

Maximizing the Impact of CSR Investments: Consumers' Preferences for Internal versus External CSR Depend on Perceived Culpability

Yusu Wang¹, Emily Powell², & Abigail Sussman¹

¹ University of Chicago Booth School of Business

² Ipsos Behavioral Science Center

Introduction

Corporate Social Responsibility (CSR), or a company's voluntary efforts to help solve social issues beyond what is required by law or the direct interests of the company, is increasingly important for consumers.

Consumer demand for company CSR initiatives has increasingly grown in recent years and companies that engage in CSR see benefits including

- Higher willingness to pay¹, enhanced sales², and longer-term loyalty³
- How companies choose to engage in CSR can vary widely

What types of CSR do consumers react most positively toward?

Internal v. External CSR

Internal ← External

CSR activities involve changing a company's internal business practices or policies.

CSR activities that do not involve making changes to a company's internal business practices or policies.

E.g., To address plastic pollution, a soda company can conduct internal research dedicated to using more recycled and degradable materials in its packaging of bottles.

E.g., The same soda company can address plastic pollution by supporting external charities that organize community clean-up events to remove plastic waste from natural environments.

Culpability: perceptions of a company as culpable for harm in the contexts that its CSR campaigns aim to remedy.

H1a: When perceived **culpability of the company is high**, consumers react more positively towards (e.g., view more favorably and are more likely to purchase from) organizations whose CSR activities are internally rather than externally focused.

H1b: When perceived **culpability of the company is low**, consumers' preference for internal compared to external CSR will be attenuated or reversed.

H2: A company's perceived 1) **intent** and 2) **ability** to improve the cause jointly underlie the patterns described in H1.

H3: When a company's **culpability is unknown to consumers**, internal CSR can be perceived more negatively than external CSR to the extent that it **signals culpability**.

Experiment 1: Manipulating Beliefs of Culpability Attribution

N = 301 from CloudResearch, incentive-compatible

Design: beverage companies culpable vs. agriculture practices culpable

Who Is to Blame For the Water Scarcity Crisis?

Beverage Companies Culpable

Beverage companies are a significant contributor to water scarcity due to the substantial amounts of water required in their production process.

...

Agriculture Practices Culpable

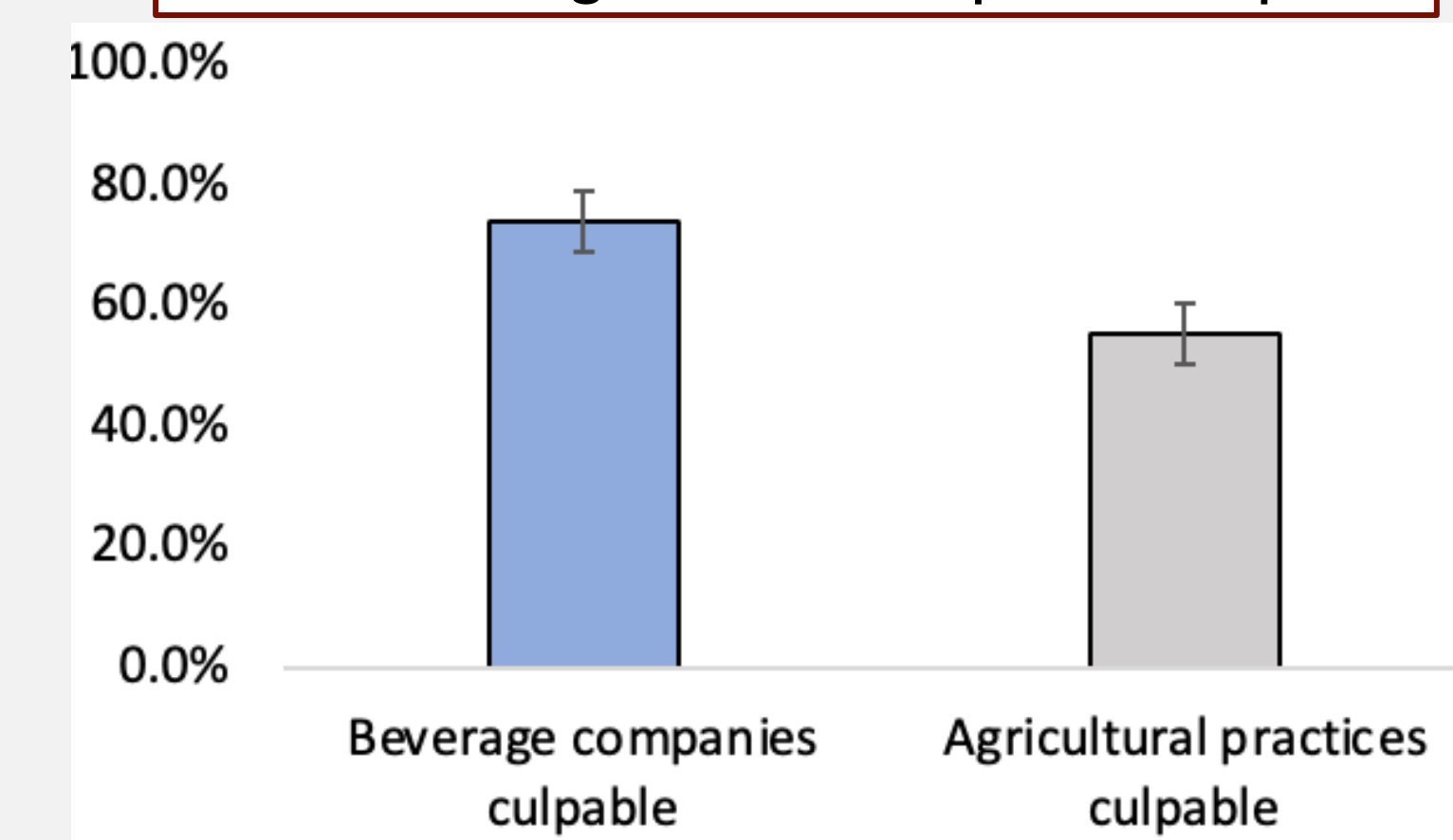
Inefficient agricultural practices are a significant contributor to water scarcity due to the sector's vast consumption of freshwater resources.

