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## Blurring the lines: Strategic deception and self-deception in markets

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MPIfG Discussion Paper 10/13

**Blurring the Lines**

Strategic Deception and Self-Deception in Markets

Laura Gruss and Geny Piotti



Laura Gruss and Geny Piotti  
**Blurring the Lines: Strategic Deception and Self-Deception in Markets**

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## **Abstract**

Building on the results of a participant observation in a Chinese IT-sector company located in the northern part of China, this paper aims to clarify the nature of deception in markets. Contrary to the position of information economics and game theoretical approaches to trust, the paper argues that deception is not reducible to a question of opportunism or sending signals in order to create trustworthiness. Deception, in fact, may coexist and even be strictly entangled with self-deception, which builds on the conception of an agent whose rationality can fail or whose cognition can be biased. This paper argues that rationality failures and cognitive biases are not driven by psychological mechanisms alone. They have to be related to the social structure in which economic actors operate. In particular, the paper focuses on anticipatory socialization as one source of self-deception and the deception of others. Both types of deception are associated with a gap between aspirations and the available resources necessary for attaining them.

## **Zusammenfassung**

Ausgehend von einer teilnehmenden Beobachtung in einem chinesischen IT-Unternehmen in Nordchina zielt dieser Artikel darauf ab, das Wesen der Täuschung in Märkten zu ergründen. Im Gegensatz zu der Position der Informationsökonomie und dem spieltheoretischen Ansatz in der Vertrauensforschung wird in diesem Artikel davon ausgegangen, dass Täuschung nicht auf Fragen des Opportunismus und der Signalsendung, die dem Aufbau von Vertrauen dient, reduziert werden kann. Täuschung kann zusammen mit Selbsttäuschung auftreten und sogar stark mit ihr verbunden sein. Selbsttäuschung baut auf dem Konzept eines Akteurs auf, dessen Rationalität versagen oder dessen Wahrnehmung verzerrt sein kann. In diesem Papier wird argumentiert, dass Rationalitätsversagen und Wahrnehmungsverzerrung nicht nur von psychologischen Mechanismen hervorgerufen werden, sondern mit der Sozialstruktur verbunden sind, in der der wirtschaftliche Akteur operiert. Im Besonderen konzentriert sich der Artikel auf antizipatorische Sozialisation als eine Quelle für Selbsttäuschung und Täuschung von anderen. Beide Typen der Täuschung entstehen aus der Kluft zwischen Wunschkvorstellungen und den verfügbaren Ressourcen, die für ihre Realisierung notwendig sind.

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## 1 Introduction

Prominent scandals that have hit the financial markets in the last decade, from the Enron case to the recent financial crisis, have helped underline the fraudulent and deceptive character of markets (Fleming/Zyglidopoulos 2009; Gerschlager 2005a; Harrington 2009b; Kroger 2004). For example, in global business, high expectations about producing in low-wage, prominently emerging capitalist economies often clash with a reality of inefficiency and deception as far as the abilities and intentions of the co-operation partner are concerned (Piotti 2009a, 2009b, 2009c). The growing market of counterfeits is built on deception on the part of both the producers and the consumers. Consumers may buy counterfeit goods without knowing it or with the aim of deceiving others about their socio-economic status (Higgins/Rubin 1986; Grossman/Shapiro 1988). Similarly, empirical surveys on online dating show that dating websites provide a platform for smaller or bigger lies in self-presentation (Gibbs/Ellison/Heino 2006).

These simple examples illustrate how widespread deception is in today's markets. Still, some questions about its nature remain unsolved. In the literature, there seem to be two conflicting interpretations of deception. Deception is considered either to be mainly strategic or the result of a rationality failure.

For instance, the position maintained by information economics underlines the essential role played by asymmetry of information as source of deception (Akerlof 1970; Husted 2007), given the assumption that human nature is intrinsically opportunistic (Williamson 1979, 1985). Deception has also been associated with sending signals in order to create trustworthiness. These strategic signals can be purely manipulative (Gambetta 2009; Gambetta/Bacharach 2001) or may be part of a reassuring strategy on the part of the trust-giver (Beckert 2005). In contrast, behavioral economics and studies on rationality focus on self-deception as a peculiar form of deception in which the self is the target of deceptive beliefs. It is the result of rationality failures and bias (Bach 1981; Davidson 1986; Elster 1985, 1989; Festinger 1957; Oksenberg Rorty 1988). As Oksenberg Rorty (1986: 125) puts it: "Self-deception involves deception of the self, by the self, for or about the self."

Theoretically, this contribution intends to go beyond these unilateral positions and show that strategic deception and self-deception coexist and are even strongly entangled.

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Earlier versions of this paper were presented and discussed at the 22nd Annual Meeting of the Society for the Advancement of Socio-Economics in Philadelphia, July 2010, and in the Research Group on the Sociology of Markets at the Max Planck Institute for the Study of Societies in Cologne. In particular we would like to thank Florian Becker-Ritterspach, Jens Beckert, Knut Lange, Christopher McNally, Guido Möllering, Sascha Münnich, and Zsuzsanna Vargha for their helpful comments. We also thank Martin Höpner and our referees Michael Reif and Tobias ten Brink for their valuable suggestions.

