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Managing expectations

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Abstract

Followers of law, politics and business commonly relate stories of individuals who appear to predict an expected performance level below what they believe themselves to be capable of. The standard explanation for such rhetoric is that it hedges against the negative consequences of unanticipated failures and takes advantage of unexpected successes. Although the strategy appears highly attractive, some individuals do provide honest evaluations of their abilities, and some overpromise. We develop a model of strategic communication designed to explain this variation. Underpromising is especially attractive when observers have strong incentives to watch a preliminary performance; however, when high-quality individuals are in large supply and when the costs of performing badly are neither too high nor too low, underpromising can result in individuals being ignored. To ensure that they are not, individuals must give up the opportunity to outperform a promise and risk an underperformance.

Keywords

campaigns; expectations; political communication; psychology; rhetoric; strategic communication

1. Introduction

In September 1999, Britain's Crown Prosecution Service, in support of a Spanish extradition request, presented in court 35 charges of gross human rights violations against General Augusto Pinochet.[1] Despite having considerable and detailed evidence of Pinochet's involvement in acts of state-sponsored torture, the Crown barristers began their presentation by understating the evidence that they would ultimately present. As the hearing drew on, however, the compelling nature of their case emerged. Labour MP Jeremy Corbyn, who witnessed the hearing, described the approach as follows.

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> [They presented] always in this slightly dismissive mode. And it was always as if they were about to stop. And each time they stopped, they would say, 'I'm sorry, there is another case I want to bring up' ... and another, and another. And it was devastating.[2]

The ultimate success of the argument seemed to have something to do with the Crown's understated opening, which created an impression, ultimately contradicted, that perhaps the evidence they would present might not be particularly persuasive.

Insofar as individuals typically seek to construct images of high competence, we might wonder why someone would ever communicate a relatively low expected performance level, especially one below what she believes possible. The conventional answer is that, in many cases, absolute performance quality may not be as important as performance relative to expectations, especially when we create expectations via our own claims. Underperforming (overperforming) on a promise can be highly costly (highly rewarding). By setting expectations low enough, we protect ourselves against unanticipated failures and take advantage of unexpected successes.

We find evidence of this phenomenon, which we will call the Downward Management of Expectations (DME), outside the courtroom in a number of political settings. It is most familiar in the context of primary elections. For example, John F Kennedy possessed internal polling information suggesting that he would win roughly 60 percent of the vote in the 1960 West Virginia primary, yet he publicly reported an expected vote below 50 percent.[3]

We also see DME in the context of general elections, especially prior to debates. George W Bush's 2000 presidential campaign promoted an image of its candidate as an outrageously bad communicator prior to the first debate with Al Gore, despite being confident that Bush could articulate his core campaign messages in the agreed-upon format (Bruni, 2003).

We even see DME play a role in the political discourse around policy debates. Despite his well-known 'mission accomplished' episode, the Bush camp often tamped down expectations about its goal for a peaceful transition to a stable, democratic Iraq. Indeed, by 2005, the administration found itself trying to drastically lower reform targets, highlighting substantial obstacles across policy areas as diverse as democratic reform and electricity provision.[4] Similarly, in 2010, Federal Reserve chairman Ben Bernanke emphasized the limited role central bankers can play in generating a sustained economic recovery despite believing that sound monetary policy is critical.[5]

More recently, the Labour Party leader Ed Miliband, in a speech to Labour's National Policy Forum (NPF), suggested that the British people had lost confidence in their politicians and that Labour should make it one of its core missions to restore credibility with the public. In fact, Miliband's call for action in this area was for Labour to 'under-promise and over-deliver', so as to regain the public trust and confidence.[6]

DME also pervades non-political settings. Corporate managers seem to mold earnings forecasts to prevent actual earnings from falling below expectations (Burgstahler and Eames, 2006; Matsumoto, 2002). The advice to never overpromise on quality pervades marketing, precisely because consumers dislike products that perform below expected levels (e.g., Szymanski and Henard, 2001; Voss et al., 1998).[7] There is even evidence that individuals attempt to manage their own expectations, ostensibly to insulate themselves against their own cognitive sensitivity to disappointing underperformances (Kopalle and Lehmann, 2001).

The conventional DME logic is seductive, precisely because it seems to invite a costless venture. By promising little, we eliminate the possibility of an embarrassing underperformance while positioning ourselves for an unexpected overperformance. According to the conventional wisdom, the choice to signal a competency below what you perceive it to be trades off nothing, and thus we might expect individuals always to undersell themselves. Yet, quite obviously people do not always do so. Lawyers, politicians, financial and product managers certainly communicate images of high competence, images that risk performance levels below those that are promised, and which prevent them from capturing the gains from performing above. What is more, sometimes people report a competency above what they believe to be true. We seek to understand this variation.

To do so, we construct a formal model of strategic communication that explicitly captures the logic of the standard argument about expectations management. The model is game-theoretic, but we are guided by a fundamental psychological finding, which emerges in literatures as diverse as marketing, neuroscience, finance and political science: individual satisfaction (i.e., utility) is related, in part, to the difference between what individuals promise and how they perform. Players in our model are subject to this dynamic. Although it may be possible to develop a fully rational model that results in behavior which seems to depart from canonical assumptions about rationality (see Brunnermeier and Parker, 2005), we do not take this approach here. Rather, we are more interested in understanding how a widely documented and accepted cognitive mechanism affects the strategic context in which senders and receivers of information operate.

Consistent with the conventional wisdom, we find that DME is highly attractive whenever individuals expect their potential observers to give them a chance to perform; however, we also find that DME can be useful when they expect to be ignored. When individuals are highly concerned about failing to perform well, underreporting competence insulates them from bad outcomes, although, importantly, it does so without allowing them to take advantage of good outcomes. We also find that DME is not always possible. When underperforming is neither highly consequential nor inconsequential, observers expect to hear truthful statements about competence. When this is true, high-quality individuals cannot engage in DME. They must risk underperformance in order to be granted an opportunity to perform. Finally, when observers have relatively strong beliefs about observing a high-quality performer, low-quality performers can take advantage of the situation by overpromising. When this is true, DME is similarly unprofitable, again because those who do not promise high-quality performances are ignored.

In the next section, we address the reasonableness of assuming that individuals respond to differences in promises and performances. We then present our model of expectations management, state its key results, and suggest some empirical implications.

2. Promises and performances

In order for the management of expectations logic to work under the conventional wisdom, it must be that there are either costs to underperformance on promises or benefits to overperformance, or both. It is not that assuming these psychological dynamics tells us the conditions under which the management of expectations is profitable or possible,

but if there are no consequences for performing above or below a promise, the choice to manage expectations is inconsequential. So, is it reasonable to assume these dynamics? If so, is the bonus for exceeding a promise identical to the cost of falling below? We take up these questions in this section. In what follows we refer to an individual attempting to manage expectations as the sender and the audience whose expectations are allegedly being managed as the receiver.

A wide array of studies suggest that it is reasonable to assume consequences for delivering a performance above or below a promise. We know that violating campaign promises can be costly, especially when a sender couples this violation with a subsequent policy promise, which also fails to meet the standard the sender announces (Weyland, 2004). For example, presidents and their parties are punished for failing to deliver on promised levels of economic performance, especially so when the failure follows from a policy program that was expressly disavowed during the campaign (e.g., Stokes, 2001). Outside of political science, the literature on service quality suggests that clearly communicating expected quality outputs is crucial to customer satisfaction (Anderson et al., 1994; Kohli and Jaworski, 1990), largely because customer satisfaction is hurt by failing to deliver on promises (Zeithaml et al., 1988).[8]

The results on promise breaking are highly consistent with the more general literature concerning the relationship between expectations and satisfaction. In political science, scholars have found that presidential candidates are rewarded with increased financial donations for exceeding expected finishes in primary elections (e.g., Aldrich, 1980; Damore, 1997).[9] Also, there is evidence that presidential and congressional approval ratings turn on differentials between expected performance and actual performance (Kimball and Patterson, 1997; Waterman et al., 1999). Likewise, it appears that citizen satisfaction with public services is sensitive to the difference between actual service provision and prior expectations (Roch and Poister, 2006; Van Ryzin, 2004, 2006).

