

Literature Review

Control effects on cooperation in embedded interactions

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1 Key words

Key words:

- Dyadic + network embeddedness (focus on network embeddedness for thesis itself).
- Use of own (readily available) data
- Try to align the M&S project and SaSR project as much as possible.
- Endogenous + exogenous (might not be fruitful in the thesis itself).
- Note that the two theses are to be written in parallel, and have to be finished in May 2022.

2 Introduction

Social dilemmas are at the core of everyday life. Students may anticipate a good grade for group work with minimal effort by free-riding on the work of their peers, researchers could obtain another publication by letting their collaborators do the lion’s share of the required work (Corten, Buskens, & Rosenkranz, 2020) and a car dealer may maximize the returns of a transaction by hiding several vehicle defects when selling a second-hand car to a relatively uninformed customer (Buskens & Weesie, 2000a). Under the assumption of “social isolation”, that is, the interacting actors can be considered perfect strangers that do not anticipate any future interactions, actors can maximize their individual returns by behaving uncooperatively. However, if all actors involved would apply this strategy, no good grade will be obtained by the students, the researchers will not publish a joint paper, and the intended transaction will not be materialized. The collective returns that emerge from self-regarding, goal-directed behaviour would be lower than what could have been achieved under mutual cooperation: hence the term “social dilemma” (Kollock, 1998; Ostrom, 1998).

Theoretical predictions render a cooperative interaction between two actors in an isolated social dilemma impossible (e.g., see Luce & Raiffa, 1989 for the Prisoner’s Dilemma; and Buskens & Raub, 2002 for the Trust Game). Consider for example the standard one-shot Prisoner’s Dilemma. Regardless of the choice of one’s partner, an individual actor obtains the highest payoff by acting uncooperatively. Defecting, rather than cooperating, leads to a higher payoff when the other player cooperates, as well as when the other player defects. Hence, the Nash equilibrium is mutual defection, even though mutual cooperation would yield a Pareto improvement, in the sense that all players would be better off. Contrary to these ominous theoretical predictions, in practice researchers generally find non-negligible rates of cooperation in one-shot games (e.g., see Hayashi, Ostrom,

Walker, & Yamagishi, 1999; Cooper, DeJong, Forsythe, & Ross, 1996; Snijders & Keren, 2001), although these cooperation rates tend to decline when participants gain experience with these games (Dal Bó, 2005).

Multiple scholars, however, noted that most real-life interactions do not take place in social isolation, but are actually embedded (e.g., Axelrod, 1984; Granovetter, 1985). Embeddedness refers to the fact that the actors involved share a common environment that could foster cooperation (e.g., Buskens & Raub, 2002; Yamagishi & Yamagishi, 1994). These actors may have interacted in the past, and/or speculate on interacting in the future, which is referred to as *dyadic embeddedness* (Buskens & Raub, 2002). Additionally, the actors may be connected indirectly, through third parties that have interacted with any of the two in the past, or speculate on doing so in the future, which is referred to as *network embeddedness* (Buskens & Raub, 2002). Obviously, actors can be embedded both dyadically and in a network at the same time. Both forms of embeddedness potentially foster cooperative behaviour in social dilemmas.

In the remainder of this review, a game-theoretic perspective will be applied to assess how embeddedness affects trust, and cooperative behaviour in general, with an explicit focus on experimental studies. First, it will be illustrated which hypotheses on the effects of embeddedness can be derived from game-theoretical models. These models assume rationality of the players, in the sense that the actors involved maximize their personal utilities given the expectations on the behaviour of their partner, using the common knowledge that all actors know all elements of the game, and know that all other actors know all elements of the game. Notably, it is often complicated to infer the utilities of the actors at hand, as it is not explicit how they value potential payoffs. Throughout this review it is generally assumed that actors are self-regarding. Hence, incentivizing the behaviour of participants by offering monetary rewards in the form of points to be earned in experiments that are translated into money, is assumed to yield actors that are solely concerned about their own material resources. If required, these rather strict assumptions can be relaxed, to derive additional hypotheses. Furthermore, the empirical findings discussed in this review generally built on 2-person Prisoner's Dilemma Games or Trust Games. That is, in general, experiments will be considered in which the behaviour of an actor only affects oneself, as well as the single actor toward whom this behaviour is directed. When occasionally another type of game or an N -person game (i.e., a game in which the behaviour of an actor is directed toward more than one others) is discussed, this will be explicitly addressed. This review will be concluded with a discussion of the current findings, the implications of these findings and possible directions for future research.

