Transparency and Trustworthiness in CSR Communication

Normative considerations and empirical evidence

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**List of Abbreviations**

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<tr>
<td>CSR</td>
<td>corporate social responsibility</td>
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<td>ISCT</td>
<td>integrative social contracts theory</td>
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<td>NGO</td>
<td>non-government organization</td>
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1. Introduction

The rising interest in corporate social responsibility (CSR) over the last decades is also mirrored by a strong increase in corporate social disclosures (KPMG, 2017). While CSR actually refers to the extended economic, social and environmental responsibilities of companies (Carroll, 1991; Dahlsrud, 2008; Van Marrewijk, 2003), it is also often used as a marketing tool (Gallego-Alvarez et al., 2010) aimed at improving company image. This is, sooner or later, expected to translate into financial success. These distinct issues—a responsibility to society on the one hand, and the instrumental value on the other—give rise to questions regarding the transparency of CSR disclosures and the trustworthiness of the companies publishing them.

Transparency is defined as “the perceived quality of intentionally shared information” (Schnackenberg and Tomlinson, 2016, p. 1788). Information quality involves different dimensions such as the relevance of information, the comprehensibility of information and the accuracy (i.e., correctness) of information (Schnackenberg and Tomlinson, 2016). Given this definition, transparency is considered as characteristic of a disclosure. Trustworthiness, on the other hand, refers to a disposition that is attributed to the sender of information. It is defined as a company’s willingness to honestly communicate (Newell and Goldsmith, 2001; Pornpitakpan, 2004). This dissertation takes a two-fold approach to address both issues. First, the necessity of transparency is discussed on a normative level. Second, whether transparent CSR disclosures convert into higher perceived trustworthiness\(^1\) for a given company is empirically investigated (see Figure 1). Here, I follow Schnackenberg and Tomlinson (2016) and regard transparent disclosures as antecedents for the attribution of trustworthiness. It is

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\(^1\) In both manuscripts, the term “credibility” is used instead of “trustworthiness” because trustworthiness is one important dimension of corporate credibility (Newell and Goldsmith, 2001; Pornpitakpan, 2004).
assumed that the strength and direction of the link between transparency and trustworthiness is context-dependent. Therefore, two different cases (Manuscript 2 and Manuscript 3) are investigated.

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<td>…as characteristic of the disclosure</td>
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Figure 1. Content and structure of the dissertation

In the first part of the dissertation, the role and normative foundations of transparency within three major CSR theories, namely the shareholder approach of Milton Friedman, stakeholder theory and integrative social contracts theory (ISCT) are discussed. A special focus (Manuscript 1: Jahn and Brühl, 2016) is put on Milton Friedman’s approach to CSR (Friedman, 1962; 1970). Although developed decades ago, the ideas of Friedman still belong among the more influential and controversial approaches to CSR. When presenting Friedman’s approach, the emphasis he places on individual freedom is of particular relevance. Individual freedom is not only the most important concept within his argumentation, it is also crucial with regards to transparency. This first part is aimed at building a strong theoretical-normative foundation for claiming transparency in CSR disclosures by outlining different arguments in favor of transparency.

The second part covers two empirical studies (Manuscript 2: Jahn et al. (2017) and Manuscript 3) that investigate how corporate communication strategies, which differ in their degrees of transparency, are perceived by the recipients of such disclosures, particularly with respect to trustworthiness. In order to shed some light on the conditions under which transparency converts into trustworthiness, the manuscripts focus on two different issues. In
Manuscript 2, the company's intentions for a CSR activity are central, as well as whether a company communicates any financial gains it has generated as an outcome of a CSR activity. This is a highly important issue because the motives that people attribute to corporate behavior determine whether a company is judged favorably (Ellen et al., 2006). Manuscript 3 addresses the issue of disclosing overly positive CSR information, a practice that can regularly be observed (e.g., Holder-Webb et al., 2009; Ratanajongkol et al., 2006), by comparing the purely positive disclosures with disclosures that contain both positive and negative information.

Each of the three manuscripts included in this thesis has its particular research questions and findings and, thus, its own respective contributions. While these various contributions are not explicitly repeated here, all of the manuscripts provide insights about transparency or how transparency is related to trustworthiness. The first paper argues that Friedman’s claim to avoid deception can be traced back to his emphasis on individual freedom. Giving full credit to the consequences of respecting individual freedom reveals how managers should treat stakeholders and excludes any kind of deceptive strategies. The second paper shows that admitting financial benefits as an outcome of a CSR activity causes the attribution of extrinsic motives, which in turn adversely affects trustworthiness\(^2\). These findings indicate that in such a case, the transparent communication of financial benefits is not beneficial. Due to the existence of financial gains, the company is perceived as biased, which undermines trustworthiness. Finally, the third paper shows, in contrast to the second paper, that more transparency—here, the disclosure of negative information—in CSR communication causes

\(^2\) The second paper also investigates organizational legitimacy as a further dependent variable. The results show that legitimacy is positively related to trustworthiness and thus negatively affected by the disclosure of financial benefits.
two opposing effects on trustworthiness. On the one hand, voluntarily disclosing negative information increases trustworthiness because companies have no incentive to publish such information if it were untrue. On the other hand, such situations are perceived as implausible by the readers, which adversely affect trustworthiness. However, no adverse effects through transparency were ultimately found.

The remainder of the thesis is structured as follows: The second chapter starts by defining the terms “transparency” and “deception.” Afterward, their relevance and ethical implications are presented. The third chapter discusses the role of transparency within the three major CSR theories. This chapter also includes Manuscript 1. While chapters two and three focus on normative issues, chapter four serves as an introduction to the empirical portion of the thesis. Here, the connection between transparency and trustworthiness is established and previous empirical studies on issues of transparency are introduced. Chapter five begins by presenting Manuscripts 2 and 3. Their implications regarding transparency are subsequently discussed. Chapter six concludes the dissertation.

2. Transparency and Deception

Before analyzing the normative foundations of transparency in major CSR theories, it is necessary to define transparency. In this context, it is also of particular importance to refer to deception. This is required because deception can be regarded as contrary to transparency and, moreover, because the term “deception” is regularly used by CSR scholars, particularly by Friedman, whose approach is discussed in detail later on. Furthermore, this second chapter gives a short overview of the relevance of transparency, about the tensions between economic

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3 The third paper also investigates CSR perception as a further dependent variable. The results show that CSR perception is positively related to trustworthiness and does not decrease for any proportion of negative information included in the disclosure.
and ethical positions in reference to transparency and the boundaries of transparency in business life.

2.1 Defining transparency

Schnackenberg and Tomlinson (2016) define transparency as “the perceived quality of intentionally shared information” (p. 1788). This definition contains several noteworthy elements. First of all, transparency is about the providing and sharing of information. Here, sharing information implies sharing knowledge with internal and external stakeholders (Schnackenberg and Tomlinson, 2016). Second, transparency is considered as intentional. Thus, in order to be transparent, the providing of information must be a conscious act of the company’s management. Inadvertently disclosed or withheld information is not indicative of transparency (Schnackenberg and Tomlinson, 2016). Third, transparency refers to the perception of information: Each individual perceives information differently and thus has different expectations regarding transparency. Fourth, transparency is about the quality of information. According to Schnackenberg and Tomlinson (2016), information quality can be characterized by these dimensions: disclosure, clarity, and accuracy.

