THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Department of Accounting

Information Policies, Collusion, and Honor Among Thieves

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ABSTRACT

Firms' information policies determine how much firm-related information is provided to employees beyond that directly needed to do their jobs. Under open policies, firms provide more information, whereas under closed policies, firms provide less. Our experiment tests whether open policies result in more collusion between managers, i.e., cooperation that harms the firm, than closed policies. We examine a setting in which two managers make separate reports to the firm regarding cost information known in common by them but unknown by the firm. Because both managers face the same truth-inducing contract, conventional economic theory predicts that they both will always report truthfully. Thus, there should be no collusion under either policy. In contrast, based on alternative behavioural predictions involving trust and reciprocity, we predict and find more collusion, and thus lower firm welfare, under an open versus closed policy. More collusion occurs under the open policy because both managers more often honor their non-binding agreements to steal from the firm by misreporting costs, i.e., there is more honor among thieves. Thus, we document an important potential cost of open information policies, suggesting that firms should consider whether the potential benefits of such policies outweigh the potential costs of increased collusion.
Keywords: information policy, information sharing, collusion, coordination, trust, reciprocity, truth-inducing contract