually and privately.

## VI Results

We start our analysis by looking at the effects of transparency on contribution levels in the two technology treatments, at the individual and group levels and by roles. We proceed by analysing the strategies employed by our participants, specifically the existence of conditional cooperative strategies under partial and full transparency in the two technology treatments. Finally, we look at whether beliefs about past moves in the CI treatment are updated according to belief in conditional cooperation of the intermediate players.

### *A Contribution levels*

The average contribution levels by information treatment and period are shown in Figure 1. First, let us focus on the top panel, representing the IRS treatments. We see that, contrary to the equilibrium prediction, contribution levels start out highest in the NI treatment, with FI performing considerably worse than the other two treatments. Nonetheless, there is considerable increase in contributions in the two information treatments accompanied by a sharp decrease in the baseline NI treatment. By the sixth period, contribution levels stabilize with, on average, around three out of four contributors in CI and FI

and under two out of four contributors in NI.

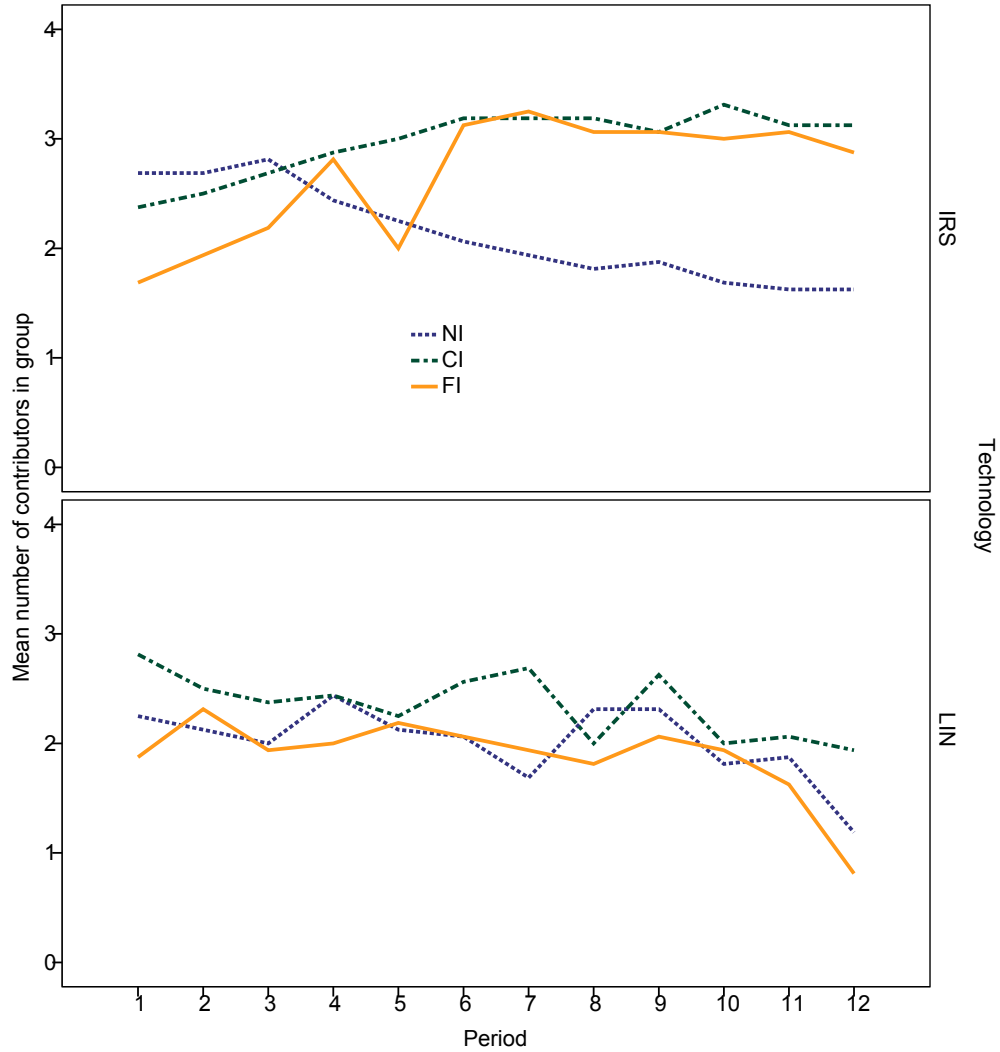


FIGURE 1  
MEAN CONTRIBUTIONS

The average contribution levels in the IRS treatment are presented on the left-hand side of Table 3 for the entire experiment as well as for blocks of 6 periods and for the very last period. Non-parametric tests confirm the pattern evident in Figure 1. Although overall contribution levels do not differ

TABLE 3  
MEAN CONTRIBUTION LEVELS

	IRS			LIN		
	NI	CI	FI	NI	CI	FI
All periods	0.53 (0.09)	0.74 (0.07)	0.67 (0.07)	0.50 (0.05)	0.59 (0.05)	0.47 (0.05)
Periods 1-6	0.62 (0.08)	0.69 (0.07)	0.57 (0.07)	0.54 (0.05)	0.62 (0.06)	0.52 (0.05)
Periods 7-12	0.44 (0.11)	0.79** (0.08)	0.76* (0.09)	0.47 (0.05)	0.55 (0.06)	0.42 (0.06)
Last period	0.41 (0.11)	0.78** (0.10)	0.72* (0.11)	0.30 (0.05)	0.48† (0.09)	0.20 (0.06)

*Note:* Standard errors in parentheses.

\*,\*\* denote significant difference from NI at the 10 and 5 percent levels, respectively, two-sided Mann-Whitney test.

