QUASI Seminar

# Does Corporate Social and Environmental Responsibility Create Value for Customers?

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# Broader Context: Critical Issue

- 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.)
    - o E.g., U.S. SEC merely **recommends** that companies disclose such information, but does not mandate it nor offer any guidance how to disclose
    - o 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?
    - o Companies often **fail to disclose** relevant non-financial information
    - o Companies may **engage in "greenwashing"** and other **irresponsible practices**
    - o 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

# Broader Context: Critical Issue

- 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**
     - Enhances employee **engagement, experimentation,** and **innovative productivity** (Flammer & Kacperczyk, *MgtSci* 2016; Flammer & Luo, *SMJ* 2017)
     - Fosters **retention** (Flammer & Kacperczyk, *SMJ* 2019)
     - Mitigates **adverse behavior** at the workplace and **knowledge leakage** (Flammer & Kacperczyk, *SMJ* 2019; Flammer & Luo, *SMJ* 2017)

# *Actual* CSR Practices

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)

# *Claimed* CSR Practices: "Greenwashing"

- **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)

# Revised Research Questions

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?