While sharing the position of behavioral economics and rationality studies concerning the importance of self-deception in economic action, this paper argues that rationality failures and cognitive biases are not driven by psychological mechanisms alone. Rather, sociological mechanisms are also involved (Fleming/Zyglidopoulos 2009). In particular, anticipatory socialization appears to be one important source of self-deception and the deception of others that are both associated with a gap between aspirations and the available resources necessary for attaining them (March 2007), which presupposes social inequality (Merton 1938).

In order to understand deception and its social drivers at a deeper level, we studied this phenomenon in the context of one emerging capitalist country that is characterized by a high degree of globalization – i.e., in an extreme case where deception can be assumed to be particularly widespread.<sup>1</sup> In phases of high growth, rapid social and economic changes, legal uncertainty and social inequality actually favor fraudulent and deceptive behavior (Fligstein 2001; Merton 1938). Moreover, to the extent to which the long distances and the technological mediation of communication involved in global exchanges make deceptive behavior more difficult to detect, they also encourage deception (Hancock 2009).<sup>2</sup>

Empirically, this paper builds on the results of a participant observation in a Chinese IT-sector company located in the northern part of China. As is widely known, the emerging Chinese capitalist economy has experienced very rapid growth in the last three decades and is strongly globalized, not only in terms of export volumes but also because of the role played by Foreign Direct Investments (Naughton 2007; ten Brink 2010)<sup>3</sup> and sojourners abroad.<sup>4</sup>

The paper is structured as follows. Chapter 2 is devoted to the theoretical framing of the relationship between deception and self-deception and their respective social preconditions. Chapter 3 deals with methodological issues. Finally, Chapters 4–6 are devoted to the results of the empirical research in the Chinese company we investigated.

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1 Obviously, we do not claim that deception and self-deception are absent in today's industrialized countries.

2 At the same time, Hancock (2009) has stressed that digital technology can also advance honesty and self-disclosure: for example, in blogs or social support message boards and computer-mediated therapy.

3 For recent data, see [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113366.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf).

4 Sojourners can be defined as persons staying in a place that is not their home country for a period of time, including immigrant, non-immigrant and expatriate workers (Berry/Sam 1997; Williams 2000). Particularly since the 1990s, well-educated and skilled young Chinese people have emigrated abroad in order to study in foreign universities and then possibly return to China after graduating. For a general overview about migration trends in the Chinese population, see Nyiri/Saveliev (2002).

## 2 The nature of deception

Deception can be defined as the manipulation, distortion or falsification of evidence with the intention of promoting beliefs that are not true and inducing others to react in a manner prejudicial to their own interests.<sup>5</sup> Recent contributions on deception have shown how such definitions are built on the assumption that particular preconditions are met: for instance, the possibility of determining the truth and ultimately distinguishing between true and false (Harrington 2009a; Solomon 2009) as well as the intrinsically deliberate, intentional, conscious character of deception (Lépinay/Hertz 2005; Williamson 1985). Moreover, they are based on the assumption of negative consequences for the deceived and therefore, on the ethically reprehensible character of deception itself. While this paper leaves aside the more cultural and philosophical questions about the accessibility of truth and concentrates on the negative consequences of deception,<sup>6</sup> it explicitly focuses on the relationship between strategic deception and self-deception as well as on its social drivers.

In neoclassical economics, market actors are fully informed. Therefore, deception cannot really exist and deceivers are simply crowded out by the market forces (Gerschlager 2005b). Similarly, in game theory deception cannot take place because of the rationality assumption of mutual and common knowledge that allows for equilibrium. As Rizvi states (2005: 35): “It is difficult to see the possibility of deception if we assume that players know each other’s strategy choices and that they are rational. What is left to hide?” In information economics, however, deception becomes central to the analysis. Because of the bounded character of human cognition (Simon 1955), actors are not able to anticipate the strategy of other actors in economic exchanges. Therefore, information asymmetry turns out to be a constitutive part of exchanges, and cheating becomes possible (Akerlof 1970; Husted 2007; Williamson 1979, 1985). Particularly in the Williamson variant of transaction costs economics – which additionally builds on the idea that human nature is intrinsically opportunistic – deception should be taking place all the time. However, deception and its consequences in terms of inefficiency for individual companies and markets can be reduced through institutional devices (Williamson 1985). Bacharach and Gambetta identify different forms of deception such as lying, mimicry and faking in what they call the “secondary problem of trust” (Gambetta/Bacharach 2001: 149). Since the truster observes the trustee in order to assess his trustworthiness, an opportunistic trustee may emit manipulated signals of trustworthy-making qualities if he lacks them in reality (Gambetta 2009). He can also strategically send (false)

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5 Other synonyms for deception can be lying, double-dealing, subterfuge, trickery, betrayal and cunning. Although not all opportunistic behavior implies deception in the form of active lying or trickery, opportunistic behavior can be assumed to be more successful the more the real intentions are hidden (see Dumouchel 2005).

6 This choice is mainly topic-driven. In principle, we do not disagree on the fact that some forms of manipulation of evidence are intended to avoid hurting rather than to generate it (Möllering 2009).



identity signals in order to exploit a reputation (Gambetta/Bacharach 2001) or reassure the truster (Beckert 2005).

