



Anti-social behavior in profit and nonprofit organizations[☆]

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ARTICLE INFO

Article history:

Received 11 March 2013

Received in revised form 6 May 2014

Accepted 23 May 2014

Available online 2 June 2014

Keywords:

Intrinsic motivation

Incentive contract

Nonprofit

Sabotage

Candidate selection

Catholic Church

Abuse

ABSTRACT

Two types of intrinsically motivated workers are considered: “good” workers care about the mission of an organization, whereas “bad” workers derive pleasure from destructive behavior. Compared to the case with only good motivated workers, the mission-oriented sector has to resort to higher monitoring to deter bad workers from entering the sector. In equilibrium, bad workers work in the for-profit sector where they behave like “normal” people, while good workers self-select into the mission-oriented sector. In the profit-oriented sector, both monitoring and bonus payments for good behavior increase to control the damage caused by bad workers. The results of the paper are illustrated by examples from child care and the threat posed by pedophiles in this sector.

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1. Introduction

Intrinsic motivation is generally treated by economists as something beneficial to organizations. Most theoretical models on the subject suppose that intrinsic motivation arises if workers derive a benefit from doing good – what is often referred to as warm glow utility – or when workers are interested in a certain goal or mission, like for example helping the poor or protecting the environment. An organization that is dedicated to such a mission may find it easier and cheaper to attract workers pursuing similar goals. However, other aspects of a job may also instill intrinsic motivation in certain types of workers. And these other aspects are not necessarily beneficial for the employer. This is illustrated by the United Nations sex-for-food scandal, which was exposed by “Save the Children”, a UK-based nonprofit organization: it showed that in 2006 aid workers were systematically abusing minors in a refugee camp in Liberia, selling food for sex with girls as young

as 8.¹ Helping refugees is the kind of mission-oriented work that is likely to attract workers interested in this mission – what we will refer to as good motivated workers. But such a job also involves working with vulnerable children in a remote location with little control from the outside which may also attract workers with quite different intentions – what we will call bad workers. Examples for socially destructive behavior such as this abound, ranging from different forms of sexual misconduct, over terrorism to pyromania and other kinds of abuse.² In this paper, we analyze how different sources of intrinsic motivation of workers may affect labor management and production outcomes both in for-profit and nonprofit organizations.

Psychologists have long recognized and studied anti-social behavior. One strand of the literature, as well as most traditional psychiatry, focuses on so-called internal determinants. Anti-social behaviors, perceived as a pathology, are explained by individual predispositions such as genetics, personality traits, or pathological risk factors rooted in childhood. Another strand of the literature focuses on external determinants. It aims to explain how “ordinary” people can be induced to behave in evil ways by situational variables (see [Zimbardo, 2004](#)).³ Our paper is consistent with both views. We assume that the level of negative intrinsic motivation of bad workers is exogenous. That is,

[☆] We are indebted to Roland Bénabou, Maitreesh Ghatak, Guido Friebel, Martin Hellwig, Paul Seabright, and Konrad Stahl for their helpful discussions. Furthermore, we thank Christoph Engel, Matthias Lang, Baptiste Massenot, Sarah Sandford and Philipp Weinschenk for their comments, as well as the seminar participants at Mannheim, Rotterdam, Bonn, Frankfurt, Oxford, Paris, Hannover and Lugano. Finally we are indebted to two anonymous referees who contributed greatly by their suggestions to improve the paper content and organization. All remaining errors are ours. Stefanie Brilon would like to thank the Deutsche Forschungsgemeinschaft, the Max Planck Institute for Research on Collective Goods and the Swiss National Science Foundation (Sinergia grant 130648 and 147668) for their financial support.

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¹ See the report by [Save the Children UK \(2006\)](#). Similar cases have since been reported from Southern Sudan, Burundi, Ivory Coast, East Timor, Congo, Cambodia, Bosnia and Haiti (see “The U.N. sex-for-food scandal”, *Washington Times*, Tuesday, May 9, 2006 and the report by [Save the Children UK \(2008\)](#)).

² For a more detailed discussion, see the following section.

³ For instance, in a famous experiment on obedience to authority, [Milgram \(1974\)](#) has shown that two thirds of the subjects were willing to inflict lethal electrical shocks upon total strangers.

anti-social behavior is ultimately driven by internal determinants. However, it depends on the incentives given by an organization whether bad workers will indeed act in an anti-social way or whether they will behave in the organization's interest. In other words, whether individuals act upon their predisposition for certain behaviors depends on external determinants (i.e., on situational variables). If the punishment they face and/or the reward for good behavior are high enough, most people will not act destructively.

We extend the model by Besley and Ghatak (2005) who consider only good and regular workers, whereas there are three types of workers in our model: good, regular, and bad. Regular workers only care about monetary incentives, good workers care about money and the mission of the organization, and bad workers care about money and whether they can do things they like, but which are harmful to the organization. We further generalize the approach by Besley and Ghatak (2005) by adding monitoring as an additional choice variable of the employer in order to deal with the different incentive issues raised by the presence of different kinds of workers. In contrast to standard incentive theory, where monitoring is treated as a black box (i.e., fixed cost), here the level of monitoring is endogenous and central to the design and management of organizations: while monitoring reinforces the effort incentives of good and regular workers, it makes bad actions or anti-social behavior less attractive as it increases the chances of getting caught and being punished. By disentangling these two roles of supervision, the paper therefore adds a new explanation why, in practice, so many resources are spent on monitoring.

