

### **General Instructions:**

Thank you for your participation in this experiment. All of the procedures used will be exactly as they are described in these instructions. The experiment should last approximately 30 minutes, and must be completed in one sitting. Before beginning, please remove any distractions that may affect your ability to complete the experiment. Others may be completing the experiment at a later time, so please do not discuss the experiment with anyone. During the experiment, you will not be able to go "back" to previous screens.

Each participant is guaranteed to receive at least \$2.00 as a participation fee. As explained below, you will have the opportunity to earn additional compensation (expected range is approximately \$2.00-\$4.00) during the experiment. Your total earnings, including the \$2.00 participation fee, will be paid to you via your Amazon Mechanical Turk account. **As long as you complete all parts of the experiment, your work will be “approved” on Mechanical Turk, regardless of the decisions you make during the experiment.**

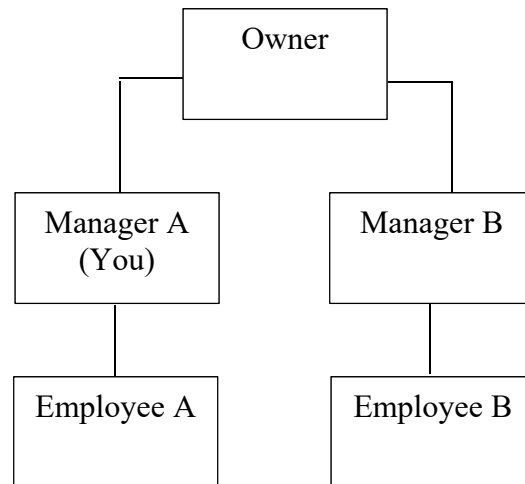
To protect your identity, we have randomly assigned you a participant number. This number will be used to collect information about your decisions during the experiment, and will be used to pay you at the end of the experiment.

In this experiment, you will act as a division manager for a firm that manufactures a variety of products, and you will complete two tasks. In the first task, you will have the opportunity to communicate with the manager of another division, and will make a series of decisions pertaining to reporting the costs associated with two current projects within the firm. In the second task, you will make a series of brief decisions that will be described later.

Prior to completing each of these two tasks, you will read a set of detailed instructions describing the task and how your compensation will be determined. After completing each task, you will answer a few brief questions pertaining to the task. Finally, after completing both tasks you will learn your compensation for the experiment and will be given a study code to enter into the HIT on Mechanical Turk in order to receive your compensation.

### Task Instructions – Project Cost Reporting:

As mentioned earlier, you are assuming the role of one of two division managers in a manufacturing company. You manage Division A. One of your responsibilities is to keep track of the progress and cost of your division's single active project, Project A. Given the work that takes place between divisions, you are also able to observe the cost of the other division's active project, Project B. You and the manager of the other division each have one employee working for you, as pictured in the organizational chart below, who also knows the actual cost of the active project in their division. The roles of all other members of your company are being assumed by other participants in this experiment with whom you have been randomly matched.

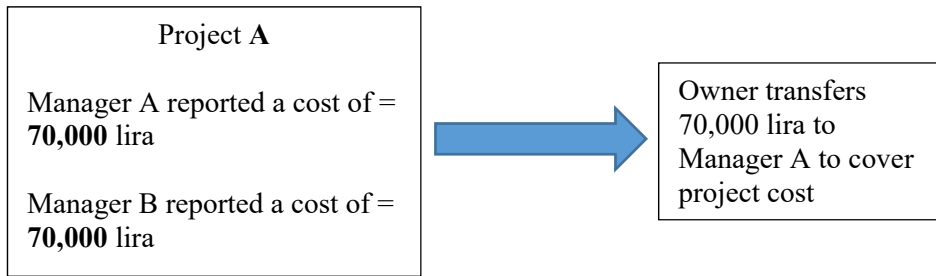


Who knows the <b>actual cost</b> of:
Project A: Manager A, Employee A, Manager B
Project B: Manager B, Employee B, Manager A

