Managing Expectations: When Does It Work and What Are the Consequences?*

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Abstract

Popular accounts of politics commonly relate stories of candidates, elected officials and bureaucrats appearing to undersell their competence. Insofar as individuals typically construct images of high quality, why do people report an expected performance level below what they think is possible? We call this behavior the downward management of expectations. The standard explanation is that people try to hedge against negative consequences of unanticipated failures and take advantage of unexpected successes. Taken to its logical extreme, the argument suggests that individuals should always manage expectations downward. Quite obviously people do not always undersell their abilities and some even appear to report quality above what they believe to be true. We develop a model of communication designed to identify the conditions under which the downward management of expectations is profitable. We also consider the conditions under which individuals should either truthfully represent their perceived qualities or over-promise.

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"Expectations – you beat 'em by a dollar, life is great. Under by a dollar, put a gun to your mouth and make sure I'm standing behind you."

–Ari Gold in the episode "One Day in the Valley" on HBO's *Entourage*

"In order to get out earlier, expectations are going to have to be lower, even much lower. The higher your expectation, the longer you have to stay."

–Wayne White, former State Department official, on the political challenge of troop withdrawal in Iraq

In the days preceding the 1960 West Virginia presidential primary, John F. Kennedy's campaign possessed internal polling information suggesting that their candidate would win roughly 60% of the vote. Yet, the campaign publicly reported an expected vote below 50%.[1] Similarly, 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 effectively articulate his core campaign messages in the format on which he had agreed (Bruni, 2003). Despite his well-known "mission accomplished" episode, the Bush camp continued on occasion to tamp down expectations outside the campaign context. Indeed, by 2005, the administration found itself trying to drastically lower reform targets in Iraq, highlighting substantial obstacles across policy areas as diverse as democratic reform and electricity provision.[2]

Insofar as individuals, especially political officials, typically 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 in politics, absolute performance quality may not be as important as performance relative to expectations, especially expectations communicated by an elected official or her agent. There

[1]Michael Kramer. "Grading Expectations." *Time Magazine*. February 12, 1996.

[2]Robin Wright and Ellen Knickmeyer. "U.S. Lowers Sights On What Can Be Achieved in Iraq." *Washington Post*. August 14, 2005.

is nothing worse than underperforming on a promise. Consequently, politics is frequently about managing promised levels of performance. By setting expectations low enough, officials can protect themselves against unanticipated failures and take advantage of unexpected successes. Kennedy's landslide in West Virginia was considered "remarkable" rather than merely "anticipated." Bush was rated highly following the debate. Ostensibly, even marginal progress on development in Iraq would be cause to declare a victory.

This phenomenon, which we will call the downward management of expectations (DME), is not limited to politics. 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., Voss, Parasuraman and Grewal, 1998; Szymanski and Henard, 2001).[3] 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).

Thus, DME emerges in a wide array of settings. The conventional logic is seductive, precisely because it seems to invite a costless venture. By promising little, one eliminates the possibility of an embarrassing underperformance while positioning oneself for an unexpected overperformance. Under 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. 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 variance.

[3]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 Josh Friedman. "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*. August 6, 2006.

To do so, we construct a formal model of communication that explicitly captures the logic of the standard argument about expectations management. The model is game theoretic; however, 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. Though it might be possible to develop a fully rational model in which this psychological process emerges in equilibrium, we believe that there is much to be gained from assuming that psychologists have identified a meaningful cognitive mechanism, and then asking whether in a strategic context, senders of information can take advantage of this mechanism. Importantly, we consider this possibility in a context where all players are aware that receivers of information know that their satisfaction responds in this way.

We have three goals. First, we will consider the conditions under which DME is profitable. Second we will consider whether either the truthful revelation of one's competence or overpromising are sustainable as strategies in an equilibrium, even when downwardly managing expectations is as attractive as is commonly believed (and as we make it by design). Third, and no less important, we wish to evaluate the kinds of problems these equilibria present, both for those whose expectations are managed and for those who are doing the managing. We do so recognizing the special significance of this behavior in a political context, especially if it ultimately clouds the choices people make as suggested by the extant literature. When a toy company manages expectations, it influences fleeting childhood happiness at worst. But when political candidates manage expectations, they influence voter satisfaction and subsequent choice. By implication they influence representation. When bureaucrats do it, they influence government performance. As we note below, when military officers manage expectations, they influence choices to go to war.