3 Embeddedness effects

In the game-theoretic literature, there are two mechanisms through which embeddedness is considered to affect cooperation between actors: *control* and *learning* (e.g., Buskens & Raub, 2013; Yamagishi & Yamagishi, 1994). Control, which will be the focus of this review, denotes the opportunity to sanction opportunistic behaviour by exerting control over one’s partner’s long-term returns. Under dyadic embeddedness, one can punish the defection of one’s interaction partner in a previous interaction by refraining from cooperation in current and future interactions (i.e., an actor can rely on direct reciprocity; Nowak, 2012). Additionally, under network embeddedness, one might inform future transaction partners of a defecting actor, who can in turn refuse to cooperate with this actor (which is also called indirect reciprocity; Nowak, 2012; Sigmund, 2012). This mechanism is also referred to as control through “voice”, in the sense of Hirschman (1970). Hence, the short-term benefits of acting opportunistically come with the prospect of future retaliation, hanging over the head of opportunistic actors as the sword of Damocles. Notably, what Buskens & Raub (2013) termed “control” differs from what is called “the illusion of control” in the social psychological literature (e.g., Morris, Sim, & Giroto, 1998; Hayashi et al., 1999). Where “control” in the sense of Buskens & Raub (2013) refers to actual sanctioning opportunities, “the illusion of control” concerns the idea that one might act as if it is possible to control the behaviour of one’s partner in one-shot games, if one’s decision is made prior to the decision of one’s partner, even though no information is transferred between the players (Morris et al., 1998).

Learning, on the contrary, refers to the situation where the actors involved have interacted in the past, when they are embedded dyadically, and hereby gained information about each others’ past behaviour (Buskens & Raub, 2013). If one’s partner behaved cooperatively in the past, one may infer that this partner will behave cooperatively again in the current and future transactions. When the actors involved are embedded in a common network, the actors may learn from others how their transaction partners behaved in interactions with third parties. If one’s current partner behaved cooperatively during past interactions with third parties, one might infer that the transaction partner will behave cooperatively in the current transaction as well. Obviously, when an actor’s partner has abused cooperative behaviour of this actor, or of a third party, the actor may not be willing to take the risk of getting exploited, and defect in the current interaction as well.

A second distinction that can be made relates to the nature of the embeddedness of a transaction. Namely, rather often, researchers decide who will interact with whom in an experiment, a situation

that is commonly referred to as *exogenous embeddedness*. However, in real life, people often choose with whom they wish to interact, at least to a certain extent (Chaudhuri, 2009; Yamagishi et al., 1994). Some researchers tried to incorporate this characteristic of real-life encounters in their research by letting participants choose their transaction partners, which is referred to as *endogenous embeddedness*. Overall, it appeared that endogenously formed relations tend to have a larger effect on cooperation rates than exogenously formed relationships (e.g., Chaudhuri, 2011; Frey, Buskens, & Corten, 2019; Schneider & Weber, 2013; Wang, Suri, & Watts, 2012).

The subsequent sections will be concentrated around the question to what extent control affects cooperation. Hence, the effect of learning, as well as alternative explanations for the emergence of cooperation such as inequity aversion or altruism (e.g., Fehr & Schmidt, 1999; Carpenter, Connolly, & Myers, 2008; Dreber, Fudenberg, & Rand, 2014) fall beyond the scope of this review. A distinction will be made between control under dyadic embeddedness and under network embeddedness, as well as between exogenously and endogenously formed relationships. Note that a great deal of the work published in this area has not distinguished between learning and control explicitly, but merely addresses the question how different forms of embeddedness in general affect cooperation. Nevertheless, it is often possible to assess the effect of control, either explicitly or implicitly. In general, there are two ways to disentangle learning and control. The first possibility is to study solely behaviour of participants in the first round of a given game, because then no learning could have taken place (e.g., Dal Bó, 2005; Dal Bó & Fréchette, 2011; Embrey, Fréchette, & Yuksel, 2018). The second way, that is often used to analyse behaviour in finitely repeated games, is to assess the effect of the number of rounds left after controlling for any learning that could have taken place (e.g., Buskens, Raub, & van der Veer, 2010; Bolton, Katok, & Ockenfels, 2004). Specifically, previous actions by an actor’s transaction partner are taken into account when analysing the behaviour of an actor in any given round and assessing the effect of the number of rounds to play.

