

Private Sanctions

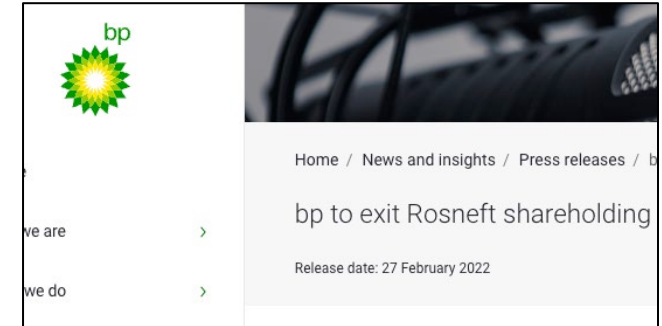
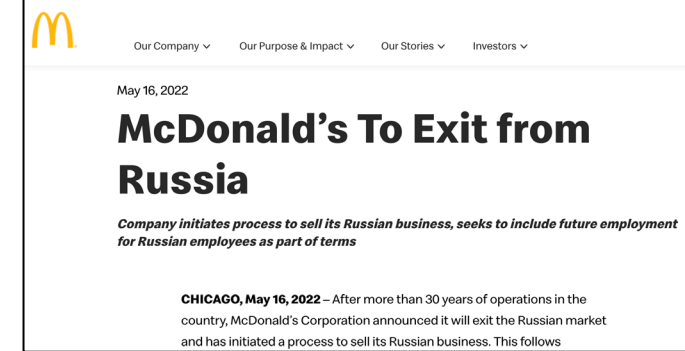
Oliver Hart (Harvard)

David Thesmar (MIT, NBER, CEPR)

Luigi Zingales (University of Chicago, NBER, CEPR)

Privatization of sanctions

- Since invasion of Ukraine:
 - Government sanctions against Russia
 - seize yachts, oil&gas embargo, blocking payments
 - Private sanctions: multinationals exiting Russia
 - Under pressure of stakeholders (twitter campaigns, shareholders, etc.)
 - More than 1,000 global firms have announced exit / scaling down (Sonnenfeld&al, 2022)
 - Reminiscent of South Africa boycotts in the 1980s (Teoh & al, 1999)
- Why are private sanctions interesting?
 - A new form of business risk of dealing with moral stakeholders → de-globalization
 - More generally: morality of firms → risk of fragmentation in capitalism
 - Beyond sanctions: environment, abortion, gay rights



What we do in this paper

- Our survey: Do stakeholders approve corporate sanctions?
 - Does cost matter?
 - Does impact matter?
 - Difference between shareholders, employees, customers?
 - XS heterogeneity
- Takeaways:
 - People don't see economics and morals as separate
 - Not much difference between shareholders, employees, customers
 - Moral values explain the XS
 - Costs matter
 - “Deontological motive” very strong (as opposed to impact)
 - Impact only matters for shareholders (our treatment may be weak)

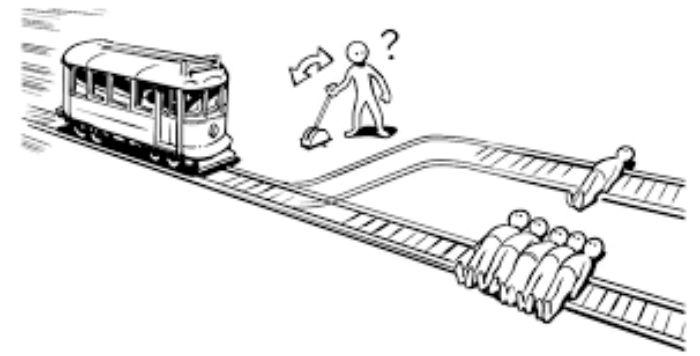
Roadmap

1. Survey design
2. Framework
3. Results
4. Robustness

Roadmap

1. Survey design
2. Framework
3. Results
4. Robustness

Survey design: overall approach



- Describe a hypothetical firm deciding to stay in Russia
 - \approx trolley problem in moral philosophy
 - Simple and crisp, try to figure out preferences rather than beliefs about the world
- Question: Are you willing to “exit” this firm?
- Three levels of randomization
 - Stakeholder: employee (quit?), customer (stop buying?), shareholder (sell shares?)
 - Impact: punishment has effect on the firm, or not
 - Personal cost borne: \$0, \$100, \$500
- + other questions: explanation, moral values, socio-demographics