† Mean contributions in the last period are significantly higher in CI than in FI at the 5 percent level, two-sided Mann-Whitney test..

between information treatments, they are significantly higher than NI in both other treatments for the second half of the experiment. This pattern is also confirmed in the mixed-effects probit regression shown in column (1) of Table 4. Contributions significantly decline in NI and significantly increase in CI ( $\beta = 0.090$ ,  $SE = 0.018$ ,  $p < 0.001$ ) and in FI ( $\beta = 0.124$ ,  $SE = 0.017$ ,  $p < 0.001$ ).<sup>19</sup> The mean contribution observed in FI in the first period is significantly lower than that observed in NI ( $\beta = 1.315$ ,  $SE = 0.529$ ,  $p = 0.013$ ) but not than that in CI ( $\beta = 0.702$ ,  $SE = 0.527$ ,  $p = 0.183$ ). The difference between the two other treatments is also not significant ( $\beta = 0.613$ ,  $SE = 0.533$ ,  $p = 0.250$ ). We attribute this adverse effect of full transparency as evidence for the immediate effect of negative reciprocity. Conversely, the positive effects of reciprocity require of the first movers to apply high-level strategic thinking and belief in the rationality of their followers, and therefore these effect become evident only after a learning period.

<sup>19</sup>All coefficients reported in the text are based on a test on the corresponding linear combinations of coefficients estimated following the regressions reported in the tables.

**Observation 1.** *Contributions under increasing returns to scale converge towards the equilibrium predictions with time. Full transparency leads to lower contribution rates at the beginning of the experiment, but increase with time, while contribution rates under zero transparency decrease. Partial transparency performs at least as well as full transparency.*

Thus, our Hypotheses 1 and 2 are validated by the data. Columns (3) and (4) in Table 4 apply a similar analysis on the group level to reveal the dynamics behind the effects. As is evident in the top panels of Figure 2, the proportion of groups that achieve full cooperation in the first period is similar in all information treatments. In NI, this proportion remains stable throughout the experiment, and, in fact, from period 5 onwards there is no change in the identity of the fully cooperative groups. Thus, groups that, by chance, consist of cooperative individuals manage to maintain cooperation over time. The decline in average contributions in this treatment is due to the increase in the proportion of groups in which no member contributes. The existence of free riders in a group leads early contributors to defect in later periods.

Conversely, in the two information treatments, it is the free riders in the mixed groups that learn to cooperate, in line with the equilibrium prediction, so that groups that start out with heterogeneous contributions become fully cooperative within a few periods. Thus, when free riders and cooperative types find themselves in the same group, each type pulls in its direction, and the one type backed by the monetary incentives triumphs. Moreover, some of the groups that started out with zero contributions in FI learn to overcome the initial hurdle, as observed in the decrease in proportion of zero-contribution groups in this treatment ( $\beta = -0.074$ ,  $SE = 0.036$ ,  $p=0.037$ ). This proportion is stable in CI ( $\beta = 0.004$ ,  $SE = 0.040$ ,  $p=0.921$ ).

**Observation 2.** *Under increasing returns to scale, fully cooperative groups tend to stay cooperative over time regardless of the information structure. The decrease in contributions when actions are not observed, and the increase in contributions with partial and full transparency, are mainly due to groups with heterogeneous contributions in the first period learning to converge to the equilibrium.*

TABLE 4  
CONTRIBUTION DECISIONS

	IRS				LIN			
	(1) Individual contribution	(2) Individual contribution	(3) Group full contribution	(4) Group zero contribution	(5) Individual contribution	(6) Individual contribution	(7) Group full contribution	(8) Group zero contribution
Period <sup>a</sup>	-0.136 <sup>***</sup> (0.018)	-0.140 <sup>***</sup> (0.019)	-0.002 (0.053)	0.312 <sup>***</sup> (0.063)	-0.039 <sup>***</sup> (0.014)	-0.042 <sup>***</sup> (0.014)	-0.057 (0.042)	0.052 (0.043)
CI	2.090 <sup>***</sup> (0.533)		3.658 <sup>***</sup> (1.120)	-1.842 <sup>***</sup> (0.636)	0.243 (0.228)		0.493 (0.525)	0.344 (0.429)
FI	1.797 <sup>**</sup> (0.527)		3.255 <sup>***</sup> (1.087)	-1.822 <sup>***</sup> (0.615)	-0.147 (0.229)		0.039 (0.552)	0.795 <sup>*</sup> (0.411)
Period <sup>a</sup> x CI	0.225 <sup>***</sup> (0.026)	0.233 <sup>***</sup> (0.026)	0.229 <sup>***</sup> (0.072)	-0.308 <sup>***</sup> (0.074)	-0.000 (0.020)	0.003 (0.020)	-0.019 (0.054)	0.042 (0.060)
Period <sup>a</sup> x FI	0.259 <sup>***</sup> (0.025)	0.266 <sup>***</sup> (0.026)	0.238 <sup>***</sup> (0.069)	-0.386 <sup>***</sup> (0.073)	-0.008 (0.020)	-0.009 (0.020)	-0.011 (0.058)	0.005 (0.053)
Second mover		-0.043 (0.176)				0.015 (0.138)		
Third mover		0.466 <sup>**</sup> (0.176)				0.729 <sup>***</sup> (0.139)		
Fourth mover		0.477 <sup>**</sup> (0.175)				0.479 <sup>***</sup> (0.136)		
<b>CI x</b>								
First mover		2.667 <sup>***</sup> (0.572)				0.724 <sup>***</sup> (0.267)		
Second mover		2.510 <sup>***</sup> (0.570)				0.651 <sup>**</sup> (0.267)		
Third mover		1.819 <sup>***</sup> (0.567)				-0.053 (0.265)		
Fourth mover		1.600 <sup>***</sup> (0.564)				-0.258 (0.264)		
<b>FI x</b>								
First mover		2.310 <sup>***</sup> (0.563)				0.557 <sup>**</sup> (0.268)		
Second mover		2.134 <sup>***</sup> (0.562)				0.416 (0.268)		
Third mover		1.487 <sup>***</sup> (0.559)				-0.691 <sup>***</sup> (0.267)		
Fourth mover		1.384 <sup>***</sup> (0.558)				-0.913 <sup>***</sup> (0.270)		
Constant	-0.387 (0.373)	-0.626 (0.399)	-1.753 <sup>**</sup> (0.792)	0.083 (0.439)	-0.206 (0.161)	-0.529 <sup>***</sup> (0.189)	-1.983 <sup>***</sup> (0.411)	-1.384 <sup>***</sup> (0.324)
Observations	2304	2304	576	576	2304	2304	576	576

Notes: Probit regressions with random effects for groups. Standard errors in parentheses.

