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Enhancing Corporate Social Responsibility: Contract Design under Information Asymmetry

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Abstract

We consider a two-stage supply chain in which a contract manufacturer (CM) sells products through a brand name retailer. The contract manufacturer can invest in corporate social responsibility (CSR) activities to improve customer perception about the firm and increase demand, while the retailer can influence the demand by exerting marketing efforts. We design optimal contracts for such a supply chain, which faces information asymmetry. The wholesale price contract was developed as the base model to derive insight into the value of information sharing. We examine the impact of CSR cost on CSR commitment and profits. We find that CM's CSR cost impacts the manufacturer's and the retailer's profits differently. Under certain conditions, the CM's profit will increase with cost, while that of the retailer is uncertain. We also propose two-part tariff contracts for both the symmetric and asymmetric cases with the aim of maximizing the retailer's profit and improving CM's commitment to CSR. Finally, numerical experiments are conducted to illustrate and validate the proposed models and provide managerial insights.

Keywords: Supply chain management; CSR efforts; Marketing efforts; Asymmetric information; Game theory.

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