*Stakeholder
= employee*

You are an employee of Acme, which is a large multinational with significant operations in Russia. Since the invasion of Ukraine, Acme has decided not to withdraw from Russia.

You have an opportunity to quit your job and work for ABCorp, which is not at all involved with Russia. If you do this, it will take your current employer, Acme, several months to find a replacement, which will cause significant problems.

Some impact

The job, the pay, and your career prospects at ABCorp, are the same as in your current position at Acme.

Personal cost = \$0

On a scale of 1 (Not likely) to 5 (Very likely), how likely are you to resign from Acme and join ABCorp?

1 - Not Likely

2

3

4

5 - Very Likely



You are an employee of Acme, which is a large multinational with significant operations in Russia. Since the invasion of Ukraine, Acme has decided not to withdraw from Russia.

You have an opportunity to quit your job and work for ABCorp, which is not at all involved with Russia. If you do this, it will take your current employer, Acme, several months to find a replacement, which will cause significant problems.

The job, the pay, and your career prospects at ABCorp, are the same as in your current position at Acme.

On a scale of 1 (Not likely) to 5 (Very likely), how likely are you to resign from Acme and join ABCorp?



Survey design: additional information

- Takes \approx 10mn
- About 3,000 participants
 - Contacted through polling firm *Respondi*
 - Representative of US population by age x politics
- Attention check
 - “absurd” question whose answer is “strongly agree” and “strongly disagree”
 - People who fail it are excluded
- Sincerity check
 - At the end, asked to donate 50c to the Red Cross for Ukraine (compensation=\$3)

Before going to “hypothetical” question: Are business and morality separate?

- Sanctions should be imposed by the government. It is not a company’s role to decide what is right and what is wrong.
 - Only 30% agree
 - Such a decision [to pull out of Russia] is purely a business decision. Management should weigh the economic costs and benefits
 - Only 37% agree
- Most participants think business and morality are intertwined

Roadmap

1. Survey design
- 2. Framework**
3. Results
4. Robustness

Framework: 3 components

• Participant i decides to exit $\Leftrightarrow \Delta U = [-c_i + R_i + \lambda_i \cdot \Delta q_i \Delta W_i] > 0$

1. Personal cost

c_i = \$ cost of exiting (fee, price, cost of commuting: we randomize)

2. Deontological motive

R_i = “deontological motive for exiting” (moral imperative, virtue signaling)