...

Internal CSR: adopt advanced technologies to reduce water usage in their production processes ...

External CSR: donate to external organizations and charities that specialize in developing solutions to provide access to clean water ...

DV: % choosing the internal product option



$\chi^2(1) = 8.19, p = .004$

Experiment 2: Moderation by Culpability Salience

N = 621 from Prolific

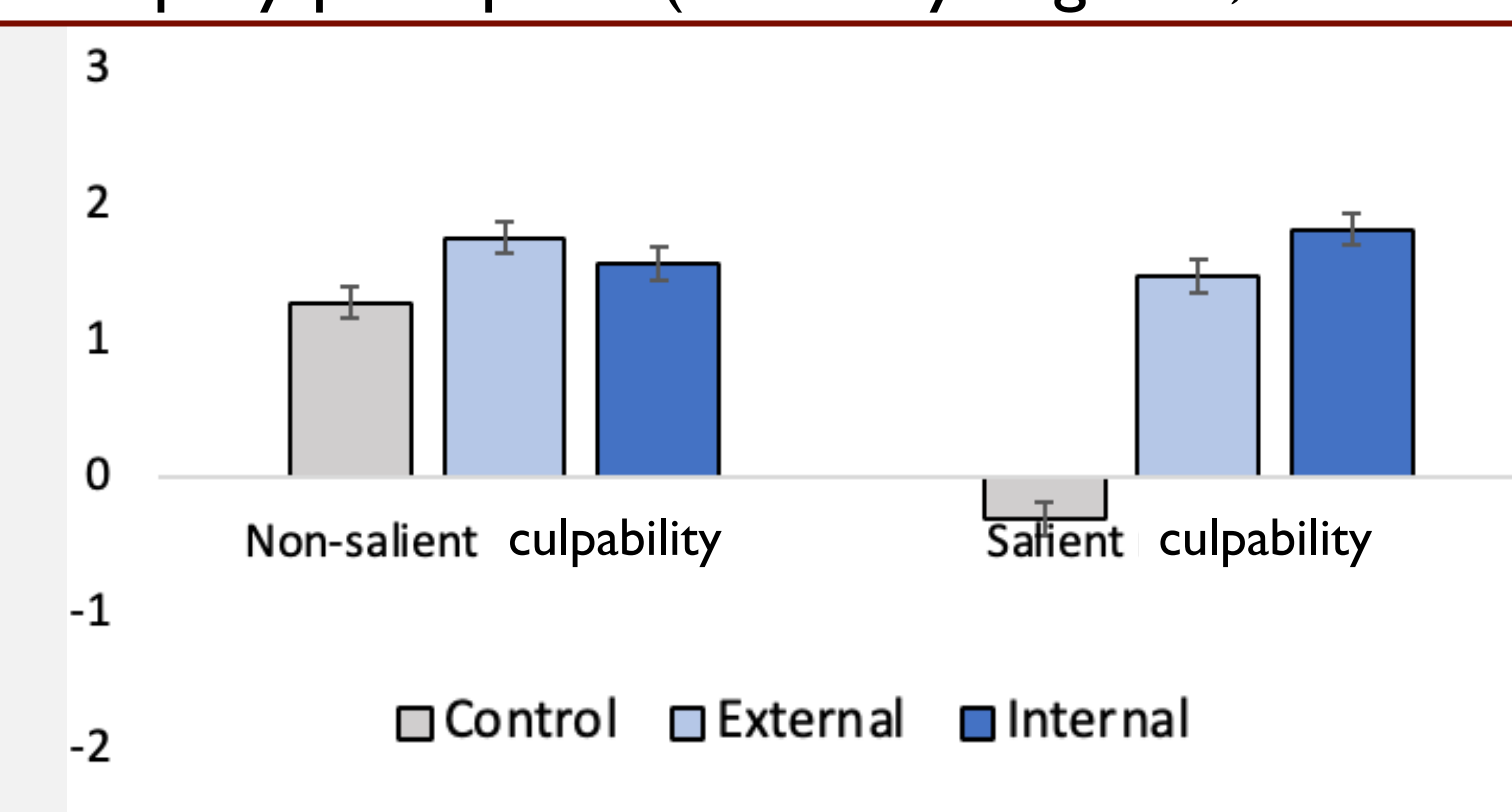
Design: 3 (CSR: control vs. external vs. internal) by 2 (culpability: non-salient vs. salient)