Disclosure is defined as timely providing of relevant information (Schnackenberg and Tomlinson, 2016). Identifying relevant information is crucial here. The unfiltered disclosure of useless information undermines transparency, as readers need to spend additional effort in order to detect information that is important to them. Moreover, such practice could also cause a situation of information overload and adversely affect decisions (Eppler and Mengis, 2004). In this regard, it is important to mention that different stakeholder groups have different information needs and therefore deem different information to be relevant (Sweeney and Coughlan, 2008). The timely providing of information is related to the issue of relevance,
as outdated information by definition has already lost its importance (Schnackenberg and Tomlinson, 2016).

*Clarity* refers to the “lucidity and comprehensibility” (Schnackenberg and Tomlinson, 2016, p. 1792) of information. This means that information needs to be presented in an understandable form. Professional or technical jargon should be avoided and companies are asked to use language and graphics that are clear to the reader. Comprehensibility of information is essential because it affects subsequent decisions; for example, it increases the reliance on one’s own judgments (Scharrer et al., 2013).

Finally, *accuracy* refers to the correctness of information and whether or not it is perceived as reliable (Schnackenberg and Tomlinson, 2016). Importantly, accuracy does not require that any information that is provided proves to be completely true when verified *ex post facto*. Rather, “material claims should reflect precise qualifications about their expected validity” (Schnackenberg and Tomlinson, 2016, p. 1793).

### 2.2 Defining deception

When talking about transparency, one cannot sidestep deception. Deception can be regarded as contrary to transparency and the term is frequently used by leading CSR scholars (e.g., Donaldson, 1982; Friedman, 1970).

Deception can generally be defined as “the act of hiding the truth, especially to get an advantage” (Cambridge Dictionary, 2018) or as “the act of causing someone to accept as true or valid what is false or invalid” (Merriam Webster, 2018). These basic definitions highlight some of the key aspects of deception: (1) deception is the providing of misleading or false
information, (2) deception is often applied in order to gain an advantage, and (implicitly mentioned⁴) (3) deception is an intentional act.

Regarding deception as the providing of false or misleading information implies that deception can appear in various forms. The most unambiguous form is the misstatement of facts; that is, the publication of false claims. Additionally, claims that allow for multiple interpretations where one or more of them is false are likewise deceptive—that is, when the claim only proves to be true under very specific circumstances. Moreover, claims that omit relevant information, claims which might be true but that are backed by false proof, and also claims be which are “literally” true but create false implications can considered to be deceptive (Cohen, 1974).

Second, the definition hints at the notion that deception often involves an instrumental purpose (Chaouachi and Rached, 2012). This means that deception is applied in order to gain some kind of benefit such as selling more products, hiding a failure or attaining a bonus. Thereby, deception can be motivated both by gaining advantages for oneself, but also for third parties. Hence, deception is often closely related to fraud of one kind or another.

The third aspect, the intentional nature of deception, is controversially discussed and not part of any definition of deception (Chaouachi and Rached, 2012; Mahon, 2007). This is because the providing of wrong or misleading information can also be caused by other reasons such as misunderstandings, or by ineffective intra-company communication (e.g., between the marketing and production departments) (Delmas and Cuerel Burbano, 2011). Still, within this thesis, deception is regarded as a conscious act. This notion of deception is particularly relevant for the interpretation of the empirical part, (see chapter 5) wherein experiments are

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⁴ The formulation “act of hiding” hints to an active role of the company (i.e., information is intentionally withheld).
presented that compare different communication strategies. The decision in favor or disfavor of one communication strategy is regarded as conscious act.

Transparency and deception can be regarded as two sides of the same coin. Both refer to the providing of information. Transparency requires the disclosure of correct and relevant information in a timely and understandable manner in order to allow stakeholders to make informed assessments that result in decisions that best serve their interests. Deception is the exact opposite of that. Misleading and false information is disclosed in order to get an advantage—often at the cost of those who were deceived. Furthermore, both are considered as intentional acts. This implies that managers consciously opt for either a transparent or a deceptive communication strategy. In this regard, transparency is a positive duty that managers are asked to fulfill (e.g., Schwartz and Carroll, 2008), while deception is a negative duty that is condemned (e.g., Donaldson, 1982; Friedman, 1970).

2.3 Relevance of transparency and deception

Almost all corporate scandals in recent years involve deception in one way or another. Examples are manifold and hit a variety of industries. Volkswagen and other car manufactures have been accused or even found guilty of cheating with emission manipulations (Thomas, 2015). In this case, deception was part of a large-scale fraud that involved the installation of defeat devices accompanied by the communication of wrong, or at least misleading, information (i.e., deception). Enron collapsed after large-scale accounting fraud, a misstatement of earnings, was detected (CNN, 2017). In the aftermath of the financial crisis, several banks were blamed for selling risky financial products without adequately mentioning the perils they included (Treanor, 2008). After the Deepwater Horizon oil spill, BP indicated that a much lower amount of oil was leaking than was actually the case (Finn, 2013). These examples illustrate that deception is an integral component of various kinds of
organizational transgressions and corporate frauds, because illegal or immoral actions are accompanied by the disclosure of wrong information or because failures are hidden (are not communicated).

While the above examples represent extreme cases of deception, less severe cases of non-transparent communication can also cause a variety of adverse effects for those who become deceived as well as for society as a whole. When consumers are wrongly informed about product attributes, they may buy things they would not have bought otherwise; thus, their welfare is negatively affected. If automotive companies deceive customers and regulators regarding the emissions of their cars, then the permission to sell these cars can cause adverse effects on consumers’ health and the environment. Also, from an economic perspective, deception is relevant. Akerlof (1970) has shown that markets break down when market participants are not able to differentiate between high and low quality products because they lack trustworthy information.

Transparency, on the other hand, is related to several positive outcomes. First of all, while deception negatively affects the allocation efficiency and freedom of consumers, transparency is positively related to both (Dubbink et al., 2008). Moreover, transparency triggers further positive outcomes. Albu and Wehmeier (2014) highlight the relevance of transparency in crisis situations to maintain the social license to operate. Kang and Hustvedt (2014) found that transparency is positively related to trust and attitude toward a company. Vaccaro and Echeverri (2010) showed that transparency of electricity utilities positively affects customers’ willingness to engage in pro-environmental behavior.

Examples of organizational transgressions, as well as the negative effects of non-transparent communication and positive effects of transparency, highlight that transparency is a central concern for business ethics research.
2.4 Transparency and deception between the poles of economics and ethics

Managers act at the intersection of different systems of norms. On the one hand, they are obliged to generate profits for the business owners; on the other hand, they and the companies they work for are part of society. As such, they are required to obey a set of social norms. That these two normative systems regularly contradict cannot come as a surprise. Examples appear regularly in the media. For example, Siemens recently announced a reduction in its workforce at different locations around the world, particularly in Germany. Among others, the plant in Görlitz should be shut down even though the region is economically weakly developed and Siemens is its major employer (Sarovic, 2017). Thus, closing the plant in order to increase profits, although the company is far from being in financial distress, is likely to raise the unemployment rate and can be considered to violate social norms.