3. Consequentialist motive

λ_i = sensitivity to welfare

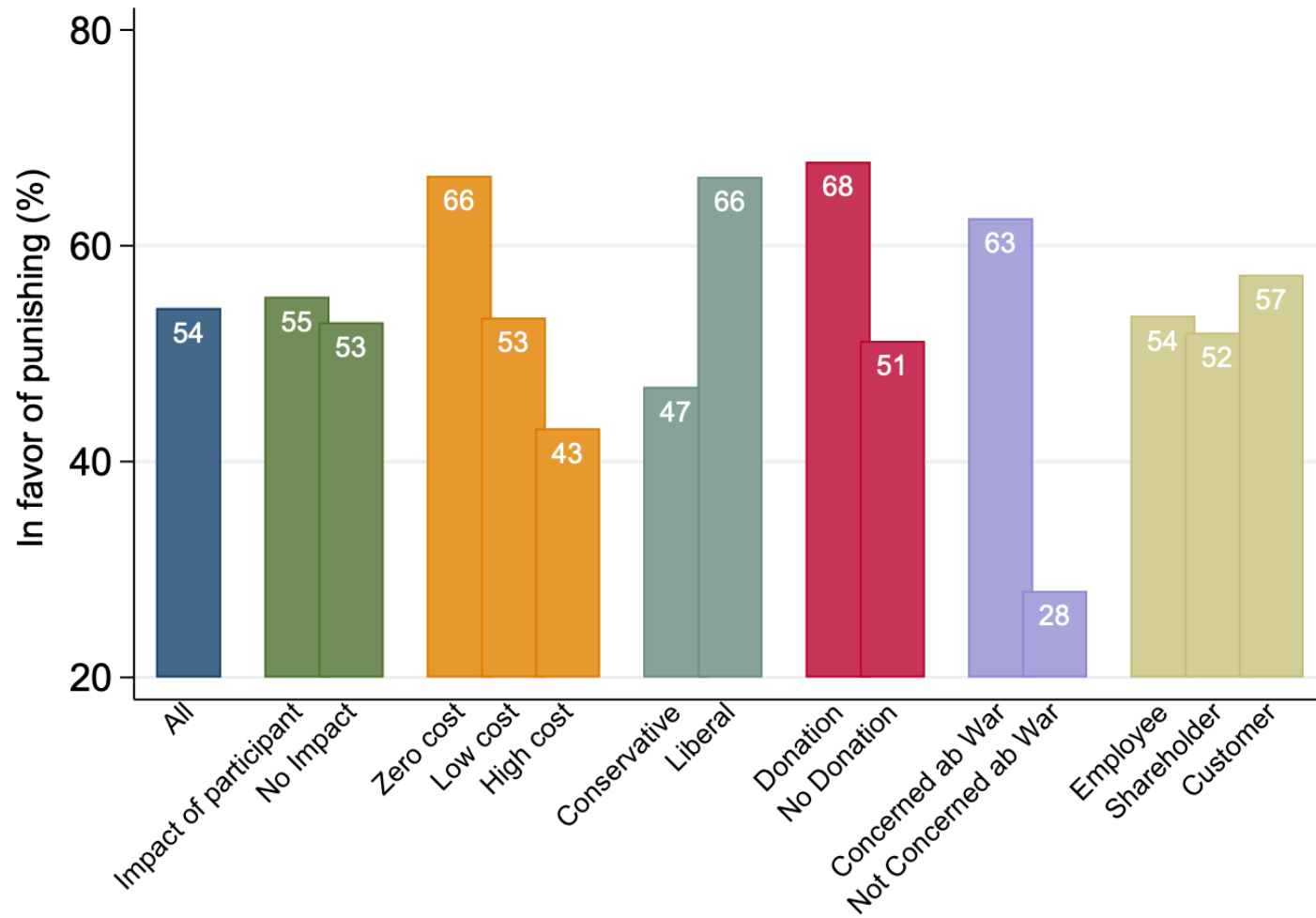
Δq_i = increased proba. that company exits Russia if punish (we randomize)

ΔW_i = increase in global welfare if company exits Russia

Roadmap

1. Survey design
2. Framework
- 3. Results**
4. Robustness

First glance at the data: A few splits



→ Impact does not matter much

→ cost matters a ton

→ (political) values matter a lot

→ stakeholder context does not matter

Valuing the deontological motive

- Focus first on “no impact” condition:
 - Effect on company = $\Delta q_i = 0$
 - i punishes $\Leftrightarrow R_i > c_i$
 - Suggests a “structural estimation”

- Logit regression:

$$1\{i \text{ punishes}\} = \alpha + \beta \cdot c_i + \varepsilon_i$$

- Then, a \$ estimate of the average deontological motive is:

$$\widehat{\mathbb{E}R_i} = \frac{\alpha}{-\beta}$$

Focus on zero impact participants

	<u>Willingness to exit</u>			
	All	Shareholder	Customer	Employee
Cost ('00 USD)	-.2*** (-7.4)	-.27*** (-4.7)	-.23*** (-5.2)	-.13*** (-3.1)
Constant	.51*** (6.6)	.34** (2.2)	.65*** (5.1)	.48*** (3.9)
Pseudo R2	.032	.054	.043	.014
Observations	1285	325	472	488