Salient culpability: Sport drinks companies' emphasis on male athletes in advertisements contributed to underrepresentation of women in sports.

Internal CSR: Increase the proportion of its advertisements featuring female athletes.

External CSR: Donate to an external charity that focuses on providing financial support to programs that offer sports opportunities for girls.

DV: Company perception (-3 = very negative, +3 = very positive)



Interaction: $F(1, 411) = 4.63, p = .032$ within internal and external conditions

Experiment 3: Internal CSR May Backfire by Signaling higher Culpability

N = 422 from CloudResearch

Design: 2(CSR: internal vs. external) by 2(culpability: known vs. unknown)
A company is trying to address the issue increased level of a toxic chemical called LTX-3 in the water supply.

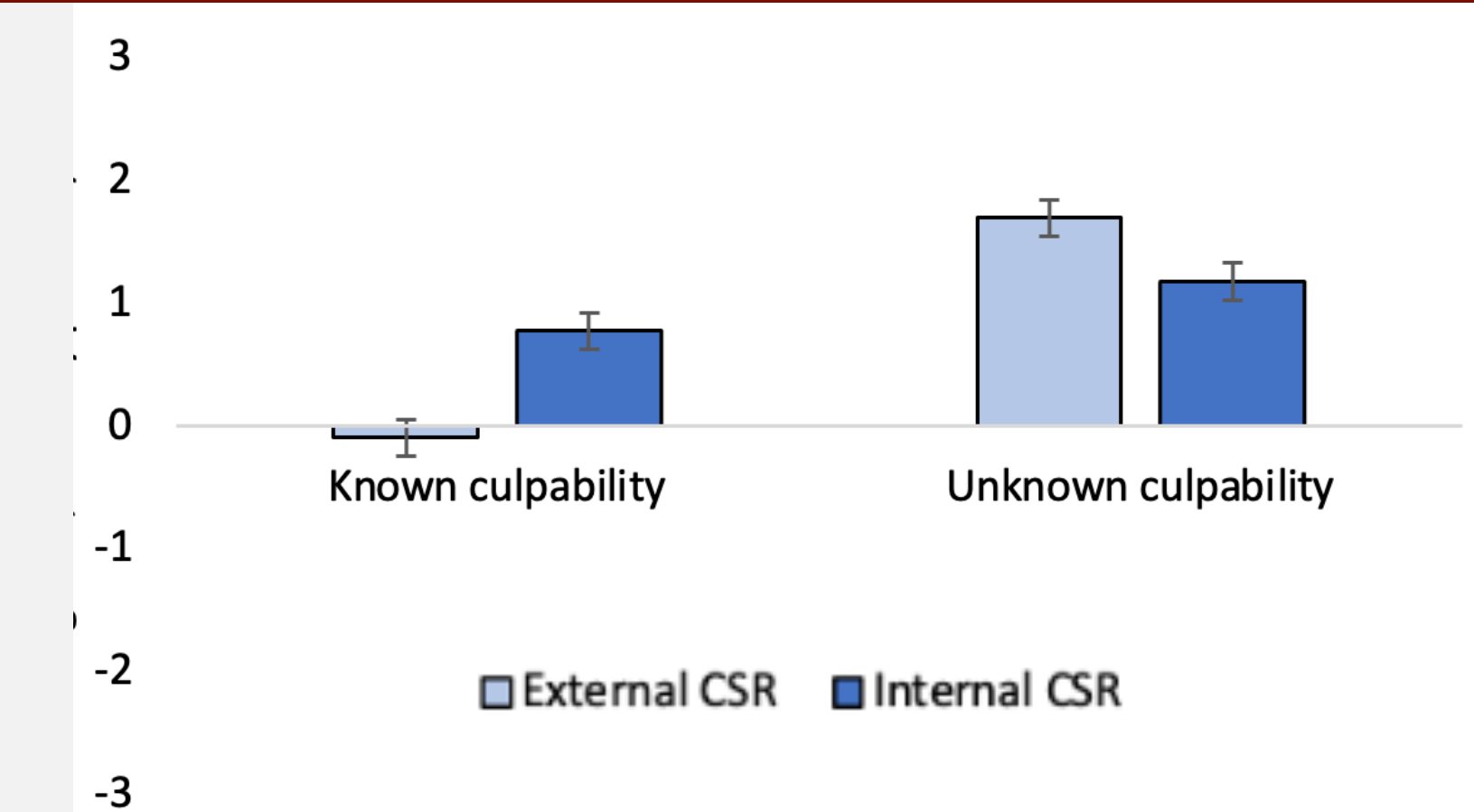
Known culpability: The company has been known for producing wastewater containing LTX-3.

Unknown culpability: No explicit statement about company history with LTX-3.

Internal CSR: Overhaul internal processes to eliminate its release of LTX-3.

External CSR: Support external organizations to remove LTX-3 from the local water supply.

DV: Company perception (-3 = very negative, +3 = very positive)



Interaction: $F(1, 413) = 20.22, p < .001$

Findings:

- When a company's culpability is well-known to consumers, engaging in internal (vs. external) CSR leads to more favorable consumer perceptions. This effect is jointly driven by increases in company's perceived ability and intent.