Turning outside of political science, the disconfirmation hypothesis in marketing research suggests that consumers are far less (more) satisfied with products that perform below (above) expectations than they are with products that perform as expected (Erevelles and Leavitt, 1992; Oliver, 1977, 1980; Spreng et al., 1996; Yi, 1990). We see this dynamic in finance as well, where it appears that stock prices respond to whether firms produce earnings above or below forecasts (Bartov et al., 2002; Kasznik and McNichols, 2002). Even controlling for contemporaneous estimates of valuation, stock prices are higher (lower) when companies exceed (fall below) earnings forecasts. In psychological research, scholars find that individuals are more elated with unexpected gains than expected gains and more deflated by unexpected losses than expected losses (e.g., Shepperd and McNulty, 2002).[10] There is also research suggesting that while confident witnesses are more persuasive than witnesses who lack confidence, in the presence of information that undermines witness testimony, it is the less confident witness that appears more persuasive (Tenney et al., 2008). If confidence sets high expectations and those expectations are dashed, a witness is better off lowering her confidence level.

All of the preceding results are consistent with the familiar notion from prospect theory that individuals evaluate probabilistic outcomes with respect to a potentially shifting reference point, which can be interpreted as an expectation (Kahneman and Tversky, 1979; Kahneman et al., 1982; Medvec et al., 1995). If someone expects to observe a high-quality outcome and does not, he will be dissatisfied, potentially more so than he

would have been with an objectively worse outcome about which he/she had low expectations. To summarize, a large set of scholarship suggests that it is reasonable to assume consequences for over- as well as underperforming on a promise.

The second issue we address is whether the effects of overperformance and underperformance are symmetric. Kahneman and Tversky (1979) suggest that individuals treat losses differently from gains, and subsequent experimental research has found that the influence of unexpected losses on satisfaction is stronger than that of unexpected gains (e.g., Kopalle and Lehmann, 2001). Consistent with this finding, it also appears that different areas of the prefrontal cortex are activated when individuals process unexpected gains and losses (Ursu and Carter, 2005). Thus, there is physiological evidence that the neurological mechanism through which individuals process overperformance is not identical to the mechanism through which individuals process underperformance. Consequently, it appears reasonable to treat these dynamics as conceptually distinct. We will do so below.

To conclude, scholarship on promise breaking suggests that there are penalties for performing below what one promises and rewards for performing better than a promise. Finally, it appears reasonable to treat these dynamics as asymmetric. Although this distinction is not ultimately consequential in the model we present, it may very well influence empirical tests, and so we think it important to treat these outcomes differently.

3. A model of expectations management

In this section, we develop a model that examines the strategic aspects of managing expectations. Our goal is to place the standard logic, which invokes psychological dynamics not typically modeled in games, within the context of a communication model.[11] By so doing, we consider the conditions under which the downward management of expectations can be profitable when both parties to the interaction are strategic and aware of the influence of expectations–outcomes congruence on satisfaction.

3.1. Sequence of moves

The game we consider involves an individual looking for support from another, who is looking to offer it. Prior to offering her support, however, the second individual may choose to evaluate the first preliminarily, but only after the first provides some information about himself. We will call the first individual the sender, and the second we will call the receiver. The game unfolds as follows. First, Nature determines the sender's type, $t_i \in [0, 1]$ for $i \in \{h, l\}$, where $t_h > t_l$. Here, we can interpret t_h and t_l as rates of return that characterize the value receivers assign to each sender type. As will become clear below, senders provide receivers with rates of return on a resource, which, without loss of generality, we normalize to 1. The sender's type is revealed to the sender but not to the receiver, although the receiver has prior beliefs about the distribution of types, such that $Pr(t_h) = \pi$ and $Pr(t_l) = 1 - \pi$.

Having observed his type, the sender chooses a message m_i for $i \in \{h, l\}$, signaling to the receiver whether he is a low- or high-quality sender. The receiver observes m_i and decides whether to provide initial support to the sender, which buys the right to observe a preliminary performance. We will refer to this choice as contributing (c) to the sender,

and of course the receiver can choose not to contribute ($\neg c$). Contribution involves a cost for the receiver, a fraction of her resource available for investment. Namely, the receiver must give up δ of this resource, where $\delta \in (0, 1)$, to observe a performance. We believe this initial contribution stage models well a number of political phenomena, from the initial stages of a campaign to the efforts of Non-Governmental Organizations (NGOs) to get funding for preliminary development programs. More generally, our model captures all situations where (1) the performer controls the message, (2) the performer depends on the observer's support, and (3) support is staggered and can be tied to performance. In our model, we add to this list the assumption that observing performances is costly. That said, the model captures well situations in which there is no contribution necessary to observe a performance. Note that the initial contribution may be set arbitrarily small, so that observing a performance is essentially costless. In our opinion, many interactions in politics, business, and law follow this very structure. General examples include sunset and probationary provisions, product advertisements, earnings forecasts, and campaign promises.[12]

The sender receives δw for the initial performance, where $w > 0$. Conceptually, we are suggesting that the initial support receivers provide, which may be financial in some contexts but certainly not in all, is costly, although the cost may be made arbitrarily small. If the receiver decides not to contribute, he/she instead 'invests' his/her resource at a fixed default rate of return $d \in [0, 1]$. Finally, we assume $t_h > d > t_l$. In the event that the receiver fails to contribute, payoffs are realized.

If the receiver contributes to the sender, the receiver gets a chance to observe the sender perform. Here, the performance either confirms, exceeds, or falls below the level promised by the sender. We model this stage with another move by Nature, which is fully observed by the receiver and sender. Nature selects a performance p_i for $i \in \{h, l\}$. Here, the players not only know p_i but also the probabilities by which Nature influences the performance. We assume that the high-quality sender probabilistically achieves the high-quality performance, while the low-quality sender is certain to deliver a low-quality performance. Specifically we assume that $Pr(p_h|t_h) = \tau$ (probability of a high-quality performance given a high-quality sender), $Pr(p_l|t_h) = 1 - \tau$, $Pr(p_h|t_l) = 0$, and $Pr(p_l|t_l) = 1$.[13]

Finally, the receiver decides whether to support the sender (s) fully or not ($\neg s$). If the receiver supports the sender, she will have to pay him the remaining wage, i.e., w. If she does not, she must pay for the same service delivered by the default option, obtaining a rate of return at the default rate d. But since she has paid for the sender's preliminary performance, she only has $(1 - \delta)$ to invest.

3.2. Preferences

Having described the sequence of moves in the game, we can now define the players' preferences over terminal histories. The sender seeks to maximize the receiver's support; however, he is sensitive to reputational effects associated with performing above or below his initial quality announcement.[14] If the receiver does not contribute initially, the sender neither gains nor loses anything. Thus, he receives a payoff of 0 whenever the receiver fails to contribute. If the receiver initially contributes to the sender but does not support

him/her after the performance stage, the sender obtains δw and any reputational benefits/losses associated with the performance. Denote the sender's reputational value of the performance T_S. Let T_S be a function of the match between message and performance and the weight the sender places on under- and overperforming. In particular, let

$$T_S = \beta_O^S I_O + \beta_U^S I_U,$$

where $\beta_O^S, \beta_U^S \in [0, 1]$ indicate the weights the sender places on deviations from his/her promised level. Finally, let I_O and I_U be a set of indicator variables, such that

$$I_O = \begin{cases} 1 & \text{if } m_l, p_h \\ 0 & \text{otherwise,} \end{cases}$$

and

$$I_U = \begin{cases} -1 & \text{if } m_h, p_l \\ 0 & \text{otherwise.} \end{cases}$$

If the receiver contributes and supports the sender, the receiver invests all of his/her resources in the sender, such that the sender receives w and any reputational benefits/losses associated with the performance. The sender's payoff function is thus given by

$$u_S = \begin{cases} 0 & \text{if } \neg c \\ \delta w + T_S & \text{if } c, \neg s \\ w + T_S & \text{if } c, s. \end{cases}$$

The receiver simply chooses the investment that yields the highest return. If the receiver decides to invest his/her money in the alternative, i.e. he/she turns down the opportunity of investing in the sender, he/she obtains the future value of his/her investment at the default rate of return.

