

Abstract

Titel: Eine Moral Hazard Analyse der monetären Anreizsituation in den Wertschöpfungsketten „konventionelles Geflügel“ und „Öko-Geflügel“ (03HS045/1)

Title: Understanding and Managing Moral Hazards - The case of Behavioural Food Risks Caused by Malpractice in the German Poultry Sector

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Introduction: The probability of food risks being caused by *opportunistic malpractice* increases with the profits of unlawful behaviour. It decreases with the probability and level of losses resulting from disclosure. It also decreases with effective bonds to norms (*protective factors*) - such as values, social bonds etc. - preventing actors from giving way to economic temptations. Identifying *misdirected incentives*, and thus critical points where economic actors find it profitable and acceptable to break rules, requires not only the assessment of their technical options of choice, but also the reconstruction of their calculi. This is a prerequisite for an effective *behavioural risk management* and the design of *prevention measures* that reduce the probability of *food crimes against consumers*. However, little empirical research has been done on the conditions of rule-abiding and rule-breaking behaviour in food production contexts characterised by *asymmetric information* and *conflicting interests*. Consequently, large knowledge gaps persist regarding the identification and reduction of behavioural risks.

Methods: Considering the actors' material and non-material motivations, behavioural risks in the German poultry sector were explored in an interdisciplinary research project carried out by economists and criminologists. The threat of opportunistic behaviour has been labelled *moral hazard* by game-theorists, stressing both the basic cause of relational risks and the direction of countermeasures. The study uses a *principal agent model* for the empirical analysis of the economic incentives of food businesses. Since secondary data regarding the actors' decision parameters (such as the expected detection probabilities, sanctions, etc.) are hardly available, the study essentially relies on expert opinion. Besides the incentive analysis, it also explores organizational shortcomings within the public monitoring system.

Results: This study presents the economic results of the above-mentioned interdisciplinary research project. According to the experts' assessment of parameters, significant economic temptations to break the rules exist on all chain levels. Such misdirected incentives are especially prominent in situations with little market transparency where losses resulting from disclosure of malpractice are not brought about by sales losses, but limited to administrative fines and penal action. The study also finds that the public monitoring system as a whole is lacking an actor-centred assessment and management of behavioural risks.

Conclusion: The prevention of food crimes requires a regulatory approach based on explicit controlling procedures within the respective public agencies. In each field of activity, a behavioural risk analysis needs to identify the relevant moral hazard problems. This facilitates the identification of prior-ranking objectives and adequate and measurable behavioural risk management measures. Instead of limiting such measures to increased public inspection and penal action, they need to increase market transparency by including *smart controls and sanctions* such as whistleblower and name and shame programs. Such a redirection of regulation regarding the means used to reduce misdirected incentives will also help to promote protective factors.

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