4 Control effects in dyadic relations

Applying the game-theoretic assumptions as outlined above on an isolated social dilemma renders cooperation impossible. Consider the Prisoner’s Dilemma and the Trust Game as two canonical examples. In a Prisoner’s Dilemma, equilibrium behaviour yields mutual defection, as defection is a strictly best response, even though mutual cooperation would yield a Pareto-improvement. Similar reasoning applies in a one-shot Trust Game. In a Trust Game, rather than mutually risking

possible exploitation, only the trustor, who decides whether or not to trust the trustee, risks being exploited. The trustee on the other hand, has to decide whether to honour or abuse trust, if trust is placed, but cannot choose between these options if no trust is placed. Now, equilibrium behaviour implies that a trustee, if given the opportunity, would abuse trust. The trustor, realizing that trust will be abused if it is placed, will thus not place trust. Once again, the outcome where no trust is placed is Pareto-suboptimal, as both players would be better off if trust is placed and honoured. However, cooperation can emerge among selfish and rational actors by taking dyadic embeddedness into account.

4.1 Control effects in exogenously established dyadic relations

4.1.1 Infinitely repeated games

As an extension of a one-shot social dilemma, consider the infinitely repeated Prisoner’s Dilemma. The Prisoner’s Dilemma is now played indefinitely often, where after each round a new round will be played with continuation probability δ , which Axelrod (1984) aptly termed “the shadow of the future”, and the game will end with probability $(1 - \delta)$. The introduction of a continuation probability allows the actors to condition their behaviour in future rounds on the outcome of current round. If the continuation probability is sufficiently large with respect to the short-term incentives to behave uncooperatively, mutual cooperation can be supported in equilibrium that cannot be payoff dominated by other equilibria (e.g., see Roth & Murnighan, 1978 for the technical details). The prospect of mutual cooperation allows for the introduction of control, in the sense that one can reward cooperative behaviour of one’s partner in the current round with cooperative behaviour in future rounds, as well as opportunistic behaviour can be punished by defection. Hence, behaving cooperatively can be in the self-interest of rational players. Following Buskens & Raub (2013), qualitative predictions about the behaviour of the actors involved can be derived. Without going into the details, it can be expected that cooperation is more likely to emerge if the continuation probability increases, and when the gains of a single, unilateral defection decrease. Namely, when the continuation probability increases, and when the gains of a single, unilateral defection decrease, future sanctions become more threatening, expectedly resulting in more control opportunities and hence more cooperation. Note that similar predictions also apply to a Trust Game and a broader set of social dilemma games (e.g., Buskens & Raub, 2013).

Experimental research into cooperation in infinitely repeated Prisoner’s Dilemma games was

initiated by Roth & Murnighan (1978) and Murnighan & Roth (1983). These authors indeed showed that cooperation became more likely under a higher continuation probability than under a lower continuation probability. Nevertheless, the increase was small, and the authors concluded that the value of the continuation probability hardly affects cooperation. However, in these studies, the participants played against the experimenters, rather than against each other, and the points participants earned during the experiments were not linearly translated into the monetary rewards the subjects could earn, which potentially affects the incentives of the subjects. Dal Bó (2005) improves upon this initial work in infinitely repeated Prisoner’s Dilemma games, and finds that first round cooperation rates increase with the continuation probability. Particularly, the differences in cooperation between the continuation probabilities increased with the amount of experience the participants gained. Hence, the prospect of future benefits through mutual cooperation and the fear of missing out on these benefits after initiating defection seem to result in a higher willingness to cooperate.

Similar observations were made by Dal Bó & Fréchette (2011) and Dal Bó & Fréchette (2018). These authors argue that the limited effect of increasing the continuation probability in earlier studies is due to the fact that participants have to gain experience to properly evaluate the effect of this increase. With sufficient experience, participants cooperate more often when cooperation can be supported in equilibrium, and defect when it cannot. Specifically, the continuation probability has a positive effect on first round cooperation. Moreover, the authors show that as the gains from unilateral defections increase, cooperation is less likely to occur. Hence, in infinitely repeated games, studies consistently show that cooperation increases with the expected length of the game and decreases with the temptation to unilaterally defect, consistent with the hypothesized effects of control.