In the case of behavioral economics, the economic discipline takes a more evident cognitive and psychological turn. The implications of Simon's idea of bounded rationality are not only limited to opportunistic behavior considered as a rational answer to double contingency problems and asymmetry of information. Bounded rationality can also lead to irrational behaviors (Elster 1986; Rieskamp/Hertwig/Todd 2006). Not only do behavioral economics introduce into their analysis intuitions and emotions (Kaufman 2006) that notably do not work according to the rules of rationality (Sontheimer 2006). They also build on a concept of cognitive boundedness according to which actors are systematically biased and use heuristics in order to cope with complexity (Kahneman/Tversky 1982). This, however, is not free of charge. The price that actors pay for using mental shortcuts in order to make judgments in complex and uncertain environments is fallacy, i.e., deviation from (given) norms of rationality (Rieskamp/Hertwig/Todd 2006).

Studies on rationality make a distinction between fallacies of misperception and fallacies of self-deception (Pears 1986). While misperception per se might have negative consequences, it does not involve intention because does not involve a motive (it might simply derive from an error in observation and evaluation). Self-deception, however, implies that individuals hold contradictory beliefs and have a motive<sup>7</sup> (Elster 1986, 1989; Oksenberg Rorty 1988). Overcoming this contradiction in belief systems in fact implies making a choice that is normally guided by the principle of pleasure. If one of the two beliefs is painful, for instance, individuals may reduce the cognitive dissonance (Elster 1985; Festinger 1957) that derives from the conflicting beliefs by acting as if the more auspicious belief were true;<sup>8</sup> or they may choose to believe (and act according to) the position that they wish to be true (wishful thinking) (Davidson 1986; Elster 1986, 1989). Wishful thinking is self-deceptive only if, as in the case of cognitive dissonance, the discrepancy between contrasting beliefs induces action aimed at restoring the image of reality as the actor wishes it to be (Bach 1981; Davidson 1986; McLaughlin 1988).

Although there are indeed cases in which lying to others and lying to ourselves can be clearly identified, recent studies have underlined the fact that usually, deception and self-deception are not clear-cut. On the contrary, they are intimately entangled with each other. As Solomon states, "To fool ourselves, we must either fool or exclude others,

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7 The role of intention in self-deception is the center of a dispute in the literature about skeptics and nonskeptics. For a detailed presentation of the two positions, see McLaughlin 1988.

8 In order to explain this phenomenon, Quattronne and Tversky (1984) present the example of the Calvinist dilemma – the same dilemma that Max Weber refers to in order to identify the normative basis for the development of capitalism (Weber 1958). Notoriously, in Calvinism, those who will be chosen for salvation or damned eternally are already predestinated by God; but the only thing Calvinists know is that damnation is associated with avarice, lust and sloth in the real life and, conversely, eternal life is connected to charity, purity and hard work. As a consequence, Calvinists will behave virtuously as if they were saved already (Quattronne/Tversky 1984).

and to successfully fool others, we best fool ourselves” (Solomon 2009: 25). According to this view, hypothetically speaking, even Bacharach and Gambetta’s (2001) as well as Beckert’s (2005) strategic identity signaling could result in trustees who genuinely believe in the (manipulated) identity they act out.

Since beliefs, erroneous or not, constitute the basis for behavior, beliefs that arise from wishful thinking or generate cognitive dissonance can be sources of deception to ourselves (McLaughlin 1988) as well as to others. However, self-deception – like deception – cannot simply be considered as a pathological condition or a psychological drama. First of all, it is intrinsically social because our sense of ourselves depends on others, and in our self-presentation to others we hide and disguise those aspects of the self that are not relevant or even attractive to other people (Solomon 2009). By presenting themselves to others, people indirectly reflect tastes, social norms and expectations.

Secondly, the social mechanisms behind the self-presentation have to be considered. In particular, given the existing tastes, social norms and expectations, deception towards others deriving from self-deception is illustrated by the phenomena of anticipatory socialization described in sociology. According to Merton (1968), those who aspire to become members of a group are likely to adopt the role in advance – and then to deceive themselves and others to a certain extent. Similarly to Merton, Goffmann states that “when we come to be able to properly manage a real routine we are able to do this in part because of ‘anticipatory socialization,’ having already been schooled in the reality that is just *coming to be real* for us” (1959: 72; our emphasis). In fact, Goffmann underlines the intrinsically theatrical characteristics of role adoption and identifies two extreme behaviors on the part of the performers. While at the one extreme, we can find cynical performers who are not taken in by their own act at all and use their comparative advantage of already knowing the act is being played in advance in order to reach other ends.<sup>9</sup> At the other extreme, performers can also be fully taken in by their own act and truly convinced that the impression of reality they are acting out is the true reality. They can also shift from being convinced role-performers to acting as cynical ones and vice versa.

Aspirations and wishes play an important role in anticipatory socialization.<sup>10</sup> For Goffmann (1959), just like in a theater play, the mask is a representation of the self and what individuals strive to live up to. Moreover, according to Thornton and Nardi, a role adaptation requires both social adjustment – meaning the meeting of role expectations in

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9 The metaphor of a theatrical performance is also used by Beckert (2005) while pointing to self-presentation in order to create trustworthiness. However, he focuses on the strategic use of self-presentation and neglects the possibility that actors believe in their performance, which makes it easier to convince the trust-giver.

