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Customers Expect More CSR from Innovative Firms

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But there is more: To earn their loyalty and business, consumers also want to see high commitment to a broader range of stakeholders.

Organizations send signals to their stakeholders to communicate their underlying capabilities and intentions and shape desired outcomes, such as loyalty and sales. One such signal is innovativeness—the ability to embrace fresh ideas and create new and valuable products or services. Organizations often rely on branding to communicate their innovative spirit.

Take, for example, 3M with “Science. Applied to life," Hewlett-Packard with "Invent," and Michelin with "A better way forward." These slogans aim to shape consumer perceptions of the companies as modern, capable, and of high quality without overtly disclosing their R&D plans. While these signaling efforts often pay off, signaling innovativeness can come with its own set of challenges, such as high costs and heightened expectations for continuous innovation.

Organizations are also expected to participate in corporate social responsibility (CSR), which is the policies and practices that reflect a broader responsibility for societal well-being. Stakeholders want organizations to participate in CSR and create shared value, meaning they want organizations to create both financial and societal value. This raises important questions for innovative organizations: Since they intentionally signal their innovativeness, do stakeholders also expect more CSR or a unique type of CSR from them? In other words, do innovative organizations encounter a CSR liability? Further, do these innovative companies currently meet those expectations? And what happens when they don’t deliver the CSR initiatives that stakeholders expect?

Innovative organizations may need to participate in unique (and more) CSR activities to demonstrate they’re not only cutting-edge but also committed to creating shared value for society. But we don’t fully understand how innovative organizations approach CSR or how consumers perceive and react to different approaches.

Improving this understanding is important because it’s demanding and costly to signal both innovativeness and CSR. For example, innovative companies must often invest in the R&D that underpins that innovation; socially responsible companies must invest in things like emissions reduction technology, generous parental leave policies, extended warranties, and community outreach. Signaling this social responsiveness subtly and credibly, rather than overtly through advertising, can also cost money. Therefore, innovative organizations need to carefully strategize their CSR signaling, the expression of organizational ability and intent to create shared value via CSR participation, to make the best use of these resources.

Our research aimed to shed light on how innovative companies signal their CSR, as well as the associated consumer perceptions, expectations, and outcomes that provide insight into why we see differential practices.

What We Studied

We used signaling theory and multiple research methods to construct and conduct three studies. Signaling theory suggests that people as well as brands communicate their qualities or intentions subtly through costly and observable signals or behaviors rather than overtly, helping others make informed decisions even when they are not intimately familiar with the company’s inner workings. For example, a generous parental leave policy signals to outsiders that the company cares about its workers and an extended warranty signals that the company has confidence in its products.

Study 1: Types of CSR Signals

We used archival data to assess the quantity and types of CSR signals sent by innovative organizations. The Refinitiv Asset4 database, annual shareholder reports, and the Compustat database were used to source data on CSR signals, innovativeness, and control variables, respectively. We analyzed data from 97 organizations over 17 years (2004-2020), examining a total of 1,649 CSR signals.

We identified two types of CSR, based on who benefits from it: a wide range of stakeholders or a narrower group of management and shareholders.

- **Stakeholder-oriented CSR:** These activities create value for a broad range of stakeholders and tend to be more novel, valuable, impactful, observable, and costly. Examples include environmentally-friendly practices, community engagement, and employee well-being programs. Environmentally-friendly practices might mean reducing fresh water use, carbon emissions, or energy consumption. Community engagement initiatives might entail community relations and human rights policies. Employee initiatives could involve improving health and safety training, diversity, and working conditions.
- **Shareholder-oriented CSR**: These efforts primarily benefit management and shareholders and are generally less novel, valuable, impactful, observable, and costly. Examples include measures like a staggered board structure or poison pill. A staggered board structure refers to when members of a board of directors are divided into different classes, each serving a different term length, so that only a portion of the board is up for re-election each year. A poison pill is when a company issues new shares of stock to existing shareholders to deter a hostile takeover from an outside entity. Both are defensive measures taken to protect managers and shareholders.

Study 2: Consumer Expectations

In this study, we examined consumer expectations around the CSR signaling of highly innovative organizations. As part of this research, we asked 383 consumers to assess a company's innovativeness signals, explain how they perceive innovative companies, share their expectations regarding the corporate social responsibility (CSR) signaling of such firms, and detail how these factors influence their purchasing decisions. Results from this study informed the third study, in which we examined why and how a portfolio of signals (i.e., innovativeness and CEO transition) influence consumer CSR signaling expectations.

Study 3: CEO Transition Signal

A CEO is a highly visible member of a firm who can strongly influence firm behaviors and outcomes. During a CEO transition, there is greater opportunity and likelihood for changes in firm strategies, including CSR strategy. Therefore, in this final study, we sought to better understand how a CEO transition signal interacted with the innovativeness signal to influence consumer perceptions and expectations for CSR signaling. We surveyed 391 participants to gather insights.

Takeaways

Our research offers valuable takeaways and guidance for innovative brands seeking to manage their CSR profiles effectively:

- **CSR liability.** Innovative brands have unique capabilities that allow them to participate in CSR effectively and efficiently. However, these capabilities can also be a liability. Results suggest that consumers expect more CSR signaling, and more stakeholder-oriented CSR signaling, from innovative brands because they perceive them as more capable. As we explained in our first study, stakeholder CSR is costlier than shareholder CSR, therefore adding a possible resource burden to those firms. Still, we suggest innovative brands make their best attempt to align with consumer expectations for CSR signaling.
- **Expected outcomes**. Findings indicate that consumers are more likely to buy from innovative brands that meet their expectations for more participation in CSR, especially stakeholder-oriented CSR, than from less innovative counterparts. Innovative brands should craft and signal a CSR profile with relatively more CSR, and heavy in stakeholder-

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oriented CSR, to gain positive consumer outcomes. Less innovative brands should not view this as necessary to do, as consumers have lower expectations of them.
- **Impact of multiple signals**. Results demonstrate that during a CEO transition, particularly with an incoming CEO who has a track record of prioritizing CSR and shared value creation, consumers have heightened expectations for CSR signaling, especially stakeholder-oriented CSR. Firms should consider how multiple signals work together to enhance—or mitigate—consumer expectations.

By using their innovative capabilities to participate in more CSR signaling, particularly more stakeholder-oriented CSR signaling, innovative organizations can satisfy consumers' expectations that they do more, and garner increased sales.

Explore the Research

Innovative organizations' CSR signaling: Consumer perceptions, expectations, and outcomes (https://www.sciencedirect.com/science/article/abs/pii/S0148296324005459) , Journal of Business Research, January 2025

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