- Effect of cost very strong

- Found in various other contexts (Landier&Thesmar, 2022)

- Estimates deontological motive:

- $\widehat{\mathbb{E}R}_i = .51/.2 = \250

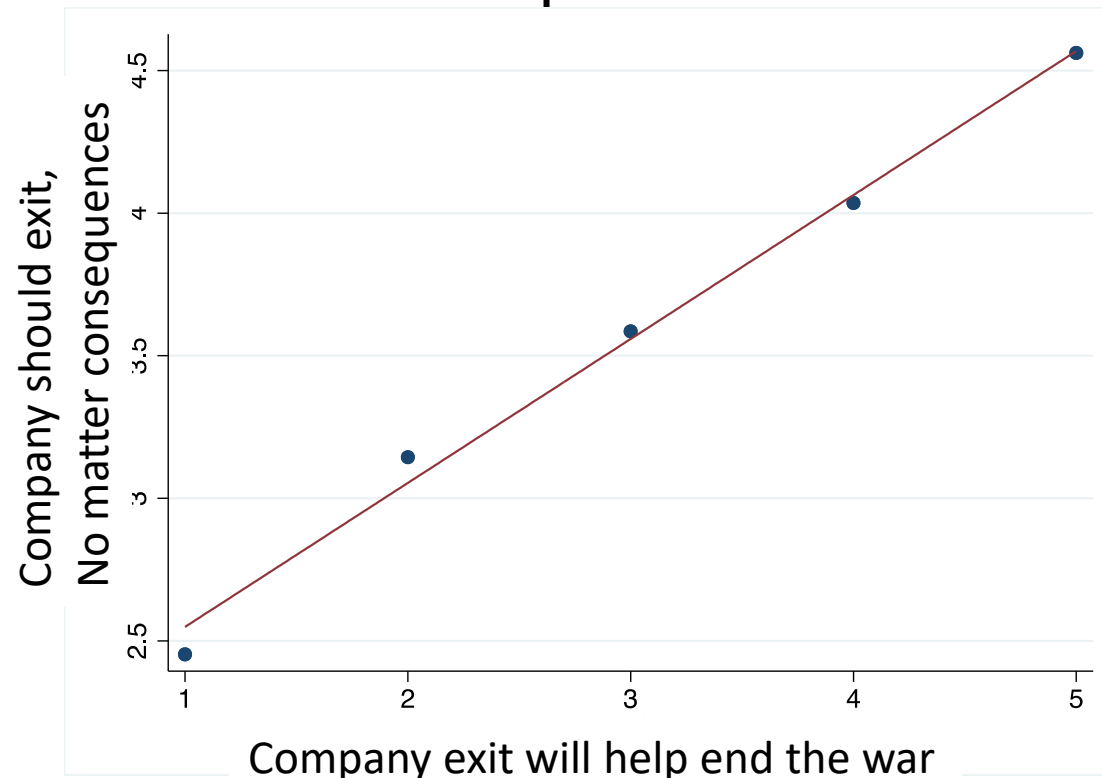
Cross-section: determinants of the willingness to exit for “no impact participants

Willingness to exit

	(1)	(2)	(3)		(4)	(5)
Cost ('00 USD)	-.21***	-.21***	-.22**	Female		-.21
	(-7.7)	(-7.7)	(-7.8)			(-1.6)
Authority	.21***	.25***	.15**	30-44 yo		.2
	(3.1)	(3.7)	(2.1)			(.94)
Compassion	.4***	.37***	.37***	44-64 yo		.63***
	(6.3)	(5.9)	(5.7)			(3.3)
Loyalty	-.14**	-.11*	-.17**	65+ yo		1.1***
	(-2.2)	(-1.7)	(-2.5)			(5.2)
Fairness	-.0052	-.073	.019	20-40k		.11
	(-.081)	(-1.1)	(.27)			(.54)
Freedom	-.0097	-.0064	.0082	40-60k		.16
	(-.16)	(-.11)	(.13)			(.76)
Sanctity	-.21***	-.16**	-.15**	60-110k		.41**
	(-3.3)	(-2.4)	(-2.2)			(2)
Liberal		.24***	.26***	110k+		.37*
		(3.5)	(3.6)			(1.6)

Do participants care about impact?

