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Building a competitive advantage based on transparency: When and why does transparency matter for corporate social responsibility?

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Customer involvement;
Brand signaling

Abstract Customers today are increasingly demanding transparency from firms. This article discusses the concept of performance transparency and explores when and why transparency plays a key role for a firm's corporate social responsibility (CSR) effectiveness. In doing so, it addresses consumer skepticism as the logic of the transparency-CSR interaction and presents empirical evidence of the effect. It also discusses key principles for managing performance transparency effectively. Companies should monitor and track performance transparency regularly, initiate consistent transparency practices along with CSR activities, pay attention to the types of information made available, and adapt the transparency practices to the involvement level.

1. To what extent is transparency required for CSR effectiveness?

Many managers believe that corporate social responsibility (CSR) initiatives, such as philanthropic activities or ethically oriented practices, always pay off. But today's customers have access to abundant information, which may change their perceptions of CSR practices. For instance, when customers discovered that Tesco was not truly

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honest about its out-of-date meat scandal (Chartered Institute of Environmental Health, 2020) and that Apple was deliberately slowing down the operation of older iPhones with iOS updates (BBC News, 2020), did they still appreciate the companies' CSR activities? Under what conditions of transparency is an investment in CSR effective to strengthen consumer relationships? Answers to these questions are becoming increasingly important for managers given consumers' access to and wide sharing of information.

Companies invest significant resources in CSR activities to address their social and environmental concerns and to promote their ethical values, expecting that positive CSR associations will lead customers to generate a favorable image of and develop stronger relationships with them. But customers today have knowledge about and insights into company activities at their fingertips, something unthinkable before the advent of the internet. On top of that, social media enables customers to voice, share, and, if necessary, question and confront firms, given their access to information and their ability to act on these platforms. We therefore posit that performance transparency is an important condition to determine a firm's CSR success. Performance transparency is characterized as the intentional provision of information pertaining to a company's actions, products, and services in an accessible and objective way (Foscht et al., 2018).

To understand the role of performance transparency as a condition for successful CSR, we first discuss the logic of this relationship, which we base on the idea of consumer skepticism. We then present empirical evidence of performance transparency's impact on CSR outcomes such as enhanced profit or customer attachment. To do so, we analyze real-world data and draw from prior work to provide a detailed picture and to establish both external and internal validity for this idea. Finally, we discuss four key principles for firms to manage transparency. We recommend that companies should (1) monitor and track performance transparency regularly, (2) initiate consistent transparency practices along with CSR activities, (3) pay attention to the types of information made available, and (4) adapt the transparency practices to the involvement level.

2. The logic of the transparency—CSR interaction

2.1. Limitations of extant literature

Previous studies discussing conditions of transparency for CSR effectiveness have mainly focused on disclosure in CSR reports (e.g., Einwiller & Carroll, 2020; Higgins et al., 2020) or on disclosure of CSR initiatives (e.g., Buell & Kalkanci, 2021; Kim & Lee, 2018; Lee & Comello, 2019). Such disclosure may be part of an overall performance transparency construct, but it is not congruent with this construct. For example, allowing consumers to compare a firm's products with a competitor's offering through third-party reviews would be part of performance transparency but different from disclosure in CSR reports or initiatives. Moreover, disclosure refers mainly to the communicative clarity and visibility of CSR, whereas performance transparency captures the accessibility and objectivity of the information in general.

The limitations of a focus on CSR disclosure are also apparent in the inconsistent findings of previous studies. While some studies have supported enhanced CSR effectiveness via transparent disclosure in CSR communication (e.g., Lee & Comello, 2019), others have reported conflicting findings. For example, Jackson et al. (2020) observed that mandatory nonfinancial disclosure leads to more CSR activities but does not decrease firms' irresponsible activities. Similarly, Peschel and Aschemann-Witzel (2020) reported mixed findings when testing whether transparency in communicating sustainability efforts enhances product choice. But when examining transparency efforts beyond CSR disclosure—that is, by adding cost transparency—they found a positive effect on fair price perception. As such, extant literature has shortcomings when conceptualizing transparency merely as disclosure in CSR reports or initiatives. Our study broadens this perspective by providing a more comprehensive definition and operationalization of transparency and by confirming performance transparency as a moderator for CSR effectiveness.

