What is the Nature and Social Norm within the Context of In-Group Favouritism?

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Abstract

In-group favouritism behaviour is observed everywhere around the world and previous research has shown that this behaviour is also easily triggered in a laboratory in various contexts. However, little is known about why different magnitudes of in-group favouritism are observed across societies. In this paper, we use a new allocation experiment to examine the nature of social norms within the context of in-group favouritism behaviour. In this experiment, a decision-maker has to decide only once how to allocate a fixed amount of resource between each of the three members of her own group and each of the three members of the out-group, whilst the decision-maker's own payoff is not affected by her decision. Three treatments are implemented: in the first treatment, only the members of the in-group can punish the decision-maker. In the second treatment, only the members of the out-group can punish the decision-maker. Finally, in the third treatment, only an independent third-party observer can punish the decision-maker. The aim of these treatments is to test whether there is a prevailing social norm which dominates the behavioural standard within the context of in-group favouritism and whether this mechanism varies across different subject pools, namely Thailand and the UK.

Compared to a baseline treatment with no punishment opportunity, we observed that among the Thai subjects in-group favouritism significantly increased once the in-group members were given the opportunity to punish the decision-maker. The threat of punishment from a third-party punisher also *increased* in-group favouritism in Thailand. However, when only the out-group members had the opportunity to punish, no change in in-group favouritism behaviour was observed. On the contrary, within the British subject pool, when the out-group members had the opportunity to punish the decision-maker, we observed a *decline* in in-group favouritism as well as a marked shift towards an equitable outcome. The threats of punishments from the in-group members and the third-party, on the other hand, did not have any impact on in-group favouritism behaviour in the UK. The results suggest that within the Thai subject pool, there appears to be a prevailing 'in-group bias norm' which is strongly enforced within and outside the group. Within the UK subject pool, however, it is less clear what the prevailing norm is. Whilst the threat of punishment from the out-group members who directly lose out from favouritism behaviour appeared to significantly reduce this behaviour, an uninvolved third-party was not willing to incur a cost to punish this behaviour. This interesting result indicates two possible explanations: first, in-group favouritism, in contrast to selfish or opportunistic behaviour, may not considered as a strong enough violation of a social norm; and second, the norm of egalitarianism within the context of favouritism may still be 'evolving'.

JEL classification: D73, C92

Keywords: Social Norms, In-group Favouritism, Group Behaviour, In-group Punishment, Out-group Punishment, Third-party Punishment, Experimental Design

1   Introduction

Favouritism is defined as preferential treatment given to an individual or a group at the expense of others (Becker, 1957; Fershtman, Gneezy, and Verboven, 2005). Favouritism is widely observed in both developed and developing countries and in various economic settings[1]. In-group favouritism, by definition, implies that one group reaps most, if not all, the benefit. Therefore, at a group level this behaviour could be considered as a form of in-group cooperation since it maximises the payoff of the group and its members. In a world which only one group exists, the best strategy for the group members is to favour each other. However, in reality more than one group exist and social interactions are not only limited to individuals within the same group. When groups interact, a practice of in-group favouritism by one group automatically means that those who do not belong to that particularly group lose out. Consequently, at aggregate level in-group favouritism limits access to resources and opportunities for the out-group and thus, leads to inequalities in income distribution and welfare lost for the society as a whole.

Previous studies have shown that when negative externalities are created by an action or behaviour of a group member, it is usually regulated by social norms which are enforced by the other members of that particular social group (Fehr and Gaechter, 2000; Fehr and Fischbacher, 2004; Hoff et al, 2007). However, such a norm enforcement mechanism would only work effectively if there is a sufficient consensus on which norm should be enforced. So far, the literature has generally focused on social norms within one group (Fehr Fischbacher and Gaechter, 2002; Anderson and Putterman, 2005) or a situation in which there is a universal consensus about the norm violating behaviour across groups, such as selfish or opportunistic behaviour (Goette et al, 2006; Bernhard et al 2006a; Bernhard et al 2006b). However, within the context of in-group favouritism, it is not clear what the underlying consensus for the social norm is.

This paper will examine the nature of social norms, particularly how the power of norm enforcement would be used with respect to favouritism behaviour. In doing so, we use 'the favour game' as developed in Harris *et al* (2009), in which a decision-maker has to choose how to allocate a fixed amount of Tokens between each of the three members of her own group and each of the three members of the out-group. The game is played only once in order to avoid reciprocal motives from both within the group (generalised reciprocity) and from the out-group (out-group fear effect)[2]. In addition, the decision-maker receives a fixed payoff so that a self-interest motive does not interfere with 'pure in-group favouritism'. In this paper, we extend the design by applying three additional *punishment treatments* and providing the power of costly punishment to the other in-group members (T1), the out-group members (T2), and an uninvolved third-party observer (T3). In each treatment once the decision-maker makes an allocation

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[1]For instance, favouritism is prevalent in recruitment and evaluation processes within firms and organisations (Prendergast and Topel; 1996). The former World Bank president, Paul Wolfowitz, was charged with a violation of ethical and governance rules as the Bank's president by granting a promotion and a large pay rise to his long-term companion and was later forced to resign (Washington Post, 2007). The former U.S. President, George W. Bush, was accused of favouritism after the nomination of Harriet Miers, who had no previous judicial experience and demonstrated little knowledge of constitutional law, to the Supreme Court. Her selection was rejected by many conservatives and liberals (The Economist, 2005). In a study of personal favouritism within the Federal Public Service in Canada, independent auditors found evidence that qualifications had been tailored to favour a particular candidate or a group of candidates, including changing education, language and security requirements, to match a specific candidate's profile (Public Service Commission of Canada, 2005). Finally, the manner in which governments procure goods and services can be complex and leaves plenty of room for favouritism towards groups of suppliers (Evenett, 2002). In China, the concept of '*guanxi*' or 'relationship' plays a key role in encouraging favouritism. Government officials tend to favour the members of the *guanxi* network in public expenditure decisions such as the choice of government's procurement partner and allocation of public resources (Wong and Chan, 1999). As a result, outsiders who are able to offer better combination of cost and quality to win the bid for the contract and those who are in need of the public resources are left out.

[2]In a repeated game, the in-group members may decide to favour their group because they believe that the other in-group members would do the same in the next round (generalised reciprocity within group). Alternatively, the in-group members may favour their group because they expect the out-group members to also favour their own group if the opportunity arises in the next round (out-group fear)(Gaertner and Insko, 2000; Ng, 1981; Yamagishi and Kiyonari, 2000).

decision, only one type of punisher (either in-group members, out group members or an independent third-party) is informed about the decision and is asked to decide whether or not to reduce the income of the DM at their own costs.

