

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 / 1

- ▶ 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:

$$Prob(exit_i | c_i, \Delta q_i, X_i) = F(\kappa + \alpha X_i + \beta c_i + \gamma \Delta q_i)$$

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)

## Deontology, cost and impact / 2

- ▶ 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

# Comments, questions and suggestions for the authors / 1

- ▶ 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!)

## Comments, questions and suggestions for the authors / 2

- ▶ 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  $(0.95/0.22) \times \$100 = \mathbf{\$432}$  higher" (or update)
- ▶ P 17:  $P\{\text{exit}_i | c_i, \Delta q_i, X_i\}$  (instead of  $\text{punish}_i$ )
- ▶ P 18:  $U(\text{no action}) = u_i + \lambda_i(W_i + \dots)$