

Definition

- Corporate social responsibility:
 - Private firms voluntarily make costly efforts to achieve social goals, or to avoid socially damaging consequences of their production activities, **over and above what is required by government regulation** (Nyborg and Zhang 2013)

How can CSR exist at all?

- Conventional wisdom:
 - Firms with extra costs (e.g. voluntary abatement) will be wiped out by competition
- Explanations suggested in the literature:
 - **Customers'** extra WTP for "ethical" products
 - Ethical **investors**
 - **Pre-emption** of taxes or regulations
 - **Worker** motivation

Responsible firms attract responsible employees

(Brekke & Nyborg 2008)

- Morally motivated:
 - Prefer responsible employment, all else given
- Labor market equilibrium:
 - Irresponsible firms must offer higher wages
- **Cost advantage 1: Reduced wage costs**
- Lower wage: Unattractive for *homo oeconomicus*
 - Only highly motivated apply in CSR firms
- Morally motivated: shirk less
- **Cost advantage 2: Self-selection of applicants**
- Market equilibrium:
 - High responsibility cost: no CSR firms survive
 - Lower responsibility cost: Both CSR and non-CSR firms; responsibility cost exactly offsets cost advantage 1+2
 - Even lower responsibility cost: **Only CSR firms**

Do responsible firms pay lower wages?

- **Yes**

- Frank 2004, Nyborg and Zhang 2013

- **Nyborg and Zhang 2013:**

- Survey data: Firms' SCR reputation, other reputation

- Register data: Wages, industry, gender, age, education, region etc.

- **Substantial negative wage premium for SCR reputation** – but mainly for men

Is there self-selection?

- Experimental evidence: **Yes**
 - Brekke, Hauge, Lind, Nyborg 2011; Ferhler and Kosfeld 2014; Koppel and Regner 2011
- Brekke et al. 2011:
 - Those choosing a group pre-committed to charity, also contributed more to their group
 - Stronger with repetition

Who should choose CSR?

- Is worker effort / productivity **observable**?
 - Knowledge-based work, e.g., hard to monitor
- If **yes**: economic incentives can be used
 - Recruiting responsible people less important
- If **no**: how bad would irresponsible employee behavior be to the firm?
 - Is shirking easy/likely? Would it matter?
 - Can employees misuse position for own benefits?

To conclude

- CSR firms
 - can pay lower wages
 - recruit responsible employees
 - motivate effort among those already recruited
- Does it pay?
 - Not necessarily: Only if gains exceed SCR costs
 - If CSR and non-CSR firms coexist, we would expect profits to be «normal» for each

Nyborg (2014): Do responsible employers attract responsible employees? IZA World of Labor (<http://wol.iza.org/articles/do-responsible-employers-attract-responsible-employees/long>)