10 Essential preconditions for deception through anticipatory socialization are structural differentiation and social inequality. The gap between aspirations and the real opportunities provided in the lower class can lead to opportunistic and fraudulent behavior (Merton 1938). However, it can also lead to imitation and conformity to the codes of higher classes (Beckert/Lutter 2008; Duisenberry 1967; Veblen [1899]1994).

behaviors – and psychological adjustment: i.e., “the achievement of congruity between psychological needs and desires and the role” (1975: 873). However, while anticipatory socialization has often been interpreted as being functional to a better adaptation to the future (when a role is really adopted), an individual can anticipate a role when he is still outside the reference group. This makes role conceptions sensitive to the influence of very generalized sources and stereotypes as well as to individual wants and needs. The degree to which the individual will gain consideration by the reference group in the end depends on how well the idealized and fantasized version of the role played by the individual coincides with the role itself – i.e., how well the role has been anticipated (Thornton/Nardi 1975). Moreover, it is reasonable to expect that it also depends on the degree of trust granted to the deceiver (Möllering 2009), in our specific case on the willingness to believe on the part of the “audience” – i.e., the members of the reference group. In other words, anticipatory socialization can potentially result from wishful thinking and hence become self-deceptive as well as deceptive to others if individuals keep on playing their own version of the role even in the face of contradictory evidence.

### 3 Method

In order to distinguish between different natures of deception and to deeply understand the theoretical relationship between them, qualitative research is more suitable than quantitative data analysis. As Mintzberg describes it: “For while systematic data create the foundation for our theories, it is the anecdotal data that enable us to do the [theory] building” (1979: 587). In this respect, our paper focuses empirically on the case of a small German-Chinese IT-sector company located in a developing region of northern China. This choice of a case study is motivated by the fact that globalization and high growth economies are contexts in which deception can be assumed to be particularly widespread. First of all, in globalization, long distances and Internet-based communication potentially increase the payoffs of opportunism, since deception becomes harder to debunk (Hancock 2009). Moreover, according to Robert Merton (1938), in countries characterized by phases of high growth, infringement of social norms in order to achieve economic success may be a normal response. In fact, while individuals in different classes can happen to share the same cultural emphasis on success, their opportunities to attain such achievements through legitimate means may differ considerably.

This can also lead to fraudulent behaviors and deception (March 2007).<sup>11</sup> Globalization may provide the platform for anticipatory socialization to take place and therefore for

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11 As a consequence of innovational behavior outside moral prescriptions, Merton cites anomie as cultural chaos and hence a lack of predictability in society. Similarly, when describing the channels through which inequality affects growth, Thorbecke states that “when the gap between rich and poor widens, the latter presumably have a greater temptation to engage in rent-seeking or predatory activities at the expense of the former” (2006: 650–651).

both strategic deception and self-deception. Through media, business events,<sup>12</sup> job and educational mobility as well as business exchange, globalization triggers the diffusion of knowledge about business practices, lifestyles and symbols of success. Especially in countries in phases of high growth, such diffusion can contribute to the development of aspirations and emulative behavior even when the necessary means to attain such aspirations are lacking (Berger 2002). In this context, foreign business partners can potentially become the targets of deceptive behavior.

As a “multinational” in China, the company we observed develops its business by exploiting the advantages of a global economy in an intrinsically highly globalized sector such as information technology, which produces goods and services that help to overcome distances in real time. In addition to its high export rates and conspicuous human resources in the form of Chinese people educated in foreign countries, in the last decade China has also become a central destination for business investments from the traditional capitalist countries and therefore a crucial context for business globalization.<sup>13</sup> After decades in which private economic initiative had been substantially negated, China has experienced a strong economic boom, and therefore there are strong incentives for social actors to become successful entrepreneurs very quickly – for instance, by entering profitable markets dominated by foreign companies.<sup>14</sup> Despite the increasing investments in research and innovation from the side of the Chinese government, also young innovative IT-sector companies may encounter difficulties. In fact they may not compete in quality, experience and credentials with well established international companies; the same companies that China needs to attract in order to diffuse knowledge in the country.

The empirical result builds on our exceptional opportunity to observe a Chinese business from inside. One of the authors, who has a good knowledge of Chinese, had the chance to carry out a participant observation in the company for one week during which she had the status of an intern, which means that she had enough time<sup>15</sup> to get fully integrated into the current business activities of the small company and to gain

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12 See, for instance, the yearly international meeting of the World Economic Forum in Davos, Switzerland, which is considered to be the place where the diffusion of the Western business culture which initiates processes of anticipatory socialization occurs (Berger 2002; Huntington 1996).

13 In fact, the Chinese government has managed to attract a huge amount of Foreign Direct Investments. Measured in the number of contracts, FDIs went from 22,347,000 in 2000 to a peak of 44,019,000 in 2005, declining progressively between 2006 and 2008 but remaining at a conspicuous level.