If, on the other hand, the receiver decides to contribute to the sender but pulls out of the investment after the performance stage, he/she loses δ, the cost incurred from observing the sender perform, but retains the future value of the remainder at the default rate of return.[15]

Finally, if the receiver contributes and supports the sender after the performance stage, he/she gets the future value of his/her resource at a rate of return that is simultaneously determined by the sender's true rate and the expectation differential:

$$T_R = \beta_O^R I_O + \beta_U^R I_U,$$

where $\beta_O^R, \beta_U^R \in [0, 1]$, and I_O and I_U are defined as before. Thus, we model the impact of falling above or below a promised level through the receiver's perception of the rate of return associated with the sender. In our view, this approach reflects the general literature's claim that such deviations influence satisfaction (i.e. utility).[16]

The receiver's payoff function is thus given by

$$u_R = \begin{cases} 1 + d & \text{if } \neg c \\ (1 - \delta)(1 + d) & \text{if } c, \neg s \\ (1 - \delta)(1 + t_i + T_R) & \text{if } c, s. \end{cases}$$

4. Results

Figures 1 and 2 summarize the pure-strategy Perfect Bayesian Equilibria (PBE) of this model.[17] Figure 1 describes a setting in which it is relatively likely that senders are of high quality, whereas Figure 2 characterizes a setting in which the reverse is true, i.e. it is likely that the sender is of low quality. In both figures, the *y*-axis expresses the sender's underperformance cost (β_U^S) and the *x*-axis the fixed cost of observing an initial performance for the receiver (δ).[18]

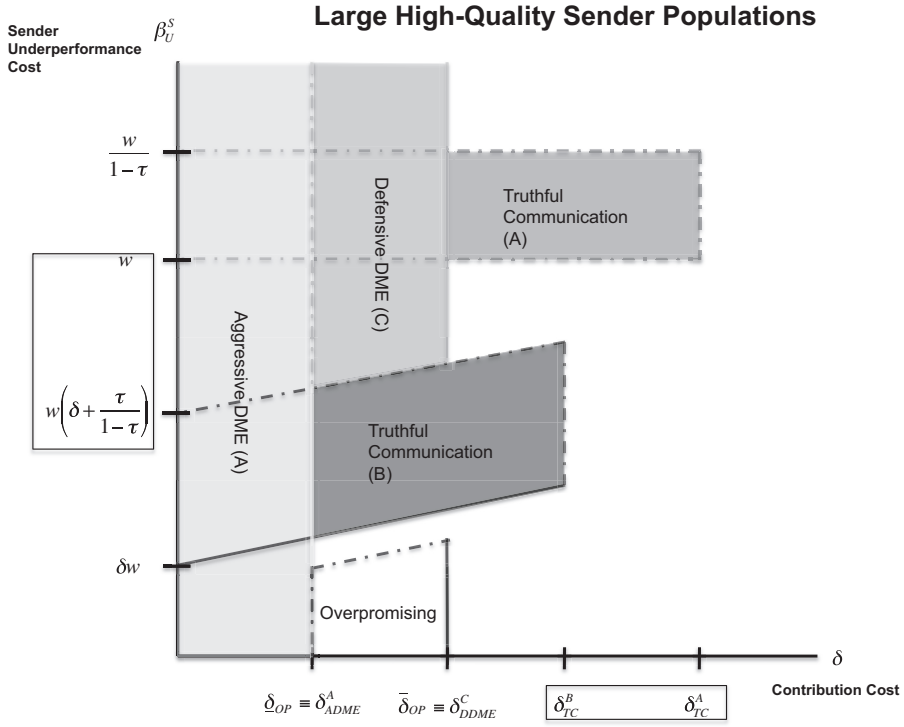

Figure 1. Equilibria in situations of large high-quality sender populations. The figure displays the equilibria discussed in the text in terms of the sender's underperformance cost, β_U^S, and the fixed contribution cost, δ, under conditions of a large population of senders ($\pi \geq (d - t_l)/[t_h(1-\tau) - t_l + d\tau]$). The cut-points correspond to equilibrium conditions in the text. We note that for the Overpromising and Defensive DME (C) cases, there is also an upper bound on π, the probability of encountering a high-quality sender (for the exact equilibrium conditions, please refer to the main text).

4.1. The downward management of expectations

The purposeful underreporting of competence is highly seductive under the conventional wisdom. Senders simultaneously protect themselves from unfortunate mismatches between significant promises and underperformances and set themselves up to take

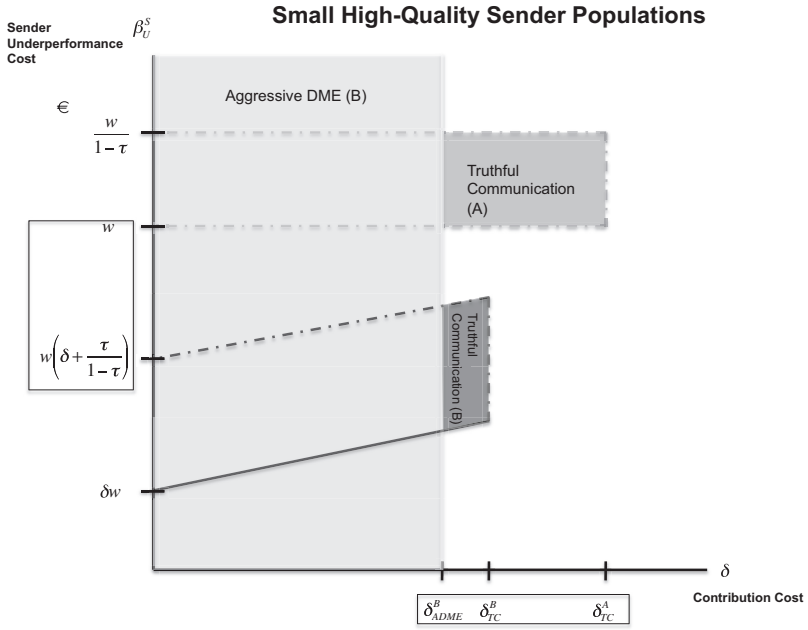

Figure 2. Equilibria in situations of small high-quality sender populations. The figure displays the equilibria discussed in the text in terms of the sender's underperformance cost, β_U^S, and the fixed contribution cost, δ, under conditions of a small population of senders ($\pi < (d - t_l)/[t_h(1-\tau) - t_l + d\tau]$). The cut-points correspond to equilibrium conditions in the text.

advantage of performances that exceed promised levels. When is it possible to take advantage of this strategy? The first cases we consider reflect the logic of the conventional wisdom.

4.1.1. Aggressive downward management. When a receiver is willing to contribute to an unknown sender who has reported low quality, both senders will report low quality in equilibrium:

Case A: Unconditional receiver support

For

$$\pi \geq \frac{d - t_l}{t_h(1-\tau) - t_l + d\tau}$$

and

$$\delta \leq \frac{t_l - d + \pi(t_h - t_l) + \beta_O^R \pi\tau}{1 + t_l + \pi(t_h - d) + \beta_O^R \pi\tau},$$

the following assessment is a PBE:

$$\sigma_S = \begin{cases} m_l & \text{if } t_h \\ m_l & \text{if } t_l, \end{cases}$$

$$\sigma_R = \begin{cases} c & \text{if } m_l \\ c \text{ or } \neg c & \text{if } m_h \\ s & \text{if } m_i, p_h \text{ or } m_l, p_i \\ s \text{ or } \neg s & \text{if } m_h, p_l, \end{cases}$$

$\mu_S(t_l \mid t_l) = \mu_S(t_h \mid t_h) = 1,$
$\mu_R(t_h \mid m_i) = \pi,$
$\mu_R(t_l \mid m_i) = 1 - \pi,$
$\mu_R(t_h \mid m_i, p_h) = 1,$
$\mu_R(t_l \mid m_i, p_h) = 0,$
$\mu_R(t_h \mid m_i, p_l) = \pi(1 - \tau)/(1 - \pi\tau),$
$\mu_R(t_l \mid m_i, p_l) = (1 - \pi)/(1 - \pi\tau).$

Case B: Conditional receiver support

For

$$\pi < \frac{d - t_l}{t_h(1 - \tau) - t_l + d\tau}$$

and

$$\delta \leq \frac{\pi\tau(\beta_O^R + t_h - d)}{1 + d + \pi\tau(\beta_O^R + t_h - d)},$$

the following assessment is a PBE:

$$\sigma_S = \begin{cases} m_l & \text{if } t_h \\ m_l & \text{if } t_l, \end{cases}$$

$$\sigma_R = \begin{cases} c & \text{if } m_l \\ c \text{ or } \neg c & \text{if } m_h \\ s & \text{if } m_i, p_h \\ \neg s & \text{if } m_i, p_l. \end{cases}$$

Beliefs are identical to those in Case A.

Both cases involve high-quality senders underreporting their quality. The logic underlying the cases is essentially identical. In Case A, as shown in Figure 1, it is highly likely that the sender is of high quality, and the contribution cost is sufficiently low, such that if the receiver expects to hear the low-quality message from both types, she will contribute expecting to support no matter what kind of performance the sender ultimately produces. When this is true, senders gain nothing from reporting high quality. Even in the best-case scenario, when the receiver would contribute initially after a high-quality message, the sender would risk the underperformance cost by claiming to be of high quality. Indeed, the low-quality sender would expect to pay such a cost with certainty. In this context, sending a low-quality message in expectation of contribution and full support risks nothing, and only sets up the high-quality sender for an overperformance bonus.

