

CSR AND ETHICS

Indiana Colleges Study Impact

By Katie Coffin

EDITOR'S NOTE: Fifth in a series on corporate social responsibility.



Consumer demand is growing for companies to “do the right thing.”

A company like TOMS Shoes invokes a vastly different emotional response than an organization such as the former Enron Corporation.

One is known for corporate social responsibility (CSR) and spreading goodwill. The other is infamous for corruption and fraud.

How much does a company’s reputation for social impact matter? An increasing amount of academic research is aimed at answering this question.

Frank Germann, assistant professor of marketing at the University of Notre Dame’s Mendoza College of Business, recently published a study with a group of researchers investigating whether or not CSR impacts a firm’s financial performance. It is one of numerous research efforts on a topic that has garnered rising attention in the media, academia and boardrooms.

“Consumers care, and they increasingly want companies to be good corporate citizens,” Germann figures. “I really think that was the

initial trigger and caused many companies to become better corporate citizens and also triggered the research and media attention CSR has received over the last 10 to 15 years.”

In addition to examining businesses, other research is done at the consumer level, studying how buyers directly respond to products that have some type of CSR attribute. For example, a group of researchers at Purdue University recently published a report that surveyed views on “ethical consumerism.”

Colleges and universities are incorporating the topic into curriculum and extra-curricular activities. Indiana State University business students organize an annual ethics conference on campus. The IUPUI School of Public and Environmental Affairs offers a major in Sustainable Management and Policy focused on “the development and implementation of policies that help communities meet the needs of the present without compromising the future,” according to the school’s web site.

The *Effectiveness of Social Responsibility Courses in Higher Education*, a study published by Courtney Droms Hatch and Sheryl-Ann Stephen of Butler University, indicates “students’ level of social responsibility remains with them and impacts their perceptions of how responsible companies should be for both

societal and consumer welfare.” The conclusion: Social responsibility “curriculum is beneficial to all students.”

What can be determined from the academic focus on CSR? Simply put, operating in a responsible manner above and beyond what is required by law is worthwhile for companies because – more and more – consumers are demanding it.

‘Good guys win’

One finding Germann expected from his team’s study is that firms can anticipate negative financial performance implications from bad acts – or corporate social irresponsibility (CSI).

A surprising result was the degree to which firms engage in both CSR and CSI. Germann says he assumed firms either did “good” or “bad.”

“What our econometric model shows is that CSI tends to antecede CSR, and that makes us believe that companies are using CSR to offset past CSI,” he explains. “What we also find is firms that engage in this potential ‘greenwashing’ (deceptively promoting green practices), they do not benefit from their CSR from a performance point of view.”

Those firms that engage in CSR and not CSI, however, do see positive financial

performance implications.

The researchers used Tobin's Q ratio, a measure of firm assets in relation to a firm's market value, to gauge the companies' financial performance. More than 4,500 firms were in the study sample for up to 19 years.

"It's very difficult now for companies to hide their CSI," Germann notes. "People are going to talk about it and share with their friends. It's very easy to do nowadays with social media, whereas before it wasn't as transparent."

One new trend Germann has noticed is more companies hiring a chief sustainability officer. When organizations have a person in charge of CSR on the top management team, that indicates it is a priority.

Capturing consumer perceptions

A group of researchers at Purdue explored how demographics and lifestyle choices might reflect and inform purchasing decisions in their report, *Exploring Relationships between Ethical Consumption, Lifestyle Choices and Social Responsibility*.

"This research stems from a desire to better understand what consumers perceive to be 'good' CSR," explains Nicole Olynk Widmar, associate professor of agricultural economics, Purdue University College of Agriculture, via email. "While we are attempting to learn more about consumers' perceptions of CSR, we also recognize that perceptions of social responsibility – and fundamentally what is or is not socially acceptable – are constantly evolving."

The researchers conducted an online survey of 1,201 U.S. consumers in April 2015, targeted to be representative of the U.S. population in gender, age, income and geographic region.

Women, younger and more educated respondents were more likely to value and support environmental protection aspects of social responsibility. Those who traveled, volunteered or engaged in charitable giving also reported more highly valuing the environment, animal welfare, corporate responsibility and philanthropic dimensions of social responsibility.

All demographics reported avoiding companies that used advertisements that were deceptive or depicted minorities negatively.

"Overall, I think businesses are increasingly aware that at least some segment of consumers value aspects of corporate social responsibility," Olynk Widmar indicates. "However, not all businesses are aware of how their efforts are perceived, especially relative to the actions of their key competitors."

Olynk Widmar says because ethics are personal and subjective, measuring "ethical" behavior is very difficult. For that reason she cannot evaluate whether ethical consumerism is growing, but she believes people are trying to consume mindfully and many corporations are taking actions to facilitate that.

"I think there is at least a segment of people who are increasingly interested in how their consumption impacts other people and the world around them," she recognizes. "Further, I think many corporations are paying more attention to their role in the communities they serve, beyond direct business transactions."

Embracing ethics

Indiana State University immerses students in ethical thinking and discussion through the annual Ethics Conference hosted by the Scott College of Business and the Networks Financial Institute (NFI). The 2016 event featured 11 speakers presenting to more than 500 attendees.

NFI began in 2003 through a grant from the Lilly Endowment Inc., and part of the initiative was a focus on student development. Rebecca Wray, director of NFI, says her team reached out to local firms, asking them to identify needs within their organizations. They asked this question a couple years after the Enron and Arthur Andersen scandals – ethics and CSR rose to the top.

The Networks Professional Development Program is a career-building and leadership opportunity for business majors, and part of their experience is planning, organizing and executing the Ethics Conference.

"We have an obligation to educate our students about ethical decision-making and responsible business practices," recognizes Brien Smith, dean of the Scott College of Business. "By developing and administering the conference, students learn by doing."

The event has evolved over 12 years from ethics with an emphasis on business to ethics in all areas of life. NFI and the college of business

work with faculty throughout the university to encourage student attendance and even incorporate the program into their courses. They recently expanded the program further to include local high school students. Wray says they may invite other colleges and universities to participate in the future.

"That's where broadening the topics comes into play," Wray explains. "We understand someone who's an aviation major doesn't have an interest in listening to ethics on accounting. We've

had panel discussions on drones and privacy issues, concussions in athletics, physician-assisted suicide, religion and law enforcement topics."

The conference has grown into a larger Ethics Week, and the junior class of the Networks Professional Development Program chooses the topics and events. There are often panel discussions on different subjects throughout the week. Some classes have even organized an Ethics Bowl, a competition where student teams dive into ethical case studies and defend their position to a panel of judges.

Wray recalls many of the guest speakers tell true stories of how greed and unethical decisions destroyed entire organizations and lives. One speaker had been a prominent investment consultant who was convicted of wire fraud and spent time in prison.

Wray says at first many students don't show great enthusiasm for studying ethics, but once they experience first-hand accounts of someone landing on the wrong side of an ethical question, she hears them discussing it for weeks after the conference.

"Our communities have multiple challenges they are facing right now. If we, as a country, are going to fix these, ethics and the treatment of each other has to be at the root," Wray concludes. "This generation is interested and aware. Our students notice these companies, and a company with dedication to CSR is more attractive to those seeking job opportunities."



Students are responsible for all aspects of the annual ethics conference at Indiana State University.