- However, when a company's culpability is unknown to consumers, internal CSR can signal stronger culpability for harm. The negative effect of culpability perceptions can dominate the positive effects of perceived ability and intent, leading to worse consumer outcomes.

Practical implications

These results suggest opportunities for companies to communicate their comparative advantage in tackling issues for which they are not culpable, thereby enhancing consumer confidence in their ability to resolve these challenges through internal efforts.

One caveat our results highlight is that firms engaging in CSR activities should be cautious about the salience and awareness of their culpability among consumers, as addressing an issue through internal CSR may signal high levels of firm culpability.

References

1. Tully, Stephanie M., and Russell S. Winer (2014). The role of the beneficiary in willingness to pay for socially responsible products: A meta-analysis. *Journal of Retailing*, 90(2), 255-274.
2. Nickerson, Dionne, Michael Lowe, Adithya Pattabhiramaiah, and Alina Sorescu (2022). The impact of corporate social responsibility on brand sales: An accountability perspective. *Journal of Marketing*, 86(2), 5-28.
3. Park, Eunil, Ki Joon Kim, and Sang Jib Kwon (2017). Corporate social responsibility as a determinant of consumer loyalty: An examination of ethical standard, satisfaction, and trust. *Journal of business research*, 76, 8-13.

OSF link: https://osf.io/zfkwb/?view_only=b3829c811f9f4196b827bc09a9a5cfe5

Questions or comments? Please email Yusu Wang, yusuwang@chicagobooth.edu