This paper uses an analytical model to examine the economics of compliments. Salespersons give compliments to clients. Academics give compliments to other individuals in the field. Employees in a company give compliments to peers and superiors. The central question of this research is who will invest more in a compliment and how does this investment depend on the receiver. In a model of full information, we examine how the complimenting behavior is affected by sender ability, by receiver ability, and the interaction between the two. The model sheds insight into the equilibrium outcome when the presence of a compliment can serve as a signal of unobserved sender ability.

Keywords: Game Theory, Signaling, Counter-Signaling, Compliments, Person Marketing

1. Introduction

Webster’s dictionary defines a compliment as “a remark that says something good about someone or something.” To make such a remark requires effort to identify and communicate something positive about the receiver of the compliment. This effort is often rewarded by making the person who gives the compliment appear more attractive and likeable in the eyes of the receiver (Jones 1964, Jones 1973 Gordon 1996). In some instances, the act of giving a compliment even carries a financial reward (Sieter 2007).

According to social exchange theory (Emerson 1976, p. 349), the cost in a social transaction such as a compliment can be “in the form of aversive stimuli encountered” such as effortful work performed or “in the form of rewards foregone (e.g., time and effort that could have been spent otherwise, for some other valued return).” Homans (1974, p.25) offers the following proposition: “The more valuable to a person is the result of his action, the more likely he is to perform the action.” This research examines who will offer a compliment and to whom.
We develop an analytical model to apply social exchange theory to complimenting behavior. The full information model highlights incentives to invest in keen compliments. The subsequent model builds on this logic to show how the depth of complimenting can be a credible signal of a sender’s unobservable ability.

Compliments are abundant in daily lives. This research applies to a subset of these compliments which have the following properties. The sender and receiver of the compliment are aware of the potential for the receiver to respond in a favorable manner and the receiver’s type is common knowledge. We consider both when the sender’s ability is also common knowledge and when it is unobservable by the receiver. We also consider when the receiver of the compliment has noisy information regarding the sender’s ability.

There are many situations which have these properties. For instance, a seminar participant (sender) can be evaluated along the dimension of intellect by the presenter (the receiver). Compliments are given from business persons who can be evaluated along the dimension of skill to more junior managers or more senior managers who can affect performance evaluations. Compliments by salespersons are often used to curry favor with customers (Brown 1990; Strutton, Pelton, Tanner 1996).

This research presents an analytical model to examine how the receiver’s type and the sender’s type interact to determine the complimenting effort exerted. The logic from the full information case sheds light into how giving compliments can facilitate information transmission regarding unobserved quality. A contribution of the model is to not only identify the possibility of these opposing effects of compliments, but also to identify the circumstances that lead to each effect.

The findings contribute to the growing interest in person marketing defined by Kotler and Armstrong (2014, p. 230) as the “activities undertaken to create, maintain, or change attitudes or
behaviors toward particular people.” The topic of many recent books, successful person marketing can result in stronger careers or be directly monetized through speaking engagements and consulting projects. The website, Upstart.com, has taken person marketing to a new level by offering the opportunity to invest directly in a person. This research shows how compliments in particular can create and/or change attitudes toward particular people.

The rest of the paper is organized as follows. Section 2 offers a brief review of the relevant social exchange theory and signaling literatures. Section 3 describes the model, analysis, and results. Section 4 presents two model extensions. Section 5 concludes with a discussion of the results.

2. Literature Review

Social exchange theory is a multi-disciplinary approach to analyzing social interactions between two or more people. With roots in sociology, psychology, and economics, social exchange theory treats social behavior as an exchange of acts that carry varying rewards and costs (Homans 1958). Homans (1974) set forth a rationality proposition that argues individuals will choose actions that maximize their expected value. Meeker (1971) asserted when an individual will adopt such a rationality rule in a social exchange. Emerson (1976) synthesized prior work in social exchange theory to bridge views based more in economic analysis such as Blau (1964) with theories rooted more in psychology such as Thibault and Kelley (1959) and Homans (1974). See Cropanzano and Mitchell (2005) for a relatively more recent review of social exchange theory and its applications.