This experimental design will enable us to examine whether there exists a prevailing norm within the context of favouritism as reflected by the allocation choice of the decision-maker in response to different types of punishment and the actual punishment behaviour from the in-group, the out-group, and an independent third-party. Consider a situation in which only one type of social norm prevails. Three different possibilities could emerge: (i) If there is a consensus that in-group bias norm dominates the behavioural standards, one would expect that the DM would be punished whenever she *does not* favour the in-group. This punishment could come from either the other in-group members, the out-group members, or the third-party; (ii) In contrast, if the norm of egalitarianism prevails, one would expect that any deviation from equal division of the resource would result in punishment by all parties (in-group, out-group, and third-party); (iii) Finally, in a more extreme case, if the norm of 'out-group favouritism' is the dominant social norm, one would observe that the DM who does not favour the out-group would be punished. However, these scenarios are based on the assumption that only *one* type of social norm prevails. It is also possible that within the context of favouritism two *conflicting* norms may be at work. Within the group, the in-group members may strongly support the in-group bias norm since it is beneficial to the group. On the other hand, individuals who belong to a different group (the out-group) may support the norm of out-group favouritism or at least, the norm of egalitarianism. Therefore, the second objective of this paper is to test whether this 'conflict of social norms problem' arises within the context of resource allocation and the extent to which it may affect the level of favouritism within a given society.

The rest of the paper is structured as follows. The next section outlines our research hypotheses and describes the experimental design. Section 3 reports the main results and Section 4 examines the relationship between the subjects' socio-economic characteristics and the behaviour observed in the experiments and Section 5 concludes.

2   Research Hypotheses and Experimental Design

If there exists an in-group bias norm that requires the in-group members to treat each other more favourably than those outside the group, a violation of this norm would trigger social sanctions from the other in-group members. We posit that this in-group bias norm is likely to be strongly enforced in a 'collectivist' society, in which people from birth onwards are integrated into strong and cohesive in-groups, often extended families (Hofstede, 2001). An example of this type of society was illustrated in the work by Edward Banfield (1958), who studied the behaviour of people in a village in the Southern regions of Italy. Banfield observed that within this village "the principles of good and evil apply only to within family and are regarded as irrelevant to non-family members" - a behaviour, which he referred to as 'amoral familism'. In such a collectivist society, individuals who come from the same close-knit group would treat in group members more favourably than those outside the groups and there would be little loyalty to the larger community or acceptance of behavioural norms required to support others outside their own group. In order to explore whether there is a correlation between collectivism and in-group bias norm, we conduct the experiments in two different locations with very different degrees of collectivism according to Hofstede's 'individualism' dimension (IDV), namely Bangkok/Thailand (highly collectivist), and Nottingham/UK (highly individualist). In an individualist society such as the UK, where everyone is expected to look after their own well-being, in-group favouritism may be considered

as a violation of the norm of egalitarianism. In this case, in-group favouritism would trigger social sanctions from the out-group whose payoffs are directly affected. The enforcement from an independent third-party observer who are not directly affected by favouritism, on the other hand, is likely to depend on the type of prevailing norms within that society. If the in-group bias norm dominates the overall behavioural standard - which may be the case for a collectivist society - the third-party is likely to punish those who do *not* favour their own group, resulting in an increase in in-group favouritism.

The level of favouritism within a given society is likely to be determined by the probability that these different types of social norms will be enforced (the credibility of the punishments) and the severity of the sanctions - both of which depend on a number of factors: (i) whether there exists a prevailing social norm and what type of norm it is; (ii) The relative importance attached by the punishers to the prevailing norm; (iii) The 'degree' of the violation of the norm preferred by the punishers; and (iv) The cost of punishment. Hence, the final observation of the different degrees of favouritism depends on the 'expectation' of the decision-maker with respect to these conditions. Based on this motivation, we explore the following hypotheses:

HYPOTHESIS 1 (In-group Punishment): *The threat of punishment from the in-group members is likely to increase the magnitude of favouritism, if the in-group bias norm prevails.*

HYPOTHESIS 2 (Out-group Punishment): *The threat of punishment from the out-group members who directly lose out from favouritism is likely to reduce favouritism, if the norms of egalitarianism or out-group favouritism prevails.*

In conjunction with a decline in in-group favouritism, if the norm of egalitarianism dominates the behavioural standards, one should also observe an increase in an 'equal split' decision. However, if the norm of out-group favouritism prevails, one should observe an increase in out-group favouring decisions.

HYPOTHESIS 3 (Third-party Punishment): *The threat of punishment from a third-party norm enforcer who does not belong to either of the groups and whose payoff is not affected by favouritism is likely to increase in-group favouritism in a society where the in-group bias norm prevails, whilst it is likely to have the opposite effect in a society where the norms of egalitarianism or out-group favouritism prevails.*

We used the data of the **baseline favour game (T0)** without any punishment opportunity from our previous paper (Harris et. al, 2009) as a benchmark to assess the extent to which punishment opportunities from different social groups affect the level of in-group favouritism behaviour as shown in Table 1. In baseline favour game, each subject was randomly matched with 6 other players and each was endowed with 3,000 tokens. The subjects were clearly informed that they were not asked to allocate this initial endowment and that they were not allowed to allocate any Tokens to themselves. In order to create group identity, four subjects were randomly grouped together and were told that they belonged to 'group A', whilst three other subjects were told that they were members of 'group B'. Only the members of group A were asked to make the allocation decisions. The reason for the asymmetrical group size (four in group A and three in group B) was to maintain a constant group size for both groups when the decisions were made. Since the members of Group A were not allowed to allocate any Tokens to themselves, they had to decide how to allocate the Tokens between each of the *other* three other members in group A and *each* of the three members in group B using a fixed allocation choice set as

shown in Figure 1.

Table 1: The Treatments

Treatment	Group Allocation game (n=7)
Favour game baseline	*T0*
In-group Punishment	T1
Out-group Punishment	T2
Third-Party Punishment	T3

Options A, B, and C represent *different magnitudes/degrees* of favouritism with option A being the highest magnitude of favouritism. Option D allocated equal amounts of Tokens to both groups. Options E, F, and G allocate more Tokens to the out-group members than the in-group members in the reverse oder of options A, B, and C. This was in order to make the choice set symmetric and to allow for out-group favouritism behaviour to be observed. Finally, option H allocated zero Tokens to both groups in order to check for anti-social preferences (Fehr, Hoff and Kshetramade, 2008; Herrmann et al. 2008). It is important to note that all of the options, except for option H, summed up to the same total payoff of 3,000 Tokens. This allowed us to examine the extent to which inequality in income distribution as a result of favouritism could trigger social sanctions from different groups without possible confounds from efficiency concerns.