4.1.2 Finitely repeated games

Besides in infinitely repeated games, control effects in dyadic relations can be studied in finitely repeated interactions. However, under the assumptions of rationality as outlined above, it follows from backward induction that no cooperation is possible in finitely repeated games (e.g., Luce & Raiffa, 1989; Selten, 1978). Namely, in the last round of the game, non-cooperative behaviour cannot be punished in any subsequent round, and hence, defecting always yields a higher payoff than cooperation. As actors decided to defect in the final round, actions in the penultimate round do not affect behaviour in the last round, and again defection is the payoff maximizing strategy. This

pattern repeats itself to the first round of the game, and hence, under the assumption of rationality, no cooperation is possible in any round of the game.

However, when relaxing the assumption that actors have complete information, cooperation can be supported in equilibrium until the final rounds of the game (Kreps et al., 1982; Kreps & Wilson, 1982). If the actors involved belief with sufficiently high probability that their transaction partners have no incentive to defect, until these partners are defected on themselves, the benefits of mutual cooperation outweigh the gains of exploiting such a conditional cooperator once in an early round and being punished with defection thereafter. The prospect of mutual cooperation directly allows for the introduction of control (Buskens & Raub, 2013). Namely, after an actor defects, it is immediately known to the other player that the defecting actor is not a conditional cooperator, and the finitely repeated game would be one of mutual defection hereafter if the players are rational. Yet, as long as both players cooperate, it is not known whether any of the two players is a conditional cooperator. The actors can thus control one another, because future payoffs depend on one's behaviour in the current round. It follows from this model that cooperation is more likely when there are more rounds to play. Additionally, it is expected that in the final rounds of the finitely repeated game, when the long term benefits of mutual cooperation may no longer outweigh the short-term costs of maintaining one's reputation (i.e., the opportunities to control future behaviour of one another diminish), rational actors will try to exploit their partners.

First of all, it appeared that subjects generally act cooperatively in initial rounds of a finitely repeated game, rendering the sequential equilibrium model by Kreps & Wilson (1982) more plausible than the model relying on backward induction (e.g., Camerer & Weigelt, 1988; Mao, Dworkin, Suri, & Watts, 2017; Neral & Ochs, 1992). Hence, Rapoport (1997, p. 122) concluded years ago that in practice, subjects do not rely on, or are not capable of backward induction. In line with the hypothesized effects of control, next to the high initial cooperation rates, cooperation generally sharply decreases toward the end of the game (e.g., Buskens et al., 2010; Embrey et al., 2018; Mao et al., 2017; Van Miltenburg, Buskens, & Raub, 2012). However, this decline in cooperation cannot entirely be ascribed to the lack of control opportunities in the final rounds of the game. Participants may namely refrain from cooperation for three different reasons. First, defection could be a response to defection of one's partner in an earlier rounds. Second, an actor may have learned in previous games that in the final rounds of the repeated game, hardly any cooperation is possible, and hence defecting serves as a protection against being exploited. Third, an actor may realize that the short-term benefits of defecting outweigh the possible returns of another round of mutual

cooperation.

Buskens et al. (2010) explicitly study the presence of control effects in a Trust Game, and find that under dyadic embeddedness, after controlling for learning effects, there is a positive effect of the number of rounds still to be played (i.e., control opportunities) on cooperation, for both the trustor and the trustee. Other studies corroborate the finding that the number of rounds that are to be played affects cooperation rates. Embrey et al. (2018) performs a meta-study with data from multiple previously held experiments on finitely repeated Prisoner’s Dilemma games by Andreoni & Miller (1993), Dal Bó (2005), Cooper et al. (1996), Bereby-Meyer & Roth (2006) and Friedman & Oprea (2012). The combined evidence from these studies and a newly designed experiment, show that first round cooperation rates, where no learning could have occurred, increases with the length of the game. Additionally, Embrey et al. (2018) show that this effect becomes more pronounced when subjects have gained more experiments. Van Miltenburg et al. (2012) and Mao et al. (2017) also showed the importance of experience, in the sense that with experience, near perfect cooperation can be achieved in early rounds that remains above 80% until the final three rounds, but decreases to negligible levels shortly hereafter. However, no explicit distinction between learning and control effects is made in the analyses. Notably, the latter experiment is repeated on twenty consecutive days, with twenty 10-round games per day, and shows that this pattern keeps repeating itself throughout the study period, regardless of the fact that actors experience that in final rounds cooperation seldom prevails. Hence, in line with the expectations, cooperation rates increases when there are more rounds to play and decrease in the final rounds of the game, showing the importance of future sanction opportunities on the willingness to engage in a cooperative relation.