The conflict between economic theory and ethical theory is particularly meaningful with respect to transparency and deception, as arguments from both sides directly clash. Classical economic theory refers to *homo oeconomicus*. This rational and self-interested agent is expected to lie whenever it is beneficial for him or her. Moral concerns do not matter (Gneezy, 2005). Economists often apply game theory to analyze rational behavior and communication. One key insight refers to so-called cheap talk. It is argued that if the sender can provide information without any costs, the addressee has no reason to believe that such information is true (Farrell and Rabin, 1996). From the economic perspective of the rational, selfish individual, deception (like any other action) is only assessed by the benefits or harm it causes for the individual; deception itself is morally neutral. Thus, whether or not a person deceives depends solely on his or her personal consequences. Of course, rational thinkers would incorporate the long-term costs of lying—the anger and distrust of those who were deceived. However, this is no hint to any kind of moral obligation for truth-telling.
Assessing managerial obligations from an ethical perspective reveals a different picture. Probably the strongest objection against deception comes from Immanuel Kant (2014/1797). Kant, who refers to lies, rejects any kind of deception, because according to his categorical imperative, only those actions which shall become a universal law are morally right. Thus, he consequently dismisses any false statements independent of possible consequences. This is because telling lies can never be regarded as universal law. This also includes white lies. He argues that even a prospective murderer should not be lied to when he or she asks where his or her potential victim hides. Lying is regarded as a violation of a perfect duty which cannot be offset by the imperfect duty of good will toward others (Geismann, 1988).

Next to Kant’s position, there are other ethical perspectives that reject deception such as virtue ethics. Virtue ethics argues that only a virtuous life is a good or happy life. Virtues are characteristics that enable people to act morally across various situations. They are stable dispositions that come along with a particular mindset which guides the individual’s actions. Thus, virtues do not only refer to skills, but also involve habits; that is, in order to be a virtuous person, one needs to apply one’s skills (Harman, 1999). Truthfulness and honesty are some of these virtues (e.g., Mintz, 1995). Therefore, an honest or truthful person is someone who tells the truth because he or she is disposed to do so and not because of an external order or due to the consideration of consequences. Thus, people who deceive are neither honest nor virtuous and thus do not act morally proper.

An ethical position in which deception is more controversially discussed is utilitarianism. According to the common utilitarian argument, an action is morally right if it provides the greatest benefit to the largest number of people. Thus, one could argue that deception is acceptable if it provides more good than harm. However, when considering that lying undermines social rules and trust in society, deception is contradictory to utilitarian ethics.
Thus, one can conclude that deception is rejected by major ethical theories.

These two opposing positions—the economic and the ethical perspectives—illustrate the area of tension in which managers act. A purely economic perspective can hardly be aligned with ethical thinking. Thus, one task of business ethics is to integrate reasoning about deception to managerial obligations. Before turning to the role of transparency and deception in different CSR theories, exceptions from the obligation for transparency are discussed.

### 2.5 Exceptions of transparency

That deception is generally perceived as immoral is common sense, whether it be in everyday life or business life. However, as with any rule there are exceptions. Telling lies to a prospective murderer or any other person whom one suspects might cause severe harm to others can hardly be morally condemned—at least in most ethical theories. This is because persons who apply the truth for an evil purpose lose their right to experience the truth and can, in consequence, be belied (Korsgaard, 1986).

While the case of talking to a potential murderer is indeed an extreme case, day-to-day business activities provide further situations wherein deception seems justifiable. One example is deception in negotiations. Is it wrong when you lie about the maximum/minimum amount you are willing to pay or accept when bargaining? Of course you deceive your trading partner when telling him or her that you are not willing to buy his or her products when the price is not further reduced, if you are actually already willing to accept. But is such a behavior morally objectionable?

One argument that is often put forward to justify deception in negotiations refers to self-defense. It is argued that deception is acceptable in order to prevent oneself from being
exploited by one’s bargaining opponent. If I were to honestly tell him or her the maximum or minimum amount I am willing to pay (accept), he or she would get an informational advantage from lying about his or her price expectations. Thus, deception can be regarded as an accepted strategy in order to prevent oneself from being harmed by a potentially deceitful trading partner (Carson, 1993; Dees and Cramton, 1991).

Another point of view is put forward by Strudler (1995). One argument that is regularly brought into play when talking about deception, and that will be discussed in detail in Manuscript 1, is related to individual freedom. It is argued that deception is wrong because it adversely affects other people’s freedom and autonomy by causing them to make badly informed decisions. Strudler (1995) now argues that this kind of argument does not apply in negotiations. Instead he contends that, for competent bargainers who expect to be deceived, reciprocal deception can be a good means to stepwise gather information about the opponent’s price range without feeling that one’s freedom is endangered. Strudler (1995) regards deception as an indirect way of communication that is less risky than frank communication and which, in the end, allows coming to a deal from which both parties benefit. As both parties have imperfect information and know about the conventions of deception, autonomy is preserved (Strudler, 1995). This can be backed by the definition of transparency, which refers to the perception of information and different expectations of distinct stakeholders (Schnackenberg and Tomlinson, 2016). If bargainers do not expect full honesty in price negotiations, then neither transparency nor freedom is endangered. Moreover, the argument that a deal that benefits both parties could not be realized otherwise hints at a utilitarian argument in favor of deception in such cases.

A further example that comes closer to Kant’s case of lying to a prospective murderer might be the case of a company cooperating with dictatorial government. If a company operates in a country that is governed by a dictator and the management is asked by the secret police
whether opponents of the regime are employed, one can question whether an honest answer is morally obliged. This is because there is also an obligation of preventing others from harm (Brühl, 2018). That such situations are indeed of high practical relevance is illustrated by Kopper (2018). He investigated the relationship between Volkswagen and the Brazilian military dictatorship between 1964 and 1985. However, in contrast to moral expectations, he found that the Volkswagen plant security even actively supported the prosecution and torture of political enemies.

The examples of deceiving others about one’s reservation price in negotiations and cooperating with military regimes are only two cases that elucidate that situations exist in which full transparency is not required or is even condemned. A variety of different reasons apply, such as that transparency is not expected by involved stakeholders in some situations, the utilitarian argument of realizing beneficial deals, or the collision of transparency with other moral obligations. Nevertheless, such cases are exceptions and should be treated as such. In most cases, including the providing of CSR disclosures as investigated in chapter 5, companies are obliged to transparency. How this obligation is derived within different CSR theories is discussed in the next chapter.

3. Transparency in CSR Theory

3.1 Introduction to Manuscript 1

The nature and extent of managerial responsibilities towards society are heavily and controversially discussed. Previous research on CSR provides several theoretical streams that aim to determine and justify these responsibilities. One starting point for many such discussions is the influential claim that managers only have the responsibility “to make as much money as possible,” which is most prominently heralded by Milton Friedman (1970, p.
This view is often referred to as the *shareholder approach* to CSR, because Friedman regards managers as agents of the company’s owners which, as he generally assumes, are most interested in profit maximization.

In response to—and as a critique of—Friedman, scholars developed further approaches to CSR. The most famous approach goes back to Richard Edward Freeman, who initiated (1984) and further developed (e.g., Evan and Freeman, 1988; Freeman, 1994; Freeman et al., 2012; Freeman et al., 2004) *stakeholder theory*. The underlying idea is that companies and their managers should not only focus on shareholder interests, but should also consider the concerns of further groups such as customers, employers or suppliers.

A further influential approach is the *integrative social contracts theory* (ISCT) of Thomas Donaldson and Thomas Dunfee (Donaldson and Dunfee, 1994; 1999; Dunfee and Donaldson, 1995). ISCT merges the ideas of a hypothetical social contract between business and society (Donaldson, 1982) and extant real-but-informal social contracts that are established within the various communities that exist in society (Dunfee, 1991).