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 general implications.

1 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 entirely 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."

The extant literature across a wide array of fields suggests 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 (Kohli and Jaworski, 1990; Anderson, Fornell and Lehmann, 1994), largely because customer satisfaction is hurt by failing to deliver on promises (Zeithaml, Berry and Parasuraman, 1988).[4]

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., Damore, 1997; Aldrich, 1980).[5] Also, there is evidence that presidential and congressional approval ratings turn on differentials between expected perfor-

[4]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, Berry and Parasuraman, 1988).

[5]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.

mance and actual performance (Kimball and Patterson, 1997; Waterman, Jenkins-Smith and Silva, 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; Yi, 1990; Spreng, MacKenzie and Olshavsky, 1996). 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, Givoly and Hayn, 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).[6] 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, Spellman and MacCoun, 2007). If confidence sets high expectations and those expectations are dashed, a witness is better off lowering her confidence level.

Of course, 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, Slovic and Tversky, 1982; Medvec, Gilovich and Madey, 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 had low expectations. To summarize, a large set of scholarship suggests that it is reasonable to assume consequences for over- or

[6]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.

underperforming on a promise.

The second issue we address is whether the effects of overperformance and underperformance are symmetric. The original work by Kahneman and Tversky (1979) suggests that individuals treat losses differently than 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. Aside from journalistic statements on the effects of performing above a promise,[7] the scholarly literature on promises has not weighed in on the effects of performing above. Yet, the related work on satisfaction and the congruence between expectations and outcomes suggests that individuals are likely rewarded for exceeding expectations. The assumption is even more reasonable if we are willing to imagine that sender promises establish a sort of baseline expected performance level (e.g., Kopalle and Lehmann, 2006; Gronroos, 1984; Hoffman and Bateson, 1997).[8] 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.

[7]See, for example, Jared Sandberg. "Why Preparing Others for an Effort's Failure Can Bring You Success," [Web log entry] Marketing Muse and News. January 16, 2007.

[8]In psychology, this effect is known as anchoring. Experimental research has shown that anchors have a substantial effect on subjects' evaluations (see for example Tverskey and Kahneman, 1974; Kahneman, Slovic and Tversky, 1982).

2 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.[9] 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.[10]

The Kopalle and Lehmann (2006) model represents an alternative to ours. Although the models have a number of similarities, the overall approach is quite different.[11] While the Kopalle and Lehmann model relies on the supply and demand methods of neoclassical economics, our model is game-theoretic, which we think is an important distinction. In the Kopalle and Lehmann model, only the firm is a strategic actor, while consumers are treated as fixed demand curves that do not get to make choices over strategic variables. In fact, consumer behavior in their model is hard-wired, and consumer heterogeneity is captured with parameters not choice variables. While we do not question the Kopalle and Lehmann modeling strategy for studying consumer behavior in competitive or monopolistic markets, we would argue that many of the situations of interest to political scientists are best modeled as strategic games. A second difference concerns the relative complexity of the model. As Kopalle and Lehmann suggest, their model is purposely designed to model the marketing scenario of interest as closely as possible, and for this specificity, they trade off some analytical precision. In particular, the authors are unable to present a closed-form solution to their general model. While this is a reasonable modeling approach, we have opted to trade off empirical specificity for analytical tractability.

[9]For another model that has psychological dynamics built in, see Lupia and Menning (2009).

[10]An alternative model might consider how a sender can manipulate a receiver if the receiver is unaware of the expectations congruence dynamic. In our view, the strategy only becomes easier to sustain in such a case.

[11]For example, both models predict that increasing the sensitivity to promise-performance differentials increases the likelihood of lowering expectations.

2.1 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 interest rates 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 we normalize to 1.[12] The sender's type is revealed to the sender but not to the receiver, though 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.[13] 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 its resource available for investment. Namely, the receiver must give up δ of this resource, where $\delta \in (0,1)$ to observe a performance.[14] The sender receives δw if the for the initial performance, where $w > 0$.

[12]The receiver's total available resources is $1 + w$, where w is reserved to pay the wage of the individual in which the receiver will invest. She will have to pay w whether she invests in the sender or not.

[13]We believe this initial contribution stage models well a number of political phenomena, from the initial stages of a campaign to the efforts of NGOs to get funding for preliminary development programs. 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.

