

# Sustainable Organizations

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# Introduction

- **Stakeholders' growing commitment** to address **ESG** issues:

## BlackRock's Fink rejects accusations of being 'woke'

Head of world's biggest asset manager defends 'stakeholder capitalism' in annual letter to chief executives

Source: Financial Times, January 17, 2022

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- **Growing ESG concerns** can generate **conflicts of interest**:

## Florida to pull \$2bn from BlackRock in spreading ESG backlash

Republican chief financial officer says US state will take 'business elsewhere' in move that surprises asset manager

Source: Financial Times, December 1, 2022

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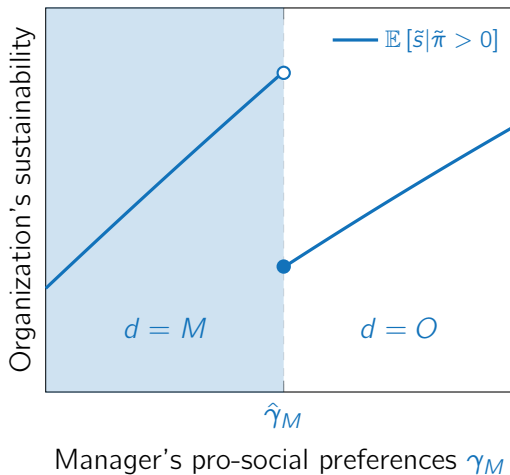
- How do **pro-social stakeholders** affect **organizations**?
- Develop theory of **stakeholder governance**:
  - Delegation of authority model
  - Project choice with **monetary and social payoffs**
  - **Owner** ( $O$ ) and **manager** ( $M$ ) with **pro-social preferences**

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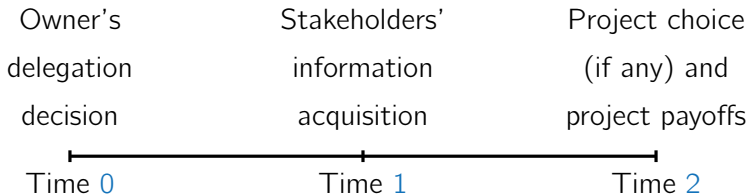
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- Other applications:
  - Boards and CEOs
  - Managers and employees
  - ...

# Introduction

- More pro-social stakeholders  $\nrightarrow$  more sustainable organization:



## Model: Overview



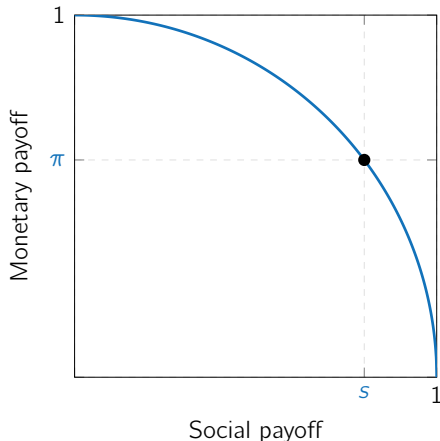


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- Relevant **set of projects**  $\{(\sqrt{1-l}, \sqrt{l}) \mid l \in [0, 1]\}$ :



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- Preference parameters:
  - **Monetary incentives:**  $\beta_j > 0$
  - **Pro-social preferences:**  $\gamma_j \geq 0$

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- Each stakeholder can **become informed** by exerting costly effort at time 1

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- Owner can **delegate control rights** to manager at time 0

## Model: Owner holds Control Rights

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## Model: Manager holds Control Rights

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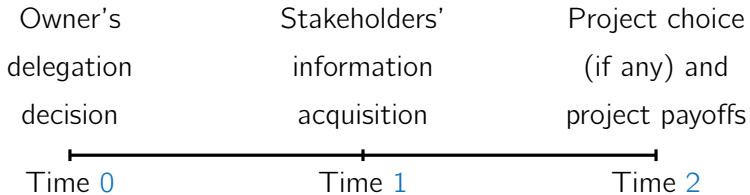
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## Model: Timeline



## Model: Project Choice

- Stakeholder  $j$ 's **preferred project**  $(\pi_j, s_j)$ :
  - Investment in social payoff:  $t_j = \frac{\gamma_j^2}{\gamma_j^2 + \beta_j^2} = R_j$