Additionally, it appeared that cooperation rates in first rounds of infinitely repeated games are systematically higher than cooperation rates in the first rounds of finitely repeated games of the same expected length (i.e., an expected length of 2 and 4 rounds), especially after the subjects have gained experience with the game they play (Dal Bó, 2005; Dal Bó & Fréchette, 2011). It seems plausible that in finitely repeated games, subjects understand that cooperation will be abused in the last round, and protect themselves against this behaviour by defecting in an earlier stage already. Hence, control opportunities are not present in the final stage(s) of a finitely repeated game, and the overall sanctioning opportunities are thus smaller in a finitely repeated game than in an infinitely repeated game of the same expected length. Consequently, first round cooperation in finitely repeated games may decrease, due to this reason.

4.2 Control in endogenously established dyadic relations

The previous section shows that in exogenously embedded dyadic interactions there is a relatively consistent effect of control on cooperation. However, a substantial portion of real-life interactions, dyadic embeddedness is not imposed exogenously, but rather established intentionally by the actors involved (Kollock, 1994). Under the assumption of rationality, no differences between exogenously and endogenously established relationships are to be expected, and hence, the same hypotheses apply under both forms of embeddedness. Namely, for self-regarding, rational actors, the characteristics of a relationship determine whether cooperation can be supported in equilibrium, independent of whether these characteristics are endogenously or exogenously determined. How endogenously established embeddedness affects cooperation, is thus not precisely clear. However, it is often remarked that assortment plays a relatively large role when actors can set up relationships endogenously . For example, it may be that actors who realize that, under embeddedness, cooperation is more likely to flourish will establish embeddedness and behave cooperatively, while actors who do not see such benefits do not engage in embeddedness and are more likely to defect (for a theoretical model, see, e.g., Schneider & Weber, 2013). Following these lines of reasoning, cooperation may be higher under endogenously established dyadic relationships than under exogenously established ones, but discussion empirical studies on such hypotheses is left for future work.

Empirical studies show that dyadic embeddedness also fosters first-round cooperation when it is chosen by the actors involved in an interaction, without having prior information with respect to the subsequent transaction partner (Brown, Falk, & Fehr, 2004; Schneider & Weber, 2013; Sokolova, Buskens, & Raub, 2021). Consistent with the hypothesized effects of control, cooperation increases with the, endogenously chosen, length of an interaction (Schneider & Weber, 2013). However, note that when embeddedness is established endogenously, actors are no longer randomly assigned to the embeddedness condition, and hence, differences in cooperation under different, endogenously chosen, interaction lengths can no longer be attributed to only these different lengths. Schneider & Weber (2013) show that people who *a priori* indicate a higher willingness to cooperate were indeed more likely to establish a long-term relationship, although this willingness could only partially explain differences in cooperation between one-shot and endogenously chosen long-term relationships. Additionally, Brown et al. (2004) shows that having only the opportunity to engage in long-term interactions already fosters cooperation. These findings are in line with the idea that actors realize that having a good reputation may facilitate future lucrative interactions (Kollock, 1994), and that

such a reputation can be build by behaving cooperatively. In fact, even at the cost of a portion of subjects' payoffs, they are willing to establish a long-term relationship, and are subsequently more likely to behave cooperatively in this relationship compared to behaviour in one-shot games (Sokolova et al., 2021). Note that the studies in this review focused on control through “voice”, in the sense of Hirschman (1970). Studies on the effect of control through “exit”, where actors can abandon an uncooperative relationship, are omitted from this review for the sake of brevity (interested readers are referred to the work by Schuessler, 1989; Hauk, 2003; Hauk & Nagel, 2001; Zhang et al., 2016). Although systematic testing of the effect of control on cooperation in endogenous dyadic embedded interactions is, to the best of my knowledge, fairly limited, the available evidence suggests that it likely is at least as strong as in exogenously dyadic embedded interactions.