[14]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

Conceptually, we are suggesting that the initial support receivers provide, which may be financial in some contexts but certainly not in all, is costly, though the cost may be made arbitrarily small. If the receiver decides not to contribute, she instead "invests" her resource at a fixed default rate $i_d \in [0, 1]$. Finally, we assume $t_h > i_d > t_l$. 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 $Pr(p_l|t_l) = 1$.[15]

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 from the default option, obtaining a rate of return at the default rate, i_d. But since she has paid for the sender's preliminary performance, she only has $(1 - \delta)$ to invest.

2.2 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.[16]

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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.

[15]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.

[16]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. The only

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 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, respectively. 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 the his 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 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 her money in the alternative, i.e., she turns down the opportunity of investing in the sender, she obtains the future value of her investment at the default interest rate.

consequence for equilibrium behavior is that it makes sending a low-quality message for the high-quality sender slightly more attractive, but this is true under any conditions; so the core model dynamics are not affected. 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. Reputations in this context only make downwardly managing expectations even more attractive. Since underreporting seems to have few if any downsides, we seek to identify and understand the circumstances in which a high-quality sender would be truthful and reveal his identity.

If, on the other hand, the receiver decides to contribute to the sender but pulls out of the investment after the performance stage, she loses δ, the cost incurred from observing the sender perform, but retains the future value of the remainder at the default interest rate.[17]

Finally, if the receiver contributes and supports the sender after the performance stage, she gets the future value of her resource at an interest rate that is simultaneously determined by the sender's true interest 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 interest rate associated with the sender. In our view, this approach reflects the general literature's claim that such deviations influence satisfaction (i.e., utility).[18]

The receiver's payoff function is thus given by

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

[17]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.

[18]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 overperformance are tied directly to what the sender communicates about himself. This is the empirical pattern we see across literatures. 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.

3 Results

We consider pure-strategy Perfect Bayesian Equilibria (PBE).[19] A PBE is an assessment (σ, μ), where σ is a strategy profile and μ a profile of beliefs. All strategies in σ are sequentially rational, and all beliefs in μ are consistent with σ and derived via Bayes' rule whenever possible. 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 (Rasmusen, 2001, pp. 142–45). As is common in this type of model, there are a number of equilibria in which communication is meaningless — senders can say anything (i.e., babble) because receivers are not listening. Here we discuss equilibria in which communication is meaningful. We begin with DME behavior.

3.1 The Downward Management of Expectations

As we discuss above, the purposeful under-reporting of competence is highly seductive under the conventional wisdom. Senders simultaneously protect themselves from unfortunate mis-matches between significant promises and under-performances and set themselves up to take 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.

3.1.1 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

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[19] 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 interest rate is extremely high, multiple sets of messages are optimal for the sender. Thus, adding the possible mixed-strategy cases to this model only adds to the theoretical complexity without offering an obvious analytical benefit.

For $\pi \geq \frac{i_d - t_l}{t_h(1-\tau) - t_l + i_d\tau}$ and $\delta \leq \frac{t_l - i_d + \pi(t_h - t_l) + \beta_O^R \pi\tau}{1 + t_l + \pi(t_h - i_d) + \beta_O^R \pi\tau}$, 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 $\pi < \frac{i_d - t_l}{t_h(1-\tau) - t_l + i_d\tau}$ and $\delta \leq \frac{\pi\tau(\beta_O^R + t_h - i_d)}{1 + i_d + \pi\tau(\beta_O^R + t_h - i_d)}$, 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 under-reporting their quality. The logic underlying the cases is essentially identical. In Case A, 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 absolutely 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, 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 under-reporting 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 provides information about sender quality, but it is costly and not always fully informative. Thus, when high-quality senders aggressively manage expectations downward, becoming informed 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.

What might be done about this problem? One natural solution is to make it easier for the high-quality sender to distinguish himself. That is, if it were possible to increase τ, the probability that a high-quality sender will produce a high-quality performance, we might suspect that doing so would be useful. Unfortunately, τ influences equilibrium behavior in two ways. In the first place, an

increase in τ makes it more likely that the receiver will condition her support on the performance.[20] Such an effect is potentially useful from the perspective of getting more information out of the performance. On the other hand, however, an increase in τ increases the threshold value of the contribution cost (i.e., δ), such that the receiver is willing to observe the sender perform for higher and higher costs of contribution. For that reason, increasing τ widens the conditions under which high-quality senders are willing to misrepresent their quality. Thus, although increasing the ease with which high-quality senders can distinguish themselves sharpens the information emerging out of a performance, it simultaneously strengthens the incentive to aggressively manage expectations downward.