Perhaps due to the provocative tone of his claim or his reputation as libertarian economist, Friedman’s argument is often reduced to a profit maximization claim and dismissed as too narrow or immoral (e.g., Grant, 1991; Schwartz and Saiia, 2012). In consequence, the initial contributions to stakeholder theory and ISCT (Donaldson, 1982; Freeman, 1984) can be understood as objections against Friedman’s shareholder approach (1970) and as calls for the recognition of various interest groups other than shareholders and a wider set of moral norms. However, Friedman sets several conditions for profit maximization, such as the obligation to obey the “basic rules of the society, both those embodied in law and those embodied in ethical custom” and to “[engage] in open and free competition without deception or fraud”
Moreover, Friedman’s central concern—individual freedom (Friedman, 1962)—is not fully reflected in the analysis of his profit maximization claim.

Manuscript 1, which will be presented below, discusses Friedman’s approach to CSR with a special focus on his emphasis on individual freedom. Furthermore, his approach will be compared with stakeholder theory and ISCT in order to derive commonalities and differences between these approaches. When individual freedom is fully recognized, the differences between these theories are not as large as is often assumed, even though substantial distinctions remain. Thus, the manuscript contributes to the recent attempts for a better understanding of Friedman’s approach (Cosans, 2009; Heath, 2004; James and Rassekh, 2000) and to the efforts to close the gap between shareholder and stakeholder theory (Freeman, 2008).

Friedman’s insistence on acting “without deception” makes the relevance of his arguments regarding issues of transparency abundantly clear. Therefore, after the manuscript is presented, the implications of Friedman’s approach, stakeholder theory and ISCT on transparency are discussed and compared.
3.2 Manuscript 1

**Title:** How Friedman’s View on Individual Freedom Relates to Stakeholder Theory and Social Contract Theory

*The manuscript is published as:*

3.3 How Friedman’s approach, stakeholder theory and ISCT reject deception

Manuscript 1 analyses and discusses Friedman’s approach to CSR and thereby recognizes the importance he assigns to individual freedom. Focusing on individual freedom—the central value in his line of reasoning—allows for consistently deriving a set of managerial obligations. These obligations are more encompassing than often assumed. It can be shown that a set of deontological norms can be derived which is rooted in the emphasis he places on individual freedom. Also, the assertion “to act without deception” (Friedman, 1970) is an expression thereof. According to Friedman’s view, deception infringes on other people’s freedom, because when being deceived, one no longer acts according to his own will. Consequently, business practices that involve deceiving stakeholders in order to influence their decisions are dismissed. Greenwashing, that is, claiming to have a great environmental performance while being a poor performer (Delmas and Cuerel Burbano, 2011), is one such practice.

Manuscript 1 further elaborates that Friedman’s “no deception” claim is not only strongly related to individual freedom, but also to free markets. Thus, the “no deception” claim seems relevant from an ethical or social perspective as well as from an economic perspective. When remembering that the economic point of view rests on *homo oeconomicus* this, at first glance, seems somewhat striking. On the one hand, economic theory requires informed decisions that enable efficient exchanges, while on the other hand it refers to rational selfish people that do not have moral objections against deception. Here, one needs to note that even if deception as universal rule would undermine free markets (Akerlof, 1970), each single market participant, as a rational economic agent, has an incentive to deviate from that rule. In order to get personal advantages, he or she becomes a free rider. Hence, when Friedman (1962; 1970) argues against deception, he claims that managers should act in favor of the public good and
against immediate personal benefits. As this decision involves consequences for others, it can be regarded as a moral decision (Jones, 1991).

Manuscript 1 does not only give full account to Friedman’s emphasis on individual freedom. A further contribution lies in comparing his approach with stakeholder theory and ISCT. While Friedman’s (1962; 1970) rejection of deception is rooted in his emphasis on individual freedom, the other approaches refer to a different reasoning. Manuscript 1 mentions the Kantian principle of respect for others (Evan and Freeman, 1988) as one normative foundation of stakeholder theory. According to this argument, deception is condemned because if stakeholders are deceived in order to get an advantage, they are treated as means and not as ends, and thus their autonomy is disregarded (Hasnas, 1998).

However, stakeholder theory has further normative cores, such as feminist ethics (Zakhem and Palmer, 2017). Feminist ethics focus on the relationships among human beings and argue that these relationships are the source of moral duties. These duties result from “our moral responsiveness to the needs and vulnerabilities of those whom we have intimate relationships with” (Zakhem and Palmer, 2017). Feminist ethics is not a rule-based approach, hence there is no universal principle against deception. This implies that lies can be acceptable if they are told in the best interest of someone to whom one has a close relationship (Allmark, 1995). However, this cannot be interpreted as general tolerance of deception. This is because the focus of feminist ethics is on relationships that are mutually beneficial, which is not compatible with a culture of lying. Thus, even though taking care of those to whom one has close relationships is central to this approach, it also involves the responsibility to reduce harm within all relationships. This particularly applies to vulnerable stakeholders (Burton and Dunn, 1996). In consequence, deception is restricted to rare situations where the interests of someone to whom one has a close and intimate relationship (which rarely exists in a business context) are affected, and when no harm is caused to someone else.
A claim against deception can also be derived from ISCT (Donaldson and Dunfee, 1999). Central elements of the ISCT include hypernorms. These norms represent universal values and should be followed by any manager under all circumstances. A norm qualifies as hypernorm when it fulfills at least two out of a list of eleven criteria. Among others, this list contains criteria such as “widespread consensus that the principle is universal,” “known to be consistent with the precepts of major religions” or “known to be consistent with the precepts of major philosophies” (Donaldson and Dunfee, 1999, p. 60). Deception and lying is condemned by various religions such as seen in the Ten Commandments (“You shall not give false testimony against your neighbor”) or in the Five Precepts of Buddhism (“I undertake the training rule to abstain from false speech”). Moreover, as noted, deontological, utilitarian and virtue ethics all reject deception. Thus, a norm such as “avoid deception” or “do not lie” surely qualifies as a universal hypernorm according to ISCT.

The fact that all three major theories for CSR mentioned here condemn deception does not come as a surprise. However, it is interesting to see that these theories refer to various rationales for rejecting deception. While Friedman’s claim rests on individual freedom, normative stakeholder theory refers among others to Kant’s notion of respect for others or to feminist ethics. According to ISCT, arguments against deception can be derived from manifold sources such as references to major philosophies or religious rules. This general consensus and the variety of corresponding rationales provide a strong normative foundation in favor of transparency.

3.4 Extending Friedman’s “no deception” claim

As argued in Manuscript 1, Friedman’s emphasis on individual freedom is closely related to the idea of free markets. Only when transactions are informed, both parties benefit; thus a reduction of deception is essential for free markets. Heath (2004) extends this view by using
Friedman’s “no deception” claim in order to derive a wider set of moral obligations. He interprets this claim as an indicator of a general managerial obligation to ensure free market conditions. Heath (2004) justifies this view by arguing that deception undermines market efficiency because if market participants are not fully aware of product attributes, market prices do not reflect actual demand. Thus, he regards the “no deception” claim as specification of Friedman’s more general assertion for engaging in “open and free competition” (Friedman, 1970).