In Case B, shown on the left of Figure 2, it is less likely that the sender is of high quality. For this reason, the receiver only offers full support to senders who produce high-quality performances; however, if it is optimal for receivers to do so when they expect to hear low-quality messages, they would certainly not offer unconditional support if they unexpectedly heard the high-quality message. The reason is that supporting a sender who reported high quality but produced a low-quality performance involves the cost of underperformance, whereas supporting after a similar performance, but where the sender reported low quality, does not. Thus, if receivers unexpectedly hear the high-quality message, they will either contribute expecting to offer conditional support, or they will not contribute at all. Consequently, again, both senders have nothing to gain by sending the high-quality message.

Clearly, these cases track closely the conventional wisdom. When receivers are willing to give senders a preliminary chance to perform no matter the message, DME can be quite useful to senders. In the sense that underreporting competence is immediate for senders in this context, we call this kind of DME 'aggressive'.

From the receiver's perspective, aggressive DME raises a critical challenge. When the high- and low-quality senders pool on the low-quality message, receivers do not learn anything about sender quality absent direct observation. The performance can, but does not necessarily, provide information about sender quality, and it is costly. What is worse, if it is likely enough that the sender is of high quality, as in Case A, receivers risk supporting a sender who is worse than the default.

4.1.2. Defensive downward management. The cases we have just discussed reflect the conventional wisdom. As it turns out, however, there is another kind of DME, which is considerably more problematic from the perspective of both players. Indeed, its logic suggests a dynamic entirely distinct from the costless tradeoff inherent in the popular notion of DME. Specifically, when the receiver is unwilling to contribute to an unknown sender who has reported low quality, but would contribute to an unknown sender who has reported high quality, there exists an equilibrium in which both senders nevertheless report low quality.

Case C: Defensive sender

For

$$\pi \in \left[\frac{d - t_l}{t_h(1-\tau) - t_l + d\tau}, \frac{d - t_l + \beta_U^R}{t_h(1-\tau) - t_l + d\tau + \tau\beta_U^R}\right),$$

$$\delta \in \left[\frac{1 - d + \pi(t_h - t_l) + \beta_O^R \pi\tau}{1 + t_l + \pi(t_h - t_l) + \beta_O^R}, \frac{(t_h - d)\pi\tau}{1 + d + (t_h - d)\pi\tau}\right)$$

and

$$\beta_U^S \geq w\left(\delta + \frac{\tau}{1-\tau}\right),$$

the following assessment is a PBE:

$$\sigma_S = \begin{cases} m_l & \text{if } t_h \\ m_l & \text{if } t_l, \end{cases}$$

$$\sigma_R = \begin{cases} \neg c & \text{if } m_l \\ c & \text{if } m_h \\ s & \text{if } m_l, p_i \text{ or } m_h, p_h \\ \neg s & \text{if } m_h, p_l. \end{cases}$$

Beliefs are identical to those in Case A.

In this case, the probability that the sender is of high quality is sufficiently high, such that the receiver will expect to support the sender no matter what the performance after hearing the low-quality message; at the same time, this probability (i.e., π) is sufficiently low, such that if the receiver unexpectedly hears the high-quality message, she conditions her support on a high performance. As a consequence of these expectations, the receiver refuses to contribute after the low-quality message – it is too likely that she will ultimately hire a low-quality sender if she gives him a chance to make his case. Yet, since the receiver conditions her support on the performance if she hears the high-quality message, she knows that she will never pay the underperformance cost or hire a low-quality sender. And for that reason, she would contribute if she unexpectedly heard the high-quality message. Thus, δ must be neither too high nor too low.

Given the receiver's behavior, the senders know that if they report high quality there will be a contribution. Indeed, the high-quality sender may even receive full support if he performs well. Thus, for an equilibrium, we require that the underperformance cost be high enough that neither sender has an incentive to report high quality. The condition on the sender's underperformance cost (β_U^S) ensures that neither will do so.

We refer to this kind of DME as 'defensive', because the high-quality sender uses it to avoid an embarrassing underperformance. Critically, he does so expecting no contribution in equilibrium. Thus, while DME in this context protects against underperformances, it does not allow senders to take advantage of overperformances. More broadly, the equilibrium results in an obvious inefficiency. Receivers are stuck with the default opportunity, and the high-quality sender receives no support.

4.2. Simultaneous dissembling

The Defensive Sender case suggests that DME is sometimes not about taking advantage of unexpected outcomes. In the cases that follow, we consider other limitations on the conventional wisdom. We begin by discussing a fundamental limit on DME. Namely, there is no meaningful equilibrium in which high-quality senders are expected to send the low-quality message, while low-quality senders signal high quality. Under such a profile of strategies, the receiver would never support upon hearing the high-quality message, yet would support any performance after hearing the low-quality message. Knowing this, the only issue for the receiver is whether the cost of contribution is sufficiently low. If it is, the receiver will contribute, and then the low-quality sender will want to send the low-quality message. If she does not contribute, then the senders can dissemble simultaneously, but

they do so by babbling. In situations where low-quality individuals overpromise, high-quality individuals cannot take advantage of DME.

4.3. Truthful communication

While there are a number of reasons to engage in DME, it would seem that in many contexts communication is more or less truthful. There are two related cases of such behavior in our model. Specifically, when the difference in value of the high-quality sender and the receiver's default option is sufficiently large, and when the sender's cost of underperformance is neither too high nor too low, there exist equilibria in which senders report quality consistent with their true competency.

Case A: Unconditional support for high-quality sender

For

$$\beta_U^R \leq t_h - d,$$
$$\beta_U^S \in \left(w, \frac{w}{1-\tau}\right),$$

and

$$\delta \leq \frac{t_h - d - \beta_U^R + \beta_U^R \tau}{1 + t_h - \beta_U^R + \beta_U^R \tau},$$

the following assessment is a PBE:

$$\sigma_S = \begin{cases} m_h & \text{if } t_h \\ m_l & \text{if } t_l, \end{cases}$$

$$\sigma_R = \begin{cases} c & \text{if } m_h \\ \neg c & \text{if } m_l \\ s & \text{if } m_i, p_h \text{ or } m_h, p_l \\ \neg s & \text{if } m_l, p_l, \end{cases}$$

$$\mu_S(t_l \mid t_l) = \mu_S(t_h \mid t_h) = 1,$$
$$\mu_R(t_h \mid m_h, \cdot) = \mu_R(t_l \mid m_l, \cdot) = 1,$$
$$\mu_R(t_l \mid m_h, \cdot) = \mu_R(t_h \mid m_l, \cdot) = 0.$$

Case B: Conditional support for high-quality sender

For

$$\beta_U^R \geq t_h - d,$$
$$\beta_U^S \in \left(\delta w, \delta w + \frac{w\tau}{1-\tau}\right),$$

and

$$\delta \leq \frac{\tau(t_h - d)}{1 + d + \tau(t_h - d)},$$

the following assessment is a PBE:

$$\sigma_S = \begin{cases} m_h & \text{if } t_h \\ m_l & \text{if } t_l, \end{cases}$$

$$\sigma_R = \begin{cases} c & \text{if } m_h \\ \neg c & \text{if } m_l \\ s & \text{if } m_i, p_h \\ \neg s & \text{if } m_i, p_l. \end{cases}$$

Beliefs are identical to those in Case A.

When the senders separate, the receiver learns quality precisely. For this reason, she will never support or contribute to a sender who has announced that he is of low quality. Unfortunately, because the receiver is subject to the psychological dynamics associated with underperformances, and she knows it, the receiver may or may not contribute to the sender who has reported high quality. In Case A, she supports no matter what the performance, because her underperformance cost (β_U^R) is sufficiently low, and in this case, she will expect to pay the underperformance cost if the sender performs poorly. In Case B, she only supports if the high-quality sender performs well, because β_U^R is too high, and thus she will want to avoid the underperformance cost. For this reason, the cost of contribution in Case B can be higher than in Case A. For truthful reporting, the sender's underperformance cost (β_U^S) cannot be too large, such that the high-quality sender would want to underreport, and β_U^S cannot be too low, lest the low-quality sender attempt to take advantage of the receiver's beliefs and capture the benefit of contribution.

The critical logic of this case, that which distinguishes it from DME and the conventional wisdom, is that the high-quality sender cannot underreport, lest he be ignored. In a separating equilibrium, it is simply not possible to take advantage of unexpected overperformances, because if you try, then receivers do not give you the chance to demonstrate your quality. This dynamic reflects a second critical constraint on DME. When receivers expect high-quality individuals to report their competence truthfully, doing otherwise only results in obscurity.