5 Control effects through network embeddedness

In the previous section, it is shown that in a wide variety of research settings, the potential to engage in future interactions with a given partner drastically improves cooperation rates. However, this research deliberately ignores an important factor that characterizes many real-life interactions: the involvement of third-parties (Granovetter, 1985). Even if an actor does not engage in a long-term relationship with the same partner, the behaviour of this actor may have consequences for future interactions, albeit with different partners (Buskens & Raub, 2002; Kandori, 1992). When actors only obtain information about their own interactions, there exist a cooperative Nash equilibrium, where each actor cooperates until the first defection is observed, if the expected number of future interactions is large enough (Kandori, 1992; Nowak & Sigmund, 2005). Yet, the conditions under which cooperation can be supported in equilibrium are fairly restrictive, and can be relaxed by introducing information transmission through the network. When there is perfect information, in the sense that information is provided about all interactions, it is theoretically unimportant whether an interaction is embedded dyadically or in a network, as it is the content that matters. When the spread of information is not perfect, in the sense that only part of the information is disseminated, cooperation is expected to increase with the amount of reliable information that is disseminated through the network (e.g., see Raub & Weesie, 1990; Nowak & Sigmund, 2005, and @kandori_social_1992 for a more detailed discussion), and with the importance of future interactions (i.e., the expected number of future interactions), because both factors allow for more severe future sanctions and thus increase control opportunities (for infinitely repeated games: Raub & Weesie,

1990; Buskens & Weesie, 2000b; Kandori, 1992; and finitely repeated games: Buskens, 2003). Note however that making assumptions on the flow of reliable information about actors' behaviour may be problematic, as actors may face strategic incentives to share misleading information, and whether or not share information on someone's behaviour is itself a (second-order) social dilemma. These difficulties are deliberately ignored in the current review.

5.1 Control in exogenously embedded interactions in networks

Whereas dyadic embeddedness generally leads to substantial higher cooperation rates due to control effects relative to atomized interactions, the effects of network embeddedness are not so clear-cut. Some studies do find support for the hypothesis that cooperation increases with information exchange through the network, in the sense that network embeddedness yields higher cooperation rates from the first round onwards (Pfeiffer, Tran, Krumme, & Rand, 2012; Seinen & Schram, 2006), or find control effects through an end-game effect after controlling for learning (Bolton et al., 2004). Yet, Corten, Rosenkranz, Buskens, & Cook (2016) do not find any effect of network embeddedness on cooperation, and hence no effect of control. These studies, however, differed in the fact that in the former three studies, information was summarized (e.g., a reputation or the total number of cooperative and defective actions were shown to the subjects), whereas in the latter, the outcomes of all previous actions were shown. Counterintuitively, more information thus does not necessarily result in more cooperation. Additionally, the former three studies differed from the last one in the size of the transaction network. Whereas in the former three studies the network size was at least 16, the latter study yielded relatively small networks with a network size of 6. Since the outcomes of own transactions were shown in the condition without network embeddedness, the condition with network embeddedness was compared to a condition with a substantial amount of dyadic embeddedness.

Additionally, a number of studies focused on the effects of network embeddedness in Trust Games played in triads, with two trustors and one trustee. In these studies, it generally appeared that trustors seldom reap the benefits of network embeddedness, in the sense that network embeddedness does not foster cooperation, when compared to games with only dyadic embeddedness (Buskens et al., 2010; Frey et al., 2019; Van Miltenburg et al., 2012). A similar observation was made when the focus was on Investment Games, rather than Trust Games (Barrera & Buskens, 2009). Hence, the additional control opportunities yielded by network embeddedness do not result in more trustfulness of the trustors. Trustees, on the other hand, seem to realize that network embeddedness equips

trustors with more sanction opportunities, because the second trustor can sanction the abuse of trust against the first trustor, and vice versa. Buskens et al. (2010) find significant network control effects on the trustworthiness of the trustee, while Frey et al. (2019) graphically show that first-round trustworthiness increases under exogenous network embeddedness. Van Miltenburg et al. (2012) does not seem to show any effects of network control, but in this study, the condition with only dyadic embeddedness already yielded trustworthiness rates of above 0.80 until the last the rounds, leaving little room for improvement under network embeddedness.

