Corporate Giving During Catastrophic Events

Casey Randazzo

School of Communication and Information, Rutgers University
cer124@scarletmail.rutgers.edu

Abstract

Literature suggests that social reputation rises after the first corporate social responsibility event, and grows slowly after each subsequent event, in fixed audiences. In random audiences, social reputation will only continue to increase with high memorability and association rates. This

paper expands on this idea and considers the growth of social reputation during catastrophic events. Additionally, the paper argues that when a corporation engages in corporate social responsibility and collaborative efforts during catastrophic events, it will improve relationships with consumers and decrease risk associated with its products or services.

***Keywords**:* corporate social responsibility, COVID-19, risk-mitigation, memorability, association, catastrophic events

Corporate Giving During Catastrophic Events

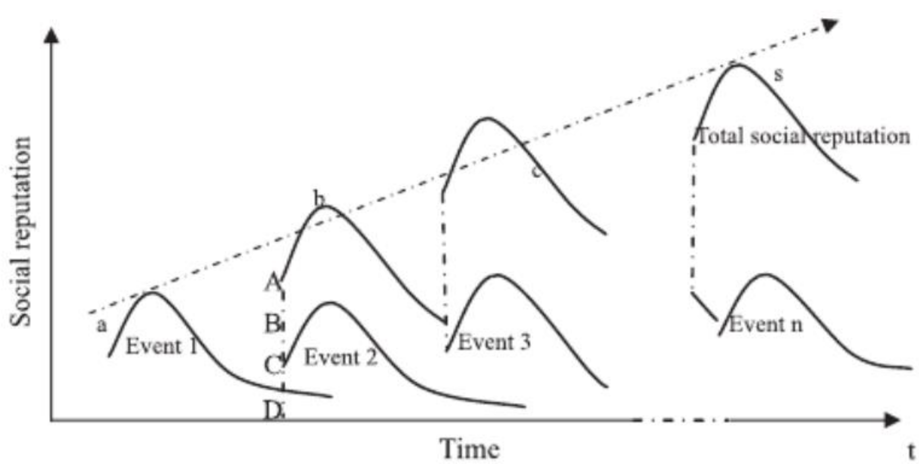
Catastrophic events such as the 9/11 New York terrorist attacks in 2001 and Hurricane Katrina in August 2005 prompted unprecedented philanthropic responses. Corporations, governments, and non-profit agencies face a higher social demand to be responsible citizens during major catastrophic events. Currently, the world is responding to COVID-19: the most significant global public health crisis since the Influenza Pandemic of 1918. Unlike with infectious disease, natural disasters and horrific acts of terrorism strengthen communities. For example, there was a heightened sense of patriotism after the 9/11 New York terrorist attacks in 2001. Yet, during the COVID-19 pandemic, forty percent of adults in the United States believe that ordinary people are not taking the outbreak seriously enough (Rainie & Perrin, 2020). Communities are resilient against outside threats and vulnerable to threats within communities. When trust is scarce, collaboration is weakened, and recovery efforts are compromised (Rao & Greve, 2017).

Additionally, consumers are feeling emotionally and financially strained and are looking to companies for solutions. The private sector has an opportunity to support consumers as COVID-19 overwhelms the healthcare system. By supporting stakeholders and collaborating with other companies during catastrophic events, a firm can improve its social reputation, mitigate risk associated with its products, and align itself with the core values of companies that are built to last.

Just four months before COVID-19, the Business Roundtable released an updated statement on the purpose of a corporation for the first time in decades (*Business Roundtable's*, 2019). Since 1997, the Business Roundtable endorsed shareholder primacy, the view that corporations exist to serve shareholders (Friedman, 1970; Adolf & Means & 1936). The new statement, signed by 181 CEOs from the world's largest companies, endorses stakeholder primacy; the belief that managing multiple stakeholder groups, including customers, employees, suppliers, communities, and shareholders, helps to achieve corporate goals (Donaldson & Preston, 1995). Businesses depend on the health of society which depends on the existence of a functioning social welfare system and the absence of inequality (Hamann, 2020). As the world grapples with COVID-19, the Business Roundtable has the opportunity to make the promises of the past the practices of the present.