Figure 1: The Choice Set

In addition to making the allocation decisions, the members of group A were also asked to 'rate' their preferences for each of the eight options in the choice set on a five-point scale: 1 (Dislike very much), 2 (Dislike), 3 (Like), 4 (Like very much), and 0 (Indifferent). The aim of the preference rating was to check consistency between preferences and actual decisions. Once all members of Group A made their decisions and completed the preference rating, a throw of a dice randomly selected one decision to

be implemented. The person whose decision was chosen automatically assumed the role of the decision-maker and received a fixed payoff of 4,500 Tokens, which was equal to the highest allocated amount within the allocation choice set. If the decision-maker was given a lower fixed payoff than the highest prize that she could allocate to the other in-group members, she might refrain from choosing the option which yielded higher payoffs to the other in-group members. According to Fehr and Schmidt (1999), there are individuals who prefer egalitarian outcomes and dislike inequitable outcomes, particularly when they are worse off than when they are better off. Hence, by giving the decision-maker the highest possible payoff within the context of this game, we could avoid a possible confound from this type of preference.

We also *elicited beliefs* about the allocation decision by asking the members of Group B what they thought would be the option that the decision-maker would most likely choose. This was in order to assess whether the out-group's expectation coincided with the decision-maker's behaviour. In addition, we asked the members of Group B to make a hypothetical decision in case they were chosen to be the decision-maker in order to assess whether their beliefs about what the in-group decision-maker affected their (hypothetical) decisions. The results from the baseline favour game showed that telling the subjects that they belonged to the same group sufficed to trigger in-group favouritism when the in-group and the out-group consisted of three members.

In the **in-group punishment treatment (T1)**, only the in-group members, who were not selected to be the decision-maker, were given the opportunity to punish the decision-maker. This was common knowledge to all players from the beginning of the experiment. All subjects were told that the experiment consisted of two stages: In the first stage, the in-group members would be asked to make allocation decisions and that only one decision would be randomly chosen to be implemented. In the second stage, the selected choice (but not the personal identity of the decision-maker) would be revealed *only* to the other in-group members who could then decide whether to punish the decision-maker. For a cost of 100 Tokens, the other in-group members could *each* reduce the decision-maker's payoff by 500 Tokens.[3] As a result, the decision-maker's payoff can be written as: $\pi_{dm} = 7,500 - \sum_{n=1}^{3} P_{in}$, where 7,500 Tokens is made up of 3,000 Tokens initial endowment and 4,500 Tokens fixed payment for being selected to be the decision-maker, and P_{in} is the punishment imposed by each of the other in-group members. The other in-group members' payoff can be written as: $\pi_{in} = 3,000 + T - C$, where T is the amount of Tokens allocated to them by the decision-maker, and C is the cost of punishment. In this treatment the out-group was not given an opportunity to punish the decision-maker and thus, their payoffs were determined by the choice of the decision-maker. There was also no third-party punisher in this treatment. Consequently, the likelihood that favouritism would be observed depended upon whether the decision-maker was concerned about equitable outcomes amongst all other individuals (generalised inequity aversion), and on the decision-maker's belief about the type of social norm which was upheld by the other in-group members. If she believed that the in-group bias norm prevailed, and thus, was strongly enforced within the group (the threat of punishment was credible), we should observe an increase in in-group favouritism decisions (options A, B, and C) by the decision-makers.

The **out-group punishment treatment (T2)** gave an opportunity for the out-group members to punish the decision-maker. Similar to the in-group punishment treatment, all subjects were told that the experiment consisted of two stages but in the second stage, only the members of group B would be allowed to deduct the decision-maker's payoff at their own cost. After the decision-maker was selected, her choice was then revealed to the out-group members and then similar to the in-group punishment, at

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[3]We used neutral wording in all instructions. No loaded word such as 'punish' or 'sanction' was used, instead we used the word 'deduct'.

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a cost of 100 Token, each out-group member could deduct 500 Tokens from the decision-maker's payoff. If the decision-maker believed that the norms of egalitarianism or out-group favouritism prevailed, we should observe a shift in the allocation decisions towards an equal split option or options that favour the out-group (options E, F, and G) respectively in this treatment. However, if the group bias norm prevailed, we could observe an increase in in-group favouritism behaviour since the decision-maker would also expect the out-group to follow such norm.

Finally, we carried out a **third-party punishment treatment (T3)** in order to measure the likelihood that an uninvolved third-party would be willing to incur a cost in order to punish a behaviour which she thought was a violation of the prevailing social norm. This treatment is very crucial in examining what the underlying consensus for the social norm is within the context of favouritism. During the first stage of the experiment, an independent third-party was asked to complete a short questionnaire about their socio-economic background whilst the members of group A made the allocation decisions. Once the decision was selected, it was revealed only to the third-party, who could decide whether to punish the decision-maker. The third-party was given an endowment of 4,500 Tokens in the second stage of the experiment which she could spend on punishment[4]. At a cost of 100 Tokens, the third-party punisher could reduce the decision-maker's payoff by 300 Tokens and the third-party punisher could spend up to 1,500 Tokens, which would reduce the entire payoff of the decision-maker (4,500 Tokens). Therefore, the third-party punisher had to feel sufficiently strong about the norm violation in order to be willing to incur a cost to enforce the norm.

All experiments were carried out between August and November 2008 in Bangkok/Thailand and Nottingham/UK with a total number of 577 subjects (and 133 subjects from **T0**). Two very different subject pools were used for three main reasons: firstly, in order to test the robustness of our experimental design; secondly, to examine whether there was heterogeneity in the prevailing norm regarding favouritism between a highly collectivist society (Thailand) and a highly individualist society (the UK); and finally, to explore whether there is a correlation between collectivism and the prevalence of the in-group bias norm. Most of the subjects in both subject pools were undergraduate students randomly selected from different faculties[5]. In Thailand, the experiments were conducted at Chulalongkorn University in Bangkok with 351 students. In the UK, the experiments were carried at the University of Nottingham with 359 subjects[6]. Of the 351 subjects who participated in our experiments in Thailand, 95% were undergraduate students from Bangkok with an average age of 21 years old and 40% were male. Within the UK subject pool, 99% of 359 subjects were undergraduate students with the same average age as the Thai subject pool and 55% were male. Summary statistics for each treatment are shown in Table 2.

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[4]This endowment was the equivalent of the fixed payoff of the decision-maker because if the third-party's payoff was lower than the decision-maker's, she might want to reduce the decision-maker purely because of 'disadvantageous inequity aversion' (Fehr and Schmidt, 1999). Therefore, we made sure that the third-party received the same fixed payoff of 4,500 Tokens as the decision-maker prior to asking her to make the punishment decision.

