License to Ill

November 21 2013, by Sean Nealon

In 2008, the CEO of British Petroleum, Tony Hayward announced that BP's safety record was among the best in the industry. Under his leadership, BP ran operational safety training sessions for its employees and encouraged a culture of safety to satisfy its stakeholders, including employees, the community, and the environment.

However, in 2010, the Deepwater Horizon explosion shattered BP's positive safety record when managers missed key safety warning signs, resulting in the loss of 11 lives and creating the worst offshore oil spill in United States history. Moreover, Hayward's reaction to the spill was seen as cold and perceived as minimizing BP's responsibility for the spill and the environmental damage to the Gulf of Mexico.

This dynamic – espousing good actions but then taking steps in the opposite direction – is surprisingly common among CEOs of Fortune 500 companies, researchers have found in a just published paper.

They found firms that engaged in prior socially responsible behavior are more likely to then engage in socially irresponsible behavior and that this tendency is stronger in firms with CEOs who attempt to put forth a moral image.

"The finding is very counterintuitive," said Elaine Wong, an assistant professor of management at the University of California, Riverside School of Business Administration who co-authored the paper. "You wouldn't think doing well by one's stakeholders would set the stage for actions that harm stakeholders in the future."

Wong co-authored the paper, "License to Ill: The Effects of Corporate Social Responsibility and CEO Moral Identity on Corporate Irresponsibility," with Margaret Ormiston, a faculty member at the London Business School. It was just published in the winter 2013 issue of the journal *Personnel Psychology*.

With many recent examples of corporate wrongdoing, academics have increasingly studied firms' corporate social responsibility, that is behavior beyond compliance and legal requirements to provide social good, such as charitable giving and providing employees flexible work arrangements. That research has found that firms with high levels of corporate social responsibility perform better financially.

But, there has been little research on corporate social irresponsibility, which refers to actions that negatively impact the interests of stakeholders. Wong and Ormiston set out to expand on the limited research in that field by examining whether corporate social responsibility influences later corporate social irresponsibility.

In their study, using the 2002 Fortune 500 list, they examined firms' longitudinal corporate social responsibility and corporate social irresponsibility. They also examined the role of CEOs by focusing on those who received a reasonable amount of media coverage (at least 10 articles of approximately 1,000 words). That ended up being 49 firms, including companies such as IBM, Nike and Pepsi.

They found that prior corporate social responsibility was related to subsequent corporate social irresponsibility. More specifically for roughly every five positive actions that a firm takes, this gives them license to commit one negative action.

"These findings show that CEOs should be aware of this tendency so that they can prevent their companies from slipping into this pattern," Wong

said. "Additionally, corporate boards can't allow CEOs to rest on their laurels. They need to be vigilant in monitoring CEOs."

Provided by University of California - Riverside

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