The COVID-19 pandemic has reached over two hundred countries and territories (Cohut, 2020). The massive death and economic destruction brought on by the virus will burden society for years to come (Jackson et al., 2020). A company that puts customers, employees, and ideally society as a whole, before profits, will improve its social reputation and build customer loyalty during and after the crisis. To evaluate the evolution of social reputation, Wei et al. (2014) applied the audience memory model presented by Wei et al. (2012) and incorporated association, recency, and rehearsal effects. Wei et al. (2014) defines association as the similarity of an event to current events or memories, recency as how recently the event took place, and rehearsal as the ability to remember an event again. Wei et al. (2012, as cited in Wei et al., 2014) proposed the audience memory model as $M(t) = e^{-\rho t}$. M is the memory of information, and (t) is time. M(t) decays exponentially over time at a constant rate of ρ ($0 < \rho < 1$), where ρ denotes the rate of forgetting.

Figure 1 *Corporate social responsibility events and social reputation*

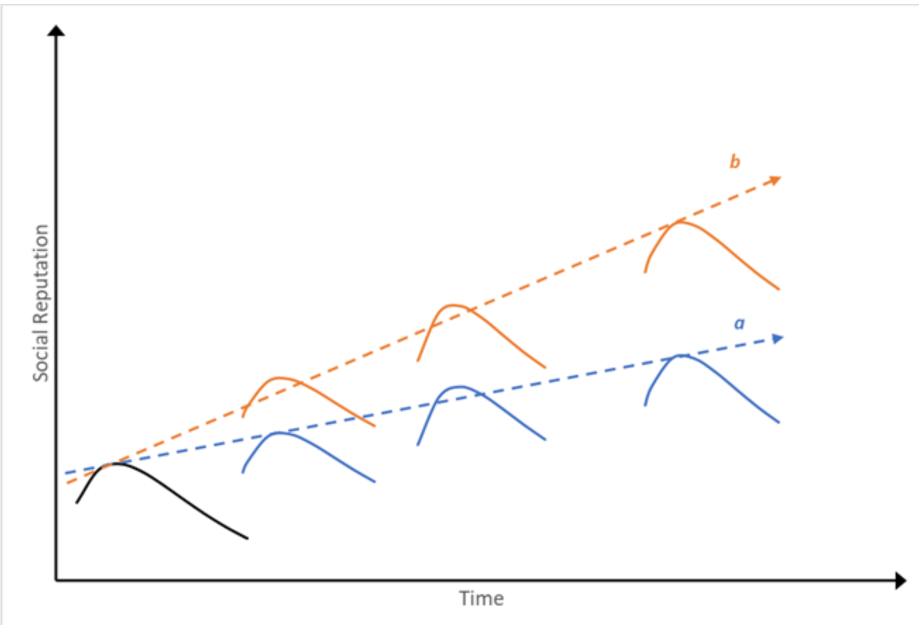


Note. This figure is from Wei et al. (2014).

Wei et al. (2014) adapted the audience memory model, as seen in Figure 1, to show the impact of corporate social responsibility (CSR) events on reputation over time. The line shown in Figure 1 has a positive slope, demonstrating that CSR events with high association and memorability rates yield a greater return on corporate social reputation. Event 1 creates social reputation due to information diffusion. However, social reputation will decrease after the formation peak, unless the event is memorable or associated with a current event, because of ρ or the rate of forgetting (Wei et al., 2014, p. 119). Events with low memorability or association rates demonstrate less overall growth of social reputation, as the line drawn from the apex of Event 1 to the apex of Event n would have a flatter slope.