Signaling theory examines how an individual or organization can credibly communicate unobservable information. Spence (1973) found that incurring a cost, such as education, can serve as a signal of quality, such as worker productivity. Milgrom and Roberts (1986) formalized
arguments of Nelson (1974) in a seminal paper demonstrating that uninformative advertising coupled with pricing can attenuate information asymmetry. Several papers have subsequently examined the signaling role of advertising (e.g., Chu 1992; Hertzendorf 1993; and Zhao 2000). Research has shown that quality can be signaled by price (e.g., Wolinsky 1983; Bagwell and Riordan 1991; Stiving 2000), the presence of a money-back guarantee policy (e.g., Moorthy and Srinivasan 1995), the length of warranties (e.g., Balachander 2001), investments in store atmosphere (Kuksov and Iyer 2010), and brand extensions (Moorthy 2012).

Prior research also considers alternative receivers of the signal. A body of research has examined signals from incumbents to potential entrants (e.g., Milgrom and Roberts 1982; Bagwell and Ramey 1988; Srinivasan 1991; Balachander and Srinivasan 1994). Another body of research found instruments for signaling the manufacturer’s forecast of demand to retailers (e.g., Desai and Srinivasan 1995; Lariviere and Padmanabhan 1997; and Desai 2000).

Feltovich, Harbaugh, and To (2002) and Chung and Eso (2013) found that high-type senders pool with low-type senders in choosing not to signal. Such an equilibrium is referred to as countersignaling because the high-type senders can separate from medium-type senders by not incurring signaling costs. Similarly, Harbaugh and To (2012) found that high types senders can signal unobservable quality by withholding good news. Mayzlin and Shin (2011) found medium type firms reveal type by engaging in attribute advertising whereas high and low type firms pool on non-attribute advertising.

In summary, social exchange theory suggests that individuals approach social interactions in a rational manner maximizing costs and rewards. We build a model to show how this behavior affects complimenting effort. The full information model sheds insight into why compliments
can facilitate information exchange between the sender and the receiver of the compliment. We formalize this view of compliments with the following analytical model.

3. Model, Analysis, and Results

We consider compliments from a sender of quality $a$ to a receiver of quality $b$. Initially, both $a$ and $b$ are continuous and common knowledge. Senders can choose the strength of the compliment, $\tau$. For instance, a sender may shower the receiver with compliments or carefully research a unique, insightful compliment. Receivers have a discrete choice. They can take an action that favors the sender or they may abstain from this action. The utility of the action is given below:

$$U_r = r(a + \tau - c_r)$$

where $r=1$ if the receiver takes the action, $r=0$ otherwise, and $c_r \sim N(0, \sigma^2)$ is the receiver’s cost of taking this action that is unknown by the sender. This specification is consistent with the literature’s finding that a compliment can increase how much the receiver likes the sender (e.g., Byrne and Rhamey 1965; see Gordon 1996 for meta-analysis). It is also consistent with research showing that offering compliments can have a financial reward such as higher gratuities for servers (Sieter 2007). Thus, a receivers’ action depends not only on the ability of the sender, but also on the compliment offered by the sender. The variation in the cost of the action captures the heterogeneity in proclivity to take actions that positively affect others. Some individuals may be stingy (i.e., $c_r$ is high), while others may be inclined to take positive actions toward others (i.e., $c_r$ is low).

The value to the sender of the receiver taking this action is an increasing function of the receiver’s ability: $h(b)$ where $h'(b) > 0$. The action may be in the form of a favorable performance review, a gratuity to a server, hiring, promotion, or even simply a return
compliment. From (1), the probability that a receiver takes an action can be written as \( F(a + \tau) \) where \( F(.) \) is the cumulative density function of \( c_r \).

