Modeling firm heterogeneity in corporate social performance and financial performance

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A B S T R A C T
Prior research on the association between corporate social performance (CSP) and corporate financial performance (CFP) includes conflicting perspectives and inconclusive findings as to whether or not CSP has a positive, negative, or neutral association with CFP. While Wang's (2015) meta-analysis confirms the relationship between CSP and CFP to be significant and positive, in some contexts CSP and CFP associate negatively; CSP may need to receive “good management” support to yield positive financial outcomes (Luo & Bhattcharya, 2009). The study here tests and supports the perspective that “good management” occurs in configurations (i.e., business models) with high CSP to indicate high CFP. A configurational theoretical stance implies that recipes of bad management with high or low CSP are likely to associate with low CFP. Configurational analysis supports this theoretical perspective. Building from complexity theory, a configurational analysis includes the propositions that complex multiple recipes lead to the same outcome (equifinality tenet) whereby variables (ingredients) found to associate causally in one configuration may be absent in another recipe or even inversely related in a third recipe associated with this same outcome. The present study employs a mixed methods research design (using surveys of senior executives, independent CSP firm assessments using ESG factors (environment, social (or human rights), and governance), and analysis of corporate annual reports of 82 mostly highly-global Swedish firms). The study overcomes the mismatch between case-level theory proposals and variable-based data analyses that is widespread in the relevant literature. The study's findings support the core tenets of complexity theory.

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1. Introduction and review of corporate social performance

The study here applies complexity theory and configurational analysis to offer a case-level theory and case-level empirical research of recipe antecedent conditions and recipe outcome conditions that describe, explain, and predict cases (firms) high and cases (firms) low in corporate social performance (CSP). Adopting a case-level approach to both theory and data analysis serves to overcome “the mismatch between configurational theory and methods” that Fiss (2007) describes. Fiss (2007) and others (Ordanini, Parasuraman, & Rubera, 2014; Woodside, 2014) stress that configurational (set-theoretic) approaches to organization research build from the fundamental premise that patterns of attributes (i.e., recipes) include specific ingredients (i.e., features) and that some of the recipes are sufficient in indicating specific outcomes. A core tenet in complexity theory is that configurational analysis supports that contrarian cases to main effect occur frequently (e.g., 20% of the cases) in data sets; consequently, the same ingredient can have a positive and a negative influence on the same outcome in the same data set. The present study advances a configurational theory of CSP antecedents and outcomes to include the examination of contrarian cases. Different antecedent recipes of firms with high CSP as well as firms having low CSP and corporate financial performance (CFP) outcomes are the conditions of interest in the present study. Fiss (2007) and others (Ordanini et al., 2014; Woodside, 2014) emphasize that while theoretical discussions of configuration theory stress nonlinearity, synergistic effects, and equifinality, conventional empirical research largely draws on symmetric econometric methods (e.g., regression analysis) that by their very nature imply linearity, additive effects, and unifinality. The conventional logic in prior CSP research is to apply classic linear regression models to describe and explain antecedents (i.e., independent variables) to low and high CSP as the same outcome variable; this body of research includes an unrecognized paradigm shift from case-level theory to variable-level data analysis and back again at the end of the studies to case-level theory discussions. As the following literature review describes, conflicting findings of positive, negative and no impact of independent variables on CSP as a dependent variable are the principle outcome in this body of work. Embracing a paradigm shift by applying complexity theory and case-level perspective to both theory and data analysis enables resolving the conflict. The resolution enriches insight and knowledge in describing antecedent recipes for firms high as well as firms that are low in CSP outcomes and how CSP

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recipes associate with high versus low CFP recipes. This case-level paradigm shift in analysis emphasizes the substantial usefulness in examining recipe outcomes as well as antecedent recipes. The present study contributes to new theory and empirical findings that support this paradigm shift.

Following this introduction, section two briefly reviews prior research on CSP and the contributions made in this literature by the present study. Section 3 describes the configurational analysis concept and good management theory. Section 4 describes the details of a general theory of CSP and CFP. Section 5 explains the study’s method to test this general theory. Section 6 presents the findings. Section 7 includes a general discussion of the theory and findings. Section 8 provides the conclusions, limitations, and suggestions for future research.

2. Corporate social performance and contributions of the present study

While multiple definitions are available, the present study defines high CSP to be “a commitment to improve societal well-being through discretionary business practices and contributions of corporate resources” (Du, Bhattacharya, & Sen, 2010, p. 8; Kotler & Lee, 2005), in combination with actions that represents differentiating factors that if successful can enhance a firm’s competitiveness and reputation (Hill, Ainscough, Shank, & Manullang, 2006). Both of these statements imply a need to design business practices actively to achieve high CSP and a perspective toward strategic CSP (instead of ethical CSP) with the organization as the unit of analysis (instead of the society). The topic of CSP receives substantial attention among firms globally (KPMG, 2011; Porter, 2008; Reid & Toffel, 2009). CSP is further a topic of study in the strategic management field (Drucker, 1984; Mintzberg, 1983; Porter, 2008); strategy researchers and consultants frequently claim that high CSP to be in firms’ best long-term interest (e.g., KPMG, 2011; Reid & Toffel, 2009) and to be a core-business function central to firms’ successful financial performance (Carroll & Shabana, 2010; Isaksson, Kiessling, & Harvey, 2014). Thus, as a field of study CSP is an increasingly relevant concept for firms worldwide today (Carroll & Shabana, 2010; Kang, 2009; Moon & Deleon, 2007; Porter, 2008; Reid & Toffel, 2009).