2.2. Previous empirical results supporting the role of performance transparency

We argue that a more comprehensive definition of performance transparency enables more robust results. Moreover, conceptualizing transparency in such a way can help firms that do not publish CSR reports benefit from performance transparency. Small firms consider CSR especially important but refrain from publishing sustainability reports (Quaak et al., 2007). According to our results, such firms can also benefit from transparency when they are open to allowing stakeholders to see through their actions and offerings, not just their CSR/sustainability reports/campaigns. Figure 1 provides an outline of relationships among performance transparency, CSR, and other related constructs.

Performance transparency is important to reap key benefits of CSR activities (e.g., increased firm profits, stronger consumer attachment, consumer action). Empirical studies provide a more detailed picture of the interaction between performance transparency and CSR. First, performance transparency can strengthen the effect of CSR on consumer-brand relationships. For example, Heinberg et al. (2021) showed that CSR initiatives can enhance consumers' brand attachment in case of high performance transparency, while CSR initiatives have virtually no effect without such high transparency.

Second, performance transparency can induce customers' firm-related behavior. Heinberg et al. (2021) conducted an experiment with 180 participants who were given the option to check a box to sign up for newsletters on updates about a firm (e.g., McDonald's). The experiment showed that participants were more likely to check the box for firms employing CSR, but only when the firms were also transparent. Such behavior may help companies build strong customer-firm relationships.

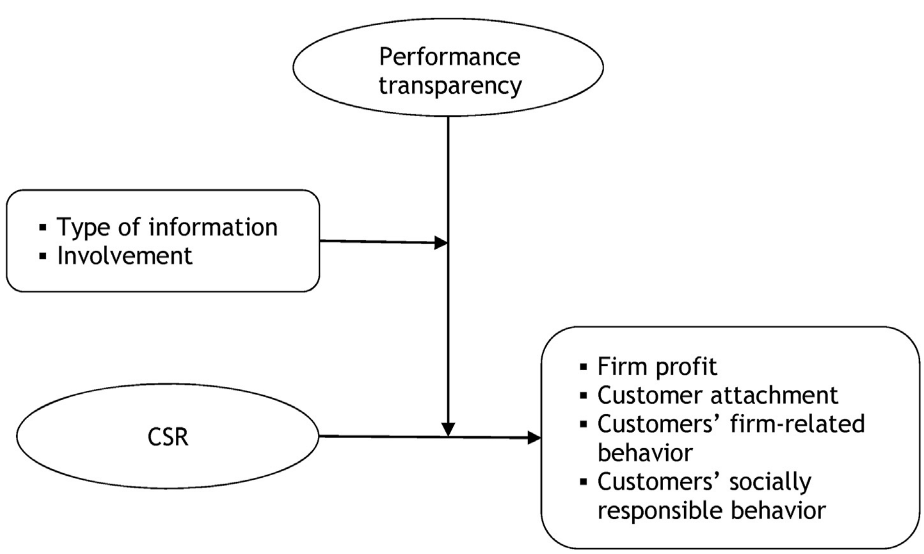
Finally, a company's good behavior can inspire good behavior among customers. Corporate sustainability can have an impact beyond the community targeted by a CSR project and beyond the desirable benefit for a company's image and customer relationships. For example, when customers perceive a company as acting responsibly and being transparent, they are likely to engage in sustainable and responsible consumption behavior themselves (Romani et al., 2016; Wang et al., 2017). That is, the leadership of a socially responsible company may inspire customers' own sustainable and socially responsible behavior (Foscht et al., 2018). Transparent and sustainable companies can thus act as moral role models that induce customers to reciprocate in kind. For a deeper understanding of the link between performance transparency and CSR, we introduce the logic for this relationship, which builds on customer skepticism and the power of corporate signaling.