Clearly, these equilibria resolve the informational imperfections associated with DME. The receiver will only ever support a high-quality sender, and she does so knowing full well whom she is dealing with. So, from the receiver's perspective, separation is a considerable improvement when compared to pooling in the DME case. Of course, the high-quality sender bears the cost of this benefit to the receiver, because he risks an underperformance.

4.4. Overpromising

The final case we consider involves behavior in which the low-quality sender pools with the high-quality sender on the high-quality message. The essential logic of this equilibrium is that low-quality senders mimic honest high-quality senders in order to obtain temporary support. As the figures summarize, this is only possible when it is sufficiently

likely that the sender is of high quality. On the other hand, as we explain, the probability that the sender is of high quality cannot be too high either.

Taking advantage of high-quality truthfulness

For

$$\pi \in \left[\frac{d - t_l}{t_h(1-\tau) - t_l + d\tau}, \frac{d - t_l + \beta_U^R}{t_h(1-\tau) - t_l + d\tau + \tau\beta_U^R}\right),$$

$$\delta \in \left[\frac{t_l - d + \pi(t_h - t_l) + \beta_O^R \pi\tau}{1 + t_l + \pi(t_h - t_l) + \beta_O^R}, \frac{(t_h - d)\pi\tau}{1 + d + (t_h - d)\pi\tau}\right),$$

and

$$\beta_U^S \leq \delta w,$$

the following assessment is a PBE:

$$\sigma_S = \begin{cases} m_h & \text{if } t_h \\ m_h & \text{if } t_l, \end{cases}$$

$$\sigma_R = \begin{cases} c & \text{if } m_h \\ \neg c & \text{if } m_l \\ s & \text{if } m_i, p_h \text{ or } m_l, p_l \\ \neg s & \text{if } m_h, p_l. \end{cases}$$

Beliefs are identical to those in the Downward Management cases.

In a lot of ways, this case reflects the logic of Defensive DME. In equilibrium, the receiver conditions her support on a high performance since the probability that the sender is of high quality is too low; however, if she heard the low-quality message, she would support no matter what the performance. Yet, expecting to sometimes hire low-quality candidates after hearing the low-quality message, she opts not to contribute after the low-quality message – the cost of contribution is too high. On the other hand, since she conditions her support on a high-quality performance in equilibrium, she will not make such a mistake after hearing the high-quality message, and it is worth the cost to identify a sender that improves on the default option. For the senders' behavior to be sequentially rational, it must be that the underperformance cost is sufficiently low. Because the high-quality sender anticipates a positive probability of support, but the low-quality sender does not, the low-quality sender requires a lower β_U^S to send the high-quality message. In fact, the low-quality sender can only expect to gain the value of contribution. Thus, we need $\beta_U^S \leq \delta w$.

From the perspective of the receiver, this equilibrium is somewhat less problematic than the DME cases, in which she is equally uninformed by the messages. The reason is that the receiver will only ever support a high-quality sender, whereas in the DME cases, she risks supporting low-quality senders, as well. The problem, in so far as there is one, is that low-quality senders take advantage of high-quality senders, and manage to chip away at the receiver's assets via the contribution stage. Basically, low-quality senders prey

on receivers who expect high-quality senders to be truthful. Though they never gain full support, they do capture receivers' attention, if only temporarily.

What is most interesting about this case is that, since receivers never support after low-quality performances, low-quality senders are never discovered. They certainly pay the reputational cost associated with the poor performance, but it is not clear that they are, in fact, of low quality. In this sense, the model not only provides a simple logic for distinct sorts of DME and truthful reporting, it also suggests a rationale for the persistence of individuals in political, social, or economic markets, who systematically overreport their competence.

4.5. Summary

The results derived in this section demonstrate the generality of our model. Not only does the model capture the conventional wisdom of expectations management, it speaks to all of the behavioral outcomes that we would reasonably expect to observe whenever individuals communicate expectations.[19] While the conventional wisdom seems to suggest that downwardly managing expectations is a foregone conclusion, there are numerous political, financial, and marketing examples where downward management of expectations fails to occur. Not only do individuals sometimes report their competence truthfully, but sometimes we even observe individuals upwardly managing expectations.

Further, we are able to refine our understanding of DME under the conventional wisdom in an important way. While most observers seem to understand the conventional wisdom to be an aggressive form of expectations management, where individuals exploit audience psychology to make themselves look better, our model shows that this is not the only reason why individuals downwardly manage expectations. Sometimes DME is defensive. It serves to protect against embarrassing performances, but it does not take advantage of anything. This kind of behavior results in a significant inefficiency.

In summary, the model describes two logics of DME, but it also places constraints on when DME is possible at all. Critically, high-quality senders cannot engage in DME, either when receivers expect senders to report truthfully or all low-quality senders are expected to overpromise. In either case, senders cannot use DME because, by doing so, they are ignored.

From Figure 1, we learn that the overpromising equilibrium can only ever occur and be unique when the high-quality sender population is sufficiently large. Given sufficiently large high-quality sender populations, there is also a more expansive set of conditions under which truthful revelation is unique. In the next section, we further discuss the empirical implications of our model by relating them directly to prominent examples from political science and finance.

5. Empirical implications

The conventional wisdom of expectations management provides an intuitive explanation of the phenomenon, but it also suggests that we should always aggressively manage expectations downward. Yet, some people seem to truthfully report their competencies and others seem to claim too much. And though audiences are frequently receptive to underpromising, this is not always the case. The simple model we have developed speaks

to the challenges of DME for senders and receivers, and thus fills in several analytical blind spots under the conventional wisdom. In this section, we review a number of the model's empirical implications. We begin with the primary behavior of interest, the intentional downward management of expectations.

Observation 1. *Individuals are more likely to promise a performance level below their true capacity, expecting an opportunity to perform better than promised, as the cost interlocutors pay for observing the performance decreases.*

Aggressive DME is limited fundamentally by the costs receivers pay to observe a performance. Reconsider Figures 1 and 2. As these costs (δ) increase and we move to the right across the figures, receivers are less willing to take risks on supporting candidates whose quality they cannot infer from the message. In the absence of better information, they are unwilling to take a chance on the sender. Relatedly, as δ increases, the high-quality sender's incentive to reveal himself increases. This is reflected in the figures by an expansion of the Truthful Communication (B) regions.[20] The upshot is that unique equilibria of the Aggressive DME sort become less likely as the cost of observing a performance increases.

The Pinochet example discussed in the introduction provides a starting point for illustrating the result and suggesting how the hypothesis can be tested in legal contexts. The 1999 extradition hearing was precisely the kind of setting in which lawyers would have a strong incentive to initially undersell their evidence. While there are a number of ways to interpret the model in this setting, let us suppose that the receiver models the magistrate and that the sender models the Crown's attorney. Suppose further that the magistrate's problem involves making the correct legal decision in a context in which the Crown does not always share his view of extradition requirements, perhaps especially not in this context.[21] The default option in this case might reflect allowing Pinochet to return to Chile. The low-quality sender would be reflected by a Crown lawyer advancing an argument that is ultimately without merit, at least with respect to the magistrate's interests, whereas the high-quality sender would be reflected by a lawyer developing a meritorious argument. The judge will look to the hearing to learn about the merits of the Crown's case.

Critically, the relevant receiver in the case was a captive observer. He was highly likely to observe the evidentiary proceedings. Although there would have been cognitive costs associated with paying attention, we might imagine that they were particularly low, especially in such a highly charged case. The magistrate was going to listen. Consequently, tracking the conventional logic of taking advantage of overperformances and defending against underperformances, there would have been much to be gained from aggressive expectations management. Had the magistrate been likely to ignore the presentation, or worse, if he could have simply ended the hearing prior to the evidentiary presentation, the incentive to truthfully reveal the full weight of the argument from the start would have kicked in.

This suggests that as the salience of a case decreases, we might expect judges to be less susceptible to Aggressive DME and thus lawyers less likely to use it. It also suggests that we should be less likely to see aggressive downward management of expectations in jury settings. Although juries are captive audiences like judges, it may be that jurors are less likely to meet the cognitive challenges associated with paying attention, and

for this reason, lawyers may confront stronger incentives to make their best case from the beginning. Finally, the cost of observing a performance should be lower in each of these legal settings than, say, in the context of submitting a brief requesting discretionary review of a lower court decision, where opportunity costs may make judges less willing to hear an argument that is not particularly well presented in writing. Relative to settings where judges are captive, the incentives to truthfully reveal high competence should be strong.

