Discussion of “Private Sanctions” (Hart, Thesmar and Zingales)

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Why do private firms impose sanctions?

- Context: Russia’s invasion of Ukraine
- Stakeholder view: Survey of hypothetical customers, employees and shareholders (random) on views of continuing to buy / work / invest in firm refusing to cut ties to Russia
- Primary motivations:
  1. **Deontological** (exit no matter what)
  2. **Consequentialist** (exit affects company, random)
- Sensitivity to individual **cost** of exiting
Findings

- The business of business is not only business: Morals matter
- Tradeoff of morals with individual cost of exit
  - Sensitivity to cost is similar across stakeholders...
  - ...implying that customers have the potential to exert most damage through boycott if margins low
- Limited role of consequences for company: They matter only for shareholders
- Moral values more related to sanctions than socio-economic characteristics
Overall comments

▶ Interesting, important, timely paper

▶ Sound empirical analysis with causal interpretation partially possible through randomization, model

▶ Contributes to a growing literature on moral preferences, ESG investing, .... Also, political role of firms (stakeholders) and the role of firms in democracies and vice-versa (i.e. Zingales, 2017)

▶ Discuss implications for risk, globalization, segmentation, ...

▶ Provides guidance to understand why some firms have not left Russia, or whether firms would boycott others:
  ▶ Less deontological stakeholders
  ▶ Costs outweigh the moral motives to exit
  ▶ Institutional features of firms and how preferences of stakeholders aggregate
Deontology, cost and impact

- Deontological: "The main utility benefit of taking an action is to follow the rule, irrespective of consequences"
- Exiting costs are also a consequence of taking the action
- Acknowledged in both econometric and economic model:

\[
Prob(\text{exit}_i|c_i, \Delta q_i, X_i) = F(\kappa + \alpha X_i + \beta c_i + \gamma \Delta q_i)
\]

deontological value estimated for \(c_i = 0\) and \(\Delta q_i = 0\)

- However, some parts of the paper ignore costs as a consequence of exiting
  - "deontological agents could be sensitive to the personal cost of acting morally [...]" (page 4)
  - "[the motivation of] participants who were told exiting has no impact [...] is purely deontological" (page 4 and Tables 4-7)
Headline value obtained from estimations on subsample of participants who were told exiting has no impact (Tables 4-7)

Implicit assumption: Average deontological value is the same for individuals who were told exiting has no impact and for individuals who were told exiting does have an impact

True for customers and employees, but not for shareholders

Suggestion: Use Table 8 as baseline

Similar average deontological value for individuals ($264)
Substantially higher for clients ($318) and employees ($353)
Statistically zero for shareholders ($\kappa = 0$), who instead are consequentialists $\Rightarrow$ leaving Russia may not be welfare maximizing for shareholders (Section 5.1)
Would be interesting to see all analysis on this baseline

Alternative: ”perceived moral obligation to exit”
\( \Delta q_i \) and consequentialism

- Model: \( \Delta q_i \) is the increase in probability that the firm exits given stakeholder \( i \) exits
- Estimation: \( \gamma = 0 \)
- Does this mean individuals are not consequentialists?
- Not necessarily (page 26). Survey: \( \Delta q_i \) is a disruption for the firm caused by \( i \) (lower share price, replacing employee or loss of customer)
- Results in Table 10 suggests all stakeholders care about war (uninteracted coeff)
Possible extensions

- Impact of different consequentialist motivations
  - From previous comment: War
  - Alternative motivations: loss of reputation, threat of future sanctions (in the spirit of Ramadorai and Zeni, 2022)
  - Horse-race

- Other (non-retail) stakeholders:
  - Suppliers (potentially high cost of exit, much larger disruptions)
  - Firms as stakeholders (e.g. BP and Rosneft)
  - Non-retail customers (upstream firms, commodity providers)
Conclusions

- Very interesting, timely, complete, policy-relevant paper
- Great read, lots of food for thought
- Adjust interpretation of results to reflect (1) strict definition of deontology and (2) implications of model
- Provides several insights that open doors for follow-up research
▶ Summ stats more informative if variables not standardized

▶ Why is constant term so low in Table 3 column 2? (is the dep var a dummy?)

▶ Suggestion (in line with my main comment): Replace T3 with T8 and replace T 4-7 with whole sample, controlling for impact

▶ Why is the sample size that includes social drivers of exiting smaller? (Table 6)

▶ Suggestion: Use the Shapely decomposition of $R^2$ to determine whether exiting is more related to moral values or socio-economic characteristics

▶ Table 11 title: whole sample. (Suggestion: control for impact!)
p4: "we estimate this deontological motive to be worth about $250 for the average participant [...]" (or update with estimates of T8)

Typo affecting cost estimation for deontological individuals in page 22: "an individual with one unit greater deontological motive is willing to exit even if the cost is \((0.95/0.22)\times$100 = $432\) higher" (or update)

P 17: \(P\{\text{exit}_i|c_i, \Delta q_i, X_i\}\) (instead of punish_i)

P 18: \(U(\text{no action}) = u_i + \lambda_i(W_i + ...\))