3.1.2 Defensive Downward Management

The first two cases 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 $\pi \in \left[\frac{i_d - t_l}{t_h(1-\tau) - t_l + i_d\tau}, \frac{i_d - t_l + \beta_U^R}{t_h(1-\tau) - t_l + i_d\tau + \tau\beta_U^R}\right)$,

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

and $\beta_U^S \geq w\left(\delta + \frac{\tau}{1-\tau}\right)$, the following assessment is a PBE:

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

[20] The reason is that as it becomes easier for a high quality sender to distinguish himself, low quality performances are stronger signals of poor quality.

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

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 the performance after hearing the low-quality message; however, 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 hire a low-quality sender. Yet, since the receiver conditions his 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 off-path. Thus, δ must be neither too high nor too low.

Finally, given the receiver's behavior, the senders know that if they report high quality, there will be contribution. Indeed, the high-quality sender may even receive full support if her 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 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.

Unlike the Aggressive DME cases, an increase in τ makes this kind of equilibrium more difficult to sustain. There are two primary effects. In the first place, increasing τ raises the threshold on β_U^S, such that the senders find sending the high-quality message more attractive even as β_U^S increases. Simultaneously, increasing τ increases the lower bound on π and decreases the upper bound, so that it is increasingly difficult to find a π that satisfies the first equilibrium condition. For this

reason, it may be that Defensive DME is a more easily resolved problem than Aggressive DME.

3.2 Simultaneous Dissembling

The Defensive Sender case suggests that DME is sometimes not about taking advantage of unexpected surprises. 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 m_l while low quality senders deliver m_h. Under such a profile of strategies, the receiver would never support upon hearing m_h, yet would support any performance after hearing m_l. 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 then t_l will want to send m_l. If she does not contribute, then the senders can dissemble simultaneously, but they do so by babbling. Thus, reflecting a core lesson of pooling equilibria, for t_h to use DME effectively, it must be that t_l is reporting honestly. In worlds where low-quality individuals over-promise, high-quality individuals cannot make use of DME.

3.3 Truthful Communication

Although 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 agent 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 $\beta_U^R \leq t_h - i_d$, $\beta_U^S \in \left(w, \frac{w}{1-\tau}\right)$, and $\delta \leq \frac{t_h - i_d - \beta_U^R + \beta_U^R \tau}{1 + t_h - \beta_U^R + \beta_U^R \tau}$, 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 $\beta_U^R \geq t_h - i_d$, $\beta_U^S \in \left(\delta w, w\delta + \frac{w\tau}{1-\tau}\right)$, and $\delta \leq \frac{\tau(t_h - i_d)}{1 + i_d + \tau(t_h - i_d)}$, 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 the performance, because 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 avoid the underperformance cost. For this reason, the cost of contribution in Case B can be higher than in Case A. For truthful reporting, β_U^S cannot be too large, such that the high-quality sender wishes to under-report, and β_U^S cannot be too low, lest the low-quality sender will 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 under-report, lest he be ignored. In a separating equilibrium, it is simply not possible to take advantage of unexpected over-performances, because

if you try, receivers do not give you the chance to demonstrate your quality. This dynamic reflects a second critical constraint on DME. When we 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 the situation is a considerable improvement under separation 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.

3.4 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. Specifically, when the probability that the sender is of high quality is neither too high nor too low, and the sender's cost of underperformance is sufficiently low, there exists an equilibrium in which senders always report high quality.

Taking Advantage of High Quality Truthfulness

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

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

and $\beta_U^S \leq w\delta$, 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, precisely because π is not sufficiently high; however, if she

unexpectedly heard the low-quality message, and if she contributed, she would support no matter the performance, because π is high enough. Yet, in light of this off-path behavior following a performance, she would not contribute after the low-quality message — δ would be too high. On the other hand, since she conditions her support on a high quality performance in equilibrium, she will contribute after hearing the high-quality message. 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 $\beta_U^S \leq w\delta$.

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 she will only ever support a high-quality sender, whereas in the DME cases, she risks supporting low-quality senders, as well. The problem, such 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.

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 over-report their competence.

3.5 Summary

The results derived in this section suggest the generality of 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. While the conventional wisdom seems to suggest that downwardly managing expectations is a forgone 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 see 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 for 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 sum, 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 if either receivers expect senders to report truthfully or all low-quality senders are expected to over-promise. In either case, senders cannot use DME, because by doing so, they are ignored.