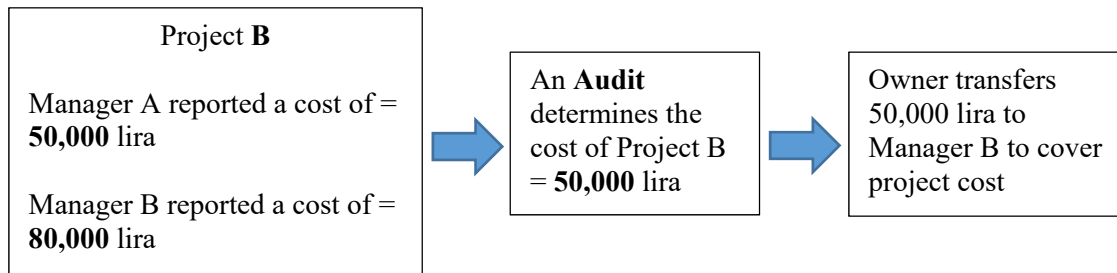
The company owner cannot monitor all activities within the company, and therefore relies on the division managers to report the costs of their projects, at which time the owner transfers funds to cover those project costs. The owner cannot observe the actual cost of any division's project in any period, but does know based on project scope and past results that each project's cost in each period will range between 20,000 and 100,000 lira. Lira are experimental currency that convert to real dollars at a rate of 5,000 Lira = \$0.50 when payouts are determined. You will learn the actual cost of your project and the other division's project (which will both be amounts between 20,000 and 100,000, in increments of 5,000) prior to making your cost reports to the owner.

The company owner begins each period with a pre-determined amount of lira, from which they fund each division's project, pay each division manager a fixed salary of 15,000 lira and each manager's employee a fixed salary of 10,000 lira, keeping any remaining lira for themselves. Given their allocation, the minimum amount of lira a company owner could have remaining in any period is the equivalent of \$1.50. To encourage accurate reporting of project costs, the company owner requires each of the two division managers to report the cost of their own project, as well as the cost of the other division's project, to them each period. The outcome of the reporting process is then determined as follows:

1. If the two division managers' cost reports for a particular project (in either division) match, the owner transfers funds equal to those cost reports to the manager of that project. For example:



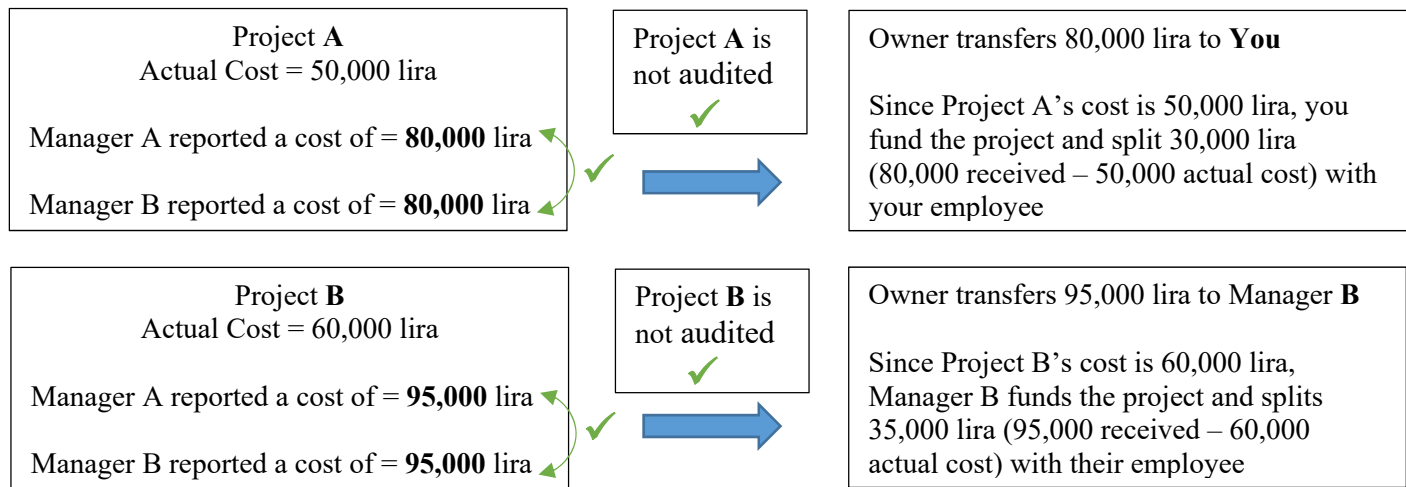
2. If the two division managers' cost reports for a particular project **do not** match, an audit is conducted. The audit determines with certainty the actual cost of the project, which the owner transfers to the manager of that project. For example:



3. If any audits are conducted, any manager found to be misreporting the cost of any audited project receives **no compensation** for the period. However, any manager found via audit to be reporting accurately will receive an audit bonus of 45,000 lira per project, which is NOT paid from the owner's allocation of funds.

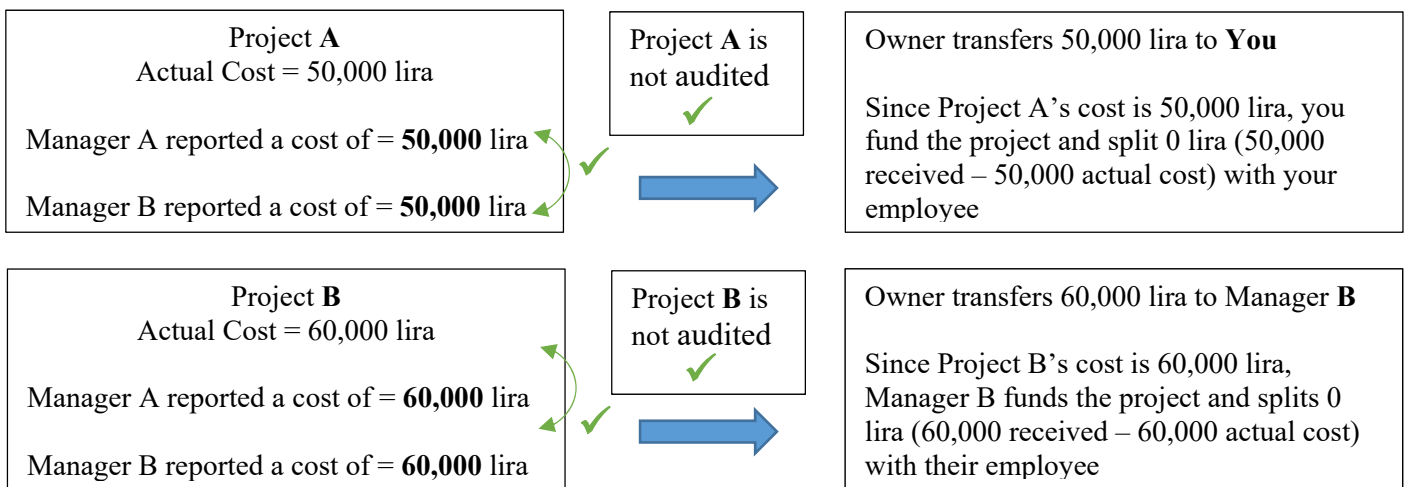
Given the owner's knowledge of historical project costs, you must report project costs within the range of 20,000 to 100,000 lira, **but do not have to report costs equal to the actual project costs**. You split (50/50) with your employee any additional funds that you obtain above the actual cost of your project. Consider the following examples:

1. You and Manager B submit matching cost reports that show higher-than-actual project costs.



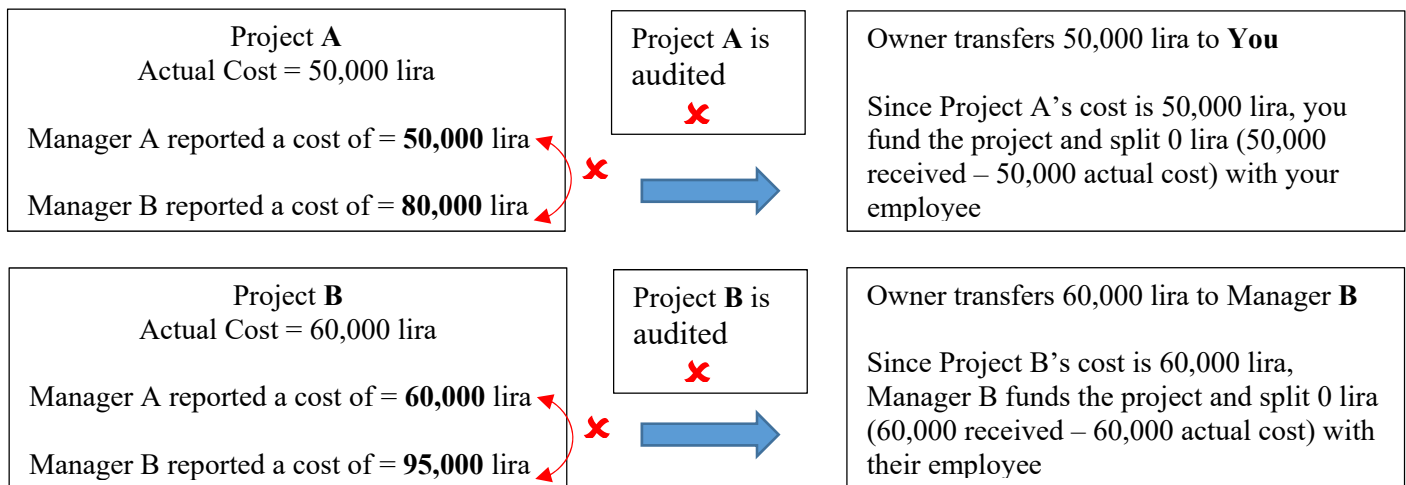
Note that in this example, the owner pays you and Manager B your fixed salary of 15,000 lira each. The owner also pays Employees A and B their fixed salary of 10,000 lira each.

2. You and Manager B submit matching cost reports that show project costs equal to actual costs.



Note that in this example, the owner pays you and Manager B your fixed salary of 15,000 lira each. The owner also pays Employees A and B their fixed salary of 10,000 lira each.

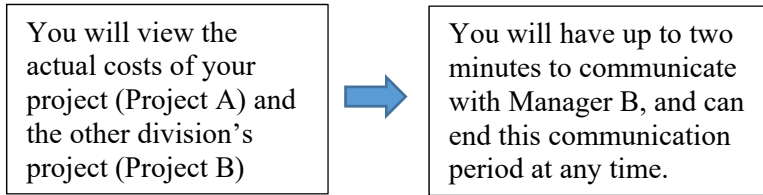
3. You and Manager B submit cost reports that do not match. Manager B's reports show higher-than-actual costs.



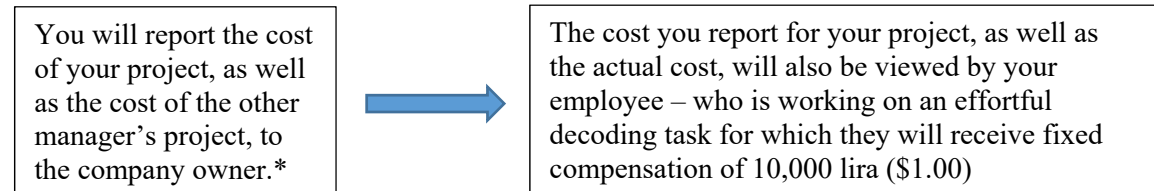
Note that in this example, the owner pays you your fixed salary of 15,000 lira. You also receive an audit bonus of 90,000 lira (not paid by the company owner, and not split with your employee) for accurately reporting the costs of both projects. Manager B receives **no compensation** for the period, since they were found to have misreported the costs of both projects. The owner also pays Employees A and B their fixed salary of 10,000 lira each.