Some researchers hail high CSP as yielding direct- and indirect-enhancements of financial performance (Lev, Petrovits, & Radhakrishnan, 2011; McWilliams & Siegel, 2000) and in resulting in substantial competitive advantages (Carroll & Shabana, 2010; Kang, 2009; KPMG, 2011; McWilliams & Siegel, 2000; McWilliams & Siegel, 2011; Orlitzky, Schmidt & Rynes, 2003; Porter & Kramer, 2006). For example, the claims include that high CSP associates with improved brand performance, enhanced reputational capital and financial performance (Drucker, 1984; Harrison, Bosse, & Phillips, 2010; Melo & Garrido-Morgado, 2012; Moon & Deleon, 2007; Vogel, 2005; Waddock & Graves, 1997; Wang, Dou & Jia, 2015; Wood, 2010). Thus, CSP is an important research field as firms’ investing to achieve high CSP want to obtain specific benefits in return (Bondy, Moon, & Matten, 2012).

The present study contributes to CSP in several ways. To advance the perspective that high CSP associates with high CFP, the present study reassesses CSP fundamentals, re-approaches CSP measurement, and contributes to CSP’s theoretical development. First, prior research indicates that the association between CSP and CFP can be positive (Mattingly, 2015; Orlitzky et al., 2003), difficult to extract (Lindgreen & Swaen, 2010), neutral (McWilliams & Siegel, 2001a; Ramchander, Schwebach & Staking, 2012), negative (Lopez, Garcia, & Rodriguez, 2007), ambiguous and conflicting (McWilliams & Siegel, 2000), or inconclusive or difficult to measure (Upperle, Carroll, & Hatfield, 1985). While the most recent meta-analysis (Wang et al., 2015) confirm the relationship between CSP and CFP to be indeed significant and positive, the prior available research remains reliant on symmetric- and index-based data analysis only (Mattingly, 2015) and offers inconclusive direction of causality (Carroll & Shabana, 2010; Ramchander et al., 2012). Using tenets from complexity theory and asymmetric analysis, the present study reassesses the major aspects of how high CSP associates with high CFP. The study here adopts a recipe (i.e., configurational) perspective of proposing and testing sufficient and necessary ingredients to enforcements of high CSP (Lindgreen & Swaen, 2010) as tests the “good management” proposition for yielding high CFP (Graves & Waddock, 1999; Luo & Bhattacharya, 2009). Hence, the study matches the CSP firm construct with firm-level data analysis via a recipe based case-level approach to provide useful guidance for explicating the complexity in predicting high versus low CSP and high versus low CFP (cf. Fiss, 2007, 2011; Woodside, 2014).

Second, since prior research focuses on global indexes of CSP and how CSP globally relates to CFP and governance (Barnett & Salomon, 2012; Kolk & Pinske, 2006; Wood, 2010), the present study contributes by examining both a global CSP measurement (indexed) and separate the CSP components and the inter-relationships with other operative and managerial aspects (i.e., “good– versus bad-management”) of firms (Carroll & Shabana, 2010; Mattingly, 2015; Surroca, Tribo & Waddock, 2010; Wood, 2010; Wang et al., 2015). Thus, the present study considers the possible benefits of refuting the starting point from which most CSP-related research commences, namely that the definition of CSP itself is a composite index for assessing CSP by overall index values for a combination of environmental, social, and governance features. The study here proposes that such starting point is fundamentally flawed; researchers and practitioners can achieve a deeper understanding of antecedents and outcomes to CFP via the study of separate components versus the component index approach to studying CSP. This research therefore decomposes the composite measure in reinvestigating CSP–CFP associations. The findings support the substantial value of this examination of antecedents and outcomes to the separate parts of CSP index measures.

Third, since firms struggle to comprehend and implement CSP enabling components (Bill. Griffith, & Lim, 2008; Isaksson et al., 2014), research that clarifies the concept is a valuable contribution to strategic management theory and practice (executive decision-making). Common comprehension issues include difficulties in understanding how “doing good” can be a part of a firm’s strategic management (Lev et al., 2011; Luo & Bhattacharya, 2009; McWilliams & Siegel, 2011) and what high CSP provides “to our firm” (Maak, 2008). Since the strategic management concept entails a systematic analysis of internal and external factors associating with customers and the organization itself, CSP study may support the design of highly effective management practices, that is, good management practice and operating efficiency (Becchetti & Trovato, 2011). Hence, being a complex yet promising concept (Carroll, 2000; Sen, Bhattacharya, & Korschun, 2006), research targeting further understanding of the intricate relationship among its antecedents, internal and external factors, organizational, and managerial design (structural components) to achieve potential benefits, is of value. Consequently, including research on both CSP and CFP in the strategic management discipline may be necessary for achieving deep knowledge of “good management” practices.

The difficulties described are solvable by conceptual developments assuming a case-level approach (Fiss, 2007, 2011; McWilliams & Siegel, 2011; Woodside, 2014). By quantitative modeling at the case level, academics and practitioners alike can appreciate that different avenues—different recipes—are available for achieving successful CSP investments to encourage firms to engage in, or strive for, high CFP. The present study probes how the various underlying components of, and antecedents to, firms’ CSP fit together conjunctively to result in high as well as low CFP. The outcome opportunities of high CSP are more multifaceted than prior conceptualizations (e.g., Sen et al., 2006). The study responds to the research call for multi-method approaches and decompositions of CSP measures (Szwajkowski & Figlewicz, 1999).

Finally, high CSP alone is not likely to consistently result in high CFP without strategic alignment (Porter & Kramer, 2006). Thus, firms may need to plan, organize, manage, and implement CSP programs in the
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