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Choosing a partner for social exchange: Charitable giving as a signal of trustworthiness[☆]



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ABSTRACT

People benefit from being perceived as trustworthy. Examples include sellers trying to attract buyers, or candidates in elections trying to attract voters. In a laboratory experiment using exchange games, in which the trustor can choose the trustee, we study whether trustees can signal their trustworthiness by giving to charity. Our results show that donors are indeed perceived as more trustworthy and they are selected significantly more often as interaction partners. As a consequence of this sorting pattern, relative payoffs to donors and non-donors differ substantially with and without partner choice. However, we do not find donors to be significantly more trustworthy than non-donors. Our findings suggest that publicly observable generosity, such as investments in corporate social responsibility or donations to charity during a political campaign, can induce perceptions of trustworthiness and trust.

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1. Introduction

Finding trustworthy partners is important in many domains of social and economic life. Examples abound: customers looking for trustworthy sellers, employers looking for trustworthy employees, and voters looking for trustworthy candidates. For trustees, who benefit from being selected as interaction partners, it is crucial to convince trustors of their trustworthiness.¹ How can they achieve this? One way could be for trustworthy trustees to engage in observable behavior that credibly signals their trustworthiness and sets them apart from less trustworthy competitors (Bacharach and Gambetta, 2001; Raub, 2004; Bolle and Kaehler, 2007; Przepiorka and Diekmann, 2013). In the context of firms, it has been argued that corporate social responsibility (CSR) might serve as a signal of trustworthiness (Vlachos et al., 2008; Elfenbein et al., 2012), and

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¹ As is standard in the literature on trust, we call those in whom trust may or may not be placed 'trustees', and we call those who may or may not have trust in others 'trustors'.

other studies suggest that charitable giving by candidates might serve the same purpose in political competitions (Milinski et al., 2002; Hamman et al., 2011). Consistent with these conjectures, Fehrler and Przepiorka (2013) show, in an experiment with a modified trust game, that subjects transfer more to donors because they expect donors to be more trustworthy than non-donors.

While trust in and trustworthiness of trustees with different characteristics has been studied extensively (for an overview see Fehr, 2009), partner choice has received much less scholarly attention. In most trust experiments subjects cannot choose their interaction partners; they are randomly paired with each other. In these experiments, trust levels have been shown to vary considerably with trustees' observable characteristics (e.g., McEvily et al., 2012). This is not surprising as trust largely depends on trustors' expectations of trustees' trustworthiness. It seems likely therefore that trustors' beliefs would also affect their choice of trustees. According to this *sorting hypothesis* (Slonim and Garbarino, 2008) it can be expected that trustees who receive higher transfers when randomly paired with a trustor will also be chosen more often as interaction partners when trustors can choose trustees.

We study trustors' choices of, and transfers to, trustees in an exchange game (a modified trust game) where trustees differ in whether or not they have donated part of their endowment to charity. We study two scenarios, one in which trustors can choose trustees (partner choice) and one in which trustors and trustees are randomly paired (random matching). To understand the role of beliefs, we elicit trustors' expectations regarding back transfers in the exchange game from the different types of trustees. To isolate trust from other motives which might also affect partner choices and transfers in our exchange game, we employ further experimental conditions. We measure trustors' choices and transfers in a dictator game, and we employ conditions in which trustees do not have the option to donate but differ in their endowment. Using a within-subject design, we can study the motives behind subjects' behavior at the individual level. Our key findings can be summarized as follows:

1. Donors to charity are chosen more often as trustees and receive higher transfers in the exchange game than non-donors. They are perceived as more trustworthy.
2. Donors to charity are neither more nor less trustworthy than non-donors, and charitable donations do not pay off in monetary terms.
3. Differences in the transfers that donors and non-donors receive are much more pronounced in the case of partner choice than in the case of random matching.
4. The sorting hypothesis is supported, on average. The trustees subjects choose in the partner choice part of the experiment are mostly of the same type as those to which they transfer more in the random matching part. However, a substantial number of subjects do not behave in line with the sorting hypothesis.

Our first finding suggests that charitable giving may work as a signal of trustworthiness. Our third finding demonstrates that outcome differences between potential partners in social exchange will be underestimated if partner choice is not accounted for. The more pronounced differences in the partner choice part of the experiment occur despite the fact that some subjects' behavior is not in line with the sorting hypothesis (finding 4).

The next section relates our study to previous literature. The description of the experimental design in Section 3 is followed by the presentation of our results in Section 4. The last section summarizes our main findings and discusses the interpretation of CSR and charitable donations during electoral campaigns as signals of trustworthiness.

2. Related literature

2.1. Signaling trustworthiness

A trustee can be trustworthy because she is committed to acting in the trustor's interest out of self-interest, e.g. in a repeated interaction (e.g., Camerer and Weigelt, 1988; Anderhub et al., 2002; Bolton et al., 2004a; Bracht and Feltovich, 2009), or because of other-regarding preferences, reciprocity or trust responsiveness (e.g., McCabe et al., 2003; Cox, 2004; Bolton et al., 2004b; Bacharach et al., 2007; Battigalli and Dufwenberg, 2009; Toussaert, 2014). Theoretical models (e.g., Fehr and Schmidt, 1999) and empirical evidence (e.g., Ashraf et al., 2006) both suggest that trustees who are trustworthy because of other-regarding preferences will also be more generous, e.g., in a dictator game, even if such generosity has no instrumental value (Gambetta and Przepiorka, 2014; Przepiorka and Liebe, 2016). In an earlier study, Fehrler and Przepiorka (2013) show that donors to charity indeed tend to be more trustworthy than non-donors (see also Albert et al., 2007). Game-theoretic models illustrating the idea that charitable giving can work as a signal of trustworthiness have been proposed by Elfenbein et al. (2012) and Ong and Yang (2014) (see also Gintis et al., 2001; Gambetta and Przepiorka, 2014).

Elfenbein et al. (2012) also present convincing empirical evidence of how charitable giving can work as a signal of trustworthiness. They analyze a large data set of eBay offers – many of which were posted under eBay's *Giving Works* program, where sellers dedicate a fraction of the selling price to a charity. Their data includes offers of identical products from the same sellers under the program and outside of it, allowing them to conduct a quasi-experimental analysis. Consistent with a costly signaling account, they observe a higher percentage increase in sales and prices under the *Giving Works* program for sellers without a reliable reputation, i.e., with a short history of customer feedback. Their results suggest that the charitable element serves as a substitute for an established reputational record. Moreover, they find that sellers who use the *Giving*

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