

CIFREM SEMINARS – 8 and 15 APRIL 2010

THE SOCIAL CONTRACT THEORY OF CSR (CORPORATE SOCIAL RESPONSIBILITY) AS A MULTI-STAKEHOLDER MODEL OF CORPORATE GOVERNANCE

Part I (8 April): normative justification and rational bargaining behind the veil of ignorance.

Part II (15 April): the game theory of the model implementation: psychological equilibria, conformist preferences and equilibrium selection

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Abstract

Corporate Social Responsibility (CSR) is here defined as a multi-stakeholder model of corporate governance and fiduciary duties naturally emerging from a critical assessment of the incomplete contracts view of the firm based on concepts like as authority and residual rights of control. As far as the normative point of view is concerned, multi-stakeholder fiduciary duties are deduced from a theory of the firm's stakeholders Social Contract. This provide for a clear cut and calculable objective function, a criterion for governance and strategic management no less able to set a bottom-line to the firm management than the profit maximization principle. The theory of co-operative bargaining games, and the Nash bargaining solution in particular, provides the key concepts. By the way this also answers some criticisms raised by Michael Jensen (2001) against the notion of stakeholders value.

As far as implementation of the normative model is concerned, four roles of voluntary but explicit CSR norms or social standard are presented in terms of a non-cooperative game theory of implementation. It is shown that they allow the description of strategies and equilibria, even if multiple, in a game played under unforeseen contingencies. Secondly, a CSR norm permits the ex ante selection of the equilibrium point that meets the requirements of an impartial choice. An explicit agreement on a contractarian norm is moreover a way to introduce psychological conformist equilibria, and quite surprisingly to derive the significant result that mixed strategy equilibria are absent in a psychological repeated Trust Game. Lastly, a cognitive and predictive role is played by an agreed CSR norm as the appropriate starting point for an equilibrium selection mechanism that, from a state of predictive uncertainty about possible equilibria, generates a state of mutually consistent expectations consistent with the prediction that all players will converge on the psychological equilibrium fully conforming with the norm as the effective solution of the game.