2.3. Theoretical underpinning: Customer skepticism and corporate signals

Customers habitually ponder the true motivations of firms' engagement in CSR initiatives. Can the motive for such projects be attributed to the economic ends of the firm, or does it reflect genuine social concern? If consumers tie CSR to the financial consideration of the firm, they might become skeptical about the company's moral character, and the return on CSR would be diminished (Ellen et al., 2006; Heinberg et al., 2021; Skarmeas & Leonidou, 2013). As such, firms need to be cautious of this fine line and avoid inciting consumers' beliefs that CSR is related to egoistic firm motives.

Customers often have limited insights into firms; they lack access to hidden data and are often inundated with various types of information from different media outlets and channels. Therefore,

Figure 1. Relationship between performance transparency and CSR



they must rely on signal heuristics when making decisions. For example, a good reputation is considered a signal of the quality of a brand's products (Heinberg et al., 2018). Similarly, customers are unable to judge a firm's morality and benevolence but can take CSR initiatives as a cue of its character (Liu et al., 2015). If customers view a firm as responsible and benevolent, they may seek a closer relationship with it, recommend it, and engage more with its products. These benefits, however, can only be reaped if skepticism is contained.

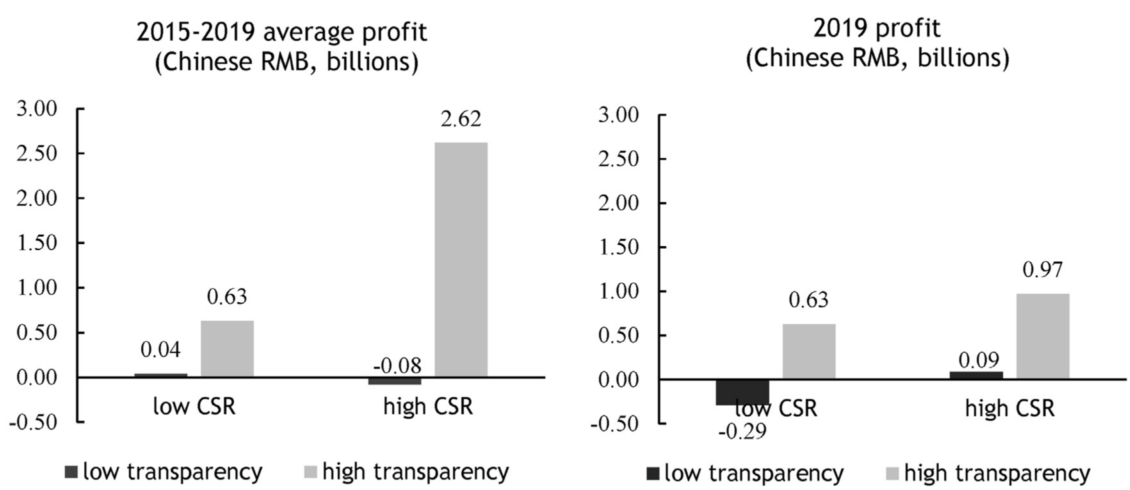
Here, performance transparency can be of assistance. Customers interpret the extra effort undertaken by a transparent company as an additional signal, or proxy, of its sincerity and its generally good intentions (Liu et al., 2015). As a consequence, customers are more likely to consider the company credible, honest, and trustworthy; less inclined to search for and process additional information about the firm; and more likely to undergo a simpler decision-making process for its products (Eisingerich & Bell, 2008; Kamins & Assael, 1987).