The sender of the compliment chooses \( \tau \) to maximize utility given by:

\[
U_s = F(a + \tau)h(b) - c\tau(1 - \frac{a}{1 + a})
\]

(2)

The cost of complimenting effort is \( c \), and the functional form allows the marginal cost of complimenting effort to be a decreasing function of sender ability, \( a \). It is less costly for higher ability senders to offer a compliment because it requires less cognitive effort for them to identify a proper compliment. The specific form of the cost function guarantees that the cost of complimenting effort is non-negative for all \( a \).

The sender’s utility is maximized by choosing \( \tau \) such that \( f(a + \tau)h(b) = c(1 - \frac{a}{1 + a}) \). The following proposition is derived from the Implicit Function Theorem.

**Proposition 1** Senders exert greater complimenting effort for higher ability receivers.

Proof: From the Implicit Function Theorem \( \frac{\partial \tau^*}{\partial b} = -\frac{f(a + \tau)h'(b)}{f'(a + \tau)h(b)} > 0 \) by fact that \( f'(.) < 0 \) for normal distribution and \( h'(b) > 0 \).

Proposition 1 documents the straightforward effect of receiver ability on complimenting effort. As one would expect, the higher the ability of the receiver to take an action in the sender’s favor, the more effort the sender will in complimenting. Logically, an increase in complimenting effort increases the likelihood the sender takes a favorable action toward the sender. A higher ability receiver makes this increased likelihood more valuable, thereby increasing the marginal benefit

\[1 \text{ This solution exists provided } c \text{ is not too large relative to } h(b). \text{ If } c > h(b) / \sqrt{2\pi\sigma}, \text{ then } \tau^* = 0.\]
to complimenting effort. Though this insight is straightforward, the logic builds toward explaining the following result.

**Proposition 2** High ability senders exert lesser complimenting effort than low ability senders for high ability receivers. In other words, there exists \( b' \) such that \( \frac{\partial \tau^*}{\partial a} < 0 \) if \( b > b' \).

Proof: From the Implicit Function Theorem \( \frac{\partial \tau^*}{\partial a} = -\frac{f''(a + \tau)h(b) + c}{f'(a + \tau)h(b)} < 0 \) if \( b > b' \)

where \( b' \) is defined such that \( h(b') = \frac{-c}{f''(a + \tau)(1 + a)^2} \).

In light of Proposition 1, this result is not straightforward. All senders have a greater incentive for complimenting effort when the receiver is higher ability relative to when the receiver is lower ability. However, Proposition 2 highlights which types of senders exert more complimenting effort. The intuition is driven by the fact that higher ability senders are able to let abilities speak for themselves. By fact that \( f'(a + \tau) \) is negative, the marginal impact of complimenting effort on the probability that a receiver takes an action is less for higher ability senders.

Figures 1a and 1b graphically depict this. The dark gray area represents the improvement in the probability that the receiver takes an action when the sender exerts a complimenting effort of \( \tau \). The light gray area represents the probability that the receiver takes an action when the sender exerts no complimenting effort. The graphs demonstrate that the higher ability senders experience a smaller marginal increase in the probability of the receiver action than the lower ability senders.
When the receiver is higher ability, this difference in the marginal return on complimenting effort is exacerbated. By fact that the value of an action of a higher ability sender is higher (i.e., $h'(b) > 0$), the complimenting effort carries even more value to the lower ability sender than the higher ability sender. As such, the lower ability sender exerts a greater amount of complimenting effort. We next examine complimenting effort when receivers are lower ability.
Proposition 3 Higher ability senders exert greater complimenting effort than lower ability senders for lower ability receivers. In other words, there exists $b'$ such that $\frac{\partial \tau^*}{\partial a} > 0$ if and only if $b < b'$.

Proof: From Implicit Function Theorem, $\frac{\partial \tau^*}{\partial a} = -\frac{f'(a + \tau)h(b) + c / (1 + a)^2}{f'(a + \tau)h(b)}$. For the normal distribution, $f'(a + \tau) < 0$ for any $a + \tau > 0$. The numerator is positive if $b < b'$ where $b'$ is defined such that $h(b') = \frac{-c}{f'(a + \tau)(1 + a)^2}$ by fact that $h'(b) > 0$.

