

Responsabilité Sociale des Individus et des Entreprises: une Perspective Economique

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INTRODUCTION

Traditional economic view of how society should be organized builds on two pillars:

- Invisible hand of the market: consumers' and firms' **pursuit of self-interest**
 - Sole obligations: respect of law, contractual rights of others
- Visible hand of the state: correction of market failures and externalities, redistributive policies
 - Environmental taxation, antitrust, prudential regulation,
 - network industries' regulation, subsidies, tax deductions for charitable contributions, etc.
- Scope of each depends on
 - Efficacy of public policies and availability of market approaches (Coase vs. Pigou)
 - Political preferences, ideologies

The rise of ISR and CRS

- Increasing calls to **individual** and **corporate** social responsibility as response to market and redistributive failures
- Individual social responsibility (SR)
 - Individuals give time and money to good causes, buy “fair trade” products, boycott unfair ones, invest ethically...
 - Old roots (all religions stress charity. Quakers’ and Mennonites’ refusal to invest in weapons and slavery in 18th century), but renewed prominence today
 - Empowerment of *civil society* (NGOs)
- *Corporate social responsibility (CSR)*
 - “Sacrificing profit in the social interest”. Roughly: go beyond legal and contractual obligations, be “friendly” to environment, workers, local community, investors...
Also: support of the arts, universities,..
 - ↑ emphasis: business leaders, governments, academics.

Rationale for socially responsible behavior (“SRB”).

SRB must be related to **government failures...**

- territoriality
- capture, inefficiency
- information
- corporate governance failures,

.... or and / to the promotion of values not shared by lawmakers.

Questions

- What are the deep mechanisms underlying SRB?
- How does socially responsible behavior fit into / get accommodated into modern economics paradigm?
- Is SRB a viable model for the achievement of social goals? What are the pros and cons, and the future of SRB?

OUTLINE

- I. Individual social responsibility
- II. Corporate social responsibility
- III. Conclusion

I. INDIVIDUAL SOCIAL RESPONSIBILITY

1. Introduction

- Prosocial behavior (charitable giving, SRI, green goods) driven by complex mix of motives
 - (i) **Intrinsic motivation:** desire to do good, help
 - (ii) **Material incentives:** laws, taxes, profit impact
 - (iii) **Social and self-esteem concerns, norms**
What kind of person am I? “Warm glow”
- These three motives vary (unobservably) across people, and are interdependent
 - ⇒ policies / interventions playing on one will affect other(s)
- Will highlight key role of (iii), which has both a bright and a dark side.
- Draw implications for policy (taxes / subsidies), SRI ratings

Recent evidence on social image concerns

- Blood donation: experiment in Italy awarded medals (bronze, silver, gold) for how often people donated
 - Significant effect only when results published in newspaper
 - People “bunch” right above cutoffs for each category
 - Similar to bunching observed for giving to the arts
- Voting:
 - In Switzerland, some cantons introduced mail ballots. Lowered the cost of voting, but did not raise (sometimes, reduced) participation rate, especially in small towns. Civic duty became “invisible”
 - In US large-scale field experiment, publicizing among neighbors who votes and who does not

TABLE 2. Effects of Four Mail Treatments on Voter Turnout in the August 2006 Primary Election

	Experimental Group				
	Control	Civic Duty	Hawthorne	Self	Neighbors
Percentage Voting	29.7%	31.5%	32.2%	34.5%	37.8%
N of Individuals	191,243	38,218	38,204	38,218	38,201

- Door-to-door charitable solicitations
 - When households informed in advanced (flyer on door-knob) of the time when the solicitor would come by, the fraction opening the door declined 10-25 %.
 - When the flyer allowed checking a 'Do Not Disturb' box, giving was 30% lower.

The other Adam Smith

Man naturally desires... not only praise, but praiseworthiness; or to be that thing which, though it should be praised by nobody, is, however, the natural and proper object of praise. He dreads, not only blame, but blame-worthiness; or to be that thing which, though it should be blamed by nobody, is, however, the natural and proper object of blame...

We are pleased to think that we have rendered ourselves the natural objects of approbation, though no approbation should ever actually be bestowed upon us: and we are mortified to reflect that we have justly merited the blame of those we live with, though that sentiment should never actually be exerted against us. .

(Adam Smith, *The Theory of Moral Sentiments*, 1759)

Recent evidence on self-image / identity maintenance

- Standard experiment traditionally used to demonstrate generosity: most people share in the “dictator game”.