<sup>a</sup> The last period is taken as the baseline.

\*\*\*, \*\*, \* denote significance at the 10, 5 and 1 percent levels, respectively.

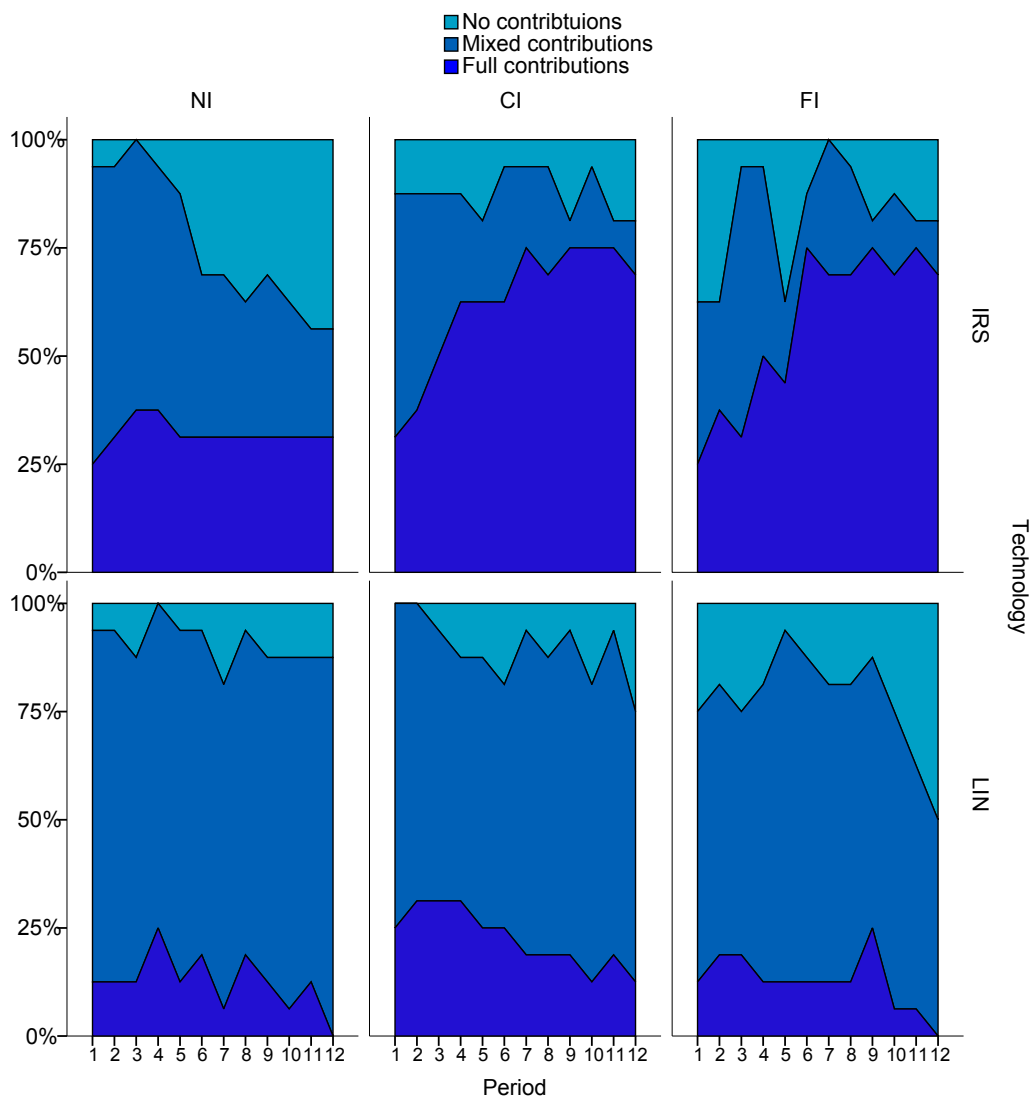


FIGURE 2  
GROUP COMPOSITION

Compared with the strong effects of information observed in the IRS treatments, no significant effect of the information treatments on overall contributions is found in LIN, as can be seen in the bottom panel of Figure 1, the right-hand side of Table 3, and columns (5), (7) and (8) in Table 4. However, there is a weakly significant tendency for more zero-cooperation in groups