This paper developed Figure 2, as seen below, to complement Figure 1 and expand on the ideas presented by Wei et al. (2014). Figure 2 demonstrates that CSR activities in response to catastrophic events have an even stronger compounding effect on social reputation.

Figure 2 Corporate social responsibility in response to catastrophic and non-catastrophic events



This figure compares scenario *a*, the impact of CSR events on social reputation over time to scenario *b*, the impact of corporate responsibility events in response to a catastrophic event, like COVID-19. Similar to the illustration presented by Wei et al. (2014), each curve represents the impact of a CSR event on social reputation. Both scenarios *a* and *b* start with the same CSR event. The first event has the same impact on social reputation in both scenarios. In each of the subsequent events, association, recency, and rehearsal have an even greater compounding effect in scenario *b* than scenario *a* due to the high memorability and association rates of COVID-19. Scenario *b* shows how giving during catastrophic events can increase social reputation at a faster rate and pay dividends in the future as the memory of the event will take longer to fade.

The illustration by Wei et al. (2014) compares the CSR events with low memorability and association rates to CSR events with high memorability and association rates and the impact on social reputation. Whereas Figure 2, developed for this paper, demonstrates the scenarios in the context of a catastrophic event, including a greater slope and potential to increase social reputation. Wei et al. (2014) found that in the situation of fixed audiences, social reputation rises after the first CSR event, and grows slowly after each subsequent event. In the situation of random audiences, social reputation will only continue to increase with high memorability and association rates. CSR events in response to natural disasters or pandemics will have an even stronger compounding effect on social reputation than standard corporate giving. Similar reasoning can also be applied in the case of corporate social irresponsibility and its negative effects on social reputation.

Catastrophic events put modern communities under a microscope and magnify the inequalities that exist in a society. During the COVID-19 pandemic, Amazon's corporate irresponsibility has been illuminated and scrutinized by the public. On May 1, 2020, also known as May Day, employees protested unsafe working conditions and long-standing labor issues in Amazon's warehouses (Pardes, 2020). During the pandemic, warehouse employees are essential and therefore have the leverage to demand better working conditions. According to Morning Consult (2020), sixty-seven percent of adults in the United States want companies to take care of their employees and treat them well, even in tough times. As the negative press about Amazon continues to mount, so does the company's corporate social responsibility activities. Since the start of the pandemic, Amazon continually increased its philanthropic response, ultimately donating $173,000,000 to COVID-19 relief funds, including $100,000,000 from Jeff Bezos, the company's CEO and Founder. As the virus spread, many companies increased their initial donations to relief funds. The difference between those companies and Amazon may lie in the motivation to help. Giridharadas (2018) states that "profitable companies built in questionable ways engage in corporate social responsibility regardless of the fact that they may have caused serious societal problems as they built their fortunes" (p. 5). When looking at Figure 2, and considering the reversal, a company's reputation could rapidly decrease if it engages in irresponsible behavior. According to Godfrey et al. (2009 as cited in Wei 2014) firms may participate in corporate social responsibility for the insurance-like benefit. Therefore, if Amazon is engaging in corporate social responsibility to make up for irresponsible behavior, the company may end up with minimal change to their social reputation.

Ruth's Chris Steak House, a franchise of 150 restaurants in the United States, Mexico, and Canada, came under fire for accepting a $20,000,000 loan meant for small businesses (Peterson, 2020). Ruth's Hospitality Group made the decision to return the loan after facing backlash and a flurry of negative tweets from the public. Some of those tweets were from Rein Fertel, the grandson of Ruth Fertel, the founder of Ruth's Chris Steak House. Although the company is no longer owned by the family, Fertel (2020, as cited in Jiang, 2020) reminded the public of his grandmother's legacy:

> Dear @RuthsChris, Ruth's grandson here, I salute the decision you made yesterday to return the $20 million small business loan. But it's not enough. My grandmother believed in the virtue of giving, in community, in helping those in need. I urge you to do more. To give back like she did. To do better than what she was financially capable of back in 1965 (para. 2).