5.2 Control in endogenously embedded interactions in networks

Besides network control effects under exogenously embedded interactions, network control effects can be assessed under endogenously embedded interactions. Note again that under the assumption of rationality, no differences between exogenously and endogenously embedded interactions are expected. Yet, it has often been remarked that assortment may play an important role in fostering cooperation under endogenously established network embeddedness (e.g., Nowak, 2012; Perc et al., 2017). Yet, relatively few studies assessed cooperation under endogenously established network embeddedness in two-person dilemmas. In fact, to the best of my knowledge, no studies exist that explicitly test control effects in these settings. However, some studies exist that allow to get an initial grasp of control effects under endogenously established network embeddedness. Frey et al. (2019) show that, network embeddedness, in the sense of information exchange between two trustors within a triad, positively affects first-round trustfulness and trustworthiness, both when embeddedness is established by the trustors and by the trustees. Yet, no statistical test of this effect was performed. Note however, that as actors choose whether they are embedded, making causal claims is complicated, as the individuals are not randomly assigned to conditions with and without embeddedness. Hence, selection effects may occur, in the sense that people who are more likely to cooperate *a priori* also more likely to choose embeddedness.

Corten et al. (2020), who studies the effect of dynamic networks of six actors on cooperation rates finds no support for an effect of network embeddedness, and hence no indication for a control effect. Note that in this study actors chose to engage in an interaction, and hence cooperation rates were defined as a proportion of the total number of games. When cooperation is assessed relative to the total number of interactions, cooperation was somewhat higher when actors received information about their partners through their network connections, relative to when people only gathered information through their own interactions, although the effect of network control was not

specifically assessed. Additionally, some studies assessed cooperation rates in N -person, rather than 2-person, Prisoner’s Dilemmas, which somewhat changes the nature of the game. Without going into the specifics, it appeared that in N -person Prisoner’s Dilemma games, dynamic partner updating fosters cooperation, but not so much due to a control effect (Rand, Arbesman, & Christakis, 2011; Riedl & Ule, 2002; Wang et al., 2012). Rather, it appeared that cooperators were allowed to interact with other cooperators, maintaining their cooperation, while when no partner updating was possible, these actors more often switched to defection to avoid getting exploited.

Overall, it appears that the findings on the effects of control through network embeddedness are mixed. When control effects were found, it mainly affected those actors that were in the position to abuse trust (i.e., both players in a Prisoner’s Dilemma game, but only trustees in a Trust Game). The actors that had to place trust generally did not seem to realize that network embeddedness would increase possible sanction opportunities and hence would allow for more trustfulness, or, alternatively, were pessimistic about the extent to which the trustee would realize this. Additionally, a substantial part of the effect of endogenously established network embeddedness seems to be attributable to assortment rather than to control. Specifically, cooperative actors may signal a willingness to cooperate by taking the initiative to establish embeddedness, while actors that do not intend to cooperate do not. Additionally, when ties with actors that abuse trust can be easily abandoned, cooperative relationships seem to occur somewhat more frequently.

6 Implications for future research

In the simplest interactions, that is, one-shot interactions in a social vacuum, high levels of cooperation are difficult to sustain when games are played multiple times (Simpson & Willer, 2015). Dyadic embeddedness consistently showed to foster the establishment of cooperative relationships, at least partly due to the possibility to control future payoffs of one’s interaction partner, both when embeddedness is established exogenously and endogenously. A longer interaction duration, as well as a smaller temptation to defect, are associated with higher cooperation rates, both indicative for a control effect. These effects appeared to increase with the experience of the actors involved. For network embeddedness, similar hypotheses can be formulated, but these were less often explicitly tested, and if the effects were tested, the results were mixed. First of all, the effects of network embeddedness, if present, seem smaller than the effects of dyadic embeddedness, and when both forms of embeddedness are assessed simultaneously, network embeddedness hardly adds to the effect

of dyadic embeddedness. When actors obtain an easy to interpret reputation, network embeddedness seems to be more effective in promoting cooperation than when actors themselves have to make sense of a long history of played games. Additionally, network embeddedness predominantly affected actors that had the opportunity to abuse trust, and seems to be more effective when the actors involved established their relations endogenously. Yet, in the latter case, most of the effect seems to be due to assortment, in the sense that cooperators end up playing with other cooperators.