Figures 1 and 2 summarize the results graphically. Figure 1 illustrates cases in which the high-quality sender population is relatively small (low π) and Figure 2 cases in which the high-quality sender population is relatively large (high π). In both figures, the y-axis expresses the sender's underperformance cost (β_U^S) and the x-axis the fixed cost parameter (δ). The boxes around the x- and y-axis labels indicate that the enclosed terms are not uniquely ordered. The figures reflect two features of the equilibria. There are a number of regions, especially for very low δ, where there are multiple equilibria. Observed behavior will ultimately turn on the beliefs players have about which equilibrium is being played. On the other hand, there are regions of the parameter space, where equilibria are unique.

From the two figures, we learn that the overpromising equilibrium can only ever be unique when the high-quality sender population is sufficiently large (see Figure 2). Given sufficiently large high-quality sender populations, there is also a more expansive set of conditions under which truthful revelation is unique. We also have uniqueness for aggressive and defensive DME. As a result, we have clear theoretical predictions for each behavioral strategy, an important condition for effective empirical testing. In the next section, we illustrate the different behavioral strategies drawing on prominent examples from political science and finance.

4 Substantive Examples

Differences between expectations and observations feature prominently in explanations of personal satisfaction. Individual vote choices, evaluations of public policy, and decisions to buy products from automobiles to securities, seem to hinge importantly on the difference between a promise and a performance. Consequently, journalists and scholars suggest that people have incentives to manage expectations in a variety of contexts. So far we have considered the logic of the standard argument in the context of a model of strategic communication, and we have presented some implications of the argument. In this section, we discuss two general areas of research in political science in which the incentive to manage expectations commonly appears. We highlight lessons from the model as they emerge in these literatures. We begin by discussing examples where it would appear that expectations management might be profitable, and we end with a few possible situations in which it might not only be unprofitable but impossible.

4.1 Campaigns and Elections

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., Damore, 1997; Aldrich, 1980), and strong early results are commonly understood to increase the chances of victory. Bill Clinton's 1992 second-place finish in the New Hampshire primary is a classic example of the benefits of beating expectations. Although Clinton did not win, he finished far higher than was expected, and this gave the "Comeback Kid" a great deal of free media in the succeeding weeks. Just as finishing second sometimes can be conceptualized as a victory, finishing first sometimes can be conceptualized as a loss. Ed Muskie's narrow victories in Iowa and New Hampshire, coupled with an alleged episode of public crying, were fatal to his race against McGovern.

Candidates are aware of these opportunities and pitfalls. Despite having promised to fight hard to win every state on the way to the convention, John Kerry's 2004 campaign issued a statement preceding the New Hampshire primary in which the senator pledged to finish no lower than second, an effort commonly understood as expectations management in light of a surging Howard Dean. As we know, Kerry won the New Hampshire primary and eventually won the nomination. The New

Hampshire rhetoric reflects the tension investigated by the model. Kerry's incentive to predict a relatively low finish was obvious, for the standard sorts of reasons that are given to explain the downward management of expectations. But importantly, Kerry also had incentives not to issue a prediction that was too low. Specifically, he was obviously still in search of support leading into the election, both inside New Hampshire and in the rest of the country, and communicating expectations that are too low could have resulted in too little initial support. If the model is correct, that he was able to take advantage of DME in this context depended on the fact that candidates very often predict quite correctly that they are going to lose.

4.2 Pitching a Policy Outcome

The downward management pervades campaigning, yet the phenomenon is surely not limited to elections. Elected officials and their agents are rewarded and punished for policy outcomes that diverge from expectations (Kimball and Patterson, 1997; Waterman, Jenkins-Smith and Silva, 1999; Stokes, 2001; Roch and Poister, 2006; Van Ryzin, 2004, 2006). Thus, the incentive to manage expectations arises in the context of policy provision. Importantly, we even see expectations management within political organizations, as say between bureaucrats and their principals.

International aid organizations, especially those pursuing projects in states with severe underdevelopment problems, express very public concerns over ensuring that aid recipients perceive reasonable reform targets. Indeed, the Millennium Challenge Corporation has explicitly attempted to control expectations of government and civil society in Madagascar regarding their land and financial reform efforts.[21] Similarly, proponents of Romania's joining the European Union have argued for the need to calibrate societal expectations about what European membership can offer Romania (e.g., Nicolai, 2004). When people expect too much from Europe, they are inevitably disappointed and become less supportive of the larger European integration project.