3. Impact of transparency and CSR on firm profit

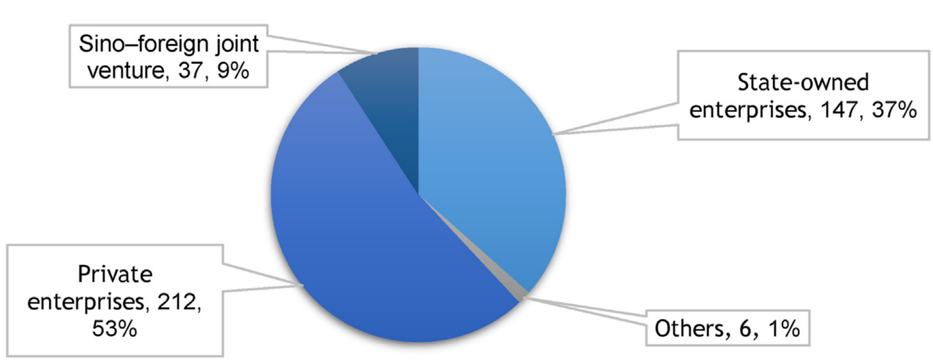
To provide further empirical evidence on whether performance transparency serves as a precondition for CSR effectiveness and, in particular, profitability, we draw on a data set of firms listed on either the Shenzhen (SZSE) or Shanghai stock exchanges (SSE) with available objective data on transparency and CSR expenditure. Our initial

Figure 2. Average profit of Chinese companies across transparency and CSR levels

A. Profit (Chinese RMB, billions)



B. Company ownership in the sample



sample consists of all the firms listed on the SSE and SZSE from 2015 to 2019. We exclude firms with missing values during our sample periods, which results in a sample of 402 listed Chinese firms. The average age of these firms is 22 years. The sample covers a wide range of industries; 240 of the companies in our sample are active in overseas markets, and 53% are private enterprises. Panel B of Figure 2 shows the ownership types.

For external validity purposes, we tapped a large data set with information on firm profit, with available secondary data on CSR and performance transparency. We obtained CSR information, corporate opacity rankings, and financial statement information from the China Stock Market and Accounting Research database. With authoritative and stable data sources, the database presents real data of listed companies' CSR performance in a complete and objective way, providing clear and accurate data for relevant research. These data can help researchers carry out objective analyses and reasonable evaluations of listed companies' CSR performance and then build appropriate evaluation systems.

We operationalize performance transparency by using the Opacity Index, an objective data set. High transparency includes opacity rankings A (*excellent*) and B (*good*); low transparency includes opacity rankings C (*fair*) and D (*poor*). The Opacity Index was created by PricewaterhouseCoopers; in this case, opacity refers to "the lack of clear, accurate, formal, easily discernible, and widely accepted practices in the broad arena where business, finance, and government meet" (Barth et al., 2001, p. 3). Next, we operationalize CSR by using corporate donations in the objective data set. High CSR includes the top half of firms after a median split of corporate donations, and low CSR includes the bottom half.

As Panel A of Figure 2 shows, the firms with a high level of both transparency and CSR clearly outperform their peers in terms of profit. The numbers are stable when considering both the average annual profit of the recent 5-year period (2015—2019) and that for 2019, the most current year of our data collection. The group with the second-best performance in terms of profit is the one with high transparency and low CSR; thus, in terms of return on investment from the firm's perspective, transparency should be the first aspiration to strive for, with sustainability following close thereafter.

To add further support to the evidence, we analyze the data using two-way analyses of variance (ANOVAs). Again, we test the data both for the average of 2015—2019 and for 2019 separately to gain more confidence in our results. Along with our focal variables (i.e., transparency and CSR) and dependent variable (i.e., profit), we include the control variables firm age, ownership structure, size, and industry. Table 1 details the operationalization of variables.

For the period 2015—2019, we find significant main effects of CSR ($M_{\text{low CSR}} = -2.01$ vs. $M_{\text{high CSR}} = -1.35$; $F(1, 964) = 19.699$, $p < .001$) and performance transparency ($M_{\text{low transparency}} = -2.05$ vs. $M_{\text{high transparency}} = -1.31$; $F(1, 964) = 25.526$, $p < .001$). In other words, both CSR and performance transparency can increase profit. Moreover, the two-way interaction between CSR and transparency is significant ($F(1, 964) = 4.598$, $p < .05$), which implies that in case of high (versus low) transparency, there is a stronger link between CSR and profit. Similar to these findings, the results