Proposition 3 identifies which type of sender will exert more complimenting effort for a low ability receiver. In contrast to Proposition 2, higher ability senders exert more complimenting effort for lower ability receivers than do lower ability senders. To see this, consider the two effects of sender ability. On the one hand, higher ability senders are able to compliment at a lower cost. On the other hand, there is a smaller probability for higher ability senders that the complimenting effort is the determining factor in currying a favorable response from the receiver. In other words, higher ability senders can better rely on their own ability. When the receiver is ability is higher, the difference in the anticipated reward for complimenting effort between sender types is more pronounced. When the receiver ability is lower, this difference is less pronounced. As such, when the receiver ability is low, the difference in complimenting effort costs dominates the difference in anticipated reward. In this case, higher ability senders exert more effort because it is less costly to do so.

Figure 2 summarizes the results of Propositions 1-3 with a graphical depiction of high/low sender ability and high/low receiver ability. The figure demonstrates the interaction between sender and receiver ability in determining the equilibrium complimenting effort.
In the next section, we consider whether this pattern of results is stable when the receiver is uninformed about the sender’s ability.

4. Asymmetric Information

In this section, we consider the case in which the sender’s ability is unknown. The objective is to determine whether the pattern of results in Figure 2 can be preserved when the receiver does not observe the sender’s ability at the time of making a decision. We make two changes to the main model. First, we consider two sender types of equal proportion: High ability senders with $a = a_\mu$ and low ability senders with $a = 0$. Second, receivers base their actions on beliefs of sender type $\hat{a}(\tau)$.

In the following subsection, we examine the case in which the complimenting effort is the only observable information. In the subsequent subsection, we examine how the results are affected by the presence of an exogenous noisy signal of sender quality such as reputation.
4.1. Receivers Completely Uninformed of Sender Ability

The purpose of this subsection is to examine whether the qualitative result of Proposition 2 can be preserved when in the case of asymmetric information. Specifically, we consider whether it is possible for \( \tau^*(a_H) < \tau^*(0) \) in a pure-strategy perfect Bayesian equilibrium, where \( \tau^*(.) \) represents the optimal complimenting effort as a function of sender type. Adapting equation (1), the receiver chooses \( r \in \{0,1\} \) to maximize \( r(\hat{a}(\tau) + \tau - c_r) \) based on the belief function \( \hat{a}(\tau) \). Thus, the sender chooses \( \tau \) to maximize \( U_s = F(\hat{a}(\tau) + \tau)h(b) - c\tau(1 - \frac{a}{1+\alpha}) \). Let the function \( g(\alpha|\tau) \) denote the receiver’s anticipated probability that a sender has quality \( \alpha \in A \) given observed value of \( \tau \). A pure-strategy perfect Bayes equilibrium requires that

\[
g(\alpha'|\tau) = \frac{Pr(\alpha|\alpha')Pr(\alpha = \alpha')}{Pr(\alpha)} = \hat{a}(\tau) = \sum_{\alpha \in A} \alpha' \cdot g(\alpha'|\tau) \quad \text{and the sender’s and receiver’s actions are optimal given the receiver’s beliefs. We prove the following proposition by contradiction.}

**Proposition 4** When receivers are uninformed about sender ability, there is no pure-strategy Nash equilibrium in which the high ability senders exert less complimenting effort than the low ability senders.