14 Certainly, societies and cultures can differ in the extent to which deception is tolerated or even encouraged (Harrington 2009a). However, in this paper, deception is not considered to be primarily a product of the Chinese culture, but rather of China’s social stratification and its phase of rushed economic growth.

15 We have calculated that through interviews and the analysis of older memos, our research is able to cover a time period of about nine months, i.e., over half of the total business life of the company in China.

sufficient information from employees and former interns about previous and present business. The fact that it was a small company enabled her to get acquainted with the firm's structure and business in a relatively short period of time, to gain immediate access to the main actors and to witness emotions and justification patterns in their decision making.

The research material deployed consists of the memos written systematically during the observation week and those written by former interns. These include the description of working tasks, activities and organization, the observation of the business location and infrastructures, and the content of conversations between the researcher, the managers and the other employees.<sup>16</sup> In addition to the memos, the reconstruction of the case is built on further empirical material, both publicly available and not. In fact, the researcher also had access to other sources that contributed to the analysis and the research report. Public documents provided to clients, such as the company's homepage and its advertising brochure became important material for the analysis, along with minutes of meetings and company cost plans.

In order to identify deception, we selected those events in which statements by the actors did not match reality and compared them with the aim of understanding the different natures of deception involved. The systematic discussion of the empirical material between the researcher who conducted the field work and the researcher who remained at home and took the role of the devil's advocate helped minimize possible interpretation biases (Eisenhardt 1989).

In the next chapter, we will introduce the company which is the object of our study and then illustrate the different natures of deception based on examples from its business activities.

#### 4 The company and the entrepreneurs

Company Ma<sup>17</sup> is a family business. Since it is legally registered in Germany, it is formally a German company. However, it is owned by a Chinese married couple whom we will call Mr. and Mrs. Qing, and it has a Chinese name. According to Company Ma's self-presentation on its website and in public documents, the company business focuses on software development and IT services, particularly on services connected to the different applications of SAP software,<sup>18</sup> and on general consulting services for companies

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16 For definition and further insights on methodology, see Jorgensen (1989).

17 In the interest of privacy, all names are fictitious.

18 SAP software was developed to improve transparency and coordination between different company functions such as Finance, Controlling, Materials Management, Sales and Distribution, Production Planning, and Human Resources.

aiming to invest in China. The headquarters of Company Ma appears to be located in Germany. It also has a subsidiary in northern China. The former is officially managed by Mr. Qing, while the subsidiary in China is managed by his wife. Apparently, the company also makes use of several training centers all over Germany and China in order to train future employees.

The Chinese subsidiary of Company Ma – the object of our observation – is a small business. Besides the owners, it consists of two additional employees: an IT specialist and a Human Resource Manager, both of whom graduated from a local university. At the time of the empirical observation, there were also two German interns (including the observer), which does not seem to have been a coincidence. Before that time, the company had already employed other (exclusively) German interns. Moreover, further internships are currently being offered to German students on the Internet. All the interns were students in business and/or Chinese studies.

In addition, similarly to other companies in the IT sector, the company has access to external collaborators (Biagiotti/Burroni 2004). In this specific case, the Chinese subsidiary manages a database of IT experts from which potential clients can pick suitable IT workers for their tasks. Company Ma acts in principle as a broker.

The company's philosophy is to build a bridge between China and Germany. Besides offering general consulting services, the core of its business includes providing German companies support in offshoring the whole range of their IT functions by exploiting new communication technologies. The idea is to attract foreign companies that want to pursue a cost-reducing strategy by supplying well-educated but inexpensive Chinese specialists. Indeed, the company seems to have already capitalized on several multinational cooperation partners.

The two entrepreneurs are the embodiment of the Chinese globalizing trend. Like many other Chinese, Mr. Qing left China in order to get a foreign qualification. Specifically, he decided to go to Germany and study information technology at a university of applied science. According to the company's official account, after his studies he took over a subsidiary of a German IT company, entered the IT business successfully and then expanded the business to China in order, from the position of a consultant, to take advantage of the growing German investment in the Far East as well as of his ability to deal with both cultures. His wife can also be considered to be a sojourner since she has lived in Germany as well, although she was quite cryptic about how long.<sup>19</sup> Both partners exhibit a deep familiarity with the German town they claim to live in, and with German culture in general. Not only do they wear Western clothing, but they are also clearly committed to transferring German business styles to their IT company in China.

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19 Mrs. Qing stated vaguely that she had been living in Germany for about three to five years.



Despite this professional appearance, contradictions and discrepancies already emerged after the first steps of research. In particular, deception turned out to be a constitutive part of the company's business. Building on the case of Company Ma, in the following chapters, we will provide different interpretations of the nature of deception and in particular point to the relationship between strategic deception and self-deception.

## 5 Strategic deception

Deception was observed in several substantial areas of the company's business. In line with information economics and the game-theoretical approach to trust, misleading signals can be aimed at constructing a good reputation – in this specific case, that of a well-established and trustworthy company. The displayed date of the company's foundation is already a good example of false identity signaling. According to the homepage, the company was founded in 1996 in western Germany by a German entrepreneur, who in 1999 put Mr. Qing in charge of managing the first subsidiary in Germany. Nine years later, the Chinese manager founded the subsidiary in northern China that we observed. However, according to the Chamber of Industry and Commerce, the German office owned by Mr. Qing was registered only in January 2007, and there is no trace of the company supposedly founded by the German entrepreneur.