But real picture no so simple (or so nice)

- People who would voluntary share (say) \$10 with an anonymous other prefer to just take \$9 for themselves and not face that choice.
- About 75% people forego high payoff when that would reduce someone else's. But, if given the opportunity, about 60% choose not to know how their actions affect the other, and take the high payoff.

[Dana-Weber-Kuang 2008]

- If can delegate the sharing to a third party who will reliably bias the allocation in their favor, they do so. Will even pay to delegate the “dirty deed”.
- Subjects who can cheat (for money) on a task without any risk of individual detection, cheat less when they are first made to read the Ten Commandments or university’s honor code.
- Important role of self-deception.
Ambiguity favors it, explicit reminders reduce it.

2 - Importance of self / social image: the bright side

(a) Can cheaply leverage image concerns to increase prosocial behavior.

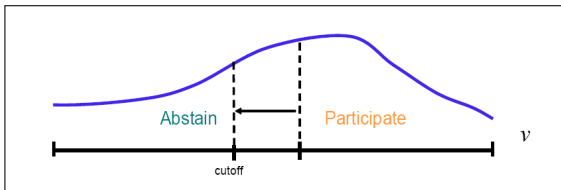
- Positive behaviors \rightsquigarrow honors, medals, mementos, T-shirts, “best of” rankings, etc.
- Negative behaviors \rightsquigarrow modern version of the pillory: internet “wall of shame” (DWI records, non-payment of child support), televised arrests, demonstrations in front of executives’ houses, etc. Less drastic: publicize voting..
- Key: the meaning attached to an act depends on how rare or prevalent it is / how others behave.

The new pillory

- Many US states, counties, like [Arizona](#), post DWI records
- A federal judge in March 2003 ordered X... to stand for eight hours outside a San Francisco post office wearing a two-sided “sandwich board” bearing the words: “I stole mail. This is my punishment.”
- Shoplifters have been required to stand outside stores with signs announcing their crimes.
- In Florida and in, drunken drivers are issued special license plates that identify them to fellow motorists.
- In Pennsylvania,... the driver of a car that caused a fatal accident was forced to carry a picture of the victim.

The calculus of honor and stigma

- When more people behave well (“participate”):
 - Honor from doing so is diluted
 - Stigma from not doing so is amplified



- On net, social pressure may rise or fall. Will affect optimal incentives that must be given
- (b) Beyond a certain participation rate, stigma-avoidance becomes driving concern
- ⇒ snowball effect, increasing pressure to conform.
Can't afford not to do it if others do.

(b) Small interventions can have very large effects

- Ireland: 33c tax on plastic shopping bags + awareness campaign

“Within weeks, plastic bag use dropped 94%. Within a year, nearly everyone had bought reusable cloth bags, keeping them in offices and in the backs of cars.”

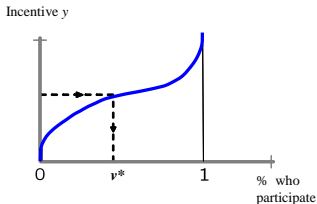
- How did it work?

“Plastic bags were not outlawed, but carrying them became socially unacceptable — on a par with wearing a fur coat or not cleaning up after one’s dog.”

The interaction of incentives and norms

When honor motive is dominant:

- Individuals' decisions are substitutes
- Incentives → partial crowding out (still work, but weakened)

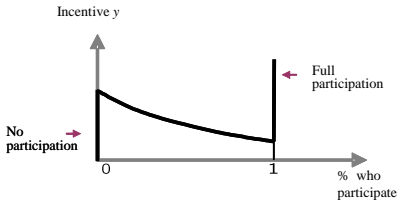


This occurs when:

- Most people are “mediocre”, only rare “saintly” types with v well above most others (heroism, organ donation)
- Action is very costly
- There are possible “excuses” for not contributing, and / or one can do it without being noticed (\Rightarrow weak stigma)

When stigma motive is dominant:

- Individual's decisions are complements
- Multiple norms may coexist
- Small incentives can have large effects: shift norms, crowding in



This occurs when

- Most people are “OK”, only a few “rotten apples” with v well below most others (crime, child neglect)
- Action is relatively cheap
- There are possible non-glorious reasons for contributing (e.g., fear of the law), and/or it may go unnoticed (\Rightarrow weak honor)

3. Importance of self / social image: the darker side

- (a) Process is self-limiting: as visibility / publicity is scaled up, people **discount**, attribute more of the motivation to image-seeking \Rightarrow partial crowding out.
- A form of “overjustification” effect. Thus, the more CSR is “advertised”, the more it will be discounted.
- (b) Giving / investing heavily **distorted toward the more visible** or memorable targets
- Lots to Harvard, Princeton, etc. Only 1.5% of U.S. corporate giving in late 80's to primary & secondary education
 - Buy hybrid car or solar panels vs. insulate your house or buy efficient furnace.
 - Demand “low-footprint” but vote against **carbon or gas tax**

The Graffiti of the Philanthropic Class



Photographs by Stephanie Kuykendal for The New York Times

At the Shakespeare Theater Company's new home in Washington, pretty much everything, including staircases and the coat room, has been named after somebody.