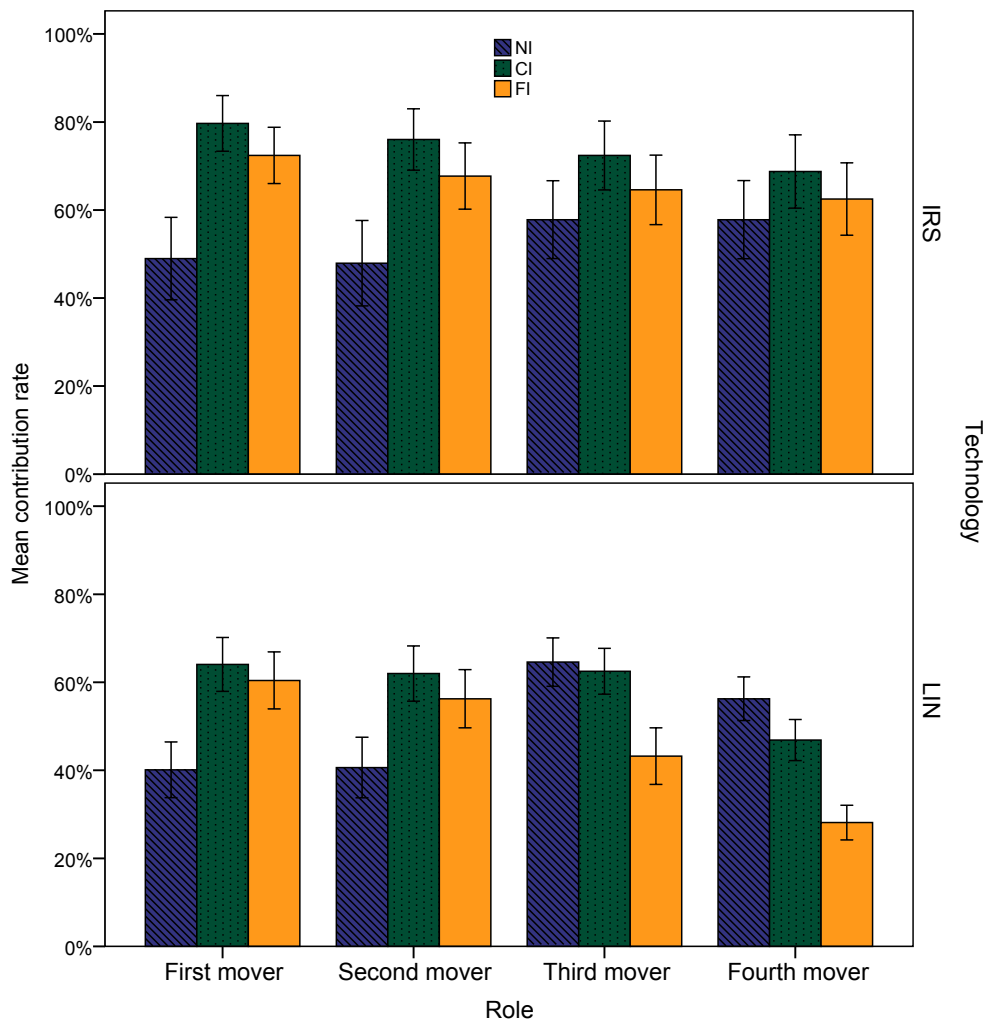


FIGURE 3  
CONTRIBUTIONS BY ROLE

when the full history is observed within the period. A weak but significant negative time effect is evident in all information treatments, with a sharp decrease in contributions in NI and FI, which is not evident under CI (although the difference in the last period is significant only when comparing FI and CI). Nonetheless, an analysis of the contribution decisions made by the participants when playing in the different roles reveals significant patterns that differ ac-



ording to the information structure in line with the predictions based on the assumption of reciprocal preferences.

Mean contribution rates by role for all treatments are presented in Figure 3. In line with our Hypothesis 4, the positive effects of transparency in the LIN treatments diminish along the production chain, becoming negative for the late movers. The regression in columns (6) in Table 4 bears out this effect. Moreover, a similar trend is observed in column (2), corresponding to the IRS technology. First, note that the last two movers, who have a higher benefit factor than the first two, are more likely to contribute, in line with the prediction derived from the assumption of reciprocal preferences (Propositions 3 and ??). Second, and of greater interest, are the effects of the two information treatments by the different roles. In IRS, all coefficients are positive and highly significant, indicating that participants are more likely to contribute under both partial and full transparency.<sup>20</sup> However, the coefficients decrease in value along the production chain, with the difference in coefficients between the second and third movers being significant ( $\beta = -0.691$ ,  $SE = 0.251$ ,  $p = 0.006$  in CI;  $\beta = -0.647$ ,  $SE = 0.241$ ,  $p = 0.007$ ;  $p \geq 0.372$  for all other comparisons between two consecutive roles).

Moving to the LIN treatment presented in column (6) in Table 4, the contributions levels of the two late movers do not differ significantly between NI and CI and are significantly *lower* in FI. The difference between FI and CI is also significant ( $\beta = 0.637$ ,  $SE = 0.267$ ,  $p = 0.017$  for the third mover;  $\beta = 0.654$ ,  $SE = 0.279$ ,  $p = 0.015$  for the fourth mover). We conclude that for early movers, CI significantly outperforms NI while not doing worse than FI. For late movers, on the other hand, CI outperforms FI, while not doing significantly worse than NI.<sup>21</sup> Thus, we not only find support for Hypothesis 3, the

<sup>20</sup>Column (2) in Table 4. Note that the coefficients relate to the effects at the end of the experiment. Non-parametric tests for group averages over all periods yield significant results only for the comparison of NI and CI for the first and second movers ( $p = 0.019$  and  $p = 0.053$ , respectively, two-sided Mann-Whitney test).

<sup>21</sup>This conclusion is fully supported by non-parametric two-sided Mann-Whitney tests for the group averages over all periods presented in Figure 3. For the first two movers, CI leads to contribution rates higher than NI ( $p = 0.021$  and  $p = 0.039$ , respectively) but not significantly different from those under FI ( $p = 0.776$  and  $p = 0.544$ , respectively). For the

data reveal a similar effect in IRS and, most importantly, an advantage of CI over FI. Unlike in FI, the detrimental effects of a single defection in CI can be overturned by an agent who wishes to establish cooperation with her followers by contributing, even if she believes they would withhold contributions after observing a single defection.

**Observation 3.** *Positive reciprocity due to increased transparency mostly affects early movers, whereas negative reciprocity mainly affects late movers. With increasing returns to scale, where the effects of positive reciprocity are backed by the monetary incentives, they outweigh the effects of negative reciprocity. In the social dilemma, however, contributions of late movers suffer from too much transparency. Partial transparency thus provides the best environment for cooperation, benefiting from the positive effects of transparency, while avoiding the detrimental effects of negative reciprocity.*

### *B Reciprocal strategies*

Cooperation with partial and full transparency is sustained by reciprocal strategies, i.e., all agents contribute if and only if everyone they observe has contributed. In IRS, these strategies are supported by the monetary incentives as the equilibrium strategies. In LIN, however, such reciprocal *strategies* should exist only due to reciprocal *preferences*. The regression models presented in Table 5 study the effect of observed cooperation on contributions. We find that, in LIN, participants are significantly more likely to contribute if they observe contribution. These findings support the hypothesis that (some of) our participants are intrinsically conditional cooperators, i.e., have reciprocal preferences. The effect over observed full cooperation is stable over time.