We consider two sectors of the economy, one profit-oriented and one mission-oriented. As in Besley and Ghatak (2005), we assume that in the nonprofit sector, organizations are structured around some mission, for example providing public services, or catering to the needs of disadvantaged groups of society.⁴ These organizations may attract workers who care about this specific mission and derive an intrinsic benefit from their work. Given this setup, we first consider the case with only good and regular workers and find the classic result by Besley and Ghatak (2005) that the mission-oriented sector offers lower wages and makes less use of bonus payments than the profit-oriented sector. We also show that the mission-oriented sector monitors less than the profit-oriented sector, which is not an explicit result in Besley and Ghatak (2005) as there is no monitoring.

We then introduce bad workers who derive utility from behaving in an anti-social way. We take the equilibrium contracts from Besley and Ghatak (2005) as a starting point for our analysis. That is, we use the equilibrium contracts with only good and regular workers, and costly monitoring, as a benchmark against which we compare our results. Since profit-oriented organizations monitor more in equilibrium, they are a priori less vulnerable to anti-social behavior. Bad workers may behave like regular workers in the profit-oriented sector and thus be totally undistinguishable from normal people. By contrast, if bad workers join the mission-oriented sector, then it is only to take advantage of the low level of monitoring and to behave badly. The more organizations in this sector rely on the intrinsic motivation of good workers and the less they make use of monetary incentives and control, the more likely they are to become the target of bad workers. This first result helps to explain why, for instance, most scandals of child abuse involve organizations with no or little monitoring in the past, such as some religious institutions or refugee camps (see the discussion in Sections 2 and 5).

We then analyze how contracts in both sectors have to change relative to the situation when there are only regular and good workers if organizations have to deal with bad workers. We consider two possible

scenarios: If the damage caused by anti-social behavior is expected to be sufficiently high, then both sectors will want to deter such behavior completely (*full deterrence equilibrium*), whereas a certain amount of destructive behavior may be tolerated in equilibrium if the expected damage is low (*partial deterrence equilibrium*). We show that in an equilibrium with full deterrence, bad workers join the for-profit sector where they are indistinguishable from regular workers, while good workers self-select into the mission-oriented sector. To incentivize the bad workers to behave well, monitoring and bonus payments for good behavior both have to increase in the for-profit sector, combining “the carrot and the stick”. In the nonprofit sector, on the other hand, the focus is on the stick to discourage bad workers from joining and thus prevent the occurrence of bad behavior: monitoring has to go up, while the incentives for good behavior tend to stay the same to avoid losing the benefit from the self-selection of good workers.

Next, we discuss the robustness of our model with respect to variations in the damage caused by bad workers. If the expected damage is relatively low, full deterrence may not be worthwhile. We show that in an equilibrium where there is partial deterrence in the for-profit sector, the mission-oriented sector will generally opt for full deterrence such that all bad workers will again be found in the profit-oriented sector. The only exception occurs when the potential damage by bad workers is sufficiently low and good workers are very motivated such that they do not need any monitoring: In that case the mission-oriented sector may have no interest in introducing costly monitoring just to prevent a relatively low level of sabotage, even though it will thus attract all bad workers. Finally, deterrence, which is costly as it implies higher monitoring, even may become entirely ineffective for workers with very high levels of bad motivation (e.g., extremists, kamikaze). We therefore also discuss ex ante measures of candidate selection, which may help to reduce the occurrence of anti-social behavior by screening out bad workers.

The paper is organized as follows: We first discuss in Section 2 the related literature and some examples that illustrate our model, before we turn to the description of our basic setup with only good and regular workers in Section 3. We then introduce bad workers in Section 4 and show how the optimal contracts have to change. The empirical implications of the theory are discussed in Section 5 in the context of child care services where the threat posed by pedophiles has been widely documented. Section 6 concludes.

2. Examples and related literature

There are many examples that illustrate the relevance of anti-social behavior both in mission- and in profit-oriented organizations. Among them, the recent abuse scandals in the Catholic Church stand out both by their shock potential as well as by sheer numbers.

As of April 10, 2012, the U.S. Conference of Catholic Bishops has counted 6115 clerics “not implausibly” and “credibly” accused of sexually abusing 16,324 minors during the period 1950–2011. The John Jay report (see Terry, 2008) found that “the problem was indeed widespread and affected more than 95 percent of the dioceses”. Similar widespread problems of child abuse occurred in Ireland, as documented in the report by the Commission of Inquiry into Child Abuse (see CICA, 2009), and Germany (see Helming et al., 2011, on abuse cases in institutions). While the problem is not limited to church organizations it is, however, particularly likely to occur under specific circumstances: A pedophile will preferably target vulnerable children, such as refugees⁵ or orphans, simply because they are less likely to expose him. Cases of physical, sexual or emotional abuse of children in orphanages have been uncovered for instance, at Mount Cashel Orphanage in Canada in the 1980s, or the Haut de la Garenne Children's home on the channel island of Jersey.

⁴ We use the terms mission-oriented and nonprofit organization equivalently since we believe them to be largely congruent in reality. However, there are cases where organizations do not have the legal status of a nonprofit, but still follow a mission. This has recently been highlighted by the literature on corporate social responsibility as discussed, for instance, in Bénabou and Tirole (2010). For a further discussion of mission- vs. profit-oriented organizations, see also Besley and Ghatak (2005).

⁵ See Save the Children UK (2006) and Save the Children UK (2008).

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