(c) Moral credentialing

People who have “done good” in one dimension feel immunized against negative (self) image

⇒ act less morally constrained later on. Experiments on

- Gender / ethnic stereotyping [Monin]
- Green purchases: subjects accepting offer to buy “green goods” are later on less likely to share in dictator game, more likely to cheat [Mazar et al.]
- Corporations, directors: SRI as “buying” respectability, or a conscience.
 - Enron
 - Two more recent examples...

Corporate Responsibility At-A-Glance



Welfare: revisiting Pigou

(d) Image-seeking / self-image enhancement is a **zero-sum game** (sociologists: positional good)

- Buyer of Prius looks / feels better, but makes neighbor look, feel worse. Also the other Prius buyers!
- When everyone does SRB, no one gets credit for it. Works much like a tax.

So why not just tax? Needs to be a comparative advantage.

(e) Inefficient pursuit of “**reputation-stealing**” worsens with competition between sponsors (e.g., NGO’s).
“Holier than thou” competition.

(f) Backlash: people denigrate / ostracize “do-gooders” who, by acting more morally, threaten their self-image

⇒ potential efficiency loss on top of distributional impact.

4. Policy implications

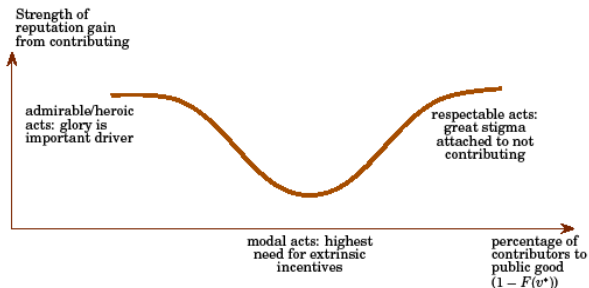
- (a) The socially **optimal incentive rate** is strictly less than the standard (Pigovian) subsidy that leads agents to internalize the full public-good value of their contribution
- It **subtracts the image-value** implicitly “bought” (Bénabou-Tirole)

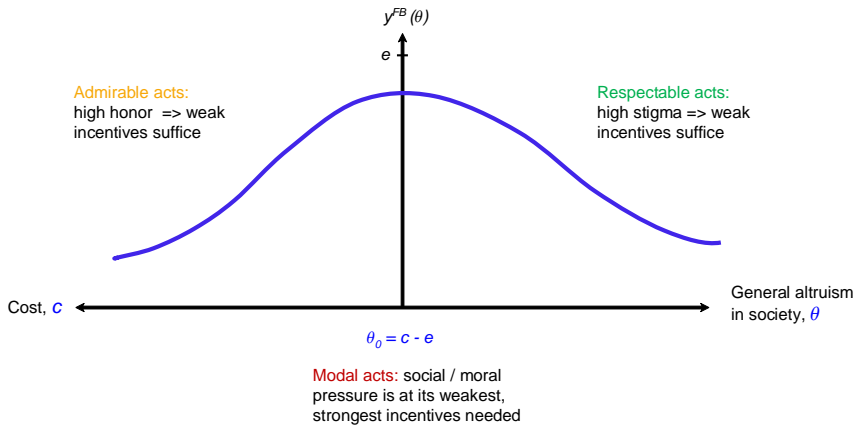
In practice, not so easy. But not impossible –there is an implicit market value for named building, plaque, chair, etc.

- (b) Rating agencies: aim to incorporate an “invisibility” premium or “publicity discount” in their scores.

(c) Result also indicates:

- Should probably resist calls for (permanent) favorable tax treatment of SRI investment funds, green / sustainable products, etc. No private “double dividend”.
- Subsidy / tax should vary non-monotonically with the proportion of people choosing the socially responsible option





Other relevant “behavioral” aspects

- (a) **Habits:** is prosocial behavior, like exercise or good hygiene, habit-forming?
- Should find out. Implicit premise in “compulsory volunteering” as prerequisite for college admissions. (otherwise, just costly signaling)
- (b) **Defaults:** matter hugely, e.g. for organ donor status, savings... Should / will default be
- Buying carbon offset as part of the plane ticket
 - Having $x\%$ automatically taken out of paycheck and contributed to United Way
 - Or $y\%$ of retirement contribution invested in a SRF?