The conflict literature provides another example. As Betts (1977) writes, "[Military] officers have reason to overstate threats in order to hedge against failure but also to overstate results in operations in order to prove their own competence."[22] In the context of war, overstating a threat

[21] `http://www.cgdev.org/section/initiatives/_active/mcamonitor/fieldreports/madagascarfield/madagascarsnap`.

[22] As cited by Stephen Van Evera, `web.mit.edu/polisci/research/vanevera/militarism.pdf`,

or claiming that casualties will be relatively high is conceptually similar to signaling a relatively low competency, at least in the context of our model. The tension military officers face in this context is clear. By overemphasizing the difficulty of a mission, officers risk being passed over for another leader, one that appears better equipped to conduct the operation. Of course, underemphasizing the challenge risks falling victim to an expectations-performance disaster. We might imagine that selling a war to the public involves a similar challenge. The difficulty of the endeavor must be sufficiently communicated to insure against a public backlash once the fighting begins; however, if the mission appears too dangerous, the leader may not garner sufficient public support to wage the campaign in the first place.

5 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 over-promise. As we have discussed, each kind of behavior is possible.

Each type of equilibrium bears with it distinct consequences of the players. Aggressive DME is highly attractive from the perspective of senders, though the cost its informational imperfections are borne entirely by receivers. Unfortunately, the most natural solution available to receivers, increase the probability of detecting a high-quality sender via the performance (i.e. increase τ) would not necessarily induce an equilibrium in which senders separate. What is worse, for sufficiently high costs of underperformances and middling probabilities of meeting a high sender and paying for performances, Defensive DME are possible. This results, as we have discussed, in an unambiguous inefficiency in the model – neither senders nor receivers are benefited significantly in equilibria, in which high-quality senders mimic low-quality senders simply to avoid an underperformance. Finally, though separation aids the receiver considerably, the cost of the receiver's informational

p. 113, fn. 505.

advantage must be borne by the senders.

Though we have restricted our discussion to worlds 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 $i_d > t_h$, 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 in 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 gotten 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 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.

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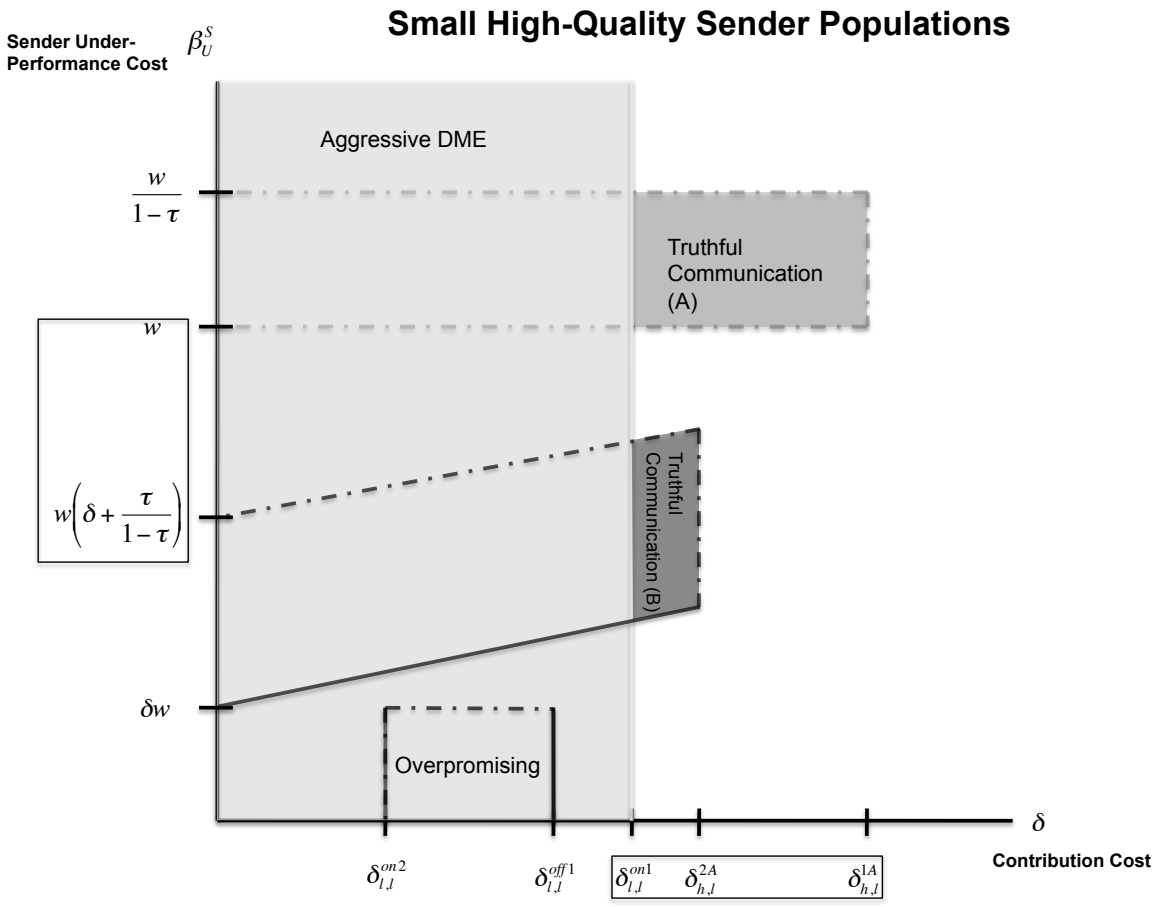