Analogously, there is no trace of the training centers all over Germany that were proudly exhibited in the Chinese leaflet in order to portray Company Ma as a well-established company. As a matter of fact, even the role of the legally registered headquarters in Germany seems to be rather mysterious. Mr. Qing was in the Chinese subsidiary during the whole internship, and there was no communication between the offices in China and in Germany. A former intern who had spent more than two months in the company even suggested that the office in Germany was merely fictitious.

On the website and in the Chinese leaflet, Company Ma also presented itself to both potential German and Chinese clients as cooperating with several well-known multinational corporations such as Siemens AG, Volkswagen AG, Bayer AG, Watson Group – and what the company refers to as “American United Airline,”<sup>20</sup> just to mention a few, as well as engaging in a long-lasting cooperation with a medium-sized German company (Company AG) which specializes in IT solutions. However, we could not find any evidence of business with any of the multinationals that the company boasted of working with.<sup>21</sup> Even

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20 American United Airline does not exist. The name evidently merges two different airline companies: United Airlines and American Airlines.

21 A previous intern, who had the task of rewriting the website, deleted the misleading information about the cooperation partners, but Mr. Qing insisted on stating the contacts publicly and re-entered them on the website.

the long-lasting cooperation with Company AG was revealed to be merely a contract for a one-shot SAP training slot at the time of the participant observation. Deception is also evident if we examine the core business activity of Company Ma's Chinese subsidiary at the time of the observation. The main aim of the company was, in fact, to enter the flourishing and appealing SAP consulting business by positioning the company in the low-cost segment. The German software development company SAP itself was operating in the same industrial park as Company Ma but offered training courses at a much higher price level. As a small business – and, as it appears at second glance – as a relatively young and not yet established company, Company Ma was highly dependent on resources provided by external actors as well as on a good reputation. Although Company Ma was very keen to enter an appealing market, it could not count on internal SAP specialists. The firm could have addressed the problem by resorting to the market and recruiting already skilled SAP consultants or by financing SAP training in-house. However, both strategies would have been very costly and would have undermined the positioning of the company in the low-cost sector. In fact, since SAP consultants were a scarce resource on the market, they were also very expensive. Unfortunately, the firm could not afford the costs for the regular training and examination procedure which would have provided its internal employees with an accredited SAP certificate either. Therefore, Company Ma simply bypassed these obstacles by shifting the costs of training to potential course participants. The training was promoted among students in the universities of the local province. In order to attend the SAP course, students would have had to pay the equivalent of 3,000 Euros at that time<sup>22</sup> and were promised future internships in Germany and good job opportunities in exchange. The German interns were in charge of promoting the SAP courses in the universities as well as indirectly supporting the German image and hence the company's good reputation, even by making false promises.

In order to train its own employees, Company Ma had to rely on external SAP trainers. To this end, the firm signed a contract with the German IT company Company AG. According to the contract, Company AG would send a trainer for a one-month course, provide a textbook on SAP in German – or, if available, in English – while for its part, Company Ma was supposed to provide the training location, the technical equipment including the installation of a mini-version of the SAP software, the recruitment of the planned 100 trainees and an English course in order to make the trainees fit for to deal with the English-language training material.<sup>23</sup> Moreover, it had to provide interpreting services during the course and, if necessary, a translation of the textbook into English. Because of cost constraints, the two partners agreed on a course for beginners that did not cover all the modules necessary for becoming an accredited SAP consultant, despite the promises made to the potential trainees in the leaflet and to clients on the website.

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22 This was cheaper than the certified training courses provided by the SAP company itself, but it is still a huge amount by Chinese standards, especially considering the fact that, as we will see, the training only provided a beginning-level course.

23 Including this preparation course, the trainees were expected to attend a total of three months of training.



According to the minutes of the meeting between Company Ma and Company AG, the Chinese firm tried to persuade its German partner to provide internships and even to mediate 50 percent of the Chinese trainees into suitable jobs. Moreover, Company AG should revise its website and provide its company profile in English as well, in order to be accessible for Chinese companies. But even more importantly, Company AG was asked to provide a database containing a list of the trainees certified at this particular SAP training which could be consulted by external companies to check the authenticity of the certificates and hence of the qualification provided. This would help provide credibility and trustworthiness for Company Ma in the eyes of potential trainees and future clients. This assertion – namely that the trainees would receive a full SAP training course which would be documented online, gain experience by attending an internship or even obtain a job in a German company – had been publicly announced by Company Ma, but unfortunately none of these requirements were secured in a contract or through any kind of formal (or even informal) agreement. All in all, what Company Ma publicly “sold” as a long-lasting relationship was in fact a one-shot contract between the two companies.

All the cases mentioned above can be interpreted in the light of information economics and the game-theoretical approach to trust. Company Ma manipulated evidence in order to mislead others and induce beliefs about its good reputation and economic success, i.e., by sending signals in the form of cooperation credentials. Interestingly enough, the targets of such signals could not easily detect the misleading information, which was widespread through the website and the leaflets, because of the geographical distance and the lack of social relationships that could provide the necessary information.