Would it work even when unobservable choice?

(c) Attention / awareness:

- Saw that, where self-view is involved, we are very good at self-deception, rationalization
- Main virtue of SRI, green products, etc. may be providing frequent reminders of things we prefer not to think about:
 - Poverty, injustice
 - Negative consequences of our actions.
- But can easily get inured: “identifiable victim effect”, “psychic numbing” (Loewenstein, Slovic)

(d) Similarly with firms, SRI could act as safeguards against overoptimism / groupthink, by systematically asking firm to present worse-case or disaster scenario, appoint devil’s advocates, etc.

Summary on ISR

- Prosocial behavior (charitable giving, green goods, ethical funds) driven by complex mix of motives
 - (i) Intrinsic motivation : desire to do good, help
 - (ii) Material incentives: laws, taxes, profit impact
 - (iii) Social / self-esteem concerns: what kind of person am I?
Basis for honor, stigma, social norms
- These three motives vary (unobservably) across people, and are interdependent \Rightarrow
 - Policies / interventions playing on one will affect other(s), particularly (iii)
 - Incentives and social norms be complements (crowding in) or substitutes (crowding out)

- Importance of (self) signaling concerns = good & bad news
 - Provides powerful, cheap lever for intervention (up to a point)
 - Can make other interventions (incentives) unnecessary, or counterproductive
 - Pursuit of (self) esteem is a zero sum game. Inefficient escalation
 - Actions distorted to the more visible, leads to conformity
- Some things we still do not understand well: perceptions of (in)fungibility across activities.

II. CORPORATE SOCIAL RESPONSIBILITY

1. Introduction

- CSR: catch-all for an array of different concepts, claims.
- Need to clarify, especially its impact on profitability and the cost of capital:
 - Is CSR just a good business case, or
 - Requires some sacrifice of profits?
- Outline
 - What is CSR? Three visions
 - Challenges

2. Three views of CSR

Vision 1: “Win-Win” (“Doing well by doing good”)

- May be a bit skeptical about the win-win argument (from management consultants). Rarely a free lunch.
- Best interpretation: **avoid short-termism, e.g.**
 - Don't break implicit contracts with employees, or they will shirk, firm will have trouble attracting motivated worker
 - Don't risk future environmental lawsuits, liabilities, boycotts
 - Give long-run incentives to management

Intertemporal profit maximization.

- View that it will not happen on its own makes sense when there are imperfections in firms' governance (e.g., compensation structure too short-term)

Vision 2: Firm as channel for expression of citizen values

Stakeholders willing to sacrifice *money*
investors yield
customers purchasing power
employees wage
so as to further social goals.

- Profit maximization: CSR profit sacrifice passed through to stakeholders, at their demand.
- Consumers, investors, workers want firms to do charity, good deeds **on their behalf**

Why delegate good deeds to corporations?

- Could just write (more) checks to the Red Cross, Sierra Club, WWF, Medecins sans Frontieres, etc... Not clear at all why should want to do it though the veil of CSR.
- Or even make a voluntary tax contribution(!) which will fund the basket of public goods reflecting the choices of the democratically elected majority.
- With CSR, consumers / investors are in fact purchasing “bundled goods”, e.g., coffee plus a donation, dividends + clean air, etc.
- Such bundling and delegation should have clear advantages to justify it

Possible rationales for delegation

- Information, transactions costs:
 - Hard for individual consumers or even charities to directly supplement incomes of workers on coffee plantations, to monitor conditions in garment factories, etc. Corporations already engaged in transactions, have presence, information.
- May want not to transfer income but to reduce specific harms, e.g. air or oil pollution.
 - Hard to do directly (except in limited cases where can buy and retire tradeable permits)
- Technical expertise, increasing returns, complementarities
 - WalMart organizing relief convoys for Hurricane Katrina, Veolia digging free water wells in poor, remote villages...

- Commitment device for consumers?
 - More likely to “forget” writing those annual checks to charities, NGO’s, etc. than to forget that “I am a person who buys fair trade products”, etc.
 - Thus, limits some aspects of self-deception
 - But may increase others, e.g. bias toward salience, moral credentialing, excuse to oppose taxes, etc.