- If you ask them directly, they say “yes, I do”
- ... but they seem confused as to whether the company should act out of principle or because it can help end the war



Do participants care about impact?

Not much, except shareholders...

$$\text{Logit: } 1_{\{i \text{ punishes}\}} = \alpha + \beta \cdot c_i + \gamma 1_{\{i \text{ impact}\}} + \varepsilon_i$$

	Willingness to exit				
	All	Shareholder	Shareholder	Customer	Employee
Cost ('00 USD)	-.17*** (-9.6)	-.17*** (-5.8)	-.17*** (-5.8)	-.17*** (-5.6)	-.15*** (-5.1)
Participant's impact on firm	.12 (1.5)	.4*** (2.9)		.19 (1.4)	-.14 (-1.1)
2 pct decrease in stock price			.29* (1.8)		
5 pct decrease in stock price			.52*** (3.2)		
Constant	.45*** (6.7)	.17 (1.3)	.17 (1.3)	.54*** (4.9)	.53*** (4.8)
Pseudo R2	.024	.03	.032	.026	.021
Observations	2915	991	991	956	968
<i>Marginal Effects</i>					
Cost ('00 USD)	-.041	-.043	-.043	-.042	-.038
Participant's impact on firm (d)	.029	.099		.047	-.035
2 pct decrease in stock price (d)			.072		
5 pct decrease in stock price (d)			.13		