Proof: Suppose \( \tau^*(a_H) = \tau' < \tau^* = \tau^*(0) \). Bayes-consistent beliefs imply

\[
\hat{a}(\tau') = 1, \quad \hat{a}(\tau) = a_H, \quad \hat{a}(\tau^*) = 1 \quad \text{and} \quad \hat{a}(\tau^*') = 0.
\]

However, optimality for the high ability sender of \( \tau' \) implies that

\[
F(a_H + \tau')h(b) - c\tau'(1 - \frac{a_H}{1+a_H}) > F(0 + \tau^*)h(b) - c\tau^*(1 - \frac{a_H}{1+a_H}),
\]

which is equivalent to

\[
(F(0 + \tau^*) - F(a_H + \tau'))h(b) < (\tau^* - \tau')c(1 - \frac{a_H}{1+a_H}).
\]

Since \( (\tau^* - \tau')c(1 - \frac{a_H}{1+a_H}) < (\tau^* - \tau')c \), this
also implies that \( F(a_H + \tau')h(b) - c\tau' > F(0 + \tau")h(b) - c\tau" \) which contradicts the optimality of \( \tau" \) for low ability senders. \textit{Q.E.D.}

Proposition 4 contrasts with Proposition 2 and demonstrates the role of information regarding the sender’s ability. In the full information model, high ability senders can better rely on their abilities to elicit an action from the receiver. However, when ability is unknown, this effect disappears. We now examine whether a signaling equilibrium is possible in which the higher ability senders exert more complimenting effort than low ability senders.

**Proposition 5** When receivers are uninformed about sender ability, a separating equilibrium exists in which higher ability senders exert more complimenting effort than lower ability senders.

Proof: Suppose a separating equilibrium in which there exists a \( \hat{\tau} \) such that \( \hat{\tau}(\tau) = 0 \) for \( \tau < \hat{\tau} \) and \( \hat{\tau}(\tau) = a_H \) otherwise. Suppose first the low ability sender chooses \( \hat{\tau} < \hat{\tau} \). The optimal complimenting effort in this range maximizes \( U_s = F(\tau)h(b) - c\tau \) and is \( \tau" \) s.t. \( f(\tau")h(b) = c \).

The high ability sender chooses \( \tau \) to maximize the utility subject to the constraint that the low ability sender cannot profitably mimic the complimenting effort:

\[
U_s = F(a_H + \tau)h(b) - c\tau(1 - \frac{a_H}{1+a_H}) \quad \text{(3)}
\]

s.t. \( (F(a_H + \tau) - F(\tau"))h(b) < (\tau - \tau")c \)

The Kuhn-Tucker conditions maximizing the constrained optimization of (3) are satisfied if

\[
\begin{align*}
f(a_H + \tau)h(b) - c(1 - \frac{a_H}{1+a_H}) + \lambda[\tau c - f(a_H + \tau)h(b)] &= 0 \\
\lambda[(\tau - \tau")c - (F(a_H + \tau) - F(\tau"))h(b)] &= 0 \\
\lambda &\geq 0
\end{align*}
\]

(4)

Given \( f(\tau")h(b) = c \), we substitute \( f(\tau")h(b) \) for \( c \) and simplify the conditions of (4):
Thus if $\hat{a}(\tau)$ is such that (5) is satisfied, then there exists an equilibrium in $\hat{a}(\tau) = 0$ for $\tau < \hat{\tau}$ and $\hat{a}(\tau) = a_H$ otherwise, $\hat{\tau}(a_H) \equiv \hat{\tau} = \hat{\tau} > \tau'' \equiv \hat{\tau}(0)$. By definition of $\hat{\tau}$, low ability sender cannot profitably deviate to choose $\tau'' > \hat{\tau}$. The high ability sender cannot profitably deviate to choose $\tau''$ provided $F(a_H + \tau') - F(\tau'') > (\tau' - \tau'') f(\tau'')(1 - \frac{a_H}{1 + a_H})$. Thus, neither sender type would mimic the other if $(\tau' - \tau'') f(\tau'') > F(a_H + \tau') - F(\tau'') > (\tau' - \tau'') f(\tau'')(1 - \frac{a_H}{1 + a_H})$; a range which exists if $\tau' - \tau'' > 0$. Q.E.D.