Figure 1: *Equilibria in Situations of Small High-Quality Populations.* This figure displays the equilibria have discussed for values of β_U^S and δ, and for a small population of senders ($\pi < \frac{i_d - t_l}{t_h(1-\tau) - t_l + i_d\tau}$). The cut-points correspond to equilibrium conditions in the text.

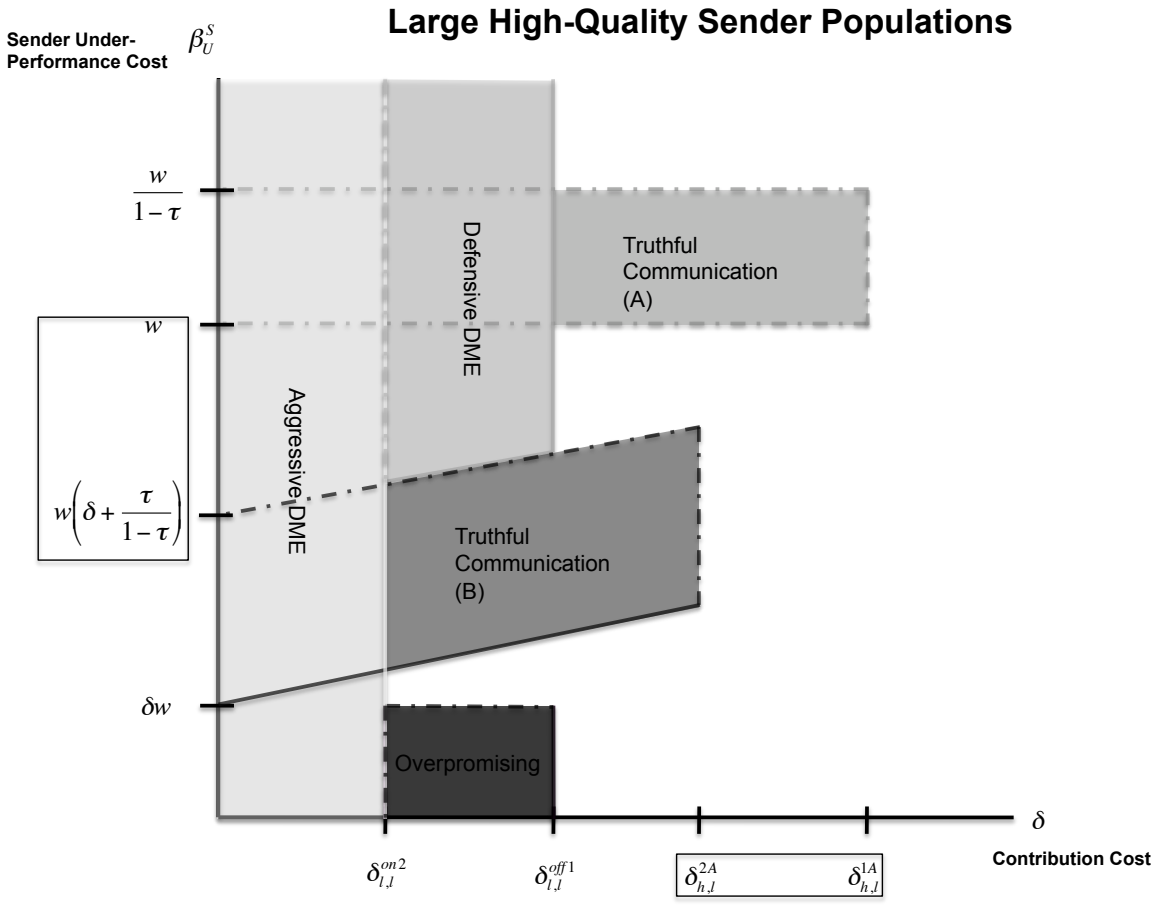

Figure 2: *Equilibria in Situations of Large High-Quality Populations.* This figure displays the equilibria have discussed for values of β_U^S and δ, and for a large population of senders ($\pi \geq \frac{i_d - t_l}{t_h(1-\tau)-t_l+i_d\tau}$). The cut-points correspond to equilibrium conditions in the text.

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 $(1-\delta)(1+i_d)$ by not supporting ($\neg s$), and since $t_l < i_d$, 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, $t_h > i_d$. 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 $(1-\delta)(1+i_d)$ by not supporting. Knowing that she will always support, no matter the performance, the receiver contributes if and only if

$$\begin{aligned} \tau[(1-\delta)(1+t_h+\beta_O^R)+(1-\tau)(1-\delta)(1+t_h)] &\geq (1-i_d) \\ \delta &\leq \frac{t_h-i_d+\tau\beta_O^R}{1+t_h+\tau\beta_O^R} \end{aligned}$$

If this condition is satisfied, the receiver will support, and t_l 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 $i_d > t_l$, 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 $i_d < t_h$, and she will support following a low-quality performance (p_l) if

$$\begin{aligned} 1+t_h-\beta_U^R &> 1+i_d, \text{ or} \\ \beta_U^R &< t_h-i_d. \end{aligned}$$

Case A: $\beta_U^R < t_h - i_d$

Expecting to support the sender no matter the performance, the receiver contributes if and only if

$$\begin{aligned}(1-\delta)\tau(1+t_h)+(1-\tau)(1+t_h-\beta_U^R) &\geq 1+i_d, \text{ or} \\ \delta &\leq \frac{t_h - i_d - \beta_U^R + \beta_U^R\tau}{1+t_h-\beta_U^R+\beta_U^R\tau}.\end{aligned}$$

If this condition is not met, then the players will babble in equilibrium. If the condition is met, to ensure that t_h sends m_h, it must be that $\beta_U^S < w/(1-\tau)$. Further, since t_l could obtain 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: $\beta_U^R \geq t_h - i_d$