Heath (2004) argues that if managers should act without deception in order to ensure free markets, then managers also have a general obligation to prevent market failures. Based on that argumentation, he derives a set of obligations which—when obeyed—ensure free and competitive markets. Examples are the minimization of externalities, the avoidance of creating market entry barriers, or the avoidance of undermining regulations that should correct market imperfections (Heath, 2004). While in Manuscript 1 it is argued that Friedman’s claim to avoid deception is a result of his emphasis on individual freedom, Heath (2004) interprets Friedman’s claims as indicating a moral rule prohibiting managers to benefit from market imperfections. Moreover, he states that managers are only allowed to apply strategies “that would be permissible under conditions of perfect competition” (Heath, 2004, p. 80).

Taken together, Manuscript 1 and the article by Heath (2004) do not only show that that Friedman expects managers to fulfill higher moral standards than often assumed, but also highlight the role of transparent communication as a central managerial obligation.

4. Transparency and Trustworthiness

The first part of this thesis outlined that transparency can be regarded as a crucial normative managerial obligation. Still, deception, in the form of non-transparent or misleading
communication, is ubiquitous. It takes different forms such as greenwashing (Delmas and Cuerel Burbano, 2011; Laufer, 2003), deceptive advertising (Attas, 1999; Russo et al., 1981) or accounting fraud (Erickson et al., 2006; Miller, 2006). Companies apply such tactics for various reasons such as increasing corporate image, selling more products or attracting investors. Therefore, the second part of this thesis takes an empirical point of view and investigates how communication strategies that differ in regard to transparency are perceived. An important variable in this regard is trustworthiness. Following Schnackenberg and Tomlinson (2016), transparency is regarded as an antecedent of trustworthiness (i.e., the degree of transparency is expected to affect the attribution of trustworthiness).

4.1 Defining trustworthiness

Within this thesis, trustworthiness is considered as the companies’ willingness to honestly communicate (Newell and Goldsmith, 2001; Pornpitakpan, 2004). This means that trustworthiness is attributed when the recipient of a corporate message believes that the content of the disclosure is perceived to be valid by the management (Hovland et al., 1953). Given this definition, trustworthiness is considered a dimension of corporate credibility (Newell and Goldsmith, 2001; Pornpitakpan, 2004). Credibility, in turn, is associated with the likelihood that corporate disclosures are accepted by their recipients (Ohanian, 1990).

Because transparency refers to the quality of intentionally shared information (Schnackenberg and Tomlinson, 2016), it is closely related to corporate credibility in general and trustworthiness in particular. First, focusing on a company’s willingness to openly disclose information (i.e., its trustworthiness) seems appropriate when having in mind that transparency and deception are defined as conscious managerial decisions. Second, as noted, information quality refers to the providing of relevant, correct and comprehensible information. It seems likely that company disclosures that fulfill these criteria are more easily
accepted by the corporates audience and are thus positively related to corporate credibility (Dubbink et al., 2008), for example, Mercer (2004) argues that precision and a manager’s reputation for having previously provided correct information are positively related to disclosure credibility.

Trustworthiness and credibility can be regarded as positive traits. An abundance of studies shows that they are positively related to several further variables such as CSR perception (Alcañiz et al., 2010), legitimacy (Finch et al., 2015), attitude toward the brand, purchase intentions (Goldsmith et al., 2000; Lafferty, 2007) or trust (Brühl et al., 2017).

### 4.2 The adverse effects of non-transparent communication

Before presenting Manuscript 2 and Manuscript 3 and discussing them with respect to transparency and trustworthiness, it is useful to have a look at some empirical studies that explicitly investigated deception. Much of the research in this regard has been conducted by marketing scholars who focused on pricing and advertising strategies.

Romani (2006) found that the usage of misleading pricing information negatively affects trustworthiness towards a company and willingness to buy. In her experiment, the misleading pricing information lacked crucial information, so it can be characterized as non-transparent or deceptive.

In a series of experiments, Darke and Ritchie (2007) found various negative effects of advertising deception. In each of their experiments, deception was manipulated by having participants read an advertisement that contained several misleading claims. In a next step, half of the participants read a text by an impartial product tester that indicated that the

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5 Romani (2006) defines trustworthiness in a broader sense than was done in this thesis (see 4.1). Her definition covers the following dimensions: sincerity, honesty, dependability, trustworthiness and credibility. Nevertheless, both versions represent very similar concepts.
previous ad was deceptive. The other half did not get such information. Among others, their results show that deception makes participants feel more fooled, adversely affects evaluations of subsequently advertised products, undermines trust in the deceiver and other advertisers who are unrelated to the deceiver, triggers skepticism, negatively affects perceived deal value and induces negative stereotypes towards marketing.

Newell et al. (1998) focused on the effects of misleading environmental claims on perceptions of advertisements. In order to manipulate deception, they created an ad that contained a false environmental claim and compared it with an ad that contained a neutral claim instead. They found that perceived deception negatively affects advertiser credibility, attitude towards the ad, attitude towards the brand and purchase intention. Therefore, it is important to mention that participants were not able to differentiate between an objective and deceptive ad, and the feeling of being deceived was crucial to triggering the various adverse effects.

The abovementioned studies highlight several important aspects regarding the effects of deceptive communication strategies. Non-transparent communication (Romani, 2006), detected deception (Darke and Ritchie, 2007) and perceived deception (Newell et al., 1998) cause drawbacks regarding a variety of attitudinal and behavioral variables. Crucial mediators in this regard are variables such as credibility and trust (Darke and Ritchie, 2007; Newell et al., 1998; Romani, 2006). Thereby credibility and trust are often positively related to further dependent variables such as attitude towards an ad, but negatively related to (perceived) deception. Having that in mind, we now can turn to Manuscript 2 and Manuscript 3, where trustworthiness as a dimension of credibility likewise plays an important role.
5. Attributing Trustworthiness in Response to Transparent or Deceptive Disclosures

Two experimental studies, Manuscript 2 and Manuscript 3, will be presented and discussed. It is the aim of this section to shed some light on the conditions and variables that affect whether transparency translates into higher perceived trustworthiness. Therefore, two different but equally relevant cases are chosen. Manuscript 2 deals with the disclosure of financial benefits as an outcome of a CSR activity and Manuscript 3 addresses the issue of overly positive CSR disclosures.

5.1 Introduction to Manuscript 2 and Manuscript 3

Manuscript 2 and Manuscript 3 are experimental studies that investigate how people react to different corporate communication strategies whereby these strategies differ according to the degree of transparency. Both studies focus on the perception of the participants.

The scenarios investigated in both manuscripts refer to central issues of the CSR and CSR disclosure literature. Manuscript 2 addresses the motives of companies for engaging in CSR activities. The question of whether companies engage (or should engage) in CSR activities for profit’s sake, due to altruistic motives or because it is their responsibility is central to business ethics. Previous research has shown that the motives people attribute to corporate behavior are crucial determinants for the evaluation of these companies (Ellen et al., 2006). The manuscript addresses the case of a company that, depending on the experimental group, communicates having either generated social or social and corporate benefits from a CSR activity. The salience of benefits is expected to influence the attribution of motives (Forehand and Grier, 2003; Yoon et al., 2006), which in turn is expected to affect trustworthiness.