Conditional cooperation is markedly enhanced in IRS, where it is dictated by the monetary incentive structure. Furthermore, the effect of the technology slightly increases over time, as participants gain experience with this

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third and fourth movers, contributions under CI are significantly higher than those under FI ( $p = 0.035$  and  $p = 0.006$ , respectively) but not significantly different from those under NI ( $p = 0.834$  and  $p = 0.303$ , respectively).

structure.<sup>22</sup>

**Observation 4.** *Reciprocal strategies are evident even in the social dilemma but are considerably stronger when supported by the monetary incentives.*

TABLE 5  
CONDITIONAL COOPERATION

	CI	FI
Period <sup>a</sup>	-0.036 (0.027)	-0.079 <sup>***</sup> (0.022)
IRS	-0.454 (0.453)	-0.133 (0.358)
Period <sup>a</sup> x IRS	0.012 (0.053)	0.068 <sup>*</sup> (0.041)
Observing full contributions	0.824 <sup>***</sup> (0.223)	1.109 <sup>***</sup> (0.235)
Observing full contributions x IRS	2.126 <sup>***</sup> (0.485)	2.163 <sup>***</sup> (0.459)
Observing full contributions x Period <sup>a</sup>	0.002 (0.034)	0.049 (0.034)
Observing full contributions x IRS x Period <sup>a</sup>	0.119 <sup>*</sup> (0.064)	0.122 <sup>**</sup> (0.061)
Constant	-0.502 <sup>**</sup> (0.208)	-1.045 <sup>***</sup> (0.190)
Observations	1152	1152

*Notes:* Probit regressions with random effects for groups. Standard errors in parentheses.

<sup>a</sup> The last period is taken as the baseline.

\*, \*\*, \*\*\* denote significance at the 10, 5 and 1 percent levels, respectively.

<sup>22</sup>The effect of time may be underestimated, as in the second part of the experiment most groups become homogeneous, so that their members either only observe cooperation or only observe defection, leaving no room for conditional cooperation to manifest itself.

TABLE 6  
BELIEFS ABOUT UNOBSERVED PREVIOUS MOVERS IN CI

	Third mover's belief about	Fourth mover's belief about	
	First mover	First mover	Second mover
Period <sup>a</sup>	0.017 (0.053)	-0.053 (0.049)	0.048 (0.054)
IRS	-2.605 (1.668)	-0.770 (0.669)	-1.254 (0.823)
Observing contribution	1.879*** (0.453)	0.909** (0.396)	1.767*** (0.454)
Observing contribution x Period <sup>a</sup>	0.017 (0.070)	0.089 (0.062)	-0.059 (0.072)
IRS x Period <sup>a</sup>	-0.257 (0.181)	0.049 (0.086)	-0.064 (0.105)
Observing contribution x IRS	3.567** (1.739)	1.669** (0.776)	2.032** (0.959)
Observing contribution x IRS x Period <sup>a</sup>	0.312 (0.195)	-0.075 (0.109)	0.142 (0.130)
Constant	-0.647* (0.354)	-0.178 (0.324)	-0.420 (0.341)
Observations	384	384	384

Notes: Probit regressions with random effects for groups. Standard errors in parentheses.

<sup>a</sup> The last period is taken as the baseline.

\*, \*\*, \*\*\* denote significance at the 10, 5 and 1 percent levels, respectively.

### C Beliefs about unobserved previous movers

The theoretical analysis in Section IV predicts that an information chain is as efficient as full transparency in facilitating cooperation in our setup. The crux of this result is that a contribution made by the immediate predecessor signals full contributions in the past. To test whether our participants indeed made this inference, we look at the effect of observed contributions on beliefs about

previous movers in CI.<sup>23</sup> The results of regressions by the role of the observing and unobserved agents are presented in Table 6. We see that late movers are indeed more likely to believe that the early movers have contributed, if the observed intermediate agent has contributed, indicating a belief in reciprocal strategies of others. This effect is significant in LIN but is considerably enhanced in IRS, where reciprocal strategies are expected in equilibrium.<sup>24</sup> Thus, our final observation mirrors the previous observation:

**Observation 5.** *Beliefs in reciprocal strategies are evident, even in the social dilemma but are considerably stronger when supported by the monetary incentives.*

## VII Conclusion

This paper studies information chains in teams and their effect on individual and group performance. We analyze an environment designed to be conducive to cooperation under full transparency and increasing returns to scale and show theoretically that this environment is also predicted to induce cooperation in the unique equilibrium that emerges under an information chain, conditional on a weak epistemic requirement that agents (are commonly known to) strongly believe that others never play dominated strategies.

We designed an experiment to test this insight and extended the experimental investigation to test the effects of the information chain in a comparable social dilemma. The results support the theoretical predictions, as cooperation in the information chain is weakly higher than in the full-transparency environment. We find that the effects of transparency emerge quickly over time, as agents learn to trust their peers to understand the incentive structure.

Behavior and beliefs in the social dilemma exhibit reciprocal strategies, which have the potential to lead to higher contributions as transparency increases. However, when intrinsic reciprocal preferences are not complemented

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<sup>23</sup>A graphical summary of the accuracy of all of the elicited beliefs across treatments and roles is provided in the appendix.

<sup>24</sup>Note, however, that reciprocal strategies and belief therein is manifested only if the observed mover sometimes plays *out of equilibrium*.

by the monetary incentives, we do not observe the sharp effect found under increasing returns to scale. An analysis of behavior along the production chain reveals the conflicting effects of transparency-induced reciprocity. Transparency is found to have significant positive effects on agents who are mainly observed, but negative effects on agents who mainly observe others.<sup>25</sup>

The importance of transparency for incentivizing agents in teams has been acknowledged in the theoretical literature (e.g. Andreoni and Samuelson, 2006; Che and Yoo, 2001; Marx and Matthews, 2000; Mohnen et al., 2008; Varian, 1994) and studied both in the field (e.g., Falk and Ichino, 2006; Heywood and Jirjahn, 2004) and in the lab (e.g., Clark and Sefton, 2001; Gächter, Nosenzo, Renner and Sefton, 2010; Nosenzo and Sefton, in press). The above studies focused on full transparency, looking at how transparency can be utilized to increase cooperation by way of conditionally cooperative strategies. To this body of literature, we introduce the notion of partial transparency, as manifested in the information chain, as a way to extract the potential for cooperation inherent in transparency while mitigating the detrimental effects associated with full transparency, which have been largely neglected so far.<sup>26</sup>

Our results suggest that an information chain is not only sufficient to induce cooperation (as in Winter, 2010) but also has the potential to surpass the benefits of full transparency. Full transparency is shown to perform almost as well as partial transparency when there are strong positive externalities between agents and sufficient opportunity for learning. However, in early rounds, and when the externalities are weak, the relative advantage of partial transparency increases, in particular with respect to agents who are positioned later in the production chain.