[5]Small proportions of the subjects were Masters and PhD students.

[6]In Bangkok, the subjects were recruited manually using networks of student representatives across different faculties within Chulalongkorn University, whilst at the University of Nottingham, the subjects were recruited via ORSEE self-recruiting system (Greiner, 2003).

Table 2: Summary Statistics: Thailand and UK Subject Pools

Variables	T0		T1		T2		T3	
	Thai	UK	Thai	UK	Thai	UK	Thai	UK
Total number of obs.	70	63	84	84	77	84	120	128
Male	67%	35%	42%	55%	49%	65%	39%	52%
Average Age	23	21	20	20	20	20	20	20
Undergraduate	49%	87%	100%	98%	96%	100%	98%	100%
Study Economics	76%	14%	56%	14%	17%	15%	22%	16%
Mean group equality attitude [std. dev.]*	3.63 [2.07]	4.38 [1.69]	3.17 [2.15]	4.15 [1.77]	2.97 [2.22]	4.53 [1.54]	3.44 [2.06]	4.29 [1.63]

Note: *The group equality attitude question asks whether the subjects agree with the statement 'We should do what we can to equalize conditions for different groups.' (1= Extremely Negative, 6= Extremely Positive, 0=Neutral).

We were extremely careful with the experimental procedures in both countries. The protocols used in the Thai experiments were translated to Thai and back-translated to English by the first author, whose first language is Thai, and the Thai research assistants in order to ensure comparability of the procedures between the two subject pools. After the subjects were all seated, each was given a written instruction. The decisions were then made in private separated by partitions. Each treatment lasted approximately 50 minutes and at the end of the experiment, the subjects were asked to complete a post-experimental questionnaire, which consisted of questions regarding their socio-economic background and attitudes towards group equality. The average payments across all treatments were 165 Baht (3 Pounds) for the Thai subject pool and 6.50 Pounds for the UK subject pool. Comparable exchange rates were implemented between the two subject pools. In Thailand, the exchange rate was 100 Tokens = 2 Baht. In the UK, the exchange rate was 100 Tokens = 7 pence. Each subject in the UK received an on time show-up fee of 3 Pounds and each subject in Thailand received 70 Baht (around 1.50 Pounds) for their show-up fee. All of the treatments were administered by Z-Tree software (Fischbacher, 2007)

3 The Results

RESULT 1: The threat of in-group punishment significantly increased the overall level and magnitude of favouritism in Thailand but not in the UK subject pool.

Observed Decisions

Compared to the baseline treatment where there was no punishment opportunity (T0), the overall level of favouritism increased sharply from 58% to 83% within the Thai subject pool when the in-group members were given the opportunity to punish the decision-maker. In terms of the magnitude of favouritism, the proportion of the option which yielded the maximum payoff of 4,500 Tokens to the in-group members (option A) increased from 10% to 23%, whilst the proportion of option C which allocated slightly more to the in-group members (2,000 Tokens) than the out-group members (1,000 Tokens) also rose from 23% to 44%. On the other hand, the proportion of option B which allocates 3,000 Tokens to the in-group members and nothing to the out-group members declined slightly from 25% to 17%. More importantly, there was a significant drop in the proportion of equal distribution

(option D) from 33% to 15%. These changes resulted in the significant treatment effect compared to the baseline (Mann-Whitney (without option H): $z = 2.01$, $Prob > |z| = 0.04$).

Within the UK subject pool, the overall level of favouritism was already high even without punishment (81%). When the punishment opportunity was given to the other in-group members, this level increased slightly to 85% and there was also a small drop in the equal split option (option D) from 19% to 13%. The threat of in-group punishment did not appear to have a significant impact on favouritism behaviour, however, as the treatment effect was statistically insignificant (Mann-Whitney (without option H): $z = 0.94$, $Prob > |z| = 0.35$). Preference ratings in both subject pools showed a consistency between the observed decisions and the subjects' preferences. Only small proportions of the subjects in both Thailand and the UK exhibited anti-social preference by choosing option H (2%).

These findings are also supported by our questionnaire data on the group equality attitude. Thai subjects who participated in this treatment appeared to be less concerned about equality across different groups as the average attitude towards group equality of the Thai subjects was lower (3.63) than that in the UK (4.38) as shown in Table 2. It was, therefore, possible that within the Thai subject pool the in-group bias norm dominated the behavioural standards within the group and thus, it was expected to be enforced among the in-group members. Failing to favour one's own group could be perceived as a violation of this norm and thus, social sanctions from the other in-group members could be expected. The credibility of the threat of in-group punishment was shown by the large increases in both the overall level and magnitude of favouritism (options A, B, and C) amongst the Thai subjects. However, this was not the case in the UK where, despite the high baseline level of favouritism, the threat of in-group punishment did not significantly change the subjects' behaviour.

Out-group's Belief

Whilst the in-group members were making the decisions, the out-group members were asked to indicate the option which they believed the decision-maker would most likely choose once the punishment opportunity was given to the other in-group members. 75% and 97% of the out-group members in Thailand and the UK respectively believed that in-group favouritism would be observed. These proportions were higher than when no punishment opportunity was present and also matched well with the actual observed behaviour of the decision-makers. In addition, the out-group members were also asked to make a hypothetical allocation choice in the case that they were given the role of the decision-maker. The majority of the out-group members in both Thailand and the UK (67% and 78% respectively) also chose to favour their own group. The summary of the results is shown in Figure 2.

Punishment Behaviour

The actual punishment behaviour of the other in-group members showed that the majority of the other in-group members in both subject pools (75% in Thailand and 92% in the UK) chose *not* to punish the decision-makers. In Thailand, of the 25% who chose to punish, on average the option which was punished most severely was option B (3,000:0) with an average punishment of 600 Tokens, followed by option D (equal split) and option C (2,000: 1,000). Option A which was the highest magnitude of favouritism, however, received the least punishment. Within the UK subject pool, options C and D were punished the most, whilst option A was not punished at all as shown in Figure 3.

