



# Who's naughty? Who's nice? Experiments on whether pro-social workers are selected out of cutthroat business environments<sup>☆</sup>



Mitchell Hoffman<sup>a</sup>, John Morgan<sup>b,\*</sup>

<sup>a</sup> University of Toronto, Rotman School of Management, Canada

<sup>b</sup> UC Berkeley, United States

## ARTICLE INFO

### Article history:

Received 24 October 2013

Received in revised form

23 September 2014

Accepted 9 October 2014

Available online 18 November 2014

### JEL classification:

D03

D22

### Keywords:

Selection hypothesis

Social preferences

Lying aversion

Shame aversion

## ABSTRACT

Levitt and List (2007) hypothesize that pro-social individuals will be selected out of cutthroat industries. To study this, we measure the pro-social preferences of individuals in two such industries, domain trading and online adult entertainment (pornography). Contrary to the selection hypothesis, we find that these individuals exhibit a high degree of pro-sociality. They exhibit more altruism, trust, trustworthiness, and honesty than the typical student subject. They also respond differently to shame-based incentives. We offer a theory of reverse selection that can rationalize these findings.

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## 1. Introduction

In an influential paper, Levitt and List (2007) argue that the strong social preferences observed in the lab may not extend outside of this environment. This claim rests, in part, on selection pressures that operate in the marketplace but which are absent in the lab. They argue that, in cutthroat industries, having pro-social preferences is a distinct handicap to competing successfully. As a result, individuals having these preferences either exit or never enter these industries in the first place. Levitt and List write (pp. 168–169):

In contrast to the lab, many real-world markets operate in ways that make pro-social behavior much less likely. In financial markets, for instance, the stakes are large, actors are highly anonymous, and little concern seems to exist

<sup>☆</sup> We thank Stefano DellaVigna, Shachar Kariv, William Neilson (the editor), Michael Schwarz, Jan Stoop, and seminar participants for helpful suggestions. We are especially grateful to Steve Tadelis for detailed comments and advice. We are indebted to the conference organizers Jay Kopita, Aaron Kvitek, and Connor Young for allowing us to conduct the experiments. Hoffman gratefully acknowledges support from the National Science Foundation IGERT Fellowship, the Kauffman Foundation, and the Social Sciences and Humanities Research Council of Canada. Morgan gratefully acknowledges support from the National Science Foundation through grant NES-0095639. An earlier version of the paper was titled "Who's Naughty? Who's Nice? Social Preferences in Online Industries".

\* Corresponding author. Tel.: +1 416 978 1529.

E-mail address: [morgan@haas.berkeley.edu](mailto:morgan@haas.berkeley.edu) (J. Morgan).

about future analysis of one's behavior. Individuals with strong social preferences are likely to self-select away from these markets, instead hiring agents who lack such preferences to handle their financial dealings. Thus, one must take great care when claiming that patterns measured in the experimental economics laboratory are shared broadly by agents in certain real-world markets.

In this paper, we examine the pro-sociality of individuals in two cutthroat industries, cyber-squatting and online pornography. These industries offer an ideal setting for examining the selection forces envisaged by Levitt–List. For instance, those concerned with their reputation will find these industries unattractive. Indeed, many in the pornography industry intentionally remain anonymous and suppress their “work experience” when advertising their credentials elsewhere. Both professions deal in high stakes under relative anonymity. A valuable domain name, which is often associated with pornography, can sell for millions of dollars. The pornography industry, in particular, benefited greatly from the anonymous nature of the internet. Both industries are notorious for their questionable ethics. As a consequence, both have suffered from scandal and relentless negative press highlighting issues ranging from the exploitation of minors to the theft of intellectual property. Existing on the periphery of the legal system, property rights are subject to theft, expropriation, and other forms of opportunism. Indeed, nearly all of the characteristics Levitt and List identify as critical selection drivers appear prominently in these industries, so, by hypothesis, we should expect little pro-sociality. We contribute to the debate by providing the first study of the selection hypothesis using a population ideally suited to its examination.