Ruth took out a loan and purchased a restaurant in hopes of providing for her sons. As a single mother, the restaurateur believed in the importance of creating job opportunities for women. At the time, she owned the only restaurant in New Orleans with an all-female staff (Jiang, 2020). In 1965, the year Ruth's Chris Steak House opened, Hurricane Betsy devastated the gulf coast, causing massive damage to the city of New Orleans. Ruth cooked all of the food she had available, including high-quality steaks, and gave out free meals to relief workers and hurricane victims (Jiang, 2020). Corporate gestures, like providing early shopping hours for the elderly, and making donations to food banks, lead consumers to have a more favorable view of a company (Morning Consult, 2020). According to Fertel (2020), Ruth believed in the virtue of giving and expecting nothing in return (as cited in Jiang, 2020). In response to the criticism, the restaurant's Pikesville, Maryland location followed in the footsteps of its founder and announced it would provide free lunch to police, fire, and medical employees (Watson, 2020).

There are only seven companies that have consistently remained on the New York Stock Exchange for at least seventy-five years (Yao, 2016). Collins & Porras (1994) would say that those companies are built to last because each depends on a timeless set of core values (Collins & Porras, 1994). In this section, we'll examine two of those companies, Consolidated Edison and Johnson & Johnson, and their responses during the 1918 flu and COVID-19 pandemics. The 1918 flu pandemic, one of the deadliest outbreaks in history, claimed the lives of fifty million people worldwide. In 1918, Consolidated Edison offered a vaccine, that was thought to be effective at the time, to its 14,000 industrial workers in an attempt to eradicate the flu pandemic (New York Times, 1918, as cited in Eyler, 2010). Today, over a hundred years later, Consolidated Edison is still demonstrating its commitment to its stakeholders and contributing during COVID-19. So far, the company has donated funds to food banks, police and fire departments, and hospitals in New York City. The company is also matching employee contributions, donating personal protective equipment and manufacturing and donating face shields for health care workers (Cohen, 2020). During the 1918 flu pandemic, Johnson & Johnson responded by inventing the epidemic mask from sterile gauze. Similar to today, in 1918, Americans were also encouraged to wear life-saving masks to prevent the spread of the flu. The mask was so successful that it was used in later outbreaks (Johnson & Johnson, 2018). Today, Johnson & Johnson is using its innovative spirit and commitment to social responsibility once again. The company is developing a vaccine and will be giving it away on a not-for-profit basis during the length of the pandemic (Johnson & Johnson, 2020). In addition, the company donated over $50,000,000 to relief efforts, converted its factories to develop and donate hand sanitizer, and donate personal protective equipment. The COVID-19 pandemic is of such scope and depth that collaboration between corporations, non-profit organizations, and governments is vital for survival.

According to Apuzzo & Kirkpatrick (2020), the world suffers from a lack of international collaboration. According to Rodrik (n.d., as cited in Giridharadas, 2018), the world does not have sufficient global governance and cooperation and is not getting together enough (p. 223). During Hurricane Katrina of 2008, companies were asked by government and relief agencies to help the most impacted communities. For example, companies like Walmart used their logistical expertise to quickly ship water, food, and supplies to the disaster area. Scott (2005, as cited in Bishop & Green, 2008), the then Chief Executive Officer of Walmart, declared in a letter to the company's delivery team:

> Katrina asked this critical question, what would it take for Walmart to be that company, at our best, all the time? What if we used our size and our resources to make this country and this earth an even better place for all of us: our customers, associates, our children, and generations unborn? (p. 187).

