QUASI Seminar

Does Corporate Social and Environmental Responsibility Create Value for Customers?

Caroline Flammer
Boston U

November 13, 2020
We are in the midst of multiple system crises (e.g., pandemic, social injustice, climate crises)

First response: it’s the government’s responsibility

Yet, in reality: very often lack of public governance

Critical issue: No mandatory disclosure of non-financial information in most countries (including U.S.)
- E.g., U.S. SEC merely recommends that companies disclose such information, but does not mandate it nor offer any guidance how to disclose
- U.S. SEC requires disclosure of (financially) “material” information
  - Yet, lack of guidance on what environmental, social, and governance (ESG) issues are “financially material”

Result?
- Companies often fail to disclose relevant non-financial information
- Companies may engage in “greenwashing” and other irresponsible practices
- Voluntary disclosure is non-standardized
  - Messy data, difficulty to assess ESG/CSR for customers, financial analysts, and others
  - Private organizations (e.g., CERES, SASB) aim to provide guidance and foster standardization in ESG disclosure
In absence of public governance, does corporate social and environmental responsibility (CSR) create value for customers?

- **Actual** CSR Practices
- **Claimed** CSR Practices ("greenwashing")
Actual CSR Practices

- **Actual** social and environmental **responsible practices** can create value to customers

  1) Customer (in B2C sector) = **end consumer**
     - Considering interests and needs of consumers (and others)
       - Fosters **innovation** (Flammer & Kacperczyk, *MgtSci* 2016)
       - Enhances **customer satisfaction** (Luo & Bhattacharya, *J Marketing* 2006)
       - Increases **consumer demand** (e.g., net profit margin, sales growth, etc.) (Flammer, *MgtSci* 2015)

  2) End consumer = **employee** (earning money to spend on goods/services)
     - Providing better **work conditions, benefits, and meaningful work**
       - Fosters **retention** (Flammer & Kacperczyk, *SMJ* 2019)
       - Mitigates **adverse behavior** at the workplace and **knowledge leakage** (Flammer & Kacperczyk, *SMJ* 2019; Flammer & Luo, *SMJ* 2017)
3) Customer (in B2G sector) = government

- Showing track record of responsible practices
  - Can signal trustworthiness and hereby help mitigate issues of information asymmetries in business relationships and limit transaction costs (Flammer, *SMJ* 2018)
• **Challenge**
  
  - Many of firms’ social and environmental practices are difficult to observe for customers (*information asymmetry*)
  - In absence of public governance:
    - Companies may exploit the information asymmetry and engage in "greenwashing" (Delmas & Burbano, CMR 2011) and other irresponsible practices
      - E.g., recent Business Roundtable statement was primarily “smoke”, i.e. many companies have not walked the talk (yet).
    - (Partial) remedy:
      - **Certification** (Flammer, JFE 2020)
      - **Industry self-regulation** (Barnett & King, AMJ 2008; King & Lenox, AMJ 2000, Lenox, OrgSci 2006)
What else can be done to foster responsible practices and increase customer value?

• **Stop:**
  - Asking whether CSR pays off
  - Framing studies around Friedman vs. Freeman debate

• **Exciting (and important) avenues for future research:**
  - How can we stimulate innovation and the development of products/services that address the **needs of the poor and underserved** customers?
  - How can we foster **system-level thinking** and more **responsible practices by companies and customers** (e.g., minimize food waste, live healthier lives)?
  - How can organizations effectively engage in **CSR and corporate political actions** to provide value to customers and help address grand societal challenges?
  - How can organizations form effective **partnerships** to make progress in achieving the UN SDGs?