Manuscript 3 is dedicated to another pressing question. Intuition and experience indicate that companies have a strong tendency to give the appearance of being “environmentally friendly”
or “socially responsible.” Indeed research provides strong support for such suggestions and shows that companies almost exclusively publish positive information (Belal, 2001; Hackston and Milne, 1996; Holder-Webb et al., 2009; Ratanajongkol et al., 2006; Scalet and Kelly, 2010; Thompson and Zakaria, 2004). As such disclosure policies may raise doubts regarding the credibility of these companies (Mercer, 2004), Manuscript 3 investigates how publishing two-sided messages (i.e., disclosures that contain positive as well as negative information) is perceived and whether they are able to increase corporate trustworthiness. According to attribution theory (Crowley and Hoyer, 1994), a higher amount of negative information should increase trustworthiness because negative information is contradictory to company incentives. Thus, the disclosure of negative information, if done voluntarily, will be attributed to the trustworthiness of a company. In addition, it is proposed that trustworthiness is also negatively affected when more negative information is disclosed. This negative effect is driven by the lower plausibility of the situation. All in all, four experimental groups are investigated. Between these groups, the proportion of negative information was varied as follows: 0%, 20%, 40% and 60%.

In both manuscripts, only corporate communication is manipulated. In Manuscript 2, the company announces that it has created societal (and corporate) benefits. Whether or not this is true cannot be judged by the participants because no objective information is given. The same applies to Manuscript 3. Whether the company hides negative information or whether it is a company that is able to successfully implement its CSR initiatives cannot objectively be judged. Nevertheless, both manuscripts are highly relevant for research about transparency. This is because even though for a single case it might be difficult to determine whether corporate communication is transparent or not, one can generally assume that companies exist that hide their financial benefits in order to appear more altruistic (as in Manuscript 2) or
withhold negative information in order to appear more successful regarding CSR issues (as in Manuscript 3).

Regarding Manuscript 2, one can argue that even though some companies might conduct activities that are solely motivated by and intended to generate social benefits, it is still reasonable to assume that a substantial number of corporations are motivated by financial benefits. Such companies probably prefer activities that generate corporate benefits as well as social benefits, the so-called business case for CSR (Carroll and Shabana, 2010), over activities that only create social benefits. In such cases, omitting corporate benefits would mask corporate motives and thus can be regarded as non-transparent communication. The attribution of motives also has an ethical dimension. According to virtue ethics, virtuous people are those who possess particular dispositions that enable them to act morally. Thus, omitting information that would affect the attribution of motives can be considered deceptive because people attribute better dispositions towards the respective company than are justified. With regard to the definition of transparency, one can argue that information that allows the inference of the motives of a company is relevant information that should be disclosed.

A similar argumentation applies to the communication of negative information in Manuscript 3. Of course, some companies do reach all of their CSR-related goals and implement the corresponding activities successfully so that the disclosure of solely positive information is justified. However, the general tendency of companies to refrain from disclosing negative information casts some doubt as to whether all reports that only contain positive information indeed reflect the truth. One only needs to consider that it is normal that mistakes and accidents happen; newly implemented CSR activities particular require corporations to learn. So, even for companies that are seriously motivated and committed to ecological and social issues, it is unlikely that all initiatives are successful. Moreover, particularly for large companies that employ several thousands of people and that conduct business all over the
world, it is simply unlikely that no negative events ever happen. That even firms that have been prosecuted for ecological crimes primarily publish positive information (Deegan and Rankin, 1996) should further raise skepticism about overly positive disclosures.

To conclude, not all cases where companies claim to act for a social purpose or are content to have reached all of their goals are cases of deception. Nevertheless, it is likely that a significant number of such cases involve non-transparent communication. Thus, the results gained from both experiments are relevant for discussion about transparency and trustworthiness.
5.2 Manuscript 2

**Title:** How Do Individuals Judge Organizational Legitimacy? Effects of Attributed Motives and Credibility on Organizational Legitimacy

*The manuscript is published as:*

5.3 Manuscript 3

**Title:** Can bad news be good? On the positive and negative effects of including negative information in CSR disclosures

*Current status (as of September 17, 2018) of the manuscript:*

*Revised and resubmit, Jahn, J., Brühl, R.: Can bad news be good? On the positive and negative effects of including negative information in CSR disclosures, Journal of Business Research*
5.4 The relationship between transparency and trustworthiness in Manuscripts 2 and 3

First of all, it is worth clarifying which dimensions of information quality are addressed in both manuscripts. Although timeliness and comprehensibility are not manipulated, relevance and correctness of information differed between the experimental groups. Omitting information about the financial implications of a CSR activity, as in Manuscript 2, can be regarded as withholding relevant information. This is because such information is able to affect the attribution of dispositions and thus the evaluation of the company (Ellen et al., 2006). Disclosing wrong information about goal achievement, as in Manuscript 3, refers to the accuracy dimension of information quality. Thus, within both manuscripts information quality (i.e., transparency) is manipulated and its effect on trustworthiness can be discussed.

Manuscript 2 shows that the disclosure of financial benefits resulting from a corporate activity that concurrently delivers social benefits triggers the attribution of extrinsic motives, which in turn leads to lower trustworthiness assessments and finally to worse evaluations of legitimacy. Thus, it seems that in such cases omitting the existence of financial benefits, if they exist and stakeholders are unlikely to get this information through another source, would be beneficial for a company in terms of perceived trustworthiness and organizational legitimacy. The reasons can be found in the complex process of attributing motives to corporate behavior. Here, the attribution of strategic, profit-driven motives undermines perceived trustworthiness because such companies are regarded as biased.

The results of Manuscript 3 on the other hand show that transparently disclosing negative information does not cause disadvantages for the issuing company. Even though the voluntary disclosure of negative information is perceived as implausible, which negatively affects trustworthiness, this effect is offset by a direct positive effect caused by the disclosure of negative information. This latter effect emphasizes the potential positive results of
transparently disclosing negative information. Subsequently this effect will be predominantly discussed. Moreover, no decrease in CSR perception was detected for any of level of negative information.

Taken together, these results show that trustworthiness and transparency are not necessarily empirically correlated despite their conceptual linkage. In what follows, the conditions which strengthen and weaken the relationship between transparency and trustworthiness will be elaborated. The subsequent discussion focuses on the relationship between the transparency of the disclosure and trustworthiness. The other dependent variables, legitimacy in Manuscript 2 and CSR perception in Manuscript 3, are not discussed in detail because both are positively related to trustworthiness. By doing so, the link between transparency and trustworthiness can be examined in more detail.

5.5 The effects of detected and undetected deception

Detecting deception is a rather difficult task. Psychological research has found a variety of cues that serve as indicators for deception (DePaulo et al., 2003), however, none of these cues is always present when people lie and these cues can also be triggered by causes other than deception (Zuckerman et al., 1981). Moreover, most of these cues refer to physical reactions such as fidgeting or blinking. Obviously, such cues cannot be applied to written pieces of corporate communication. Still, linguistic research has uncovered patterns for deception in written communication. Zhou et al. (2004) found that messages from deceivers are characterized by a higher quantity of words, verbs, noun phrases and sentences as well as less complexity and more uncertain language. Moreover, such messages were more expressive and more informal. However, the study by Zhou et al. (2004) and related studies (Afroz et al., 2012; Brennan and Greenstadt, 2009; Keila and Skillcorn, 2005) refer to messages written by single authors often, but not exclusively, in online settings such as e-mails or forum posts.
Additionally, the detection of deception in such studies is done by algorithms and not by humans. Thus, insights from this research stream are difficult to apply to corporate communication, where not only multiple persons but even multiple departments and lawyers are involved in generating reports. Taken together, one needs to conclude that individuals, particular laypersons, probably face strong difficulties in detecting deceptive corporate communication.

