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Do community-sanctioned social pressures constrain microenterprise growth? Evidence from a framed field experiment

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ABSTRACT

Oo, Alex, and Toth, Russell—Do community-sanctioned social pressures constrain microenterprise growth? Evidence from a framed field experiment

We conduct a framed lab-in-field experiment to explore the hypothesis that a number of stylized facts about microenterprise behaviour in developing countries – including product market homogeneity and lack of growth and innovation – can be explained by a social institution in which microentrepreneurs share the market to "buy a job." 280 present or prospective market trader women across four communities in rural Vietnam are anonymously randomized into pairs to play three "market game" treatments. The interactions are framed to simulate real-world retail market competition. The participants compete in an effort task, with performance determining market returns. A highly incentivized individual round allows us to extract a measure of individual "ability" in the effort task. The subjects then compete in successive treatments, where in the final treatment the losing participant in a round can elect to "burn" their competitor's output, which is framed as the application of social pressure. The behavioural responses are significant and fitting with a theoretical model of the social institution we have in mind: even though subjects are from the same community they are willing to punish ("apply social pressure"), the probability of punishment is increasing in the gap in ability in the pair, and this leads to a decrease in performance from higher-ability individuals. The study provides an example of the use of framed lab experiments to shed light on market behaviour

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in developing countries, for which full-blown RCTs may face serious feasibility or ethical challenges. *J. Japanese Int. Economies* **33** (2014) 75–95. School of Economics, The University of Sydney, Australia.

1. Introduction

When walking through a typical marketplace in a developing country, one commonly sees clusters of directly adjacent microbusinesses, which are all roughly the same size and sell identical goods. Growth and innovation is rare amongst such microbusinesses (Mondragón-Vélez and Peña, 2010; Varman and Costa, 2009). Microbusiness is a common part of the economic lives of the poor (Banerjee and Duflo, 2011), so encouraging widespread microbusiness growth could have transformational effects on poverty alleviation (Yunus, 2008). Numerous policy interventions have attempted to address this, targeting individual-level constraints such as lack of financial access and human capital deficiencies (Karlan and Morduch, 2010; McKenzie and Woodruff, 2012), yet "none on their own have proven to be a catalyst on the scale imagined by [their] chief proponents" (Karlan and Morduch, 2010, pp. 2). Individual-level constraints may not be sufficient to explain the lack of growth, raising the question of whether perhaps market-level factors may also crucially hold back microenterprises. This paper considers a novel equilibrium mechanism by which poor microenterprises may be constrained: microentrepreneurs may be inhibited by the social environment in which they conduct business, as competitive market pressures may induce the formation of social institutions that restrain market performance.

In village economies that are isolated and consist mostly of the production and trade of a small range of homogeneous goods, stigmatisation or overt harassment of more productive microentrepreneurs may be instituted as a social norm. Imagine a group of adjacent microbusinesses selling an identical good. In principle, they compete against each other for market share with a given number of potential consumers. If a more able microentrepreneur was to start attracting more customers, this would naturally have to come at the expense of the others since there is only so much market to be gained (Bohme and Thiele, 2012). This would decrease the piece of the proverbial 'pie' that the other microentrepreneurs received, along with increasing income risks due to competitive uncertainty. As many microentrepreneurs live near the subsistence level, the increased success of just one microentrepreneur could lead to others being driven into ruin.

Targeted social pressure could mitigate the risk of doing business by constraining those most capable of taking over a market (Varman and Costa, 2009; in sociology this concept is referred to as the "downward levelling of social norms" (Janssens, 2007)). It could allow participants to 'buy a job' (Banerjee and Duflo, 2011). Although we implicitly take it as given for our setup, such an institution could be complemented by barriers to entry meant to prevent the "business stealing" seen in, e.g., Hsieh and Moretti (2003). An informal institution such as this may be in operation in markets within the developing world, creating localised market failures for those most capable of transforming these markets, through a social poverty trap (Bowles et al., 2006). While such an institution may be socially optimal in the short-run for the participants, it could constrain efficient market development in ways that harm other members of the market, and even the participants themselves in the long run.

In order to conduct an initial investigation of this premise in a controlled setting, a framed field experiment was run in Hải Dương province in north Vietnam. The experiment used a population of women from poor farming communities who were concurrently participating in a business education program aimed at helping them establish non-farm enterprises. The women played a competitive effort game where they could capture market share from other subjects by outperforming them. In a separate module of the experiment, costly punishment was introduced to this competitive structure. Subjects were found to be willing to punish each other despite belonging to close-knit communities, with this propensity to punish impinging disproportionately on those of higher ability. These results are consistent with the hypothesized presence of social institutions meant to constrain market risk.