The key insight from Proposition 5 is not that the high ability sender can signal his type by exerting a greater complimenting effort than the low ability sender. This is straightforward from the signaling literature. Rather Proposition 5 contrasts nicely with Proposition 3 which finds in the full information case, the high ability sender compliments more than the low ability sender only for low ability senders. In the absence of information about sender type, all receiver types may be complimented more by high ability senders than low ability senders. This again highlights the role of information about sender ability in determining the equilibrium complimenting effort.

We next consider the complimenting effort when there is a noisy signal regarding the ability of the sender.

4.2 Receivers Are Partially Uninformed of Sender Ability

Relative to the prior subsection, we introduce an exogenous noisy signal of sender ability $x$ that is correlated with sender ability but is not perfectly diagnostic. The probability of $x_j$ given
ability \( a \) is given by \( \varphi(x_j | a) \). In the interest of parsimony, we assume \( x \in \{x_L, x_H\} \),
\[ \varphi(x_H | a = a_H) = 1, \quad \varphi(x_H | a = 0) = 1/2, \quad \varphi(x_L | a = a_H) = 0 \text{ and } \varphi(x_L | a = 0) = 1/2. \]
This specification captures the fact that the additional information is more likely to be high quality for higher ability senders.

In this setup, Bayes-consistent beliefs requires \( g(a' | x, \tau) = \frac{\varphi(x | a = a') \Pr(a = a')}{\Pr(x, \tau)} \). We again consider whether it is possible for \( \tau^*(a_H) < \tau^*(0) \) in a pure-strategy perfect Bayesian equilibrium, where \( \tau^*(.) \) represents the optimal complimenting effort as a function of sender type. Table 1 below summarizes the notation used in this subsection.

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>( a )</td>
<td>Sender’s quality</td>
</tr>
<tr>
<td>( b )</td>
<td>Receiver’s quality</td>
</tr>
<tr>
<td>( c(1 - a / (1 + a)) )</td>
<td>Cost to sender of giving compliment</td>
</tr>
<tr>
<td>( x )</td>
<td>Noisy exogenous signal of sender’s quality</td>
</tr>
<tr>
<td>( \varphi(x_j</td>
<td>a) )</td>
</tr>
<tr>
<td>( \tau )</td>
<td>Sender’s complimenting effort</td>
</tr>
<tr>
<td>( g(a</td>
<td>x, \tau) )</td>
</tr>
<tr>
<td>( \hat{a}(x, \tau) )</td>
<td>Receiver’s expected value of sender’s quality</td>
</tr>
</tbody>
</table>

**Proposition 6** When receivers are partially uninformed about sender ability, there exists a pure-strategy Nash equilibrium in which the high ability senders exert less complimenting effort than the low ability senders provided receiver ability is sufficiently high.