A possible explanation for the fact that positive effects of network embeddedness on cooperation are not always found, may be that past research has often failed to take the importance of experience in playing games into account. Subjects may experience difficulties understanding the relatively complex dynamics of games in networks, especially because actors have to rely on third parties to sanction defectors (Milinski, Semmann, Bakker, & Krambeck, 2001). If actors are unsure whether unilateral defections of their partners will be sanctioned by third parties, they may overestimate the risk of cooperation, and protect themselves by defecting. Since, under network embeddedness, many actors rely on first-order assessment of defective behaviour (i.e., actors base their decision to cooperate on whether their partner cooperated in the previous round; Sigmund, 2012), a few initial defections may result in a quick collapse of cooperation (Kollock, 1994). Then, it is not until participants understand the benefits offered by embeddedness, that cooperation will flourish. Studies that allow for gaining experience throughout the experiment find relatively high cooperation rates (e.g., Wang et al., 2012; Frey et al., 2019), and show that cooperation increases with experience, when cooperation can be supported in equilibrium (e.g., Van Miltenburg et al., 2012; Dal Bó, 2005; Dal Bó & Fréchette, 2011). Additionally, note that the introduction of simplified reputation scores may fasten this process, as it lays less of a cognitive burden on the participants.

The idea that the complexity of the game complicates the emergence of cooperation is also in line with the finding that trustors generally have more difficulties with reaping the benefits of network embeddedness than trustees. Trustees may relatively quickly understand that behaviour against a given trustor is observed by the second trustor, and hence untrustworthy behaviour can be sanctioned by both trustors. The trustors, however, have to anticipate how the trustee evaluates the presence of two sources of sanctioning (see Buskens et al., 2010 for a similar argument). Additionally, the importance of understanding the dynamics of the game potentially explain why endogenously, rather than exogenously, established embeddedness seems more effective in promoting cooperation. Actors who understand the benefits of embeddedness are more likely to establish embeddedness endogenously, and are subsequently more likely to reap these benefits by behaving cooperatively,

while actors who do not see such benefits may be less willing to do so. Altogether, a thorough assessment of the effects of experience and of the complexity of the reputation on cooperation could be of great value.

Methodologically, all studies in the current review employed an experimental design. Multiple papers have been devoted to this method (e.g., see Falk & Heckman, 2009; Jackson & Cox, 2013; Morris, 2014), and the advantages (e.g., the possibility to make causal claims and to disentangle the slightest sources of variation) and disadvantages (e.g., difficulties concerning generalizability to real-world settings, unnatural behaviour of participants due to the research setting) unequivocally apply to the papers discussed in this review. Additionally, the studies reviewed are no different from the vast majority of experimental studies, in the sense that a highly selective sample is used. When the complexity of the experiment and the understanding of the participants is indeed related to the level of cooperation observed, the use of, inherently highly educated, university students may provide overly optimistic estimates of the effects of embeddedness. Yet, recent studies involving participants recruited from online labour markets that yield a more representative sample (e.g., Rand, 2012; Difallah, Filatova, & Ipeirotis, 2018), such as Amazon’s Mechanical Turk, do not report fundamentally different results (e.g., Rand et al., 2011; Mao et al., 2017; Pfeiffer et al., 2012; Wang et al., 2012).

Employing different research designs could possibly overcome some of the limitations inherent to the experimental method, but comes with new challenges. Regarding these different research designs as competitors is unlikely to foster the advancement of science. Rather it may prove fruitful to integrate the evidence collected under a variety of research designs in a common framework (Buskens & Raub, 2013; Jackson & Cox, 2013; Munafò & Smith, 2018). Recent statistical advances allow for such a unifying approach. Using Bayesian Evidence Synthesis, the support over studies for a given theory, assessed by multiple, different hypotheses concerning the same underlying concept, can be quantified (Kuiper, Buskens, Raub, & Hooijink, 2013). This approach allows to expand the classical meta-analytic way of thinking that focuses on statistical reliability, by combining a broader range of relevant studies, leading to a statistical synthesis of conclusions from diverse sources.

There are several directions in which one could proceed using this approach, of which I will sketch one example.

7 Conclusion

This review shed light on the effects of control through exogenously and endogenously established dyadic and network embeddedness on cooperative behaviour. It is shown that control through dyadic embeddedness positively affects cooperation, regardless of whether it was established exogenously or endogenously. The effects of control through network embeddedness were far less clear cut, although it seems that in the simplest settings and with sufficient experience, actors see the benefits of network embeddedness. Yet, there is still a lot to gain in this area, predominantly with regard to what mechanisms exactly foster cooperation under network embeddedness. In this paper, it was tried to provide some directions toward which future research might head.

[This has to be extended, but I think that this is the main message.]

8 Literature

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