Expecting only to support if p_h, the receiver will support if and only if $\delta \leq \tau(t_h - i_d)/[1 + i_d + \tau(t_h - i_d)]$. 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 t_h sends m_h, it must be that $\beta_U^S < w[\delta + \tau/(1-\tau)]$. Further, since t_l 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 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 the performance after m_h, then she would certainly contribute expecting to support no matter 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 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 t_h to be sufficiently low:

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

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

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

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

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

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

$$\delta \quad \leq \quad \frac{(t_h - i_d)\pi\tau}{1 - i_d + (t_h - i_d) + \pi\tau}$$

Given σ_R, t_l 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 t_h has a chance to obtain full support, he 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

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

Case A: $\pi \geq \frac{i_d - t_l}{t_h(1-\tau) - t_l + i_d\tau}$

In this case, the receiver will contribute if and only if

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

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

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 the performance if she hears m_h. Such a choice would risk both the underperformance cost and the possibility of supporting t_l — risks that do not apply to the choice on-path. To contribute on-path, expecting to support only if p_h, we must have

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

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 $\pi \geq (i_d - t_l)/[t_h(1-\tau) - t_l + i_d\tau]$, so that the receiver contributes to the sender on-path no matter the performance level. Further, suppose that $\delta > [1 - i_d + \pi(t_h - t_l) + \beta_O^R\pi\tau]/[1 + t_l + pi(t_h - i_d + \beta_O^R\pi\tau]$, 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 p.

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

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

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

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

Finally, consider the senders. Given σ_R, t_l 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 t_h 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 $\beta_U^S > w[\delta + \tau/(1-\tau)]$.