This result also suggests implications outside the legal context. As we know, political campaigns give rise to well-known examples of expectations management, especially so in the literature on presidential campaigns in the United States. As discussed above, scholars have found that presidential candidates are rewarded with increased financial donations for exceeding expected finishes in primary elections (e.g., Aldrich, 1980; Damore, 1997), and strong early results are commonly understood to increase the chances of victory. Our model suggests an explanation for why we see such stark differences between primaries and general elections.

Specifically, from a voter's perspective supporting one candidate over another within a party is far less costly than supporting one of two candidates from opposing parties in a general election. The primary reason is that there are direct, immediate policy consequences associated with getting it wrong in a general election, whereas the costs of making the wrong decision in a primary have only attenuated effects on policy outcomes. Relatedly, candidates from the same party are likely to be competent enough to carry out the voter's preferred policies. The high quality of the candidate in a primary is therefore almost guaranteed, at least relatively speaking. The same clearly is not true in the case of a general election, where the quality of the candidates – again, in terms of carrying out voters' preferred policies – can vary substantially. For these reasons, we would expect aggressive management of expectations to be more attractive to politicians in the context of a primary than in a general election.

Insofar as we observe aggressive expectations management in general elections, it should be limited to events where observers are essentially captive audiences (and the costs of observation are low). It is for this reason, we believe, that candidates should be far more likely to manage expectations prior to debates than they would be in, say, their direct communication with potential donors.

Observation 2. *Individuals are more likely to promise a performance above their true capacity as the reputational costs of underperformance decrease, but only when the population of high-quality senders is sufficiently high.*

The intuition behind the first piece of this result reflects well-known findings in marketing (see Kopalle and Lehmann, 2006). If senders pay significant costs for performing below a promise, the incentive to overpromise should decrease. Empirically, if we suppose that reputation costs generally increase for senders as the visibility of the performance increases, then we can conclude that we will be less likely to see overpromising in political settings where negative performance outcomes are highly visible. On the other hand, there are other natural ways of operationalizing the costs of underperformance. It is possible that politicians pay lower reputational costs at the end of their careers, where the value of a strong reputation declines. If this is right, then we might be more likely to

observe overpromising among older politicians or those who are less likely to be seeking reelection (e.g., politicians nearing a term limit).

Although consistent with the general finding on reputational costs in marketing, it is critical to recognize that the predicted effect of reputational costs on overpromising is conditional in a way that reflects the general dynamics of strategic communication models. Specifically, consider the effect of beliefs in the true quality of the sender. When it is extremely unlikely that senders are of high quality, overpromising cannot be part of an equilibrium. It is only when receivers have strong reasons to believe that senders are of high quality that low-quality senders are willing to send high-quality messages, taking advantage of the receiver's willingness to take a chance on a preliminary performance. Low-quality senders exploit this and render it impossible for high-quality senders to further distinguish themselves. This dynamic is similar to Spence's (1973) result on attainment of qualifications in the context of the job market. Yet, while in Spence's model the equivalent pooling outcome is on the lowest common denominator, here, because of the addition of a performance stage that allows receivers to condition ultimate support on the sender's ability to deliver, senders pool on the high-quality message.

The key here is that overpromising is not linked straightforwardly, as intuition would suggest, to reputation costs. We do not simply see that the more (less) overpromising, the lower (higher) the reputation costs for low-quality senders. In fact, overpromising can only ever occur in situations where there is a sufficiently large high-quality sender population. In its absence, overpromising is not a sustainable strategy for low-quality senders.[22]

Observation 3. *Individuals are more likely to have new policy initiatives fall below expectations as beliefs about the quality of officials promoting these initiatives increase.*

In the context of policy making, especially policy reform, we might interpret the receiver's choice as being between a new alternative, the quality of which is represented by her beliefs about the sender or promoter of the alternative, versus a commitment to the status quo, as reflected by the default option. Observation 3 suggests conditions under which we should be more likely to observe receivers taking a chance on a new alternative and being unpleasantly surprised. For this to happen in equilibrium, it must be that high-quality senders truthfully reveal their quality. If they do not, low-quality senders cannot send the high-quality signal. If the high-quality sender is not truthful, the only message that is possible announces low quality. Consequently, in such a case, the receiver would never be in a position to have her hopes dashed. Thus, it is only possible for receivers to be unpleasantly surprised in two kinds of equilibria: where both senders truthfully report their competence and where low-quality senders overreport.

The logic underlying Observation 3 depends on the following dynamic. As receivers become increasingly likely to believe that the sender is of high quality, there are more regions of the parameter space in which it will be possible for the receiver to hear the high-quality message, and thus to be set up for an expectations fall. Truthful communication equilibria may be sustained for any value of π, the prior probability that the sender is of high quality. Importantly, since receivers learn the sender's type perfectly in truthful communication equilibria, the conditions under which these equilibria can hold are independent of π. However, when the probability that the sender is of high quality is sufficiently low, as it is in Figure 2, the sizes of the Aggressive DME regions expand. For

this reason, there are fewer possibilities for receivers to have their expectations dashed.[23] Moreover, overpromising equilibria can only be sustained when it is sufficiently likely that the sender is of high quality, as is displayed in Figure 1. For precisely the same values of the other parameters in the model, as π decreases (as displayed in Figure 2), only DME or babbling equilibria exist. The bottom line is that the conditions that must be met in order for expectations to be unfulfilled are harder to meet as the probability that the sender is of high quality decreases.

There are a variety of ways of operationalizing this hypothesis. Generally speaking, it seems plausible that the likelihood of meeting a high-quality public official increases with the size of a political unit.[24] In so far as this is true, we might expect that individuals will be more likely to have their high expectations dashed in the context of national policy reform than local reform. Likewise, if economic development increases the likelihood of meeting a high-quality official, we might expect that individuals in more developed states will be more often disappointed in reform efforts than those in less developed states.

6. Conclusion

Individuals appear to underreport competence in a variety of settings. The conventional explanation for this behavior suggests an intriguing rationale for doing so; however, taken to its logical extreme, it also suggests that individuals should always downwardly manage expectations. Obviously, people quite frequently try to accurately characterize their abilities, and sometimes people seem to report a higher competency than is true. In this paper, we have investigated the conditions under which the downward management of expectations is profitable, and whether it is ever profitable to report truthfully or overpromise. As we have discussed, all of these behaviors are possible.

Each type of equilibrium bears with it distinct consequences for the players. Aggressive DME is highly attractive from the perspective of senders, although the cost of its informational imperfections are borne entirely by receivers. Defensive DME, in turn, results in an unambiguous inefficiency in the model – neither senders nor receivers benefit significantly in equilibria, in which high-quality senders mimic low-quality senders simply to avoid an underperformance. Finally, although separation aids the receiver considerably, the cost of the receiver's informational advantage must be borne by the sender.

Although we have restricted our discussion to situations in which high-quality senders are genuinely valuable, Aggressive DME is also undoubtedly constrained by their relative value. For example, consider a situation in which $d > t_h$, that is, the alternative to the sender is better than even the high-quality type. In such a case, it would be impossible to do anything productive with a signal. As we discussed in the introduction, the Bush administration's experience in Iraq suggests that an effort was made as early as 2005 to lower expectations regarding development and security goals. The Iraq example illustrates a condition under which it is probably not possible to manage expectations. When even the high-quality version of the sender is perceived to be less attractive than any alternative, it really does not matter what the sender says to the receiver. It is clearly possible that Bush, or later General Petraeus, could have said anything about expected outcomes in Iraq. Congress (perhaps the American public) was not listening. In fact, the

administration's lack of message control on Iraq after the initial invasion is a very fair example of what a babbling equilibrium ought to look like.

A related possibility is that a policy environment has become so bad that in order to exceed expectations one has to set a promised policy outcome so low as to be insulting. After its initial failings during the Katrina disaster, it seems entirely unlikely that the Federal Emergency Management Agency (FEMA) could have managed expectations in any way. This is not to say that expectations could not have been beaten. Obviously, it would not have been difficult for FEMA to outperform its local reputation at least. This could have been accomplished by simply doing an adequate job. The point is that once expectations of its competency were as low as they had become, it would have been impossible for FEMA to manage expectations downward without promising a truly insulting policy outcome.