The above conclusion has practical implications across several domains. First, in designing work environments, it has been suggested that co-location of

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<sup>25</sup>An interesting extension to this line of research would be to study behavior of intermediate agents as the production chain increases in length.

<sup>26</sup>Bag and Pepito (2011) have shown that outcome transparency can reduce contributions in a two-period two-players production game, in which effort is fully observed. The notion of partial transparency is, however, irrelevant to games of two players (which have also been the focus of the majority of the theoretical and empirical studies mentioned above).

workers is likely to increase productivity (Heywood and Jirjahn, 2004; Teasley et al., 2002). Our results suggest that some partitioning of workers is advisable to contain the effects of ‘rotten apples’. Conditional strategies in the work environment can also be contractually implemented rather than be allowed to arise from the flow of information. The design of contracts should take into account that contracts that allow to condition on peer performance may be inferior to more restricted contracts.

Second, fundraisers know that providing information about past donations is instrumental in attracting new donations. Our results suggest that a full revelation of the history may be harmful. In comparison, reporting the donations over a fixed time window (e.g., a week, a month, etc.) may have the advantage of avoiding any lasting effects of periods of low donations.<sup>27</sup>

Finally, the study of institution design aimed at increasing voluntary provision of public goods has looked at the efficacy of incorporating reputation effects (e.g., Milinski et al., 2006; Rockenbach and Milinski, 2006). However, the existing studies focused on indirect reciprocity, and thus neglected the potential effects on the observing agents. Future studies should acknowledge both the positive and negative aspects of transparency and seek a balance between the two.

In sum, we find that, in line with previous theoretical and empirical findings, increased transparency generally has a beneficial effect on contributions to a joint project. Although some studies failed to find such an effect, to the best of our knowledge this is the first experimental study to find that transparency has some detrimental effect on cooperation (in early periods and for late movers). More importantly, we find that an information chain can be effective in balancing the advantages and drawbacks of transparency. Furthermore, we look at the way in which transparency interacts with the production technology to influence the balance between positive and negative reciprocity. This paper has thus established the beneficial potential of partial-transparency structures, in particular that of information chains, under different technolo-

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<sup>27</sup>It is also possible to strategically choose the time window to maximize the observed donations. However, potential donors may resent such manipulation, if revealed.

gies. Future research is required to test the generality and boundaries of our conclusions with regard to different environments. For example, when contributions are continuous or incremental, or with larger groups.



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*Appendix A: Proofs*

**Proposition 3.** *The probability of contribution in NI under a linear technology and with reciprocal preferences is given by  $1 - F(C - b_i a)$ .*

*Proof.* To simplify notation, denote by  $w(i, k, F)$  the probability that exactly  $k$  agents other than  $i$  contribute in equilibrium. Agent  $i$  will contribute iff

$$b_i \sum_{k=1}^n [p(k)w(i, k - 1, F)] - (C - \theta_i) \geq b_i \sum_{k=1}^n [(p(k - 1)w(i, k - 1, F))].$$

Rearrange to obtain:

$$(A.1) \quad \theta_i \geq C - b_i \sum_{k=1}^N w(i, k - 1, F)(p(k) - p(k - 1)).$$

Substitute  $a$  for the constant slope of the production function  $p(k) - p(k - 1)$  to see that the summation adds up to 1. The inequality thus reduces to:

$$\theta_i \geq C - b_i a,$$

so that the probability of agent  $i$  contributing in equilibrium is

$$(A.2) \quad Prob^{NI}(s_i = 1) = 1 - F(C - b_i a).$$

*End of proof.*

**Proposition 4.** *With reciprocal preferences, expected contributions in FI and CI are higher than NI for first movers and vice versa for last movers.*

*Proof.* Denote by  $q_j$  the probability that agent  $j$  contributes in equilibrium conditional on not observing any defection. Let  $g(i)$  be the expected productivity in equilibrium if all agents



up to and including  $i$  contribute, given by

$$(A.3) \quad \begin{aligned} g(i) = & p(i)(1 - q_{i+1}) + p(i+1)[q_{i+1}(1 - q_{i+2})] + \dots \\ & + p(n-1) \prod_{j=i+1}^{n-1} q_j \cdot (1 - q_n) + p(n) \prod_{j=i+1}^n q_j. \end{aligned}$$

Note that  $g(i)$  has two important properties. First, as  $i$  increases, more agents are taken to be contributing, so that  $g(i)$  is increasing in  $i$ . Second,  $g(i)$  is strictly larger than  $p(i)$  for  $i < n$ . If  $i = n$ , then  $g(i) = p(i)$ .

Agent  $i$  will not contribute if she observes defection.<sup>28</sup> Otherwise she will contribute iff

$$b_i g(i) - (C - \theta_i) \geq b_i(p(i-1)),$$

so that the probability of agent  $i$  contributing after not observing any defection is

$$(A.4) \quad 1 - F(C - b_i(g(i) - p(i-1))).$$

Since  $g(i) \geq p(i)$ , the probability of contribution in FI and CI conditional on no previous defections, given by (A.4), is larger than the (unconditional) probability of contribution in NI, given by (A.2). The two probabilities are equal iff  $i = n$ .

It remains to ascertain the ex-ante probability of agent  $i$  not observing any defection, which we shall denote by  $f(i)$ . This is simply

$$(A.5) \quad f(i) = \begin{cases} 1 & \text{if } i = 1 \\ \prod_{j=1}^{i-1} q_j & \text{otherwise.} \end{cases}$$

Note that  $f(i)$  is trivially decreasing in  $i$ .