However, when we look more closely at the way its business was carried out, it becomes clear that Company Ma’s deceptive behavior was not only a matter of strategy and rationality, but that the lines between strategic deception and self-deception were blurred.

## **6 Self-deception and anticipatory socialization**

Some of the choices and behaviors observed among the two entrepreneurs and their employees hardly fit the picture of a simply opportunistic strategy. The production of misleading information can also be interpreted as the result of wishful thinking about the company’s successful future as well as in the broader context of anticipating the role of a successful German company, including the construction of an appropriate stage.

From the entrepreneurs down to the employees, the Chinese staff was imbued with euphoria and confidence about the future of the company. These beliefs about the glorious future of Company Ma were not only expressed in inner-office conversations, but were also translated into overhasty expansion plans. Within the coming two months Mr.

and Mrs. Qing planned to rent a new office in the same building and to buy the necessary furniture. The new office was more than thirty times larger than the one they were working in at that time.<sup>24</sup> The idea was to hire a lot of new specialists and to recruit 50 percent of the trainees from the SAP training course carried out in cooperation with Company AG. This would have attracted further projects from German companies in China and Germany.

The relationship with Company AG, which was formally based only on a one-shot contract limited to the one-month SAP training course, can also be interpreted in the light of wishful thinking and anticipatory behavior. Company Ma made promises to potential trainees in the form of internships in Germany that went beyond the contractual basis and in fact presumed a much closer cooperative relationship between the two companies than actually existed. While from the perspective of the trainees, this could indeed be interpreted as a lie, according to Mr. Qing, he was just anticipating the future. In fact, he knew that Company AG was eager to enter the Chinese market and would then need to hire Chinese IT specialists. Therefore, he was certain that the German company would rather hire people whom it had also trained rather than unknown applicants. Despite the fact that in the meeting with Company AG, the German side reacted lukewarmly to a possible commitment in training, the Chinese entrepreneur genuinely believed what he wished – i.e., that a long lasting cooperation on training between the two companies would occur anyway and that all his plans would work out.

In addition to the uncertainty regarding the cooperation with the German company, there were actually further good reasons for concern: one and a half months before it was scheduled to begin, there were still no conditions in place for carrying out the first SAP course, i.e., the core business necessary for the company's future success. Because of bad time management, no students had signed up for the course yet by that time, and considering the university schedules, it would hardly be possible to attract the 100 participants needed in order for the course to take place.

More generally, the German interns had repeatedly expressed their concern about the whole business concept and the working style of the company based on very simple arguments. In fact, in a so-called SWOT analysis (strengths, weaknesses, opportunities, threats), a previous intern with a background in business studies came to the conclusion that because of cultural and language distances as well as the time difference between Germany and China it would have been more reasonable for German companies to outsource IT consulting to Eastern European countries rather than to China. Unfortunately, this analysis was not examined or discussed at all.<sup>25</sup>

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24 At that time the office was about 40 m<sup>2</sup>.

25 Oddly, however, this analysis was one of the first documents given to a new intern as information material.

Indeed, the general euphoria was interrupted by regular evening quarrels between management and employees. These quarrels occupied at least two working hours every day, were strongly emotionally loaded<sup>26</sup> – which would not fit into the picture of economic actors as pure strategic opportunists – and showed that self-deception was involved. In fact, disappointment did not result in depression and apathy but rather in voluntarism, disregard of hindering obstacles and continuous injections of confidence regarding the solidity of the plans.<sup>27</sup>

The beliefs about the company's success were strongly intertwined with another one of the entrepreneurs' wishes – the wish to *be* a German company, which in turn translates into *playing* this role in China. Indeed, due to their experience in Germany as sojourners, the two entrepreneurs had developed ideas about the German business model that they were eager to implement in their own company based on their conviction of actually being German entrepreneurs.

The fact that the Chinese couple was not simply deceiving others but indeed *playing the role of* German entrepreneurs is also evident in the social interactions and working culture in the office. First of all, despite working in China, the two entrepreneurs refused to speak Chinese with the German interns and urged them to talk in German even in front of the Chinese employees, which was rather inefficient.<sup>28</sup> Secondly, they were keen on cultivating typical German customs in the Chinese company, at least in appearance. For example, they placed a German coffee machine in a very visible place, even though there was no coffee available, and stored (sometimes German) biscuits for the employees on the shelves despite the fact that Chinese people usually do not eat pastries. Thirdly, they were committed to the adoption of typical institutions of the German training model while simultaneously distorting their nature. The same internships that in Germany have the function of providing students with the opportunity to get an inside scoop into business became cornerstones for building and promoting the *Germanness* of the company. For example, the German interns had to create presentations for the students that illustrated the characteristics and advantages of the German model of internship that Company Ma was indeed practicing and simply offering to the students and potential future trainees as an opportunity. They were required to teach instead of to learn. Moreover, the general idea of the company training its own future employees can reasonably be interpreted as an imitation of the German institution of vocational training by offering schooling in China by German trainers and work expe-

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26 Unfortunately, because the four Chinese were shouting simultaneously, talking fast and making use of dialect, it was not possible to decipher the precise contents of the quarrels.