Proof: Suppose \( \tau^*(a_H) \equiv \tau' < \tau'' \equiv \tau^*(0) \). Bayes-consistent beliefs imply \( \hat{a}(x_H, \tau') = a_H \) and \( \hat{a}(x_H, \tau'') = 0 \) and \( \hat{a}(x_L, \tau') = 0 \). For this to constitute an equilibrium, it must be that the high
ability sender does not want to deviate to choose \( \tau^* \). In other words:
\[
(F(0 + \tau^*) - F(a_H + \tau'))h(b) < (\tau^* - \tau')c(1 - \frac{a_H}{1 + a_H}).
\]
It must also be that the low ability sender does not want to deviate to choose \( \tau' \). Since, \( \varphi(x_L | a = a_H) = 0 \), the only rational belief for this action off the equilibrium path is \( \hat{a}(x_L, \tau') = 0 \). So the low-type will not deviate if
\[
F(0 + \tau^*)h(b) - c\tau^* > h(b)(\varphi(x_H | a = 0)F(a_H + \tau') + \varphi(x_L | a = 0)F(0 + \tau')) - c\tau'.
\]
Rearranging terms
given \( \varphi(x_H | a = 0) = \varphi(x_L | a = 0) = 1/2 \), this implies
\[
h(b)(F(0 + \tau^*) - \frac{F(a_H + \tau') + F(0 + \tau')}{2}) > c(\tau^* - \tau').
\]
Consider the point at which the high type is indifferent between choosing \( \tau' \) and \( \tau^* \), which implies
\[
(F(0 + \tau^*) - F(a_H + \tau'))h(b) = (\tau^* - \tau')c(1 - \frac{a_H}{1 + a_H}).
\]
At this point
\[
F(0 + \tau^*) = (\tau^* - \tau')c(1 - \frac{a_H}{1 + a_H}) / h(b) + F(a_H + \tau').
\]
By substitution, the low type will not deviate if
\[
(\tau^* - \tau')c(1 - \frac{a_H}{1 + a_H}) + h(b)(F(a_H + \tau') - \frac{F(a_H + \tau') + F(0 + \tau')}{2}) > c(\tau^* - \tau').
\]
Rearranging terms
\[
h(b)(F(a_H + \tau') - \frac{F(a_H + \tau') + F(0 + \tau')}{2}) > c(\tau^* - \tau')(\frac{a_H}{1 + a_H}).
\]
Thus, the low ability sender will not want to mimic the high ability sender if
\[
h(b)(\frac{F(a_H + \tau') - F(0 + \tau')}{2}) > c(\tau^* - \tau')(\frac{a_H}{1 + a_H}),
\]
which is true for sufficiently high \( h(b) \). Thus, global deviations to mimic the strategy of other type are suboptimal. To constitute an equilibrium, \( \tau' \) and \( \tau^* \) are defined such that local deviations are also suboptimal. Thus, there exists an equilibrium in which \( \tau^*(a_H) \equiv \tau' < \tau^* \equiv \tau^*(0) \).

Q.E.D.
Combined, Propositions 2, 4, and 6 highlight the importance of the information structure. In contrast to when the receiver relies solely on the complimenting effort to determine sender ability, an exogenous noisy signal can result in high ability senders exerting less complimenting effort than low ability senders. Similar to the full information case, the high ability senders can better rely on their ability to elicit a favorable action from the receiver. Though a low ability sender would like to appear as a high ability sender, there is a possibility that her mimicry in action will not result in a belief by the receiver that he is a high type. In other words, there is a probability that the exogenous noisy signal (e.g., reputation) will reveal the sender as a low type. Thus, the gains from appearing as a high ability sender in the case that the signal is positive are outweighed by the loss from exerting suboptimal complimenting effort in the case that exogenous signal reveals low ability. Low ability senders, unable to rely on their ability to elicit a favorable response and unsure of their exogenous signal of ability, exert greater complimenting effort than high ability senders.

5. Discussion
This research identifies an important tradeoff in the offering of compliments. On the one hand, a compliment represents an effortful investment in a relationship which can lead to a favorable response by the receiver. On the other hand, it can serve as a signal of the sender’s unobservable quality. As this research shows, there are some cases in which both of these effects are positive. In which case, the signaling value of a compliment enhances a sender’s incentive to offer compliments. However, this research identifies a case in which exerting stronger complimenting effort causes the receiver to downgrade the belief about the sender’s quality.

The findings have implications in many domains. In personal selling, the quality of the salesperson’s product or expertise may be unobservable by a client whose quality can be
measured by the size of the account. To salespersons, the findings suggest that when offering higher quality products, one should offer compliments to smaller clients to distinguish from salespersons of lower quality products. On the other hand, larger clients who receive strong complimenting effort from salespersons for whom observable noisy information is positive can discern this salesperson from one of the highest quality products who would exert less complimenting effort.

The findings also relate to academics. At conferences, offering a compliment to another scholar is an opportunity to endear oneself to the scholar. However, this research shows it is also a means to signal quality or lack thereof. The stature of the scholar plays an integral role in determining if this compliment will be a signal of quality.

In summary, this research examines equilibrium complimenting effort and how it is affected by 1) available information about the sender ability; 2) the receiver’s ability; and 3) the ability of the sender. The findings show a positive main effect of receiver ability on complimenting effort, but an interaction effect between the three dimensions.

References