Figure 2: The DM's Behaviours and the Out-groups' Beliefs for In-group Punishment Treatment (T1) as compared to the Baseline (No Punishment): Thailand vs. UK
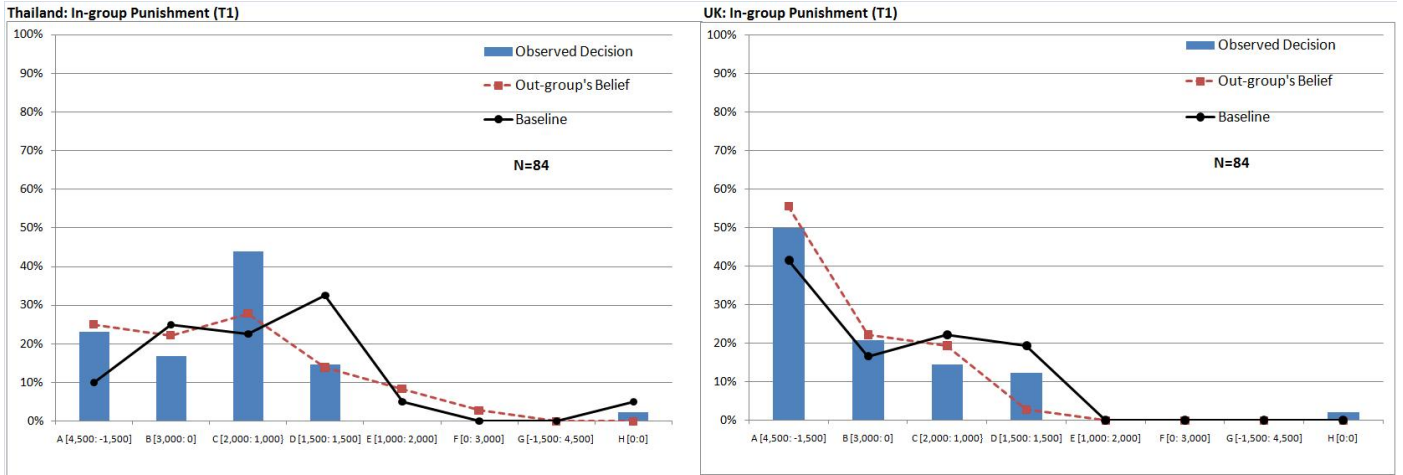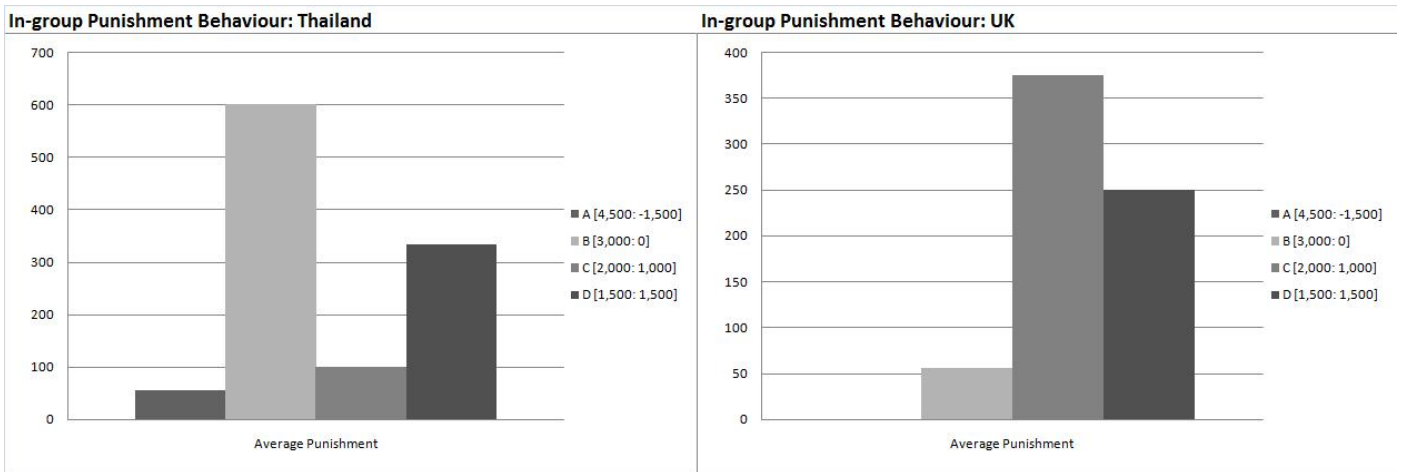

Figure 3: Average Punishment by the Other In-group Members

RESULT 2: The threat of out-group punishment reduced the overall level and magnitude of favouritism in the UK, but not in Thailand.

Observed Decisions

As shown in Figure 4, very different results were observed when the opportunity of punishment was given only to the out-group members whose payoffs were directly affected by favouritism. Within the UK subject pool, there was a significant *decline* in the overall level and magnitude of favouritism behaviour once the decision-makers were informed that the out-group could punish them. The proportions of options A, B, and C dropped sharply from 81% to 52%, whilst the proportion of the equal split option rose from 19% to 38%. Compared to the baseline treatment with no punishment opportunity (T0), the Mann-Whitney (without option H) test showed a significant treatment effect ($z = -2.4$, $Prob > |z| = 0.02$). It is also interesting to note that the threat of out-group punishment also led to some *out-group favouritism* behaviour within the UK subject pool (10%), within which 4% of the decision-makers went as far as giving the maximum payoff of 4,500 Tokens to the out-group, even at the expense of her own group members. On the contrary, within the Thai subject pool, the overall level of favouritism actually *increased* from 58% in T0 to 70% in this treatment, whilst generalised inequity aversion decreased slightly from 33% to 25%. However, there was no significant treatment effect (Mann-Whitney (without option H): $z = 1.61$, $Prob > |z| = 0.11$). The preference ratings of all subjects showed consistency between the subjects' preferences and decisions. Only one subject in Thailand showed anti-social preference by chosing to allocate zero Tokens to both groups (option H), whilst none of the UK subjects chose this option.