"Today's challenges are more complicated and interconnected than ever before and cannot be solved by a single actor or solution" (Giridharadas, 2018, p. 26). The federal government of the United States is calling upon companies to expand the supply of medical equipment and join forces to fight COVID-19 (Mann, 2020). For example, Johnson & Johnson expanded its manufacturing capabilities in support of rapidly producing a safe and effective vaccine for COVID-19 (Johnson & Johnson, 2020). The shortage of supplies like personal protective equipment, ventilators, and disinfectants is so vast and dire in the United States that the government needs to engage with actors in the private sector. In March 2020, the Justice Department of the United States issued a letter granting permission to the country's largest medical supply companies to collaborate on the COVID-19 response. Without this letter, sharing information and resources would violate antitrust laws that exist in the United States (Delrahim, 2020). In a COVID-19 world, many business leaders have no choice but to get together and engage in a radical shift towards coordination and collaboration with the government and non-profit organizations (Hamann, 2020).

When companies invest in corporate social responsibility, they are demonstrating their core values and building trust with their customers. Corporate social responsibility can positively impact customer attitudes and lead to increased purchase intentions, willingness to pay higher prices, and enhanced loyalty (e.g., Creyer and Ross, 1996, Mohr et al., 2001, Sen and Bhattacharya, 2001, as cited in Bhattacharya et al., 2020). People infer that firms are invested in building long-term relationships with customers when they give back to society. Bhattacharya et al. (2020) argues that corporate social responsibility is a dimension customers use to determine risk. For example, when Boeing donated 250,000 medical-grade respiratory masks to address supply shortages in China, the company not only created goodwill among consumers but also reduced the perception that flying aboard one of its planes is risky. Customers interpret a company’s corporate social responsibility actions as a signal that there is a lower risk associated with purchasing their product. In addition to corporate social responsibility, companies use paid influencer reviews or targeted ads on social media, print advertisements, and television commercials or product placements to signal the low risk associated with its products or services. According to (Bhattacharya et al., 2020), customers only know the true value of a product or service after they make a purchase. Until a customer experiences the product, a firm must use costly signals to communicate the effectiveness of their product or service. As mentioned in the paper, Johnson & Johnson is developing a life-saving vaccine and will be giving it away on a not-for-profit basis during the length of the COVID-19 pandemic (Johnson & Johnson, 2020). Following the arguments of Bhattacharya et al. (2020), due to Johnson & Johnson’s generosity, consumers may associate less risk with the vaccine and may be more willing to get vaccinated or use other products from the company.

The COVID-19 pandemic is likely to be the most complex crisis of the 21st century. Communities are losing trust in each other and looking to brands for answers. Although unprecedented, catastrophic events are opportunities for companies to follow through on promises to stakeholders by guiding them through challenging times. Governments are calling on companies to use their extensive networks and capital to manufacture and donate life-saving supplies and personal protective equipment. By putting stakeholders before shareholders, firms are aligning themselves with companies like Consolidated Edison, Johnson & Johnson, and other veteran companies of the New York Stock Exchange. Donating funds or goods can decrease the risk associated with a company’s products or services. Engaging in genuine corporate social responsibility, and not just to diffuse negative press, can help a company build loyalty and trust with consumers. Additionally, the high association and memorability of catastrophic events have a compounding effect on CSR events and therefore yield an increase in social reputation, better positioning a company to be built to last.

References

Adolf, B. & Means, G. (1936). *The Modern Corporation and Private Property.* Transaction Publishers.

Bhattacharya et al. (2020). Beyond warm glow: The risk-mitigating effect of corporate social responsibility. *Journal of Business Ethics.* https://doi.org/10.1007/s10551-020-04445-0

Bishop, M. & Greene, M. (2008). *Philanthrocapitalism: how the rich can save the world.* Bloomsbury Press.

Business Roundtable's statement on the purpose of a corporation. (2019). https://opportunity.businessroundtable.org/wp-content/uploads/2020/04/BRT-Statement-on-the-Purpose-of-a-Corporation-with-Signatures-Updated-April-2020.pdf

Cohen, J. (2020, May 5). Con Edison donates equipment and funding to COVID-19 relief. https://www.bxtimes.com/con-edison-donates-equipment-and-funding-to-covid-19-relief/

Cohut, M. (2020). *COVID-19 global impact: How the coronavirus is affecting the world.* Medical News Today. https://www.medicalnewstoday.com/articles/covid-19-global-Impact-how-the-coronavirus-is-affecting-the-world.