Examining the conventional rationale for managing expectations has produced some useful insights about the rationality of the strategy. Given the fact that we observe the strategy in numerous literatures, both within political science and across a wide array of fields, it is appropriate to develop a model of the phenomenon. We have described how this model might be applied in some of the most relevant settings in political science. Quite clearly, the empirical implications of the model require testing. But the model is flexible and can be extended in a variety of ways. Such extensions might ask whether it is possible to repeatedly manage expectations. Is there a limit to the number of times a person can trick you into thinking that they are worse than they actually are? But beyond extensions in this context, we hope that the paper invites models of other common rhetorical devices that seemingly influence policy outcomes.

A. Simultaneous dissembling

Consider an assessment in which the low-quality type, t_l, sends the high-quality message, m_h, while the high-quality type, t_h, sends the low-quality message, m_l. In any equilibrium of this sort, the receiver would know the sender's type with certainty upon hearing the message and would never support a sender after hearing m_h. The most she could ever obtain (i.e., as β_U^R goes to zero) by supporting (s) is $(1-\delta)(1+t_l)$, whereas she would obtain $(1-\delta)(1+d)$ by not supporting ($\neg s$), and since $t_l < d$, she would never support. Given that she would never support after m_h, she would certainly never contribute (she therefore chooses $\neg c$).

After hearing m_l, and observing the performance, the receiver will always support. There are two reasons. First, $t_h > d$. Second, the least she can obtain from supporting (as β_O^R goes to zero) is $(1-\delta)(1+t_h)$, whereas she would obtain $(1-\delta)(1+d)$ by not supporting. Knowing that she will always support, no matter the performance, the receiver contributes if and only if

$$\tau[(1-\delta)(1+t_h+\beta_O^R)+(1-\tau)(1-\delta)(1+t_h)] \geq (1-d)$$

$$\delta \leq \frac{t_h - d + \tau\beta_O^R}{1+t_h+\tau\beta_O^R}.$$

If this condition is satisfied, the receiver will support, and the low-quality sender will do strictly better by sending m_l. Thus, the only way in which the sender types can simultaneously dissemble in a PBE is if the condition is not satisfied, and thus the receiver fails to contribute to the sender following both messages. When that is true, any set of messages is sequentially rational.

B. Truthful communication

When the sender reports his type faithfully, the receiver learns it with certainty. Since $d > t_l$, the receiver will never support after hearing m_l, no matter the performance; and for that reason, she will never contribute. After hearing m_h and observing a performance, she will support given a high-quality performance (p_h), since $d < t_h$, and she will support following a low-quality performance (p_l) if

$$1 + t_h - \beta_U^R > 1 + d, \text{ or}$$
$$\beta_U^R < t_h - d.$$

Case A: $\beta_U^R < t_h - d$
Expecting to support the sender no matter what the performance, what the receiver contributes if and only if

$$(1-\delta)[\tau(1+t_h) + (1-\tau)(1+t_h-\beta_U^R)] \geq 1 + d, \text{ or}$$
$$\delta \leq \frac{t_h - d - \beta_U^R + \beta_U^R\tau}{1 + t_h - \beta_U^R + \beta_U^R\tau}.$$

If this condition is not met, then the players will babble in equilibrium. If the condition is met, to ensure that the high-quality sender sends m_h, it must be that $\beta_U^S < w/(1-\tau)$. Further, since the low-quality sender could obtain the contribution and support by sending m_h, but would have to pay the underperformance cost, we also need $\beta_U^S \geq w$. Thus, equilibrium requires $\beta_U^S \in (w, w/[1-\tau])$.

Case B: $\beta_U^R \geq t_h - d$

Expecting only to support if p_h, the receiver will support if and only if $\delta \leq \tau(t_h - d)/[1 + d + \tau(t_h - d)]$. If this condition is not met, then the receiver will not contribute and the players could only babble in equilibrium. If it is met, to ensure that the high-quality sender sends m_h, it must be that $\beta_U^S < w[\delta + \tau/(1-\tau)]$. Further, since the low-quality sender could obtain only contribution by sending m_h, and would have to pay the underperformance cost, we also need $\beta_U^S \geq \delta w$. Thus, equilibrium requires $\beta_U^S \in (\delta w, w[\delta + \tau/(1-\tau)])$.

C. Overpromising

In any strategy profile in which the senders simultaneously send m_h, given passive conjectures, the receiver is equally uncertain about the sender's type at both information sets. If ever the receiver would support no matter what the performance level after hearing m_h,

she would support no matter the performance after hearing m_l. This is because supporting after p_l entails an underperformance cost if m_h has been sent, but not if m_l has been sent. Likewise, if ever the receiver would support upon p_h after m_h, then she would support only after p_h if m_l. Finally, if the receiver would contribute expecting to support no matter what the performance after m_h, then she would certainly contribute expecting to support no matter what the performance after m_l; and, if the receiver would contribute expecting to support only for p_h after m_h, then she would certainly contribute expecting to support having seen p_h after m_l. In any of these cases, the types should send m_l. Thus, we cannot have a pooling equilibrium on m_h if the receiver contributes on- and off-path, expecting to support the same kinds of performances.

It is nevertheless possible that the receiver would support no matter what the performance after m_l is sent but support only after p_h if m_h is sent. But to ensure that the types do not have incentives to send m_l, it must be that the receiver does not contribute off-path. Thus, since there is no meaningful case of simultaneous dissembling, if there is going to be overpromising in a meaningful PBE, it must be in a context in which the receiver does not contribute off-path expecting to support after both p_l and p_h, yet contributes on-path expecting to support if and only if p_h. For this to be true, we need the prior probability that the sender is of high quality to be sufficiently low:

$$\pi < \frac{d - t_l + \beta_U^R}{t_h(1-\tau) - t_l + d\tau + \tau\beta_U^R}.$$

To ensure that the receiver would support no matter what the performance off-path we need

$$\pi \geq \frac{d - t_l}{t_h(1-\tau) - t_l + d\tau}.$$

To ensure that the receiver would not contribute, expecting to support no matter the performance off-path, we need δ to be sufficiently large:

$$\delta > \frac{t_l - d + \pi(t_h - t_l) + \beta\pi\tau}{1 - t_l + \pi(t_h - t_l) + \beta\pi\tau}.$$

Moreover, to ensure that the receiver contributes on-path, expecting to support only if p_h, we need

$$\delta \leq \frac{(t_h - d)\pi\tau}{1 - d + (t_h - d) + \pi\tau}.$$

Given σ_R, the low-quality sender can only hope to obtain contribution in equilibrium. Thus, for m_h to be sequentially rational, it must be that $\delta w - \beta_U^S > 0$ or $\beta_U^S < \delta w$. Since the high-quality sender has a chance to obtain full support, he/she will send m_h as long as $\beta_U^S < [\tau(w - \delta w) + \delta w]/(1-\tau)$. Since $\delta w < [\tau(w - \delta w) + \delta w]/(1-\tau)$, for equilibrium, we require $\beta_U^S < \delta w$.

D. The downward management of expectations

D.1. Aggressive DME

After hearing m_l, the receiver will support if and only if

$$\pi \geq \frac{d - t_l}{t_h(1-\tau) - t_l + d\tau}.$$

Case A: $\pi \geq \frac{d - t_l}{t_h(1-\tau) - t_l + d\tau}$
In this case, the receiver will contribute if and only if

$$\delta \leq \frac{t_l - d + \pi(t_h - t_l) + \beta_O^R \pi\tau}{1 + t_l + \pi(t_h - d) + \beta_O^R \pi\tau}.$$

If the receiver contributes, then neither sender type will have an incentive to send m_h, no matter what the receiver is expected to do off-path.

Case B: $\pi < \frac{d - t_l}{t_h(1-\tau) - t_l + d\tau}$
In this case, the receiver will support only after p_h. In so far as this is true, then she would certainly not contribute no matter what the performance if she hears m_h. Such a choice would risk both the underperformance cost and the possibility of supporting the low-quality sender – risks that do not apply to the choice on-path. To contribute on-path, expecting to support only if p_h, we must have

$$\delta \leq \frac{\pi\tau(\beta_O^R + t_h - d)}{1 + d + \pi\tau(\beta_O^R + t_h - d)}.$$

If this condition is met, then since the receiver could only be contributing off-path in the expectation of supporting only if p_h, neither type has an incentive to send m_h.

D.2. Defensive DME

Consider a scenario in which we have $\pi \geq (d - t_l)/[t_h(1-\tau) - t_l + d\tau]$, so that the receiver contributes to the sender on-path no matter what the performance level. Further, suppose that $\delta > [1 - d + \pi(t_h - t_l) + \beta_O^R \pi\tau]/[1 + t_l + \pi(t_h - d + \beta_O^R \pi\tau)]$, so that the receiver is not contributing on-path.

