



CSR Not Always Easy to Accomplish

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When companies make public declarations of social responsibility, it can be hard to tell whether they actually change practices or if they exaggerate the impact — a practice known as greenwashing.

Most of the attention has focused on company financial effects and stock price reaction of corporate social responsibility initiatives. But new research by professors Jun Li and Andrew Wu examine the **social outcome of corporate social responsibility efforts**.

They found a striking difference between public and private companies' behavior after signing onto the United Nations Global Compact program. Their analysis shows private companies are significantly more likely to follow through on their promises than public companies.

"There do seem to be conflicts for public companies when it comes to corporate social responsibility," says Li, professor of technology and operations. "They are constrained by shareholders and by law to maximize profits. If the CEO of Patagonia wants to buy organic cotton, he can make it happen even if it means lower margins. A public company has to justify that to shareholders."

Li and Wu developed a novel method to find a common corporate social responsibility proxy and track the outcomes. They examined the 6,420 companies that signed onto the United Nations Global Compact (UNGC) between 2007 and 2016. It covers a broad array of responsibility goals — such as labor standards, environmental, and corporate governance — and it's a unified set of standards.

They then matched those companies with reports from RepRisk, a third-party firm that screens more than 80,000 media, regulatory and commercial documents in 15 languages each day for negative events regarding company-level environmental, social and governance events.

Li and Wu found that private companies that signed onto the UNGC reduced their negative impacts, as reported by RepRisk, by 6.3 percent per month. There was no change for public companies, though in some cases the negative impacts increased slightly.

"If you think about corporate social responsibility, it's mostly a diversion of resources," says Wu, professor of technology and operations and professor of finance. "Not only from company shareholders to other stakeholders, but also from short-term to long-term. But public company managers tend to focus more on the short term and are incentivized as such."

The exceptions they found among public companies were ones that own customer-facing brands. In those cases the value of corporate social responsibility is aligned with shareholders, since consumers often punish companies for irresponsible behavior.