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Doing good and doing bad: The impact of corporate social responsibility and irresponsibility on firm performance☆

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ABSTRACT

Research on firm performance and corporate social performance (CSP) has recently broadened to concurrently evaluate corporate social irresponsibility (CSI) with corporate social responsibility (CSR). However, little is known about the underlying mechanisms that impact the performance relationship, particularly the duration of the influence of CSR initiatives and CSI incidents and the impact of the interaction of CSR and CSI on firm performance. This research expands understanding by examining the combined impact of "doing good" and "doing bad" to allow a more robust examination of a firm's regime in pursuing a better strategic position through social performance. We examine the effects of CSR and CSI and their combined effects using a moderating high-low matrix. The empirical findings provide two uniquely interesting findings: CSI incidents have a longer enduring effect than CSR initiatives and those firms doing little CSR and little CSI perform better than firms engaging in high levels of both.

1. Introduction

The corporate social performance (CSP) of a firm is comprised of both "doing good" through corporate social responsibility (CSR) initiatives and "doing bad" through corporate social irresponsibility (CSI) incidents (Carroll, 1979; Wood, 1991b). CSR has been widely acknowledged as a highly desired firm action that not only benefits communities but also helps firms achieve better business performance (Barnett, 2007; Cochran & Wood, 1984; McWilliams & Siegel, 2001). Researchers have only recently begun to broaden the understanding of CSR activities' impact on business performance through the inclusion of CSI, an opposing counterpart. CSI, understood to describe firm actions which reasonable stakeholders consider to be irresponsible behavior, is concerned with whether firms engage in harmful activities that benefit a few but cause substantive net harm when considering all stakeholders (Armstrong & Green, 2013). However, CSI has received scant attention from researchers and has rarely been examined in the literature to date (Murphy & Schlegelmilch, 2013). The impact of CSR and CSI on firm performance and the relationship between "doing good" and "doing bad" remains largely unresolved in the extant literature (Groening & Kanuri, 2013; Hull & Rothenberg, 2008; Lin-Hi & Müller, 2013; McWilliams & Siegel, 2000; Orlitzky, Schmidt, & Rynes, 2003; Tang, Hull, & Rothenberg, 2012; Waddock & Graves, 1997).

Economic theory states that the sole objective of a firm is to maximize long-term returns for shareholders that have entrusted management with their investment and forbids managers to use shareholder investments to underwrite social initiatives to improve the world (Friedman, 1970). Stakeholder theory opposes this perspective of CSR and promotes the ability of CSR to deliver firm benefits by aligning and connecting with stakeholders to enhance satisfaction and loyalty, produce positive identification with the firm, and produce a favorable firm image (Brown & Dacin, 1997; Friedman, 1970; Jensen & Meckling, 1976; Luo & Bhattacharya, 2006). Stakeholder theory conceptualizes CSI as a conflicting force to CSR that prompts negative stakeholder perceptions and relationships and produces negative firm consequences in the form of costly lawsuits, costs associated with a negative firm reputation, sales revenue losses, increased capital costs, and increased financial risk (Lange & Washburn, 2012; Oikonomou, Brooks, & Pavelin, 2012). Research supports this stakeholder approach in findings that indicate a strong positive relationship between CSI and financial risk and a weak negative relationship between CSR and systematic firm risk (e.g., Oikonomou et al., 2012). Additionally, other studies suggest that CSR lowers firm idiosyncratic risk, whereas CSI increases firm idiosyncratic risk (Mishra & Modi, 2013). Regarding firm value, scholars have evaluated firm value using accounting measures such as returns on assets (e.g., Hull & Rothenberg, 2008) and stock-based measures such as

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Tobin's Q and stock returns (e.g., Godfrey, Merrill, & Hansen, 2009). Studies have found that CSR increases firm value whereas CSI detracts from firm value (e.g., Gregory, Tharyan, & Whittaker, 2014; Jo & Na, 2012; Luo & Bhattacharya, 2009). In a comprehensive review of the literature, Margolis and Walsh (2001) report that in 80 of the 95 papers published between 1972 and 2000, CSP assists in the determination of firm financial performance. Additionally, in a second study, Margolis and Walsh (2003) note that 109 out of 127 studies indicate that CSP is a predictor of firm financial performance.

Researchers have recently begun to examine CSP's impact on business performance through the inclusion of CSI. Viewing social responsibility as the interaction of CSR and CSI provides a broader, holistic perspective that allows researchers and practitioners to more fully evaluate the firm's regime in pursuing a better strategic position through CSP (Jones, Bowd, & Tench, 2009; Lange & Washburn, 2012; Sweetin, Knowles, Summey, & McQueen, 2013). A review of prior literature indicates that researchers have primarily focused on the CSR perspective of CSP and conceptualized the CSR construct as a uni-dimensional or overall measure (Griffin & Mahon, 1997). This one-dimensional perspective limits understanding because it generally aggregates the responsible and irresponsible aspects of CSP (e.g., Johnson & Greening, 1999). Strike, Gao, and Bansal (2006) determined that firms can engage in CSR and CSI simultaneously by being both "good and bad." Specifically, the Lin-Hi and Müller (2013) study performs a review of the literature to date on CSI and proposes that preventing CSI requires complex management and is a condition of firms being socially responsible in the long run. Our research extends the CSI literature and answers a call by Lin-Hi and Müller (2013) for further research on the relationship between CSR's approach of "doing good" and CSI's approach of "doing bad."