Collins, J. & Porras, J. (1994) *Built to last: Successful habits of visionary companies.* William Collins.

Delrahim, M. (2020). *Joint antitrust statement regarding COVID-19.* The United States Department of Justice. https://www.justice.gov/atr/joint-antitrust-statement-regarding-covid-19

Donaldson, T. & Preston, L. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review. 20*(1): 65-91. doi/10.5465/amr.1995.9503271992

Eyler, J. (2010). The state of science, microbiology, and vaccines circa 1918. https://journals.sagepub.com/doi/10.1177/00333549101250S306

Friedman, M. (1970, September 13). *The social responsibility of business is to increase its profits.* The New York Times Magazine. https://web.archive.org/web/20060207060807/https://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html

Giridharadas, A. (2018). *Winners take all: The elite charade of changing the world.* Alfred A. Knopf.

Hamann, R. (2020, April 2). *Coronavirus will have long-term implications for business leaders. Here are the top five.* The Conversation. https://theconversation.com/coronavirus-will-have-long-term-implications-for-business-leaders-here-are-the-top-five-135064

Jackson, J.et al. (2020). *Global economic effects of COVID-19.* Congressional Research Service. https://fas.org/sgp/crs/row/R46270.pdf.

Jiang, I. (2020, April 28). *The story of Ruth's Chris Steakhouse founder Ruth Fertel*. Business Insider. www.businessinsider.com/single-mother-ruth-fertel-founded-ruths-chris-steak-house-2020-4

Johnson & Johnson (2020). *Fighting the flu: 18 pivotal moments in history that have brought us closer to a cure.* https://www.jnj.com/our-heritage/18-key-moments-in-flu-treatment-and-prevention-history-since-1903**.**

Johnson & Johnson (2020). *Johnson & Johnson announces a lead vaccine candidate for COVID-19.* https://www.jnj.cm/johnson-johnson-announces-a-lead-vaccine-candidate-for-covid-19-landmark-new-partnership-with-u-s-department-of-health-human-services-and-commitment-to-supply-one-billion-vaccines-worldwide-for-emergency-pandemic-use

Morning Consult. (2020). Weathering the storm: Brand management in the COVID-19 era. https://go.morningconsult.com/rs/850-TAA-511/images/200415_Brand-Management-in-COVID-19-Era-MC-2020.pdf

Pardes, A. (2020, May 1). *Essential workers unite for a May day strike. Is it enough?* Wired Magazine. wired.com/story/amazon-instacart-target-coronavirus-may-day-strike

Rainie, L., & Perrin, A. (2020, April 6). *The state of Americans' trust in each other amid the COVID-19 pandemic.* Pew Research Center. https://www.pewresearch.org/fact-tank/2020/04/06/the-state-of-americans-trust-in-each-other-amid-the-covid-19-pandemic/

Rao, H., & Greve, H. (2017). Disasters and community resilience: Spanish flu and the formation of retail cooperatives in Norway. *Academy of Management Journal. 61*(1). https://doi.org/10.5465/amj.2016.0054

Watson, T. (2020, May 4). *Ruth's Chris Steak House in pikesville ives free meals to first responders.* Fox News. https://foxbaltimore.com/news/local/ruths-chris-steak-house-gives-free-meals-to-first-responders

Wei, J. et al. (2014). Strategically manipulating social reputation by scheduling corporate social responsibility events. Journal of Public Affairs. 14(2): 116-129. https://doi.org/10.1002/pa.1516

Yao, E. (2016). *The seven oldest companies on the New York Stock Exchange.* https://www.pws.io/the-seven-oldest-companies-on-the-new-york-stock-exchange