Strategic Delegation and Corporate Social Responsibility of Supply Chain

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Abstract—This study uses a vertically related market model, where an upstream firm sells inputs to two downstream firms which produce homogeneous products and then play Cournot competing in a final goods market, to examine the pricing strategies of upstream firm when the upstream and downstream firms engage in consumer-oriented CSR activities. The analysis in this paper finds that, under both a uniform and a discriminatory pricing, as the upstream firm concerns more about the consumer welfare, the input price will decrease, downstream firms' strategic CSR, outputs and profits will rise, the profits of the upstream firm will decrease, consumer surplus and social welfare will rise. This study also finds that the strategic CSR of downstream firms is higher under a uniform pricing than under a discriminatory pricing, the downstream firms enjoy a lower input price and thus have a higher outputs and higher profits under a uniform than under a discriminatory pricing; furthermore, the consumer surplus and social welfare is higher under a uniform than under a discriminatory pricing. The result also shows that when the pricing strategy is endogenized, the upstream firm will adopt uniform (discriminatory) pricing with the government-mandated consumer welfare concern is low (high).

Keywords—Discriminatory Pricing, Uniform Pricing, Corporate Social Responsibility, Vertically Related Market