---

<sup>28</sup>We maintain the requirement that agents cannot rationally believe that other agents are playing a dominated strategy, hence observing a contribution by the previous mover in CI implies that all previous movers contributed as well.

Put together, the probability that player  $i$  will contribute in equilibrium is given by

$$(A.6) \quad Prob^{FI/CI}(s_i = 1) = f(i) [1 - F(C - b_i(g(i) - p(i - 1)))],$$

which is decreasing in  $i$ .

For first movers,  $f(i) = 1$  and  $g(i) > p(i)$ , so that  $Prob^{FI/CI}(s_i = 1) > Prob^{NI}(s_i = 1)$ . For last movers,  $f(i) < 1$  and  $g(i) = p(i)$ , hence  $Prob^{FI/CI}(s_i = 1) < Prob^{NI}(s_i = 1)$ . The difference between the probabilities,

$$(A.7) \quad Prob^{FI/CI}(s_i = 1) - Prob^{NI}(s_i = 1) = f(i)[F(C - b_i(p(i) - p(i - 1))) - f(i)F(C - b_i(g(i) - p(i - 1)))],$$

is decreasing in  $i$  if  $b_i$  is fixed for all agents  $i$ .

*End of proof.*

*Appendix B: Experimental instructions*

Welcome! Please end now all conversation with other participants, switch off your cell phone and read the following instructions carefully. If something is unclear, please raise your hand and we will come to you and answer your question individually.

The instructions are identical for all participants. During the experiment you remain anonymous. This means that none of the other participants will learn your identity. The experiment consists of two parts. In the first part you will have the opportunity to familiarize yourself with the software and the rules of the experiment. In the second part you interact in 12 repetitions (rounds) with other participants. You can earn money in each of these 12 rounds. How much money you earn will depend on your own and on the decisions of other participants. However, only one round will be paid out: at the end of the experiment the computer will decide at random which round will be relevant for the calculation of the earnings. The earnings of each participant of the experiment will then be calculated based upon the earnings in that round.

During the experiment all sums of money are listed in ECU (for Experimental Currency Unit). Your earnings during the experiment will be converted to Euro at the end and paid to you in cash. The exchange rate is  $150 \text{ ECU} = 1 \text{ Euro}$ .

At the beginning of the experiment you and three other participants will be assigned to a group. The assignment is random and will remain fixed throughout the experiment. The members of a group work jointly, one after the other on a project. There are four roles in each group A, B, C and D. A works first, then B, C and last D. Each group member has to decide whether he or she works hard or normal on the project. The revenue of the project increases with the number of hard working group members. The income of each member depends on the revenue as well as the individual wage factor. The wage factor depends on the position in the production process: the factor increases for later movers.

We will now explain a round in detail. At the beginning of each round you will be assigned one of the four roles at random. The assignment is done at the beginning of each round via a random mechanism. Your role determines your position in the production process and thus also your wage factor. Then each member decides, one after the other, about his or her effort level, which can be hard or normal. As the graph shows, A decides first then B then C and at last D.

*NI* To decide on your effort level in a round, you have to wait until the roles before you

have decided. You will learn at the end of the round, how the other members in your group have decided.

*CI* To decide on your effort level in a round, you will have to wait until the roles before you have decided. Before you make your effort decision, you will learn what your predecessor has decided. If you have for instance role C, you will learn whether B decided to work normal or hard. Equally your successor D will learn, before he or she decides, whether you C has worked hard or normal.

*FI* To decide on your effort level in a round, you will have to wait until all the roles before you have decided. Before you make your effort decision for this round, you will learn how many of your predecessors have decided to work hard. For instance, if you have role C, you will learn how many of your predecessors (A and B) have decided to work hard. Equally your successor D will learn, before he or she decides, how many of his predecessors (A, B and C) have decided to work hard.

The more members decide to work hard, the higher is the return of the project. The return is generated according to the following table:

*IRS*

Number of hard working members	0	1	2	3	4
individual return from project	180	190	220	310	500

*LIN*

Number of hard working members	0	1	2	3	4
individual return from project	180	260	340	420	500

*IRS* For instance if all members of the group decide to work normal, the return is 180. If you and exactly one other member decide to work hard the return will be 220 etc.

*LIN* For instance if all members of a group decide to work normal, the return per member is 180. If you and exactly one other member decide to work hard the return will be 260. etc.

**Return and Costs** For each unit produced, the members receive – contingent on their particular role – ECU. The return is distributed according to the following table.

Role	A	B	C	D
Factor	4	4	5	5

If you for instance have the role A in a particular round. Your wage factor in this round is 4. You will then receive with a return of 180 units 720 ECU. With a return of 500 units you will receive 2500 ECU etc.

**Costs** Working hard causes costs of 650 ECU. If you decide to work hard 650 ECU will be deducted from your return. If you decide to work normal nothing will be deducted.

*IRS*: For instance if you have the wage factor 5 in a particular round, and you and exactly one other group member decides to work hard the return from the project will be 220. You will then receive  $220 \times 5 = 1100 \text{ ECU}$ , minus costs of 650 ECU for working hard, and your return in this round will be 450 ECU.

*LIN*: For instance if you have the wage factor 5 in a particular round, and you and exactly one other group member decides to work hard, the return of the project is 340. You will then receive  $340 \times 5 = 1360 \text{ ECU}$ , minus costs of 650 for working hard, and your return in this round will be 450 ECU.

**Procedure** You will first have the opportunity to test the software for five minutes. Here you will be acting in all four roles simultaneously. Nothing that you will do in these five minutes will have any implication on your payoff. Also no other participant will be able to observe what you are doing. After the five minute test phase the second phase starts.

*NI* At the beginning you will learn which of the four roles you were assigned to in this round. Then, as explained above, the participants will decide one after the other whether to work hard or normal in this round (first A then B then C etc.) After you have taken your decision we will ask about your expectations. Please state how you think the other members have decided. At the end of the round you will be informed about the decision of the other members and your payoff in this round. In the next round the random mechanism will again assign you one of the four roles.