Contrary to the Levitt–List hypothesis, we find no evidence of “anti-social” selection. Indeed, if selection operates, it seems to run in the opposite direction. Compared to student populations, internet business people lie less, and are more altruistic, more trusting, and more trustworthy.<sup>1</sup>

What accounts for these differences? We conjecture that another form of selection is operating, which favors pro-sociality. In these industries, solving the trust problem with formal mechanisms is difficult, so individuals must rely on a variety of informal mechanisms. We offer a theoretical model showing that pro-social individuals can more easily sustain trust, and hence prosper, in these situations. Indeed, many of the same characteristics identified by Levitt and List, such as high stakes and anonymity, also create incentives to forge informal contracts built around pro-social preferences. Our findings suggest that news stories of bad behavior by industry participants may paint a misleading picture of average social preferences.

Of course, reverse selection need not be the only or even the main channel accounting for our findings. There are significant demographic differences between the internet business people and the student subjects—internet business people are richer, more male, and have more years of schooling.<sup>2</sup> Moreover, pro-social behavior may not extend beyond dealings with others in the same group. Regardless of the exact force or forces at work, there is scant evidence for the idea that industry characteristics produce selection that drives out pro-social individuals.

Apart from studying selection, we make a number of other contributions to the literature on pro-social preferences. The breadth of our study enables us to capture the many facets of pro-sociality including trust, altruism, lying aversion, shame, and guilt. We achieve this by running a battery of games, including one of our own invention, the envelope game, which captures the interaction of altruism and lying aversion. Finally, we offer a theory model showing how reputational contracts supported by pro-social preferences can sustain trust even in relatively anonymous, high-stakes markets, thus producing reverse selection. The tradeoffs envisaged in the model may also be applied to understand the behavioral differences observed in other studies.

Our paper adds to the growing experimental literature that chooses specific subject populations tailored to the issue under study.<sup>3</sup> There are also various papers sharing our identification strategy of comparing student and non-student populations.<sup>4</sup> However, none of these papers focuses on selection in cutthroat industries.

The remainder of the paper proceeds as follows. [Section 2](#) provides background about the online adult entertainment and domain name industries. [Section 3](#) describes our experimental design. [Section 4](#) gives the results of our experiments. [Section 5](#) discusses several explanations for our results and presents our model. [Section 6](#) presents additional experimental results to dig further into why students behave less prosocially than businesspeople. [Section 7](#) concludes.

## 2. Industry background

The popular press has highlighted a number of unsavory practices online. Most notably, the Internet is widely perceived to have made sexually explicit materials considerably more accessible—especially to minors. These concerns were enough to motivate Congress to pass several laws including, most recently, the Children's Internet Protection Act. Another widely

<sup>1</sup> As we discuss later, internet business people also respond differently to extrinsic incentives for good behavior (i.e., monitoring and shame).

<sup>2</sup> We controlled, to the extent possible, for these factors in our initial analyses. The absence of meaningful variation in current income and years of schooling rules out their use as controls across subject pools. Within subject pool, however, only gender proves significant to certain pro-social behaviors, and so is included in our analyses. The inclusion of the remaining demographic variables produces little qualitative impact on the coefficients of interest; therefore, we exclude them from the formal analysis. Analyses including all demographic controls are available from the authors upon request.

<sup>3</sup> For example, a variety of studies compare matrilineal and patriarchal societies to study gender differences such as [Gneezy et al. \(2009\)](#), [Gong and Yang \(2012\)](#), and [Zhang \(2014\)](#).

<sup>4</sup> See, e.g., [Anderson et al. \(2012\)](#), [Belot et al. \(2010\)](#), [Carpenter and Seki \(2011\)](#), [Cleave et al. \(2010\)](#), [Dohmen et al. \(2008\)](#), [Falk et al. \(2012\)](#), [Fehr and List \(2004\)](#), [Stoop \(2012\)](#), and [Stoop et al. \(2012\)](#).

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