Figure 4: The DM's Behaviours and the Out-groups' Beliefs for Out-group Punishment Treatment (T2) as compared to the Baseline (No Punishment): Thailand vs. UK
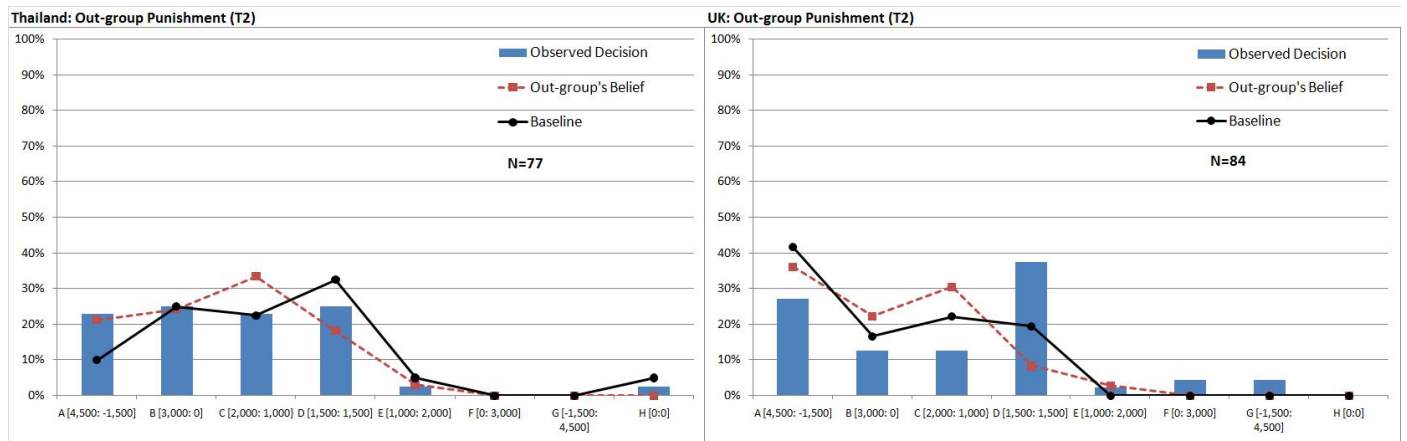
Out-group's Belief

Interestingly, the belief data showed that even when punishment opportunity was available to the out-group members, the majority of the out-group members (79% and 89% in Thailand and the UK respectively) still expected that the decision-makers would choose to favour their own group. This could suggest that within the context of an allocation of a fixed resource, there was a general expectation for

in-group favouritism even when there was a probability that such behaviour would be punished by those who were negatively affected. On the contrary, when they were asked to make a hypothetical decision, only 45% of the out-group members in Thailand and 58% of those in the UK chose to favour their own group, whilst the rest chose to distribute the Tokens equally between the two groups.

Punishment Behaviour

As for the actual punishment decisions, 48% and 61% of the out-group members in Thailand and the UK respectively chose *not* to impose punishment on the decision-makers. Of those who did in Thailand, on average option B was punished most severely, followed by option C. Similarly, within the UK subject pool, the highest average punishment was for option B, but option A was also strongly punished as shown in Figure 5.

Figure 5: Average Punishment by the Out-group Members
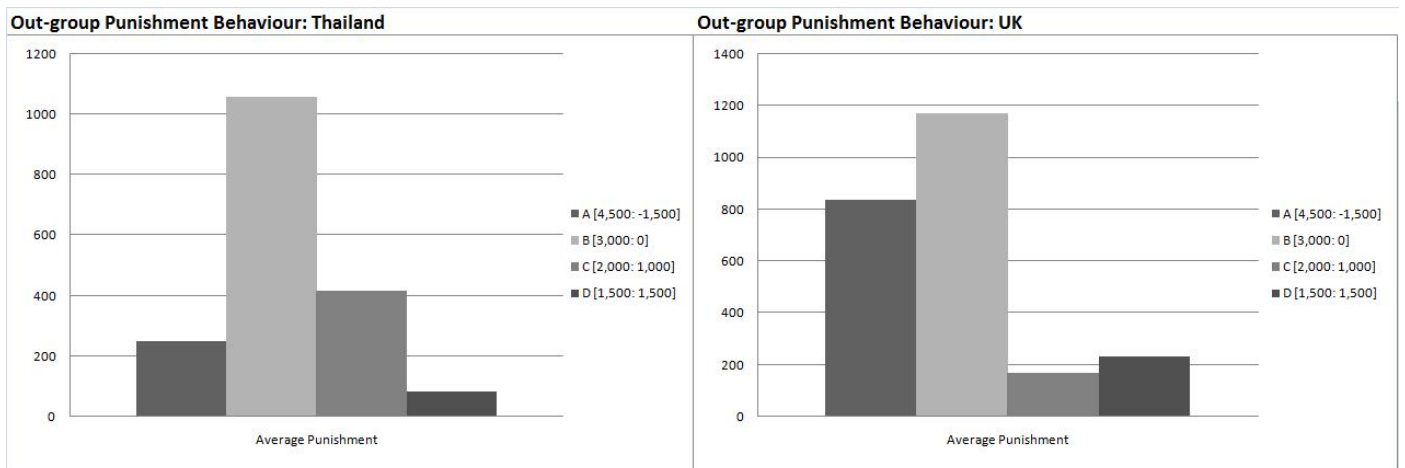
RESULT 3: The threat of punishment from an uninvolved third-party significantly *increased* favouritism within the Thai subject pool, but it did not have a significant impact on allocation decisions amongst the UK subjects.

Observed Decisions

The third-party punishment treatment provided an important test for the prevailing social norm regarding favouritism since the third-party was not directly affected by favouritism and thus, her decision to exercise the costly punishment power would be due to her willingness to enforce a social norm. We found that within the Thai subject pool, the presence of the third-party punisher *increased* the overall level of favouritism behaviour significantly from 58% in T0 (no punishment) to 83% in this treatment, although this increase was mainly due to the sharp increase in the lower magnitude of favouritism (option C) as shown in Figure 6. The proportion of option C, which allocated 2,000 Tokens to the in-group and

1,000 Tokens to the out-group members, more than doubled from 23% in the baseline treatment with no punishment to 48% in this treatment. More importantly, the equal split also sharply declined from 33% in T0 to 17%. The treatment effect was also statistically significant (Mann-Whitney (without option H): $z = 1.68$, $Prob > |z| = 0.09$). Within the UK subject pool the presence of the third-party punisher did not have a significant impact on favouritism behaviour. The proportions of in-group favouring options increased, but only slightly from 81% in T0 to 84% in this treatment. The treatmentment effect was not significant compared to T0 (Mann-Whitney (without option H): $z = -0.09$, $Prob > |z| = 0.92$). The preference ratings showed a consistency between subjects' preferences and their decisions in the experiment. None of the subjects in both Thailand and the UK exhibited anti-social preference.