Table 1. Variable operationalization for ANOVA test

Variables	Definition
Profit	The natural logarithm of profit
CSR	High CSR includes the larger half after a median split of corporate donations; low CSR includes the smaller half after a median split of corporate donations
Transparency	High transparency includes Opacity rankings A & B; low transparency includes Opacity rankings C & D
Firm age	Establishment of years
Ownership structure	Private enterprise vs. state-owned enterprise
Industry	Service vs. manufacturer
Size	The natural logarithm of selling expenses; large size includes the larger half after a median split of size; small size includes the smaller half after a median split of size

Table 2. ANOVA results

Source	Model A: Dependent variable: Average profit in 2015–2019					Model B: Dependent variable: Profit in 2019				
	Type III sum of squares	*df*	Mean square	*F*	*p*	Type III sum of squares	*df*	Mean square	*F*	*p*
Intercept	623.386	1	623.386	315.042	.000	46.215	1	46.215	23.806	.000
Firm age	.003	1	.003	.001	.971	.095	1	.095	.049	.825
Industry	8.775	1	8.775	4.435	.035	1.696	1	1.696	.874	.351
Ownership structure	.102	1	.102	.052	.820	1.329	1	1.329	.685	.409
Size	524.391	1	524.391	265.01	.000	52.204	1	52.204	26.891	.000
Transparency	50.509	1	50.509	25.526	.000	3.904	1	3.904	2.011	.158
CSR	38.980	1	38.980	19.699	.000	15.927	1	15.927	8.205	.005
Transparency * CSR	9.097	1	9.097	4.598	.032	9.709	1	9.709	5.001	.026
Error	1907.503	964	1.979			397.967	205	1.941		
Total	4717.494	972				64286.173	213			

Note. $R^2 = .328$ (adjusted $R^2 = .323$); *Note.* $R^2 = .207$ (adjusted $R^2 = .180$)

from 2019 show a significant effect of CSR ($M_{\text{low CSR}} = 16.828$ vs. $M_{\text{high CSR}} = 17.579$; $F(1, 205) = 13.99$, $p < .005$). In other words, this additional test also supports the claim that CSR increases firm profit. Moreover, consistent with our argument, we find a significant two-way interaction between CSR and transparency ($F(1, 205) = 5.001$, $p < 0.05$), which confirms that in case of high (versus low) transparency, there is a stronger link between CSR and profit. Table 2 reports the results.

For robustness, we ran several three-way ANOVAs among transparency, CSR, and potential moderating variables (e.g., industries, ownership structure, firm size). The results indicate that none of these variables affect the interaction between CSR and transparency. In other words, our identified effect between CSR and transparency on profit does not depend on factors such as industries, ownership structure, or firm size.

4. Key principles for managing transparency

Putting the aforementioned ideas into practice demands careful reflection from managers. In this section, we discuss the key principles for jointly managing transparency and CSR, including disentangling important factors, such as the type of information that should be made available and the involvement level.

4.1. Principle 1: Companies should monitor and track performance transparency regularly

To monitor and track their performance transparency, managers can either use an objective proxy such as the Opacity Index or include the performance transparency scale (Liu et al., 2015)—introduced subsequently—in their customer surveys or customer tracking practices. Measuring performance transparency from customers' perspective on a regular basis enables companies to assess their transparency accurately and to adjust their strategies regarding CSR activities.

Managers often face the challenge of how to monitor transparency given that it is based on stakeholder perceptions. Secondary data on transparency are only available for large corporations and naturally suffer from a time lag. As customers are the focal stakeholders of firms, measuring performance transparency from their perspective deserves particular priority. Such a measurement is beneficial as (1) it is easily assessable using a four- or nine-item scale; (2) it allows firms to continuously monitor transparency perceptions to detect changes early; and (3) it is based on customer perceptions, so firms can determine whether customers notice their transparency efforts.