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- Higher **relative pro-social preferences**  $R_j$  implies lower  $\pi_j$ :
  - Pro-social employees accept lower wages (Krueger et al., 2022)
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- No pro-social preferences  $\Rightarrow$  preferred projects coincide

# Equilibrium: Effort Choice and Effective Control

- **Determinants** of stakeholder's information acquisition:
  - **Monetary incentives**  $\beta_j$  and **pro-social preferences**  $\gamma_j$  affect incentives through utility  $u_j(\pi, s)$
  - Holding **control rights** increases incentives



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  - Holding **control rights** increases incentives
- More effort  $\Rightarrow$  more **effective control**

# Equilibrium: Organization's Sustainability

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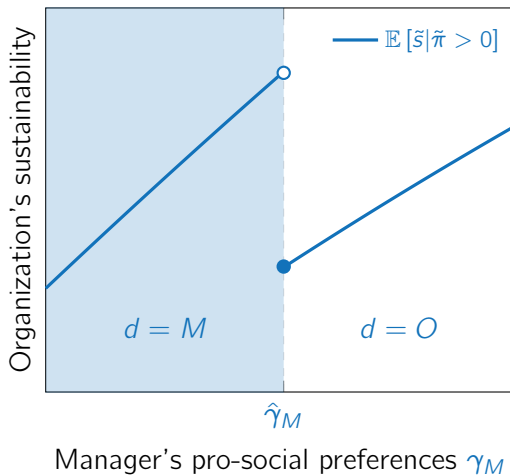
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- If  $\gamma_O = 0$ , organization's sustainability increasing in  $\gamma_M$

# Equilibrium: Organization's Sustainability

- **More pro-social manager**  $\nrightarrow$  more sustainable organization:



## Equilibrium: Delegation of Control Rights

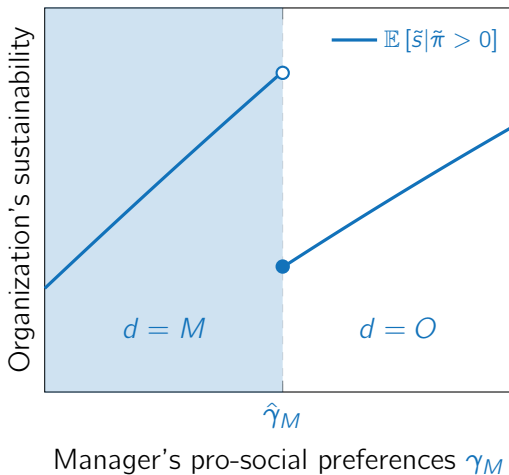
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# Equilibrium: Delegation of Control Rights

- Holding **control rights increases stakeholder's effort**
- Three effects determine delegation decision:
  - ① **Project implementation effect** (retain/delegate)
  - ② **Project selection effect** (retain)
  - ③ **Effort cost effect** (delegate)

# Equilibrium: Organization's Sustainability

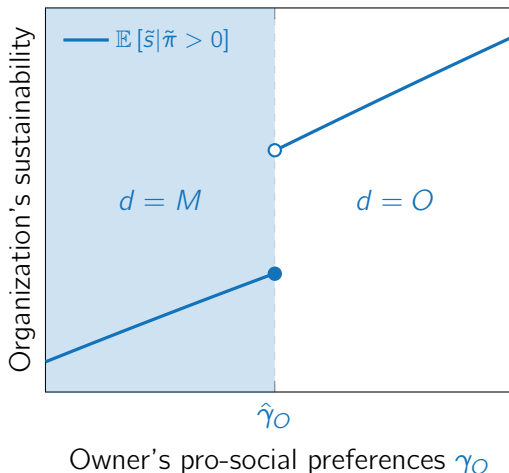
- **More pro-social manager**  $\nrightarrow$  more sustainable organization:





# Equilibrium: Organization's Sustainability

- **More pro-social owner**  $\Rightarrow$  more sustainable organization:



# Implications

- Control rights:
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- Effective control:
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- Organizations' sustainability:
  - Pro-social owner benefits organization's sustainability
  - Pro-social manager may not benefit organization's sustainability

# Work In Progress

- **Compensation** tied to organization's monetary payoff:
  - Contracting and delegation **complements**
  - **Manager's compensation non-monotonic** in manager's pro-social preferences
  - Owner never offers social compensation

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  - **Manager's compensation non-monotonic** in manager's pro-social preferences
  - Owner never offers social compensation
- **Equilibrium matching** of owners and managers

# References

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