Figure 6: The DM's Behaviours and the Out-groups' Beliefs for Third-Party Punishment Treatment (T3) as compared to the Baseline (No Punishment): Thailand vs. UK
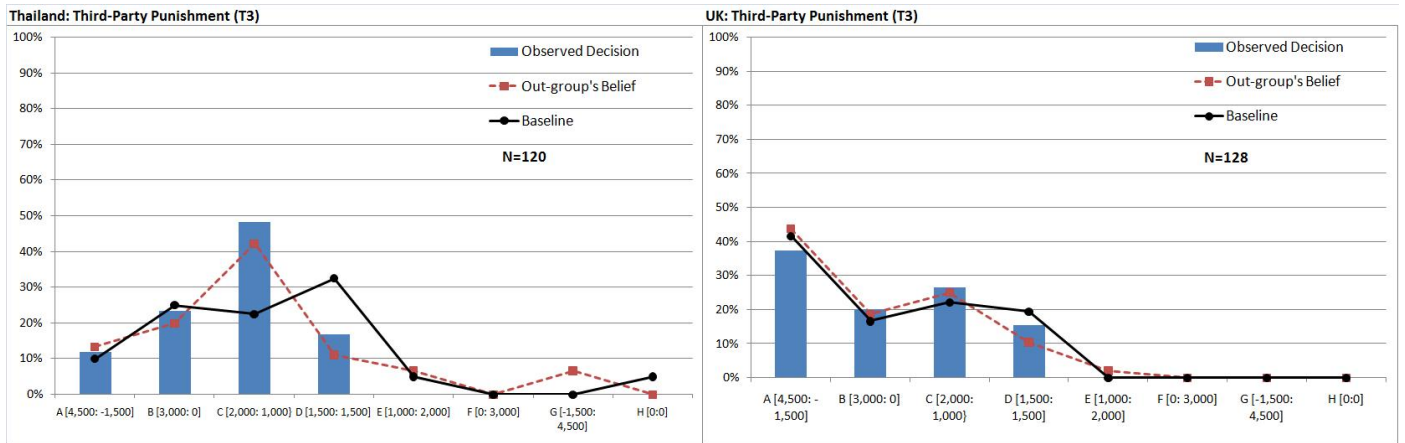

Out-group's Belief

Similar to the previous treatments, the belief data showed that the majority of the out-group members expected that most decision-makers would choose to favour their own group (76% in Thailand and 88% in the UK). Therefore, the presence of the third-party punisher did not seem to affect the expectation of favouritism behaviour in an allocation of fixed resource. When they were asked to make hypothetical choice, 67% and 73% of the out-group members in Thailand and the UK respectively also chose to favour their own group.

Punishment Behaviour

The majority of the third-party punishers in both subject pools (67% in Thailand and 94% in the UK) decided *not* to exercise their punishment power. of those who decided to punish within the Thai subject pool, option A was on average punished most severely, whilst other options only received low levels of punishment. Within the UK subject pool, only one person out of 16 decided to punish and the punishment was applied to option B. It is important to note that the number of third-party punishers who decided to punish was extremely small (5 in Thailand and 1 in the UK) and thus, it was not possible to draw substantial inference from this result. The interesting point here was that most of the third-party punishers were *not* willing to incur a cost in order to punish the norm violation - whatever

the norm might be, which was contrary to what was observed within the context of cooperation norm in public goods experiment or prisoner's dilemma and the norm of egalitarianism in ultimatum or dictator games (Bernhard, Fehr, and Fischbacher, 2006; Fehr and Gaechter, 2000; Fehr, Fischbacher, Gaechter, 2002; Goette, Huffman, and Meier, 2006; Ostrom et al. 1992; Yamagishi, 1986).

Figure 7: Average Punishment by the Out-group Members
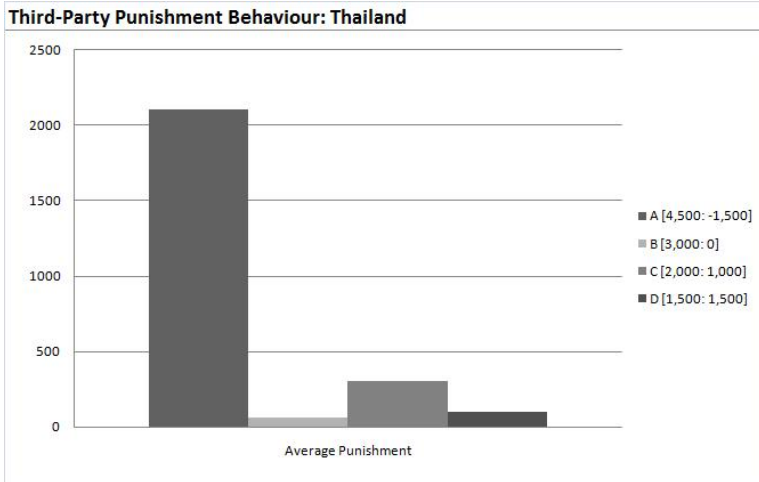
4 Socio-economic characteristics and Favouritism Behaviour

We ran Ordered Probit regressions of the decision variable (dependent variable) against the socioeconomic data from the post-experimental questionnaire, namely age, gender (1= male, 2= female), proportions of economic students in both subject pools, group equality attitude, country dummy (1= Thailand, 2= UK), and the level of acquaintance within each session in all of the treatments to check for internal consistency. As shown in Table 3, the favour game with no punishment (T0), the proportion of economics students within the Thai subject pool, attitude towards group equality, and the country dummy significantly influenced the subjects' decisions. The marginal effects of these variables showed that, a larger proportion of economics students within the Thai subject pool increased the probability of option A being chosen by 34%, whilst it reduced the probability that the subjects would choose option C (low magnitude of favouritism) by 11% and the equal split option by 24%. Unsurprisingly, positive attitude towards group equality decreased the probability that option A would be chosen by 31% and increased the likelihood that the equal split option (as well as option C) would be chosen by 10% and 21% respectively. The marginal effect of the country dummy showed that the UK subjects were more likely to choose favouritism options, particularly option A and B, whilst most of the Thai subjects were more likely to chose the low magnitude of favouritism (option C). For the in-group punishment and the out-group punishment treatments (T1 and T2), none of the covariates appeared to significantly influence the subjects' allocation decisions. For the third-party punishment treatment (T3), the country dummy appeared to significantly influenced the behaviour observed in the experiment. The marginal effect of the country dummy showed that the UK subjects were to be more likely to choose options A

and B, but less likely to choose options C and D.

Table 3: Ordered Probit Regression Results (*Dependent Variable = Choice*)

Independent Variables	T0	T1	T2	T3
Age	-0.05	-0.03	-0.03	0.05
	[-0.71]	[-0.38]	[-0.58]	[0.72]
Gender	-0.18	0.09	-0.09	0.06
	[-0.66]	[0.36]	[-0.38]	[0.28]
Study Economics (UK)	0.14	0.45	0.22	-0.31
	[0.17]	[0.98]	[0.57]	[-0.85]
Study Economics (Thai)	-1.00	-0.20	-0.12	-0.38
	[-2.42]**	[0.45]	[-0.29]	[-1.05]
Group Equality	0.90	0.41	0.18	-0.16
	[2.56]***	[1.57]	[0.67]	[-0.61]
Country	-1.19	-0.64	0.14	-0.50
	[-2.97]***	[-1.58]	[0.45]	[-1.92]**
Level of acquaintance	0.03	0.02	0.02	0.00
	[0.40]	[0.57]	[0.55]	[-0.11]
Number of Observations	76	96	92	124
Pseudo R^2	0.11	0.04	0.01	0.04

Note: In brackets is z-statistics, * = significant at 10%, ** = significant at 5%, *** = significant at 1%. Group equality attitude question asks whether the subjects agree with the statement 'We should do what we can to equalize conditions for different groups.' (1= Extremely Negative, 6= Extremely Positive, 0=Neutral). We code 1 = positive attitude towards group equality (scales 4, 5, and 6) and 0 = otherwise.

