On the Value of Operational Transparency into Internal vs. External Responsibility Efforts: Evidence from the Lab and Field

Amid calls for transparency and greater social and environmental stewardship, companies are employing a variety of strategies to mitigate the adverse effects of their operations on people and the environment. Some engage in internal, sustainable operations initiatives, such as paying living wages to their workers or investing in innovations that directly reduce the environmental impact of their processes. Others engage in external corporate social responsibility initiatives, such as contributing to social causes, or offsetting their emissions, to compensate for the impact of their processes. As companies weigh these approaches, it is particularly important to comparatively assess their impact on key stakeholders such as customers. In this paper, we conduct a series of lab and field experiments to explore the effects of transparency into a company’s responsibility efforts on its customers.

Although we find transparency to boost consumer purchase intentions, not all initiative types perform equally well in the lab. Transparency about internal responsibility initiatives (e.g., paying living wages) is particularly attractive to consumers in the social domain than external initiatives (e.g., donating a similar amount to charities), leading to greater purchase intentions and more favorable perception for the company. On the other hand, in the environmental domain, internal and external responsibility initiatives are perceived to be equally desirable by consumers, and essentially substitutable. For external validity, we test our findings with two field experiments (for social and environmental domains) developed in collaboration with two manufacturers and retailers through which they sell their products. We manipulate the transparency condition through videos shown as part of the in-store display for the company’s products in a retail location and analyze transaction-level data to examine the effect of the transparency condition on sales. Sharing point of sale information about internal responsibility initiatives in the social domain was found to have a positive and significant impact on sales, validating lab findings in a real purchasing environment. Taken together, these results highlight the asymmetric impact of internal and external initiatives and provide support for a significant market value from engaging in sustainable operations practices, in addition to any potential cost/risk reduction benefits.

(Joint work with Ryan Buell)