This task consists of five identical periods. Each period will operate in the following manner:

1.



2.



\*As described above, these costs must be between 20,000 and 100,000 lira for each project, but **do not** need to be equal to the actual cost of the project.

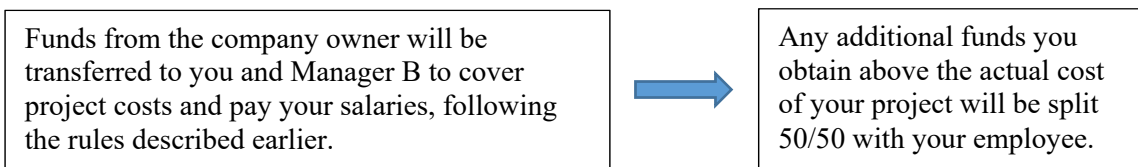
3.

**Manager B will view your cost reports to the company owner, and will then make their own cost reports to the company owner.**

4.

As described above, any necessary audits will be conducted for projects whose cost reports made by you and Manager B do not match.

5.



6.

You and Manager B will both view a summary of the outcomes of the reporting process for the period, including your potential compensation for the period.

### **Compensation:**

Your compensation for this task will be based on **one randomly selected period of the five you will complete**, and will be calculated using the following rules:

1. You will receive a fixed salary of 15,000 lira.
2. As described previously, you will split (50/50) with your employee any funds obtained through the reporting process that are in excess of the actual cost of your project.
3. You will receive an audit bonus of 45,000 lira for each project that is audited and for which you have reported an accurate project cost.
4. In the event that you are found through the audit process to have misreported the cost of either project, you will receive no compensation for the period.
5. Note that lira will be converted to real dollars at a rate of 5,000 lira = \$0.50.

For illustrative purposes, consider the following compensation calculation examples:

1. In the period randomly selected for compensation, a participant makes cost reports indicating the costs for projects A and B to be 80,000 and 90,000 lira, respectively. The actual costs of projects A and B were 60,000 and 70,000 lira, respectively. The other division manager submitted identical cost reports, so no audits were conducted. Therefore, the participant obtained 20,000 lira (80,000 – 60,000) in additional funds above the actual cost of their project, which they split 50/50 with their employee. The participant's compensation for the experiment would be:

Fixed salary	= 15,000
Additional funds obtained above actual project costs	
<u>Split with employee</u>	<u>= 10,000</u>
Total Lira received for the reporting task	= 25,000
Compensation: 25,000 lira /5,000 lira per \$0.50	= \$2.50
Compensation earned from the second task	= \$X
<u>Participation Fee</u>	<u>= \$2.00</u>
Total Compensation	= \$4.50 + X

2. In the period randomly selected for compensation, a participant makes cost reports indicating the costs for projects A and B to be 65,000 and 70,000 lira, respectively, while the other division manager reports those costs to be 85,000 and 90,000 lira, respectively. Since the cost reports made by the two managers do not match for either project, both projects were audited. The actual costs of projects A and B were found to be 65,000 and 70,000 lira, respectively. The participant's compensation for the experiment would be:

Fixed salary	= 15,000
Audit bonus for accurate reporting of Projects A and B	= 90,000
Total Lira received for the reporting task	= 105,000
Compensation: 105,000 lira /5,000 lira per \$0.50	= \$10.50
Compensation earned from the second task	= \$X
<u>Participation Fee</u>	<u>= \$2.00</u>
Total Compensation	= \$12.50 + X

Note that in this example, the other division manager receives no compensation as they were found to have misreported the cost of both projects.