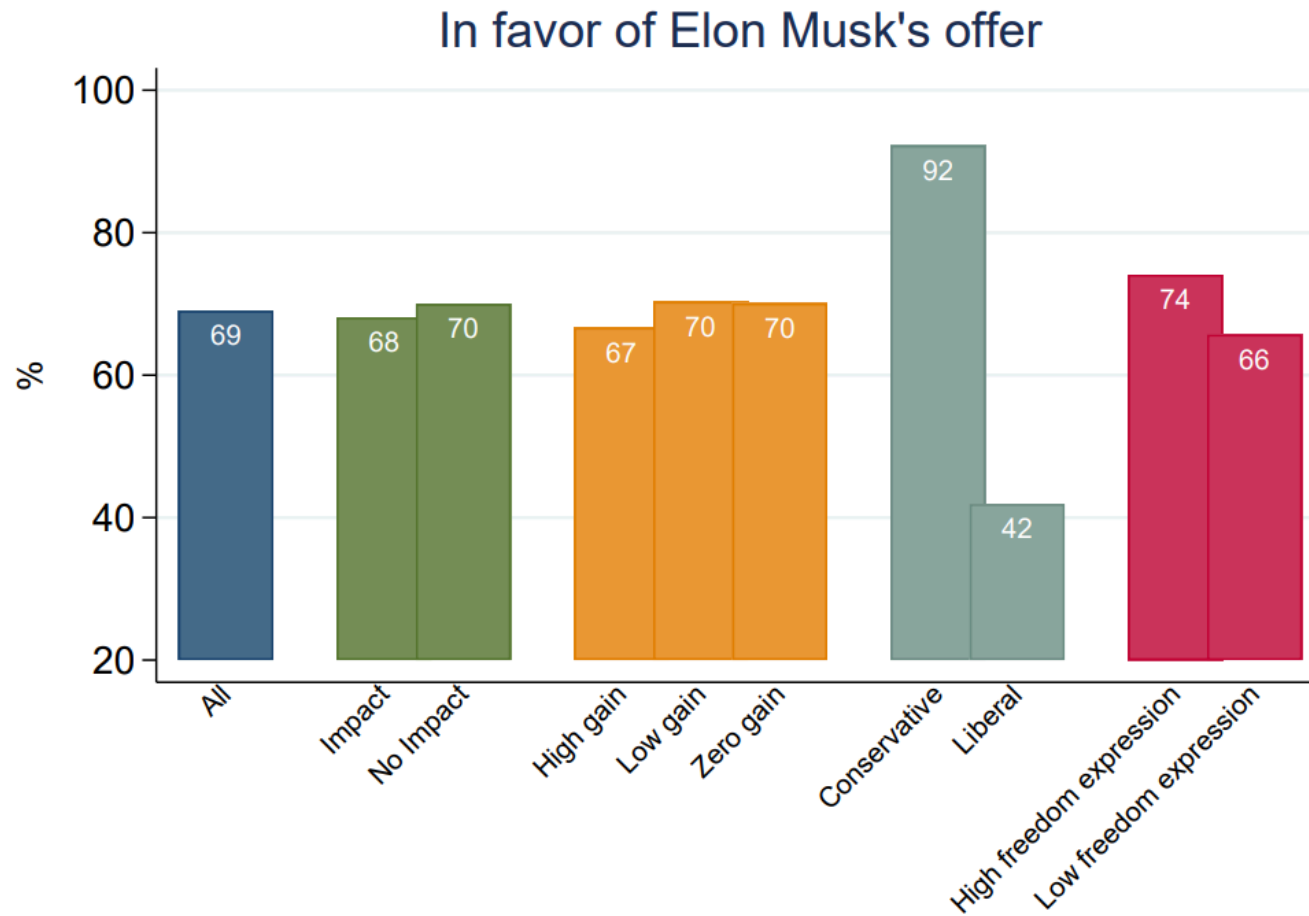
Roadmap

1. Survey design
2. Framework
3. Results
4. Robustness

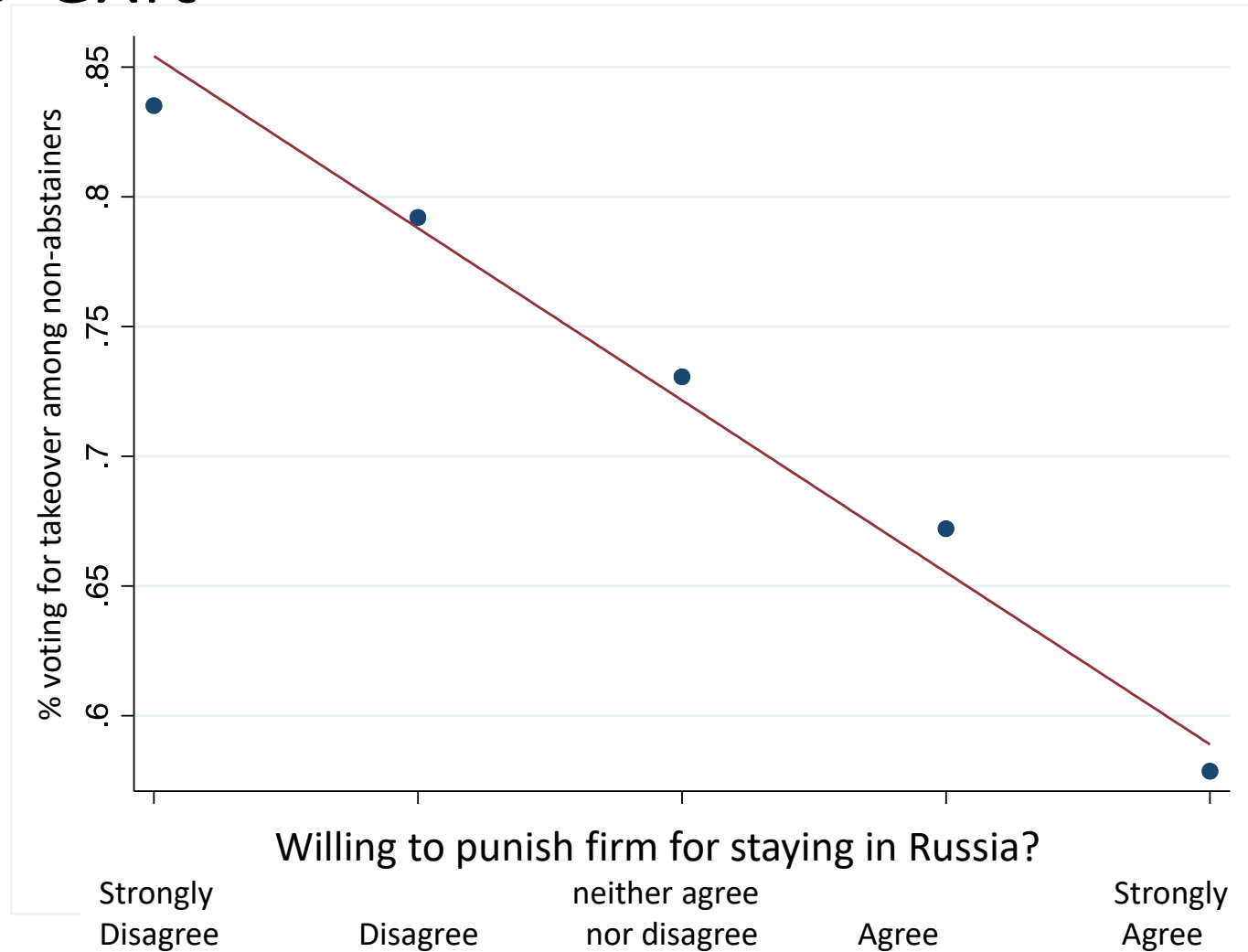
Do people really mean what they say?

- At least partially
 - XS of answers strongly responds to cost, to values – cannot be pure noise
- Effect not stronger when:
 - People actually donate part of their earnings to the Red Cross
 - People claim to be “concerned” by the war at the beginning of Survey
- Answer correlated to another thought experiment in same survey
 - “would you sell your Twitter shares to Elon Musk?”

(results from the Musk survey)



Correlation btw twitter vote and willingness to exit



Exiters less likely to vote for takeover

Explained in part by Political values

Conclusion:

can firms remain morally neutral/pluralistic ?

- Departure from standard separation between business and morals
→ Business risk that needs to be managed
- Example #1: deglobalization
 - If US firms have to sanction countries, firms in these countries should avoid doing business with them
 - US firms may decide to avoid doing business in these countries
- Example#2: polarization of business
 - If customers/employees have strong moral values, firms may need to align themselves → conservative TV networks with survivalist shows, progressive with transgender characters
 - Alternatively, perhaps need to keep customer base broad, stay neutral to diversify

Back up slides

Representativeness

	Sample	US population
Male	0.69	0.49
18-29 years old	0.23	0.24
30-44 years old	0.23	0.19
45-64 years old	0.33	0.25
65+ years old	0.21	0.16
\$0-\$19,999	0.14	0.13
\$20,000-\$39,999	0.20	0.16
\$40,000-\$59,999	0.20	0.21
\$60,000-\$109,999	0.28	0.20
\$110,000+	0.18	0.31
Liberal	0.30	0.30
Conservative	0.27	0.26
Independent	0.43	0.42
Sincere respondents	0.36	
Concerned about war	0.74	

Haidt questions

- **Compassion** for those who are suffering is the most crucial moral value
- Respect for **authority** is something children need to learn
- People should be **loyal** to their family members, even when they have done something wrong
- I think it is morally wrong that rich children inherit a lot of money while poor children inherit nothing [**fairness**]
- I would call some acts wrong on the grounds that they are unnatural [**purity**]
- I think everyone should be free to do as they choose, so long as they don't infringe upon equal freedom of others [**freedom**]