The relevance of specific information is likely to vary across different stakeholders. For this reason, Liu et al.'s (2015) performance transparency scale sets a specific focus on customers' subjective perceptions of a company's openness and communication practices. The measure was tested rigorously when developed and has been applied in multiple academic studies (e.g., Foscht et al., 2018; Heinberg et al., 2021). These studies add internal validity to our results and thus complement the findings from our secondary data analysis. Research has already established that performance transparency has two important elements that can be measured: information accessibility and information objectivity (Merlo et al., 2018). Liu et al.'s (2015) nine-item performance-transparency scale is more comprehensive, but a shorter, four-item scale achieves equal validity and reliability. It includes four criteria based around two dimensions:

1. "Information about [COMPANY]'s offerings is easily accessible" for the dimension of information accessibility;

2. "Information provided by [COMPANY] about its offerings is easily understood" for the dimension of information accessibility;

3 "[COMPANY] offers access to other customers' comments or ratings of its offerings" for information objectivity; and

4. "[COMPANY] compares the pros and cons of its offerings versus competitor offerings" for information objectivity.

The two-dimensional measure of performance transparency can also provide concrete guidelines for firms on how to manage and improve their performance transparency. First, information accessibility is essential for transparency, and information should be made available to customers in an easily understandable manner (Cannon & Perreault, 1999). Too much or too complicated information (Lowrey, 1998; Ziamou & Ratneshwar, 2002) may not be perceived as accessible or as true transparency. In practice, information should be presented clearly and made easily accessible to consumers on various sources (e.g., company websites, mobile apps, social media pages, customer service communication). Companies should be careful when using complex language and terms, and they should always be ready to help customers understand the communication. Customer education is also a good way to provide valuable and accessible information (Eisingerich & Bell, 2008), such as Barclays's (2022) "simple hacks to help boost your bank account" or energy company British Gas's (2022) "how to save energy at home," which use a dedicated area on their official websites to provide useful information for their customers. Other possible ways include regular mail communication and newsletters. But information is not accessible if customers must wait a long time before having their inquiries answered, or when they have difficulty finding a live person to talk to.

Second, information objectivity is crucial for transparency. In marketing communication activities, a company almost inevitably exaggerates the positives of its offerings and downplays its negatives. But the availability of information-sharing websites and social media demand a more cautious and authentic approach: The information provided must not be viewed as a selective exaggeration of positive or minimization of negative company information. To achieve transparency, communication should reflect attributes of truth, honesty, frankness, and candor, and it needs to be without guile or concealment (Bennis et al., 2008). For example, two-sided comparative information—that is, information that contains both positive and negative aspects and that customers can easily use to make a comparison—can enhance customers' perceived credibility of a message, advertiser, or communicator (Bohner et al., 2003). Finnair, for example, clearly presents and compares its various flight ticket types. A hyperlink on a retail platform to online media-review websites, blogs, social networking sites, and online communities can help customers access customer-to-customer interactions and third-party information such as reviews (e.g., UO Community by Urban Outfitters; the Body Shop).

4.2. Principle 2: Companies should initiate consistent transparency practices along with CSR activities

Transparency is a prerequisite for the effect of CSR activities. In other words, CSR activities not aligned with transparency practices yield limited benefits or can even have adverse effects. For example, the Body Shop not only performs well in CSR practices (e.g., "redefining beauty," "empowering women and girls") but also employs good practices of transparency (e.g., it provides easily accessible customer reviews on each product and reveals how it abides by the California Transparency in Supply Chains Act). Similarly, Airbnb scores high on both CSR and transparency. In addition to supporting gender equality and minorities (i.e., CSR), Airbnb discloses information about "what each place offers" and "things to know" in an easily understood and accessible way (i.e., performance transparency). Likewise, TikTok is not only committed to CSR (consider the provision of the TikTok Health Heroes Relief Fund) but also builds global transparency and accountability centers where invited guests can have the opportunity to see how the company recommends content, secures the platform, and protects people's privacy. In addition, visitors can review its source code and learn how the application's algorithm operates. Such a dual approach to both CSR and transparency is necessary in practice. In this sense, we deem transparency a condition for CSR effectiveness.