Practically, certain firms promote substantial CSR, others engage in little or no CSR, and other firms focus on avoiding CSI in efforts to avoid doing any harm (Minor & Morgan, 2011). The level of firm engagement in CSR activities is not the only factor to consider when evaluating the influence of CSP on firm performance. Researchers suggest that CSR can have a positive, negative, mixed, or neutral impact (McWilliams & Siegel, 2000), although the majority of research indicates a positive impact on firm performance (Margolis & Walsh, 2003). Conversely, firms that are found to engage in CSI may generate serious hazardous consequences to the environment, employees, communities, and other social entities (Lange & Washburn, 2012). When considering the influence of CSP on firm performance, this evaluation should consider the impact of the level of firm engagement in both CSR and CSI as well as the combination of engagement in CSR and CSI (Lin-Hi & Müller, 2013; Strike et al., 2006). The possibility of little or no engagement should also be considered, i.e., doing nothing, neither "doing good" nor "doing bad." Firms have been found to engage in both CSR and CSI simultaneously at different levels of commitment (Cai, Jo, & Pan, 2012; Nossiter, 2010). Conducting a factor analysis of Kinder, Lydenberg, Domini Research & Analytics (KLD) data, Mattingly and Berman (2006) confirm the independence of responsible and irresponsible behaviors, suggesting that social strengths and weaknesses are independent of one another. From a theoretical perspective, one study proposed that CSI is likely to have an opposite yet stronger effect than CSR on a firm's relationships, reputation, and performance (Lange & Washburn, 2012), although this proposal has not been empirically examined to date. Therefore, although a small number of studies have explored the interaction between CSR and CSI or have called for the interaction to be examined, we do not know the longevity of these effects or the combinations of CSR and CSI that yield the strongest impact on firm performance. This paper intends to address the following questions and identified gaps in the research stream.

Do CSR and CSI have opposing effects on firm performance when firm value and risk are considered?

Does CSI more strongly affect firm value and risk than CSR?

Would "doing both good and bad" (high CSR-high CSI) be better than "doing nothing" (low CSR-low CSI)?

Does CSI have a more enduring effect on firm performance than CSR?

First, CSR and CSI have scarcely been examined together to determine the magnitude of influence on firm performance, whether harmful or beneficial. Second, although a firm may pursue CSR activities and also be involved in CSI activities in the business world, the interaction of these two constructs is rarely studied in the literature (Murphy & Schlegelmilch, 2013), although a firm may adopt a distinct combination of CSR and CSI (Lin-Hi & Müller, 2013). Third, although the contending influence of CSR and CSI on firm performance is important to researchers, there is little empirical research that demonstrates how these two constructs jointly affect firm performance. Specifically, there is a dearth of empirical research examining the combination of high/low CSR and CSI effects or the longevity of CSR and CSI effects, particularly the length and strength of these effects.

Insight into these research questions will significantly contribute to both theory and practice. Theory may be enriched by examining stakeholder relationships and incorporating the influence of high/low CSR and CSI on firm performance. The confirmation of the different longitudinal patterns of CSR and CSI also contributes to the stakeholder theory, which has long supported the notion that CSR should provide long-term positive effects in addition to an immediate positive impact on the firm (Jones, 1995; Wang & Choi, 2013). In addition, this research provides practical insights on managing the simultaneous effects of CSR and CSI on stakeholder relationships.

2. Theoretical framework and hypotheses development

First, we provide our reasoning for viewing CSP as having both CSR and CSI dimensions. CSP is defined as the application of socially responsible principles and socially responsive processes to ensure firm policies, programs and observable outcomes that address the needs of the firm through societal relationships (Wood, 1991b). The original conceptions of CSP viewed performance outcomes as the attainment of only societal objectives and values (Bowen, 1953). This perspective of social performance has evolved over time from focusing solely on the social impact, policy, and programs to include other firm metrics such as firm financial impact (Lerner & Fryxell, 1988; Oikonomou, Brooks, & Pavelin, 2014; Wood, 1991a). Conceptually, CSP proposes social responsibility as the dimensions of corporate behaviors that interact with social and environmental concerns (Sethi, 1979). These corporate behaviors include both responsible (CSR) and irresponsible (CSI) behavior in nature (Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991b). The CSP perspective of social responsibility and irresponsibility combines the principles and processes of social responsiveness with the outcomes of social issues management. Carroll (1979) stated that a firm's response to CSP may be very responsive to environmental conditions or social pressures, although a firm may act either responsibly or irresponsibly. The performance component of CSP is clearly expressed as the observable outcomes of a firm's social behavior and interaction (Wood, 1991b).

Next, we address stakeholder theory and research that supports the stakeholder view of CSP and firm performance. Stakeholder theory considers the firm as a collection of stakeholders that are defined as groups of individuals who can affect or are affected by firm actions in pursuit of firm goals (Freeman, 1984). Instrumental stakeholder theory examines and identifies the relationship between stakeholders and management in efforts to achieve firm economic benefits and goals (Margolis & Walsh, 2003). Stakeholder relationships are managed through stakeholder identification and prioritization and are based on management's perception regarding whether the stakeholder possesses power, legitimacy, and urgency (Mitchell, Agle, & Wood, 1997).