For communication not to be babbling, it must be that the receiver is contributing if she hears m_h. Since the receiver is not contributing on-path expecting to support no matter what, she certainly would not contribute off-path expecting to support no matter the performance. Thus, the only possibility is that the receiver supports off-path expecting to condition her support on the observed performance.

Thus, to support off-path, only if p_h, we need

$$\pi < \frac{d - t_l + \beta_U^R}{t_h(1-\tau) - t_l + d\tau + \tau\beta_U^R}.$$

Moreover, to ensure that the receiver is contributing after hearing m_h, we need

$$\delta \leq \frac{(t_h - d)\pi\tau}{1 + d + (t_h - d)\pi\tau}.$$

Finally, consider the sender. Given σ_R, the low-quality sender can only hope to obtain contribution in equilibrium. Thus, for m_L to be sequentially rational, it must be that $\delta w - \beta_U^S < 0$ or $\beta_U^S > \delta w$. Since the high-quality sender has a chance to obtain full support, he will send m_l as long as $\beta_U^S > w[\delta + \tau/(1-\tau)]$. Since $\delta w < w[\delta + \tau/(1-\tau)]$, for equilibrium, we require $\beta_U^S > w[\delta + \tau/(1-\tau)]$.

Notes

1. The 35 torture charges facing Pinochet. *BBC News.* http://news.bbc.co.uk/2/hi/uk_news/458990.stm.
2. *The Pinochet Case*. Dir. Patricio Guzmán. First Run/Icarus Films, 2001.
3. Kramer M (1996) Grading expectations. *Time Magazine*, 12 February.
4. Wright R and Knickmeyer E (2005) U.S. lowers sights on what can be achieved in Iraq. *Washington Post*, 14 August.
5. Chan S (2010) Bernanke manages expectations for Fed Role. *New York Times*, 29 August.
6. Ed Miliband's Speech to Labour's NPF. http://www2.labour.org.uk/ed-milibands-speech-to-labours-npf,2010-11-27.
7. For this reason, movie production companies wage wars over expected opening weekend gate receipts, where producers find themselves in the awkward position of trying to control inflated predictions of their own success floated by competitors. See Friedman J (2006) Nice movie opening, but did you beat the forecasts? Studios define success as a 'strong' premiere — and jockey for it by managing expectations. *Los Angeles Times*, 6 August.
8. Holiday Inn's ill-chosen 'No Surprises' slogan provides a useful example. The campaign was unsuccessful precisely because there are always 'surprises' in hotel management, and, when surprises inevitably emerged, complaints were more intense than usual (George and Berry, 1981; Zeithaml et al., 1988).
9. See Hinckley and Green (1996) for an alternative perspective on fundraising, where the authors argue that the variance in donations is largely explained by organizational features.
10. To be fair, the proposed mechanism here is that individuals compare actual outcomes with hypothetical alternatives. Yet, these alternatives may or may not be directly tied to expectations. That is, it is possible for an individual to be disappointed with an unexpected gain, if she evaluates this gain relative to an even larger gain.
11. For another model that has psychological dynamics built in, see Lupia and Menning (2009).
12. We opt to treat δ, the fixed-cost parameter, as an exogenous variable. It is the cost that a receiver needs to pay to see the sender perform, either in terms of an initial campaign or an interview. In most situations, we believe, these costs are exogenously given and not determined by the sender. For example, in the context of a political campaign, δ would represent the initial costs of setting up a campaign, which are determined by the (political) market. Assuming the market is competitive, these costs cannot be influenced either by the sender or the receiver.
13. Allowing t_l to produce a high-quality performance increases the number of cases considerably without influencing the central logic of equilibrium behavior, which we discuss below.
14. In our view, it is natural to assume that there are reputational consequences – above and beyond the support the receiver provides – for performing above or below a promise. We

discuss the implications of this choice for equilibrium behavior below, but it is critical to note that these reputation effects are not providing incentives for more truthful behavior. We could imagine a dynamic model in which senders come to develop reputations for truthful revelation, but this is not the model we have here.

15. In financial contexts, the interpretation is straightforward. In non-financial contexts, we assume again that by formally entertaining a relationship with the sender, but ultimately opting to return to the alternative, the receiver does some fixed damage to the default relationship. Again, the model allows the damage to be arbitrarily small.
16. One consequence of this setup is that it will be possible in equilibrium for a receiver to be disappointed by a low-quality sender that pretends to be of high quality and subsequently performs badly, even when the receiver knows his type for sure. The psychological dynamic we are trying to model is one in which the costs of underperformance or benefits of over-performance are tied directly to what the sender communicates about himself (for a similar approach to incorporating psychological dynamics into a game-theoretic model, see Lupia and Menning, 2009). This is the empirical pattern we see across the literature. The clearest example, which we noted in the text above, is that stock values fall when firms miss earnings expectations, which they set, even controlling for contemporaneous valuations. In the psychology literature, this phenomenon is referred to as the anchoring effect (Tverskey and Kahneman, 1974). In various experiments, it has been shown that anchoring has such a strong effect on individuals' judgement that new information is insufficiently employed to make adjustments to the initial judgement (again, see Tverskey and Kahneman, 1974).
17. We assume that beliefs are formed off-path via 'passive conjectures,' so that players do not update further at information sets, which should not be reached in equilibrium (Fudenberg and Tirole, 1983). We do not consider mixed-strategy PBE in this model for two reasons. First and foremost, the pure-strategy equilibria provide meaningful substantive answers to our research question. Second, clearly the model produces multiple equilibria. In particular, when the default rate of return is extremely high, multiple sets of messages are optimal for the sender. Thus, adding the possible mixed-strategy cases to this model only contributes to the theoretical complexity without offering an obvious analytical benefit.
18. The boxes around the x- and y-axes labels indicate that the enclosed terms are not uniquely ordered. Depending on the ordering of the enclosed conditions, the region of uniqueness for some of the equilibrium types either expands or contracts.
19. It is worth considering what would happen if we eliminated the reputational dynamics associated with the sender's behavior. With no consequences for the sender for performing below or above a promised level, all Aggressive DME equilibria continue to exist under the same conditions; however, truthful revelation can no longer be part of an equilibrium. The reason is that, with no costs for underperformance, there is nothing constraining the low-quality sender from sending the high-quality message and receiving a contribution. For a similar reason, Defensive DME is no longer an equilibrium, because both types would send the high-quality message knowing that they would at least receive an initial contribution. In addition, the conditions that sustain overpromising are relaxed. For example, for very low values of δ, where the receiver provides unconditional support and contributes initially after hearing the high-quality message, she would continue to do so if she heard a low-quality message. Yet, since there are no consequences for over- and underperformance for the senders, no type benefits from sending the low-quality message. In summary, the effects of ruling out reputational dynamics for the sender are (a) to eliminate equilibria in which the types separate and (b) to make overpromising possible even when the costs of observing a performance are very low. In tandem, this change works to cloud the receiver's information, expanding the scenarios in which low-quality senders can take advantage of her uncertainty and resulting in more cases where receivers observe performances below what was promised. On the other

hand, it also works to eliminate a scenario in which receivers fail to hire high-quality senders merely because high-quality senders were afraid of performing poorly. Yet again, without reputational costs for the sender, it is possible to sustain cases of Overpromising in precisely the region where Defensive DME was previously possible.

20. The size of the Aggressive DME regions depends on a number of parameters related to high-quality senders. In particular, the value of δ below which Aggressive DME can be supported shrinks to the left, as the high-quality sender population (π) becomes smaller, as well as with decreases in the rates of return from high-quality senders (t_h) and decreases in the competence levels on the part of high-quality senders (τ). Similarly, decreases in the overperformance benefits enjoyed by receivers also restrict the Aggressive DME regions. Finally, the more attractive the default option, i.e., the higher d, the less likely Aggressive DME is sustainable in equilibrium.
21. By 'correct' we only mean to suggest that the magistrate will wish to allow extradition if there is a plausible case against the general and not do so otherwise. We take no position on what the judge sincerely believes to constitute a 'plausible case'. We only suggest that it is clearly possible for a magistrate to want to partition cases in this way.
22. We note that for overpromising to be sustainable in equilibrium, it is also necessary that the high-quality sender population is not too large. The intuition is that if the quality of the sender population is too high, receivers lose the incentive to condition full support on performance, thereby rendering the equilibrium unsustainable.
23. Specifically, using the labels in Figures 1 and 2, $\delta^{B}_{ADME} > \delta^{C}_{DDME}$.
24. Of course, it is certainly true that some small locales will have a higher population of high-quality officials than larger ones.

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