These insights are reflected in studies on corporate communication. In the study by Newell et al. (1998), participants were not able to differentiate between deceptive and non-deceptive environmental claims. The adverse effects (e.g., on credibility) are exclusively caused by perceived deception. Darke and Ritchie (2007) used misleading claims in their experiment, and in a second step half of their participants were told that these claims were likely to be wrong. This implies that the group that is not informed did not necessarily recognize that the “misleading” claim was misleading. The negative effect was caused because the participants were told that they were deceived. Although these studies illustrate that detecting deception is a tough task, others studies show that it is possible. In the study by Romani (2006), missing pricing information was detected and punished by the participants.

Although participants are not always able to value transparency in communication, when deception is detected company evaluations will drop (Darke and Ritchie, 2007). Further studies support this finding. Reimsbach and Hahn (2015) show that participant reaction is worse when a company hides negative information that is later on disclosed by an non-governmental organization (NGO) (compared to a situation where a company discloses the information itself). Nyilasy et al. (2014) found that green advertising can harm firms whose environmental performance is low.
So far, we have seen that deception causes negative reactions when people become aware that they were deceived (e.g., Darke and Ritchie, 2007; Reimsbach and Hahn, 2015). However, as long as participants are not directly informed about the deception, they are not always able to recognize it (Newell et al., 1998). As a consequence, uncovered deception might be a beneficial strategy under certain circumstances.

As noted previously (see 5.1), participants in Manuscript 2 and Manuscript 3 had no access to objective information regarding the benefits obtained from introducing the innovation (Manuscript 2) and the number of successfully completed environmental goals (Manuscript 3). Their judgment was solely based on the piece of corporate communication they received without knowing the true performance of the corporation. Thus, in neither manuscript was a case of detected deception given. Rather, both manuscripts deal with potentially deceptive strategies and deeper investigation is needed to determine why the transparent disclosure causes different reactions in both manuscripts. The effects found in both studies rest on attribution theory, thus it might be a proper starting point for better understanding the differences in the transparency-trustworthiness relationship in both manuscripts.

5.6 Attributional processes and underlying traits

Attribution theory aims to explain how people assign causal explanations to observed events or behavior. In Manuscript 2, the disclosure of corporate benefits triggers the attribution of extrinsic, in particular strategic, motives. These extrinsic motives are negatively related to trustworthiness, because the company is perceived as biased. So, in that case transparent communication lowers trustworthiness. In Manuscript 3, participants observe the disclosure of negative information (i.e., information that is contradictory to the company’s incentives) and attribute this to the company’s disposition to tell the truth. Here, transparency is able to cause a positive effect on trustworthiness. Although this effect is partly offset by a contradicting
effect caused by lower plausibility, it prevails for all proportions of negative information tested in the experiment.

It seems that transparent communication reveals very different traits in both cases. In Manuscript 3, the communication of negative information is attributed to the company’s willingness to tell the truth, which can be considered a positive trait. As mentioned above, several studies show the positive effect of trustworthiness in particular or credibility in general on various other variables (e.g., Alcañiz et al., 2010; Brühl et al., 2017; Goldsmith et al., 2000). In Manuscript 2 the situation is different. In response to mentioning financial benefits, extrinsic motives are attributed which then negatively affect participants’ reactions. Here, the transparent communication seems to cause the attribution of a trait such as profit seeking. In contrast to a company’s willingness to tell the truth, profit seeking has not only positive connotations. It is often associated with greed, short-term-orientation and the violation of social and environmental norms. Thus, even in a case where likewise positive benefits for society exist, as in Manuscript 2, the attribution of a profit motive seems to undermine the company’s intention and result in a negative evaluation.

A further difference between both cases refers to the (descriptive) norms, in the sense of typical or atypical behavior, involved. The argumentation in Manuscript 3 rests to a large extent on advertising literature. The typical behavior of advertisers is to present their products in the best possible light, so including negative information represents a deviation from this behavior. The same applies to the disclosure of CSR information. Manifold studies have shown that primarily positive information is disclosed (Belal, 2001; Hackston and Milne, 1996; Holder-Webb et al., 2009; Ratanajongkol et al., 2006; Scalet and Kelly, 2010; Thompson and Zakaria, 2004). However, such a deviation would be particularly informative. According to attribution theory, internal dispositions are only inferred when behavior deviates from expectations (Jones and Davis, 1965; Smith and Hunt, 1978). Such a situation is given in
Manuscript 3. Disclosing negative information deviates from typical behavior and thus enables the attribution of the disposition to tell the truth.

In Manuscript 2 the situation is different. Although the attribution of extrinsic motives negatively affects trustworthiness, the results show that in the case where only social benefits are communicated no attribution of value motives (i.e., an internal disposition) takes place. This might imply that both cases are interpreted as plausible scenarios and neither of the experimental conditions is regarded as atypical corporate behavior. In consequence, the scenario where only social benefits are communicated is not questioned by the participants. Previous studies show that participants react either positively or negatively to corporate benefits resulting from CSR activities contingent on the specific situation (Forehand and Grier, 2003; Rim and Song, 2016; Yoon et al., 2006). This supports the notion that no coherent expectation exists as to whether or not companies should benefit from CSR activities (i.e., that neither case is predominantly regarded as typical corporate behavior). Furthermore, it indicates that it is worthwhile to have a closer look at the conditions under which companies (should) disclose corporate benefits.

5.7 Boundary conditions for disclosing corporate benefits and negative information

In Manuscript 2, the attribution of different motives depends on whether the company admits the existence of financial benefits. Yoon et al. (2006) likewise showed that higher benefit salience of CSR activities is associated with insincere corporate motives, which in turn negatively affect company evaluations. This finding is mirrored in Manuscript 2 because corporate benefits trigger the attribution of extrinsic motives, which in turn cause negative reactions regarding trustworthiness and legitimacy.

Forehand and Grier (2003) found that benefit salience indeed adversely affects firm evaluations but only in cases where the company communicates that the CSR activity is
conducted to serve the public interest. When the company admits firm-serving motives, benefit salience does not negatively affect firm evaluation. Forehand and Grier (2003) argue that people only negatively react to higher benefit salience when getting the impression that they are being deceived by a company. Forehand and Grier (2003) manipulated benefit salience through the fit between a CSR activity and a company’s business model. Thus, when a CSR activity fits into the business model, participants were able to assume that the company also generated financial benefits. Perceived deception occurred in cases where a company avoided stating it was financially motivated but high benefit salience was given. Manuscript 2 differs in this regard as benefits could not as easily be implied as in the study of Forehand and Grier (2003). Hence, participants do not feel deceived and trustworthiness was not adversely affected through the sole disclosure of social benefits.

Rim and Song (2016) further show that the effect of admitting the pursuit of a win-win strategy (i.e., benefits for society and a company) when conducting CSR activities depends on the public discourse about the company. They found such a strategy to be beneficial when a company is subject to criticism in social media channels but not when a company is discussed in a positive light. In Manuscript 2, the experimental material describes the company, apart from the fact that it belongs to a controversial industry, in a neutral way. Thus, it might be possible that the positive effect of admitting financial motives that is found by Rim and Song (2016) for negatively discussed companies does not apply to the case used in Manuscript 2.

This discussion indicates that admitting financial benefits is not good or bad per se but largely depends on the specific circumstances. With respect to deception, this unfortunately but unsurprisingly means that applying deceptive strategies by hiding one’s advantages can be beneficial under certain conditions.
Now, we turn to the conditions that determine when two-sided messages are more (less) effective. First, in two-sided advertising research, correlation between the positive and negative information (e.g., a high quality but expensive product) is often discussed as a factor enhancing the effect of two-sided communication (Pechmann, 1992). Applying this factor to a CSR setting can have manifold diverging effects. Admitting to having used child labor in order to offer cheaper products might not be valued. In contrast, declaring to have used a production technology that causes the emission of a harmful substance while it concurrently greatly reduces the emission of another harmful substance might be more appreciated.