We advise companies struggling to reap the benefits from CSR initiatives to reflect on their transparency in relevant activities. If there is a communication issue and customers have a misperception of a firm's transparency efforts, public relations and image campaigns may need to be overhauled. If performance transparency is low, however, managers need to be aware that increasing transparency is a long-term process. As transparency is a trait reflective of a firm's values, nurturing a firm's transparency level requires a change in corporate culture, which is impossible to enact overnight. Short-term image campaigns to raise performance transparency should be avoided; they are prone to backfire because such efforts tend eventually to mirror the true transparency level of a firm. Therefore, we suggest that low-transparency firms consider raising their transparency level before investing heavily in CSR projects.

For firms high on transparency and not yet engaged in CSR initiatives, we suggest moving sustainability higher on the agenda. CSR projects at the heart of customers' ideals and connected with the firm's value proposition have a high potential to do good and to reward the business at the same time. Essentially, firms should view sustainability as a long-term commitment and maintain their high transparency standards also in CSR reporting.

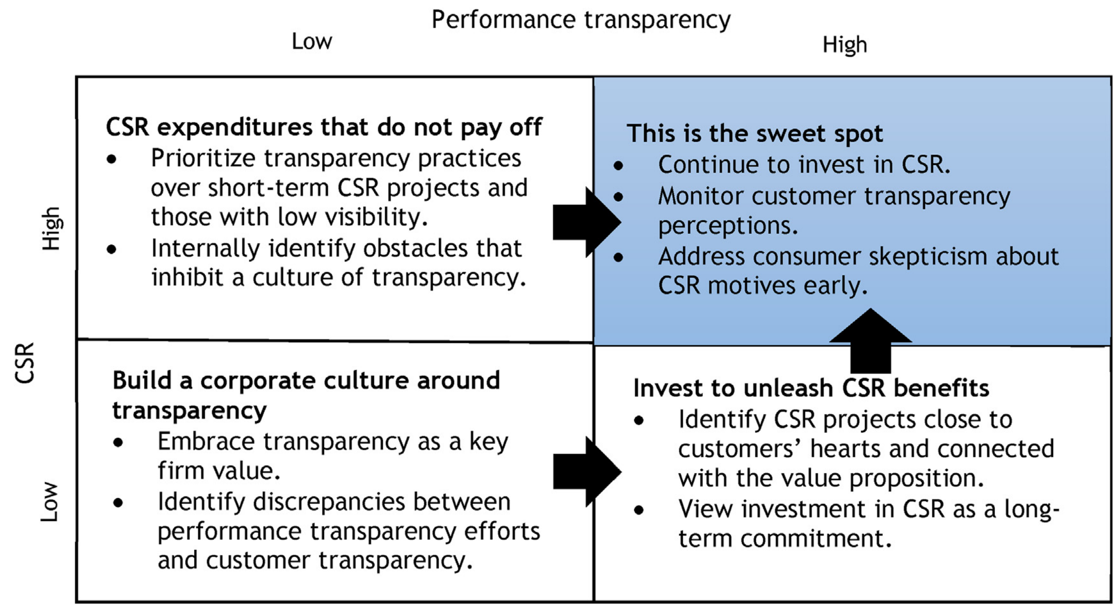
Importantly, the finding that firms with low CSR but high transparency can still do well and have high profitability is counterintuitive and deserves careful attention. Empirical evidence suggests that though CSR is low, high transparency enables consumers to make inferences about a company's trustworthiness and reliability and thus reduces perceived risk regarding a firm's products and services (Heinberg et al., 2021). But such a finding should not lead to the conclusion that firms should refrain from CSR investments as long as they are transparent, given the high cost of pursuing CSR activities. The reason is that the combination of both high transparency and CSR is most beneficial to firms, as it builds strong customer-firm relationships. Moreover, the argument that CSR is costly and may result in less profit is not valid, as our real-world data confirm that CSR efforts enhance firm profits, but such an effect can be increased when combined with transparency (Figure 3).

4.3. Principle 3: Companies should pay attention to the types of information made available

A firm's secrets and valuable data related to its competitive advantages should not be part of transparency initiatives. Then again, should transparency depend on the favorability of information to a firm? Although companies often feel comfortable and confident about being transparent when information reflects positive aspects, they may hesitate when it comes to negative or mixed information. For example, how open should a firm be in communicating information about a product recall that may put the firm in a bad light?

