Proposal for Russell Ackoff Doctoral Student Award for Research on Human Decision Processes and Risk Management

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Doctoral Student: Fern (Mai Mai) Lin, Marketing
Faculty Advisor: Deborah Small, Marketing

Please Address all Correspondence to:

Fern Lin (fernlin@wharton.upenn.edu)
700 Jon M. Huntsman Hall
3730 Walnut Street
Philadelphia, PA 19104

Abstract

It has been theorized that corporate social responsibility (CSR) initiatives serve as "insurance" for a company in the face of negative events by generating a buffer of goodwill among stakeholders. This project investigates the circumstances under which CSR initiatives are more or less successful in serving as a form of insurance for companies by illuminating how people perceive and evaluate a company's CSR initiatives and how their perceptions and evaluations change following negative events.

Descriptive Summary

Corporate social responsibility (CSR) initiatives have become ubiquitous in recent years (Bielak, Bonini, & Oppenheim, 2007; Guerrera & Birchall, 2008). Most research has framed CSR as a way for companies to increase their revenues, profits, and brand equity (e.g., Du, Bhattacharya, & Sen, 2007; Porter & Kramer, 2002, 2006). To borrow terminology from regulatory focus theory (Higgins, 1997), CSR has been conceptualized as promotion focused, striving toward achievement goals. CSR can also be conceptualized as prevention focused, however. CSR can not only help a company reach its goals but also mitigate the damage of negative events (Godfrey, 2005; Godfrey, Merrill, & Hansen, 2009).

CSR initiatives can act as a form of "insurance" for the company (Godfrey, 2005). They build what Godfrey (2005) calls moral capital, and that moral capital serves as a buffer against disastrous consequences resulting from negative events. How can companies implement CSR initiatives that maximize their moral capital?

Moral capital arises from perceptions and evaluations of CSR initiatives, not the initiatives themselves. The risk reduction properties of CSR initiatives, therefore, hinge not on the initiatives' actual underlying motives or actual performance, but on stakeholders' perceptions and evaluations of them. Indeed, using stock volatility data, Luo and Bhattacharya (2009) showed that stakeholders' positive perceptions of the quality of a company's CSR initiatives relative to its competitors, called corporate social performance (CSP), reduces firm-idiosyncratic risk.

This implies that when companies strategically implement CSR initiatives, they need to carefully consider how stakeholders will perceive and evaluate those initiatives and the company. When do people perceive these companies as benevolent, charitable, virtuous, and sincere? How fragile are these perceptions, i.e., do they collapse after a negative event, or are they durable?

These questions have been almost entirely unexplored. This project seeks to understand how people perceive and evaluate prosocial actors and behaviors. Our research so far has already uncovered surprising results. We have found that charitable donors who are personally connected to a past victim of a cause ("friends of victims") receive less "credit" for their donations compared to donors without a personal connection, even in the absence of potential material gain. People perceive donations by friends of victims as selfishly motivated, thus violating the spirit of charity, even when the donors actually stand to gain nothing. When friends of victims signal that they are not so selfish after all, however, they bridge the credit difference. These results seemingly contradict findings that companies should sponsor charitable causes congruent with the company or brand's function or image (Becker-Olsen, Cudmore, & Hill, 2006; Rifon, Choi, Trimble, & Li, 2004; Speed & Thompson, 2000; Trimble & Rifon, 2006). Additional research will try to reconcile this apparent contradiction.

This project also studies how people react to CSR-implementing companies following a negative event. For companies to successfully use CSR initiatives to reduce risk, mere perceptions of benevolence are insufficient. The perceptions must also withstand negative events. Fragile prior favorable perceptions not only fail to insure a company against disastrous consequences from negative events; they may actually increase the risk of those consequences (Wagner, Lutz, & Weitz, 2009). We are currently running a study that examines perceptions that companies that engage in CSR as reparative measures for a misdeed.

By illuminating the process by which people attribute prosocial acts to charitable motives or selfish motives, this project will provide a theoretical foundation to help organizations build moral capital that in turn will serve to buffer against severe consequences from negative events.

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