*CI* At the beginning you will learn which of the four roles you have in this round. Then, as explained above the participants will decide one after the other whether to work hard or normal in this round (first A then B then C etc.) Before you take your decision you will learn the decision of your predecessor. This means that B knows A's decision, C knows B's decision and D knows C's decision. After you have taken your decision we will ask about your expectations. Please state how you think the other members have decided. At the end of the round you will be informed about the decision of the other members and your payoff in this round. In the next round the random mechanism will again assign you one of the

four roles.

*FI*: At the beginning you will learn which of the four roles you have in this round. Then, as explained above, the participants will decide one after the other whether to work hard or normal in this round (first A then B then C etc.) Before you take your decision you will learn the decision of all your predecessors. This means that B knows A's decision, C knows A's and B's decision and D is aware of A's, B's and C's decision. After you have taken your decision we will ask you – where appropriate – about your expectations. Please state how you think the other members have decided. At the end of the round you will be informed about the decision of the other members and your payoff in this round. In the next round the random mechanism will again assign you one of the four roles.

### **The end of the experiment**

After you have completed the 12 rounds the experiment is over. One round will be selected at random for payment. For every participant his or her payoff is the return achieved in that round. Also for every participant one round will be selected at random for the expectations. However, this round will not be the same as the one chosen for payment. A correct expectation will be rewarded with 150 ECU. At the end we will ask you to fill out a questionnaire. Please remain seated until we call your cabin number. Thank you for participating in this experiment and have a nice day.

Appendix C: screenshot

Periode 1 von 3 Verbleibende Zeit [Sec] 0

**Ablauf**

A	entscheidet zuerst
B	beobachtet die Entscheidung von A und entscheidet
C	<b>beobachtet die Entscheidung von B und entscheidet</b>
D	beobachtet die Entscheidung von C und entscheidet

Sie sind an der Reihe.

Ihnen ist Rolle C zugeworfen worden.  
Teilnehmer B hat sich entschieden, normal zu arbeiten.

Ich möchte wie folgt arbeiten:  normal  hart

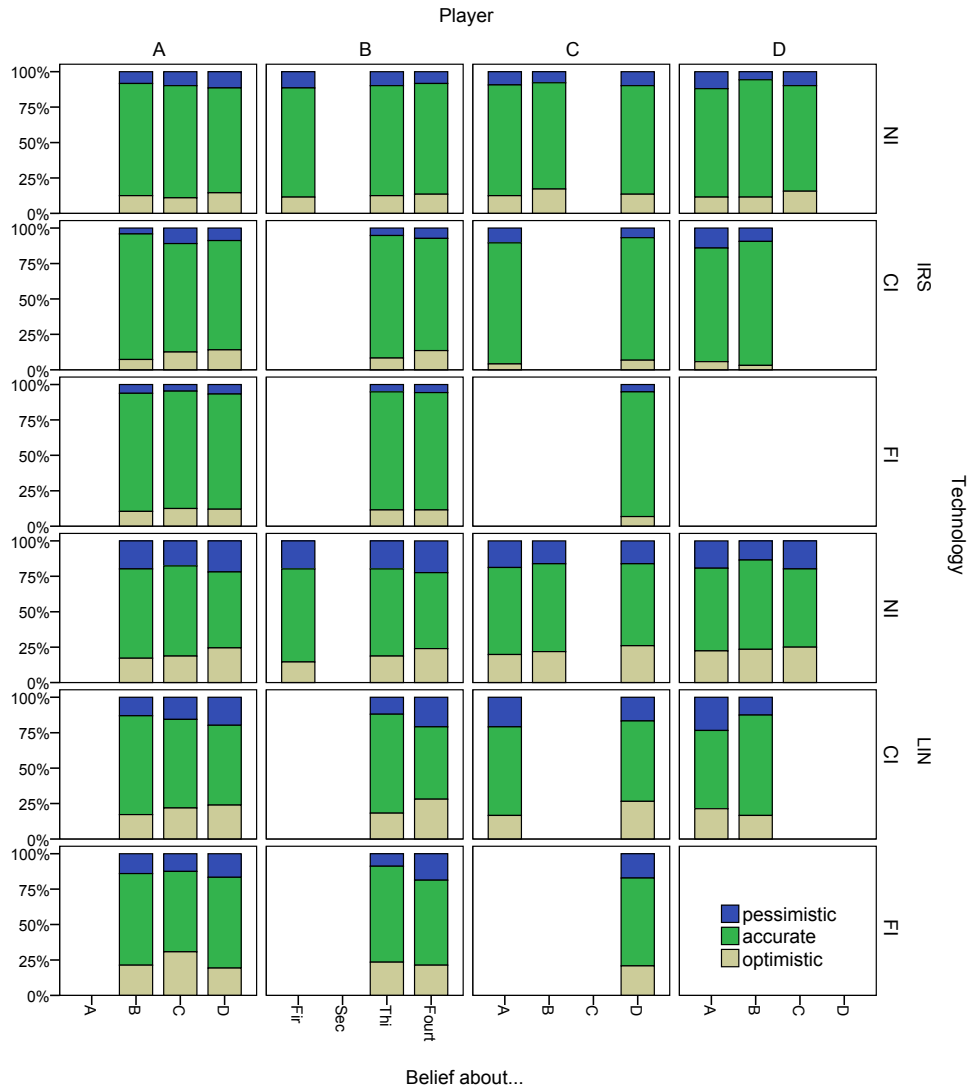
OK

Spieler	Arbeit
A	<input type="radio"/> normal <input type="radio"/> hart
B	<input type="radio"/> normal <input type="radio"/> hart
C	<input type="radio"/> normal <input type="radio"/> hart
D	<input type="radio"/> normal <input type="radio"/> hart

Rolle	A	B	C	D
Ertrag aus dem Projekt	220	220	220	220
Lohnfaktor	4	4	5	5
Kosten der Arbeit	0	0	650	650
Ertrag	880	880	450	450

Berechnen

Appendix C: beliefs accuracy



Note: a belief is categorized as optimistic (pessimistic) if a player guessed that the other player contributed (did not contribute), when in fact the opposite was true.