Sustainable Organizations

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The Paper

Question: How do pro-social stakeholders affect organizations?

Approach:

Take Aghion and Tirole (1997) model of delegation of authority, with one key addition:

Projects entail monetary and social payoffs, affecting *both* stakeholders *differentially*.

Main Result:

Increase in manager's pro-sociality can make the organization less pro-social.

It occurs if control rights move towards the less pro-social stakeholder.

The Model

The authors identify a mechanism that relies on three assumptions:

(i). There is a trade-off between producing monetary and non-monetary payoffs.

(ii). Different stakeholders solve this trade-off differently.

(iii). Allocation of control rights is endogenous.

In my view, the interpretation that non-monetary is "pro-social" is indeed the best one.

My Discussion - Roadmap

A simple stylized model, building on convincing assumptions, produces relevant results.

So what can I add? I separate my discussion into:

- Suggestions within the model.

- Further directions.

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I. Can the Bottom-Up Approach be the Best?

In your model, delegation decision works as an *attenuation* mechanism.

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Q. *Can increasing manager's pro-sociality be the most effective way of making the organization more pro-social?*

Essentially, you look at effect of increasing γ_i at the margin.

Since effect of γ_M is non-monotone, you conclude top-down approach works best.

But in principle, you can compare slopes in the region where both effects are positive.

II. Joint Changes

Realistically, all stakeholders' preferences for pro-social goals might change.

You could look at changes to the vector (γ_O, γ_M) in a given direction. The simplest:

Q. *What is the effect of a uniform upward shift to (γ_O, γ_M) ?*

III. Optimal Preferences

A more ambitious goal: what is the most pro-social organization?

Owners and managers inherently different because owner delegates.

But they could also differ in other dimensions (e.g. cost to become more pro-social).

Q. *Under general constraints, what is the optimal (γ_O, γ_M) ?*

Some insights may come from literature on tournaments and value design.

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Toy Model

Call x the pro-social dimension of the owner's preferred project.

Call y the pro-social dimension of the manager's preferred project.

Assume owner delegates when $| y - x | < k$.

Questions:

1. If owner can't fully observe y, what information structure maximizes pro-sociality?

2. Given a distribution of (x, y), what allocation maximizes pro-sociality?

I. "Optimal" opacity?

From the point of view of maximizing pro-sociality, the manager delegates:

– too much when belief is in $\tilde{y} \in [x - k, x]$

– too little when belief is in $\tilde{y} \in [x + k, \bar{y}]$.

Idea. The delegation decision creates discontinuities.

In these type of environments, some level of opacity is typically good.

Note information over y could reflect manager's preferences *and* project characteristics.

Result:

There are cases where binary signal: $\tilde{y} \in \{y_l, y_h\}$ improves over fully observable y.

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II. Positive vs Negative Assortative Matching

Result:

The economy is more pro-social under PAM than under NAM if and only if:

$$\sum_i (y_i - x_i) \, 1_{|y_i - x_i| < k} > \sum_i (y_i - x_{-i}) \, 1_{|y_i - x_{-i}| < k} \quad (\star)$$

Result: *If $y_i > x_i > y_{i-1}$ for all i, condition $(\star)$ holds.*

Very restrictive!

Examples

Example 1:

Assume $y_1 > x_1 > y_2 >> x_2$.

Under PAM, get:

$$y_1 + x_2$$

Under NAM, get:

$$y_2 + x_2$$

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Example 1:
Assume $y_1 > x_1 > y_2 >> x_2$.
Under PAM, get:

$$y_1 + x_2$$

Under NAM, get:

$$y_2 + x_2$$

Example 2:
Assume $y_1 >> y_2 > x_1 >> x_2$.
Under PAM, get:

$$x_1 + x_2$$

Under NAM, get:

$$y_2 + x_2$$

Conclusions

When agents are strategic, changes in their preferences may lead to unexpected outcomes.

Using such insight, paper improves our understanding of corporate governance in a changing world.

Congrats!