Rational learning of CSR as a credence attribute

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Abstract

We consider corporate social responsibility (CSR) an additional credence attribute of products sold in the markets by firms. We show that a firm that receives private signals about CSR, transmits information to consumers only if the mean of the signals exceeds a threshold. In the general Gaussian model of CSR, a firm with product quality below a threshold meets this criterion. In a competitive market with vertically differentiated firms, in contrast, under commonly observed market conditions, a high-quality firm transmits information while a low-quality firm does not. We also show that rational learning of CSR is robust under asymmetric information about the precision of the private signals. The firm with a higher precision of signals distorts its price either upwards or downwards to reveal its type, forcing the firm with low precision to choose its complete information strategy. In a simple binary model, the firm either transmits the information creating hype or does not transmit any information thereby downplaying CSR depending on the sampling distribution of the signals. Moreover, the firm transmits information to consumers only if the mean of the information transmitted by the independent monitors is below a threshold.

Key Words: social responsibility, Bayesian learning, credence goods.