27 Every morning new motivation was built up by restating the company's glorious perspectives and by cheering each other on for working hard to reach the goal. This practice became almost ritualized by striking out the days left until the start of the SAP course on a sheet of paper hanging in a visible place in the office.

28 In fact, while the German interns could speak Chinese, the German language skills of the two entrepreneurs were relatively poor and, above all, the Chinese employees could not follow the conversations in German.

rience through internships in Germany. This kind of apprenticeship is necessarily very restricted with regard to content. Nevertheless, in Company Ma it was intended to be used for the recruitment of a comprehensive body of human resources.<sup>29</sup>

The entrepreneurs were eager to act as if they were leading a German company; therefore they translated German ideas that they knew about. However, their knowledge of the German system was not accurate enough; instead, it was built on stereotypes to which they held on despite the evidence. For instance, as an intern, the observer was asked to prepare a PowerPoint presentation illustrating dress codes and general codes of behavior for trainees in the German business environment. It soon turned out that the two entrepreneurs had very precise ideas about these German codes and how they should be presented, but when the researcher contradicted their convictions and underlined the variety of company cultures, they interpreted this as a lack of experience on her part and simply cancelled the task.

To sum up, as evidenced by the great euphoria, the influence of wishes and role anticipation despite contradicting evidence, self-deception appears to have been involved in Company Ma's business practices and to have contributed to successfully deceiving others.

This is, in fact, reflected in the way the story ended. According to the websites of both Company Ma and Company AG,<sup>30</sup> Company Ma suddenly closed down its previous business in northern China and moved to Shanghai. Apparently the business was not as profitable as it was presented and believed to be by the two Chinese entrepreneurs.<sup>31</sup> However, not least because of a certain naïveté and willingness to believe on the German side,<sup>32</sup> Company Ma got a second chance. In fact, the pre-existing contact between Company Ma and Company AG did indeed prepare the groundwork for the German firm to start its business in China. Only six months after the stipulation of the first busi-

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29 In Germany, the contents provided in vocational training are more extensive. Moreover, the trainees constitute only a small share of the companies' human resources, and apprenticeship is part of a long-term strategy, certainly not the main recruitment strategy.

30 Unfortunately, the internship in the Chinese subsidiary was over before the researcher could personally observe the outcomes of Company Ma's plans, which were highly dependent on the success of the SAP training. Therefore, our information on this issue is based on the content of the websites mentioned above.

31 If the business in northern China had been profitable, Company Ma would most probably have opened a subsidiary in Shanghai instead of relocating the whole business. This seems even more plausible considering the fact that the managers, who originated from the previous business location, had to abandon not only their business contacts but also their families, which is a very hard decision, especially in the Chinese culture (Logan/Bian/Bian 1998).

32 Euphoria and wishful thinking also seem to imbue decision-making processes in Western companies planning to invest in emerging capitalist countries and prevent these companies from accurately controlling their partners abroad. In this sense, globalization also provides the perfect audience for a deceptive show, namely businesses in developed countries with strong but shallow beliefs in the absolute profitability of the global economy. For more about the rationality failure of German entrepreneurs investing in China, see also Piotti (2009a, 2010).

ness contract between the two companies, Company Ma managed to become the main cooperation partner and probably the local *de facto* manager of the Chinese subsidiary of Company AG in Shanghai.<sup>33</sup>

## 7 Conclusions

The aim of this paper was to investigate the nature of deception in markets. While information economics and the game-theoretical approach to trust would assume deception to be mainly strategic, behavioral economics, rationality studies and sociology would agree on the fact that beliefs and wishes play an important role in self-deception and in the deception of others. While behavioral economics and rationality studies identify the drivers of deception in cognitive biases and contradicting beliefs that can lead to irrational decisions, for sociology, deception can be generated in processes of identification and in the theatrical playing of roles that individuals strive to fulfill in reality.

In the case of the (German) Chinese company studied in our research, we have found evidence for strategic deception and opportunistic behavior as a constitutive part of the company entering the market. Indeed, at first glance, some of the lies contained in the company's presentations to the public appear to be intended to mislead potential clients. The deceptive information about the successful cooperation with high-ranking multinationals and about the date of the company's foundation have been strategically used to instill the belief that this is a well-established German company. However, at second glance, the lines between strategic deception and self-deception turn out not to be clear-cut. The example of the baseless promises of internships in Germany made to SAP trainees shows that even though the guarantee of an internship was objectively a lie, the entrepreneurs were in fact acting anticipatorily, as if their wishes were already reality. In line with this argumentation, the deceptive presentation of the company to the public becomes part of a theatrical play which the entrepreneurs were acting out in line with their desires and aspirations. It is a play that they kept on acting even with their own employees, which cannot be explained by a pure strategy of manipulating external actors.

As a matter of fact, deception is strictly entangled with self-deception, i.e., with acting as if reality conformed to one's wishes, despite all evidence. Self-deception can even become a comparative advantage, because the actors truly believe their own lies and can therefore fool others more easily.

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33 It should be noted that the contact person for the Shanghai office of Company AG has his seat in Europe and that no personnel of the company appear to be working in the Chinese subsidiary.

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