According to results from Heinberg et al. (2021), transparency is only beneficial for a company's CSR effectiveness in the case of positive and mixed information. Although being transparent about positive information has a slightly stronger effect than mixed information, transparency clearly increases CSR effectiveness in both cases. In addition, transparency about negative information neither boosts nor harms CSR effectiveness. As such, the valence of information can enhance the effect of transparency, but even in the case of negative information, we did not find damage to the firm because of transparency in general (though the involvement level may play a key role, a point on which we elaborate in the next section). But, and in confirmation of our previous argument, low transparency backfires and decreases the effects of a company's CSR efforts. Therefore, we recommend implementing transparency as a corporate value. Fine-tuning individual messages may further enhance transparency effectiveness,

Figure 3. Roadmap of jointly managing CSR and performance transparency



but this must not conflict with the overall principle of reporting objective information.

4.4. Principle 4: Companies should adapt the transparency practices to the involvement level

Another important factor to consider is the level of customer involvement, which reflects the importance a customer places on a product or service. Involvement is often related to the product category and captures the extent to which customers consider risk, the probability of purchase error, the product's pleasure value, and the product's sign or symbolic value. Involvement determines customers' decision-making processes, including the way they process information. How involved customers are in a particular purchase may influence the role of transparency; different levels of involvement can cause different cognitive processes and result in different consumer decisions. For example, customers' sustainable and responsible consumption behavior may depend on their product involvement in addition to performance transparency and CSR efforts (Foscht et al., 2018).

First, in a high-involvement context, such as when purchasing cars or financial products, customers normally face a complex decision-making process. Practices of combining high transparency and high CSR will lead to the greatest benefit for companies in such industries. For example, the BMW Group considers sustainable commitment an integral part of its identity and promotes diversity and social mobility. At the same time, BMW has initiated the PartChain project, which uses blockchain technology to increase transparency in worldwide supply chains regarding raw materials and components (BMW Group, 2020). As a result of both high transparency and high CSR practices in a high-involvement product, customers are likely to be willing to engage in sustainable and responsible consumption behavior themselves.

Second, in a medium-involvement context, such as electronics or holiday travels, customers appreciate the information. Thus, a company has much to gain from being transparent about its performance, regardless of whether customers perceive the company as highly socially responsible or not. Customers appreciate a company's efforts to help them understand its offerings and to quickly identify and process valuable information. For example, with data tracking more widespread than ever, Apple (2021) assists users in learning how its privacy features help them take control of their data.

Finally, in a low-involvement context, such as soft drinks and personal care products, customers are inundated with messages they are not strongly motivated to process. Customers can simply abandon a brand given simple heuristics, such as low CSR associations. Therefore, for these products, emphasizing performance transparency may backfire when customers perceive companies as relatively low in CSR. Customers can be left overwhelmed with such transparency, and they may begin to view such companies as unhelpful or annoying.

5. Conclusion

Transparency is an important firm signal to stakeholders and is particularly relevant for customers. Given today's proliferation of information technology and social media, customers increasingly demand transparency from firms not only in their CSR initiatives but also beyond such endeavors. Performance transparency captures the extent to which stakeholders can see through a company's offerings and obtain information that is not usually shared by it (Merlo et al., 2018). This type of transparency is distinct from the sustainability-reporting transparency present in the bulk of previous studies investigating the transparency-CSR interaction.

Like CSR, performance transparency serves as a signal and represents the sincerity of a company's motives. A high level of transparency practices is inevitable for a socially responsible company; it not only boosts the company's CSR effectiveness (e.g., enabling stronger customer attachment and firm-related behavior) but also provides a moral model for customers to become engaged in sustainable and socially responsible behavior themselves.

In general, a company's CSR efforts benefit from performance transparency. Yet firms should consider several important factors when applying transparency as a strategy, including the type of information made available and the involvement of consumers.

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