5 Discussions and Concluding Remarks

Our results provide an interesting insight to the nature of social norm regarding favouritism within the context of an allocation of fixed resource. Whilst opportunistic and selfish behaviour has been shown to be universally frown upon and punished by strangers, the in-group, the out-group, and the uninvolved third-party (Carpenter and Matthews, 2007), we have shown that this is not the case for favouritism.

In Thailand, which is a highly collectivist society according to the Hofstede's index (2001), favouritism appeared to be considered as part of the in-group bias norm as shown by the overwhelming shift in the decision-makers' choices towards higher level and magnitude of favouritism once the other in-group members were given the opportunity to punish the decision-makers, as compared to the baseline where there was no punishment opportunity. Since there was no way that the decision-makers could find out *ex ante* whether the other in-group members would exercise their punishment power or not until after the allocation decisions were made, the main reason for the increase in the proportion of in-group favouring options was likely to be influenced by their expectations that if they failed to favour their group, they would be punished. This result reflected the credibility of the threat of punishment from the other in-group members and that the in-group bias norm was strongly enforced. In addition, there was also a high expectation for favouritism from the out-group. All of which provided the first indication that the in-group bias norm was the prevailing social norm within the Thai subject pool.

However, within the UK subject pool, the result was more puzzling. Whilst we observed a high level of favouritism already in the baseline treatment without punishment and that in-group favouritism

seemed to be expected by the out-group (in both baseline and in-group punishment treatments), the in-group bias norm did not appear to be strongly enforced amongst the in-group members. This was shown by the fact that the threat of in-group punishment did not have a significant effect on the decision-makers' behaviour. In terms of punishment behaviour, the majority of in-group members did *not* choose to exercise their punishment power in both subject pools, this could be because most of the decision-makers already chose to favour the in-group members in the first stage of the experiment (due to the expectation that they would be punished if they did not do so) and, thus, there was no reason to exercise the punishment power[7].

Interestingly, when the punishment opportunity was given to the out-group, there was a significant drop in favouritism decisions amongst the UK subjects. In addition, we also observed a sharp increase in the proportion of equal split option and a small shift towards out-group favouritism options. Therefore, it was not clear which type of social norm prevailed within the UK subject pool. However, if the norm of out-group favouritism dominated the behavioural standards, we should not have observed such a large increase in the equal split option, if at all. The marked increase in the equal split option could, therefore, suggest that the norm of egalitarianism was more strongly enforced, as compared to the norm of out-group favouritism. Our results suggested that in an individualist society such as the UK, where everyone was expected to look after their own payoffs (Hofstede, 2001) and where the average attitude towards group equality was relatively high according to our post-experimental questionnaire (4.15 for this treatment compared to 3.17 within the Thai subject pool), the threat of out-group punishment appeared to be effective in deterring favouritism. The decision-makers anticipated that favouritism would trigger social sanctions from the out-group members and thus, refrained from favouring their own group. Although the results from the actual punishment behaviour showed that the majority of the out-group did *not* exercise their punishment power. Similar to the in-group punishment treatment, this could be because of the fact that the majority of the decision-makers already shifted their decisions towards the equal split option and thus, the out-group did not feel the need to punish them. But of those who decided to punish, they did indeed punish the decision-makers who chose options A and B, which were the high magnitudes of favouritism, most severely. However, this result was not observed in Thailand. In fact, the proportions of favouritism options actually *increased* once the decision-makers learned that the out-group members were given the opportunity to punish them, although this increase was not statistically significant. Nevertheless, the fact that the majority of the out-group members in the Thai subject pool did not seem to be outraged by favouritism even when their payoffs were directly affected and chose *not* to exercise their punishment power, offered the second indication that the in-group bias norm was likely to dominate the behavioural standards within the Thai subject pool.

Finally, the presence of a third-party punisher significantly *increased* favouritism amongst the Thai decision-makers, which provided the third and most crucial evidence that the in-group bias norm prevailed within the context of favouritism in a highly collectivist society, such as Thailand. The decision-makers' expected that the in-group bias norm would be enforced by the third-party who viewed this norm as more important than, for instance, the norm of egalitarianism and thus, chose to favour their own group even more. However, within the UK subject pool, the threat of the third-party punishment did not change the decision-makers' behaviour. Contrary to the results from the out-group punishment treatment, favouritism did not appear to be considered as a violation of the norm of egalitarianism by the third-party that could cause them to be willing to incur a cost in order to punish the decision-makers who favoured their own group. According to punishment behaviour results, only one third-party within the UK subject pool decided to punish.

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[7]The responses from the post-experimental questionnaire also confirmed that they did not feel the need to punish the decision-makers.

Based on our results, it was clear that a highly collectivist society such as Thailand the in-group bias norm appeared to dominate the behavioural standards both within and outside the group. This, in turn, helped to foster and encourage favouritism behaviour. On the contrary, the results from the UK subject pool were more puzzling. On the one hand, favouritism was largely observed among the in-group members and was also widely expected by the out-group, which initially suggested that the in-group bias norm may be at work. However, the results from the in-group punishment treatment showed that the norm of in-group bias did not seem to be enforced. On the other hand, those who were directly affected by it appear to be outraged and thus, when given the opportunity, they were willing to incur a cost to punish people who engaged in favouritism. In contrast, those who were not directly affected were less concerned about it and were, therefore, not willing to incur a cost in order to get involved. Consequently, there seemed to be no clear prevailing norm regarding favouritism within the UK subject pool. This interesting result indicates two possible explanations: first, in-group favouritism, in contrast to selfish or opportunistic behaviour, may not considered as a strong enough violation of a social norm; and second, the norm of egalitarianism within the context of favouritism may still be 'evolving'. Our future research is to explore other subject pools within the UK and also within other societies with high and low levels of individualism dimension in order to confirm these initial findings. Nevertheless, our study has certainly paved way for a better understanding of the underlying social norms regarding favouritism which can help shed a light on why we observe a variation in the level of favouritism across different types of societies.

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