

ARE ALL CSR ACTIVITIES EQUAL? THE RELATIVE ROLE OF SUPPLIER CSR

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ABSTRACT

This paper examines the impact of a firm's decision to make structural changes in its operations on its Corporate Social Responsibility perception. Specifically, a firm's decision to procure products from environmentally conscious suppliers is a real change in its operations and this may potentially affect its CSR ranking. A firm making such a fundamental shift may also experience a market response as a result. The following paper uses a sample of Fortune 500 firms to explore these issues.

INTRODUCTION

Extant research has focused on the role of Corporate Social Responsibility on firms' profitability. Though some disagreements exist, there is a considerable body of research that has documented that the firms that do good deeds and are socially responsible are more profitable and do well in the stock markets. In the current environment of global warming and environment consciousness, more and more firms are taking actions to be environmentally friendly and be socially responsible. Acknowledgement as a socially responsible firm in avenues such as Fortune surveys significantly enhances the firms' reputation and attractiveness to socially conscious investors and managers of mutual funds that are mandated to invest in environmentally conscious firms.

This study examines the role played by a firm's decision to manage its suppliers and operations in an environmentally friendly manner on its reputation and recognition in the wider arena of socially responsible firms. Because any firm can make cosmetic changes, such as giving to environmental causes to appear socially conscious, we focus on firms that make more fundamental changes that represent a pure signal of an environmentally conscious action. Specifically, we focus on firms' decision to procure products from environmentally friendly sources as an alternate proxy for socially responsible behavior. We consider a firm's decision to manage its operations in an environmentally friendly fashion as more of a structural change, and consequently these firms represent a dedicated set of socially responsible firms. We pose the following research questions: First, do the firms that make structural changes in operations receive higher CSR ranking compared to those who do not? Second, how do these changes in operations compare with other changes in terms of their effect on the CSR rankings? Finally, we compare the market response to operations related changes versus other changes to evaluate the ability of the market participants to distinguish between real and cosmetic changes.

The study contributes to the operations management literature in several ways: First, by identifying firms that take environmentally friendly actions and relating these actions to the market perception of social responsibility, this study provides a better understanding of the implications of these important production decisions in the market place. If these actions are associated with high CSR, then they provide another rationale for making these important decisions. If these firms are not associated with high CSR, then there is a need to construct alternate measures of CSR that incorporate these "real" actions in their construction.

We collect data on the environmental reports filed by Fortune 500 firms, and from those reports identify firms that have made structural changes in their decision to procure environmentally friendly products. We also collect data on firms' ranking on the corporate social responsibility dimension from Fortune and other sources. Firms are classified as Test or Control firms based on their green product procurement policy as documented in the environmental reports. We develop a model to explain the CSR ranking as a function of firm attributes, industry attributes and other controls. The results provide insights into the impact of green product procurement on CSR rankings.