“Delegated sacrifice” view is consistent with

- Actual foregone yield, seen in some cases
 - Higher returns on sin stocks: tobacco, alcohol, casinos. (Hong-Kacperczy)
 - However, overall, no clear empirical relationship between SRI and profitability
- “Greenwash”: firms disseminating misleading picture of their environmental friendliness.
- Greater prevalence of CSR among firms that are large, profitable, that produce final goods, are scrutinized by NGO's

Vision 3: Insider-driven corporate philanthropy

- Reflects management's or the board members' own desires and reasons to engage in philanthropy

Profit is not maximized,
neither SR nor LR

- Criticized both from the right and from the left
 - Milton Friedman: “don't do charity with others' money”
CSR similar to theft
 - Robert Reich: “firms should not substitute for the state”
 - no guarantee that money will flow to the “right” causes;
elections determine what is / is not a legitimate public good
- Either way, this view of CSR also requires governance problems,
entrenched management.

Broadening the mission of management?

- max {sum of of stakeholders' surplus}, instead of max {profit}
- Probably must go hand in hand with shared governance or entrenchment
 - If shareholders have full control, will they tolerate (a substantial) reduction in RoR?
- Pitfalls of “stakeholder society”
 - Investors' incentives to finance firm are reduced
 - Managerial accountability: variety of missions \Rightarrow diluted incentives on each one [Dewatripont et al 1999]
 - Sharing of control \Rightarrow deadlocks in decision making.

Often hard to disentangle visions 1 and 2

- Corporate Sustainability Officer
(or someone on board with good external reputation; or, turn to NGOs for advice, help, networking,...):
 - Mere advocate against short-termism (as is chief risk officer, or effective voice for profit sacrifice?)
- Monetary incentives based on green performance?
 - Same question: counter short-termism (e.g., invest in carbon-free equipments that are unprofitable today, but profitable tomorrow due to CO₂ taxation), or sacrifice profit?
- Incentives for employees to engage in community work
 - Profit maximization (public relations, attract motivated workers) or sacrifice profit?

3. Challenges of CSR

(a) Free riding

Will free riding become more severe as CSR becomes more popular and the return on green funds decreases?

(b) Information

- Rating agencies (and assurance providers for reporting)
- Aggregation without prices: CO₂ vs. worker welfare
- Relative vs. absolute performance

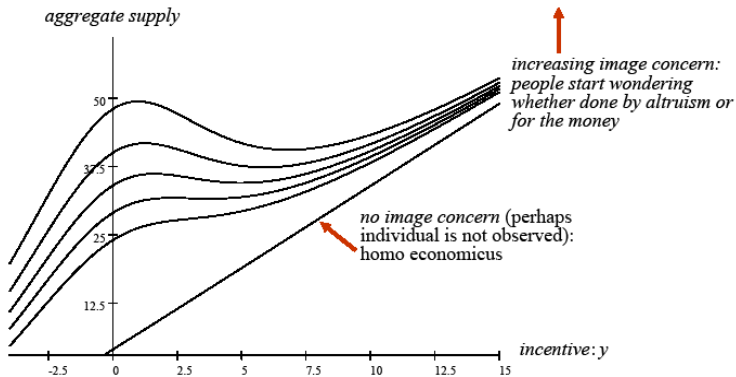
(c) Criteria for CSR: biases, taboos and cognitive limitations)

- CSR inherits costs and benefits of democratic process
- Rating agencies, CEOs, politicians, likely to pander to their customers (or to legislators with regulatory power)
- Examples:
 - Reselling confiscated ivory: depresses the market + raises funds, but likely unacceptable
 - Genetically Modified Organisms
 - Adjusting for Pigovian taxation (e.g, of CO₂ or layoffs): will public accept offset or impose “double penalty?”
 - Framing: “help poor country develop” vs. “minimize labor cost”

- More on taboos: green offsets, fungibility
 - Can firm offset local environmental damage with schools, clinics or waste treatment plant for community?
 - Turtles for lizards: does helping one species in one place make up for damaging another somewhere else?
- In practice, societies always make such tradeoffs -as with money versus lives saved- but cannot state them explicitly, do them in disguised, distorted ways.

Interdependence of motivations

- If pay top CSR executive like CFOs, how will those in that job, and their social motivation, be perceived? May attract a different type of person?
- "Overjustification" effect, crowding out (Frey, Bénabou-Tirole)



Concluding comments

- ISR and CSR have future where regulation fails
- CSR is often ambiguous. (three versions, not always easy to tell apart from the outside). Honeymoon could turn to backlash
- CSR faces important challenges. Need to educate.
- ISIR, CSI: we may need to think a bit more about how and why we buy, invest... and vote.

MERCI - DANKE SCHÖN !