Second, Reimsbach and Hahn (2015) have shown that disclosing negative information is particularly useful when the same information is published by a NGO. This means that two-sided messages are especially beneficial within industries that are under particular public and NGO scrutiny.

Third, whether a company is successful or in crisis affects how its communication is perceived. Companies in financial distress are often perceived as less credible (Mercer, 2004), and companies with a positive CSR history have a buffer against negative publicity (Klein and Dawar, 2004). Both aspects might influence the effectiveness of two-sided messages (e.g., two-sided messages might be less beneficial for firms that are either way perceived as credible). On the other hand, these firms might also be more resistant against the negative effects caused by the disclosure of negative information.

The aspects mentioned above highlight that the effectiveness of two-sided messages is likewise dependent on different conditions internal and external to a firm. Given these insights, a paradoxical question might arise: Are there conditions where the “invention” of slightly negative information is beneficial for companies in order to enhance the credibility of their communication? The answer to this question is no, because one should not forget that
the inclusion of negative information is only one way to enhance credibility. Other factors that likewise enhance disclosure credibility are the management’s reputation for correct disclosures or external and internal assurance (e.g., through financial analysts and internal auditing committees, respectively). Moreover, the characteristics of the disclosure itself matter: its precision, the venue used for disclosure, its plausibility, the amount of supporting information that is provided and the time horizon it covers (Mercer, 2004). Thus, many factors influence credibility, so that the invention of negative information does not seem to be the best option. Moreover, one should not forget that negative information always causes adverse effects, “the negative effect of negative information” (Eisend, 2010, p. 1034), otherwise it would not be called negative information.

To sum up, in both cases the effectiveness of transparent communication is highly dependent on situational factors. Thus, one cannot state that the open and frank disclosure of financial benefits or negative information can generally be considered a superior strategy in terms of positive reactions towards a company; even so, transparency is morally required.

6. Conclusion

This thesis investigates transparency in corporate communication on a normative level and the relationship between transparency and trustworthiness on an empirical level. First, the normative part discusses the role of transparency in various CSR conceptualizations whereby special attention is given to Friedman’s approach. Second, the empirical part investigates how communication strategies that differ according to their degree of transparency are perceived with reference to trustworthiness.

In Manuscript 1, Friedman’s (1962; 1970) approach to CSR is analyzed and discussed in detail. Thereby, special attention is paid to the emphasis he places on individual freedom.
Friedman (1962; 1970) restricts his profit maximization claim by demanding managers avoid deception. According to his view, deception represents an infringement of individual freedom and therefore should be avoided. Friedman’s approach to CSR is regularly, but often wrongly, regarded as describing the minimum of obligations managers have (e.g., Schwartz and Saia, 2012). Manuscript 1, however, shows that Friedman sets higher ethical standards than often assumed. Giving full consideration to individual freedom reveals that Friedman expects managers to obey a set of deontological norms in addition to the obligation to fulfill expectations of several stakeholders. A further contribution of Manuscript 1 is that all managerial obligations can be consistently derived from individual freedom. Moreover, it shows several commonalities, but also differences, between Friedman’s approach, stakeholder theory and ISCT. The thesis further compares Friedman’s approach, stakeholder theory and ISCT with respect to transparency and deception. Although it cannot come as a surprise that all of them reject deception, it could be shown that the rationales for this rejection vary. So, it can be said that deception is generally condemned and that there is a strong normative backing for that.

The second, empirical part focuses on the question of whether choosing transparent communication strategies translates into higher perceived trustworthiness. The results of Manuscript 2 and Manuscript 3 diverge in this regard. In Manuscript 2, it is shown that admitting to have generated financial benefits from a corporate activity that concurrently creates social benefits is disadvantageous for the company. In the given case, mentioning financial benefits triggers the attribution of extrinsic motives, which in turn negatively affect trustworthiness and legitimacy. Thus, in the given case, transparency does not pay off and deception would be beneficial. In Manuscript 3 the situation is different. The results reveal that two-sided messages (i.e., messages that contain negative information) are able to positively affect trustworthiness without adversely affecting CSR perception. This even holds
true for high proportions of negative information. Hence, deception is not beneficial in such cases.

Irrespective of transparency issues, Manuscript 2 also contributes to a better understanding of individual legitimacy judgments by conceptualizing legitimacy as an attitude and integrating attributed motives in the legitimacy judgment process. Particularly, the latter represents an important advancement within this literature stream. Manuscript 3, on the other hand, contributes to the literature on two-sided messages and especially addresses the lack of studies investigating the disclosure of negative CSR information. Regarding the latter, the differentiation between various proportions of negative information has not been done before. However, the largest contribution represents the differentiation between the two contradicting effects on trustworthiness.

As mentioned, both manuscripts provide different results with respect to transparency. The key variable to understanding this difference is trustworthiness. Manuscript 2 shows that extrinsic motives are attributed in the presence of financial benefits. Due to these extrinsic motives, the company is perceived as biased and trustworthiness decreases. One of the effects found in Manuscript 3 shows that the disclosure of negative information is attributed to the company’s disposition to telling the truth and, hence, positively affects trustworthiness. One possible explanation for these differences can be found in the traits revealed by transparent communication. The disclosure of negative information reflects truthfulness and positively affects trustworthiness, whereas the disclosure of financial benefits mirrors profit seeking and negatively affects trustworthiness.

Furthermore, the discussion about both manuscripts has shown that the situational conditions under which the communication takes place matter. Although this also applies to the disclosure of negative information, it seems to be particularly relevant for the open disclosure
of financial benefits. Whereas admitting financial benefits causes a negative reaction in Manuscript 2, other studies have shown positive reactions under specific circumstances (e.g., Forehand and Grier, 2003). This implies that a variety of factors need to be considered in order to determine when the transparent disclosure of financial benefits is promising.

Ambiguous results of this thesis and previous empirical research regarding the question of whether or not transparency is beneficial requires more research in this regard. It seems to be particularly promising to investigate the conditions under which certain communication strategies are effective or ineffective in order to determine where regulation is necessary. This also hints to a limitation of this thesis. The two cases discussed here are necessarily very specific. Thus, it might be possible that changes in case descriptions are able to affect the results. Furthermore, both studies refer to representative samples and are thus not valid for all stakeholder groups (e.g., professional investors might have reacted differently as they have other expectations towards companies).

That the effectiveness of transparent communication is situation-dependent implies good and bad news. Deceptive strategies, even though they are consciously applied in order to generate some kind of advantage, are not always beneficial. Nevertheless, it also means that situations exist, probably quite many of them, where companies have incentives to hide negative information or financial benefits. As many situations remain in which companies do not have sufficient incentives for voluntary transparent communication, additional regulation seems necessary as recipients of corporate communication are often unable to detect deception. One possibility could be to require companies to reveal their financial benefits when conducting CSR activities. This would be, by the way, in line with Friedman (1970) as he dismisses the labeling of profit-driven activities as social responsible. He refers to the “cloak of social responsibility” for such cases.
References

(Excluding references that are only cited in the manuscripts)


Cambridge Dictionary (2018). Deception, available:


