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Examining the Link between Strategic Corporate Social Responsibility and Company Performance: An Analysis of the Best Corporate Citizens

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ABSTRACT
Using KLD data on the performance of 188 companies over a three-year period in seven areas of corporate social responsibility (CSR) – environment, community, corporate governance, diversity, employee relations, human rights, and product quality – this study examines whether CSR initiatives have a greater impact on company performance (CP) if the company prioritizes the CSR issues that matter most to it and approaches CSR initiatives in a strategic way, than if it approaches them based on generic rationale unrelated to the company's strategy. The results show that when a company pursues CSR initiatives that are linked to stakeholder preferences and allocates resources to these initiatives in a strategic way, the positive effect of its CSR initiatives on CP strengthens in terms of both market-based and accounting-based measures of performance. However, this relationship was not observed across the board for all of the seven areas of CSR. The main conclusion of this study is that companies need to link their CSR initiatives to the likely preferences of their stakeholders and undertake the corporate social actions that are relevant to the company's strategy. Copyright © 2012 John Wiley & Sons, Ltd and ERP Environment.

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Introduction

In recent years, companies in general and publicly held companies in particular have increasingly been held accountable for the social consequences of their business activities such that they are expected to move beyond their focus on financial performance and legal requirements to satisfy the needs of various non-shareholding stakeholders (Coombs and Gilley, 2005; Collison *et al.*, 2008). The demand for heightened corporate attention to corporate social responsibility (CSR) has come from disparate groups that include customers, employees, community, and non-governmental organizations (NGOs). These groups, none of whose primary benefit from the

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company is derived from investment returns, tend to focus on issues that are important to both the success of the company and to the well-being of society at large (Choi and Wang, 2009; Doh *et al.*, 2010).

However, the financial crisis that has swept through the business world recently has put these types of initiatives under much closer scrutiny in terms of the business benefits received from supporting the demands of non-shareholding stakeholder groups; decision-making concerning CSR initiatives has been increasingly focused on providing tangible returns to the company (Chiu and Sharfman, 2009). While most companies accept the need for CSR, the dramatic change in the global economic climate has led companies to ask themselves whether the prevailing approaches to CSR allow them to enhance their stakeholder relationships and, if so, whether these approaches to CSR are advantageous in terms of corporate performance (CP). The basic issue that confronts the company executives is whether companies 'do well by doing good' and, if so, how (Dobers and Springett, 2010).

A review of the prevailing approaches companies take to CSR revealed that CSR efforts are 'so fragmented and so disconnected from business and strategy as to obscure many of the greatest opportunities for companies to benefit the society' (Porter and Kramer, 2006, p. 4). Werbel and Wortman (2000, p. 125) noted that companies primarily used corporate investments in social causes as a short-term strategy to overcome a negative reputation and that their support for CSR initiatives was a 'haphazard, reflexive response to short-term challenges'. Observations of this nature lend support to the critics of CSR, who have long argued that company investments in socially responsible but unprofitable initiatives are unsustainable. Failure to supplement CSR initiatives with economic considerations may be why many companies view them as a 'non-productive cost' (Murray and Montanari, 1986) or as a 'tax or license for doing business' (Peloza, 2006). The limitations of prevailing approaches to CSR, coupled with the present economic crisis, mean that managers must develop highly focused and meaningful forms of CSR initiatives that demonstrably maximize profit by increasing corporate goodwill (Ditlev-Simonson and Midttun, 2011).

In response to the criticisms of and concerns about CSR, Porter and Kramer (2006) proposed that the economic objectives of the firm and the objectives of CSR initiatives need not be separate and distinct. Instead of focusing on the 'tension between business and society', companies should understand the interdependence between the two and anchor their CSR initiatives in their company-specific strategies and activities. When companies approach CSR in this way, they 'discover that CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation and competitive advantage' (Porter and Kramer, 2006, p. 4).

Taking such an approach to CSR is also justified by theory. Particularly relevant here are the unique relationships among the top company executives, the board of directors, and the firm's stakeholders, which relationships form the basis of stakeholder-agency theory (Jensen and Meckling, 1976). Although top executives in general, and the CEO in particular, directly control firm-level decisions, their actions are also monitored and influenced by the board of directors, who represent all stakeholders (Coombs and Gilley, 2005; Lucas, 2010; Mallin and Michelon, 2011). In addition, how stakeholder relationships are built is likely to be derived from the values embedded in a company's culture (Graves and Waddock, 1994; Hemingway and Maclagan, 2004). Hemingway and Maclagan (2004) addressed this issue by explaining how this agency relationship affects a company's decision to channel its CSR resources to objectives that link the CSR initiatives to the likely preferences of the shareholders.

The objective of this study is to examine empirically whether CSR initiatives have a greater impact on company performance if the company prioritizes its CSR initiatives based on the preferences of the stakeholders and channels resources to these initiatives in a strategic way than if it approaches CSR based on generic rationale that are unrelated to stakeholder preferences. Using data collected by Kinder, Lyndenberg, Domini Analytics, Inc. (KLD) during 2005, 2006, and 2007, this study examines the relationship between CP and CSR activities that target each of seven stakeholder groups. In doing so, this study focuses on an important yet underemphasized aspect of the CSR-CP research in order to address the question of whether companies can approach CSR in a way that both benefits society and provides tangible returns to the company.

Literature Review and Hypotheses Development

There are many ways to create CSR initiatives that give value to stakeholders, but because stakeholder management involves close interaction with a number of diverse yet interrelated groups, the process is inherently

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complex (Goll and Rasheed, 2004). When companies have fewer resources to devote to CSR initiatives, those responsible for corporate governance (the top executives and the board of directors) must determine which stakeholder groups to consider, in what order, and to what extent (Ruf *et al.*, 2001; Van Beurden and Gössling, 2008). Once the firm's stakeholders have been identified and prioritized, the firm must link its CSR initiatives to the preferences of one or more groups of stakeholders. A number of researchers (McWilliams and Siegel, 2001; Sen and Bhattacharya, 2004; Porter and Kramer, 2006; Melo and Garrido-Morgado, 2011) have argued that channeling a firm's CSR initiatives to the objectives its directors and top executives favor strengthens the firm's long-term competitiveness and CP.

Following the resource-based view of the firm, researchers have regarded a firm's positive relationships with its stakeholders as valuable, rare, inimitable, and non-substitutable resources that contribute to the company's performance advantage (Hillman and Keim, 2001; Choi and Wang, 2009; Melo and Garrido-Morgado, 2011). A company's decision to base how it channels its resources based on stakeholder preferences leads to a performance advantage for the firm (Alniacick *et al.*, 2011). For example, a sound relationship with employees – a stakeholder group – may increase the firm's ability to attract and retain employees and increase employee commitment and effort, leading to improved efficiency and productivity. Similarly, a good relationship with customers, another stakeholder group, may lead to a more stable and attached customer base and enhance brand value (Brown and Dacin, 1997), and a good relationship with the community may lead to positive community involvement in providing infrastructure and support for the company's growth (Fombrun *et al.*, 2000; Epstein and Widen, 2011).

Previous researchers have also noted that targeted CSR initiatives help to build a positive reputation with various stakeholder groups (McWilliams and Siegel, 2001; Sen and Bhattacharya, 2004; Melo and Garrido-Morgado, 2011; Michelon, 2011), which is associated with positive financial performance. A positive reputation has a particularly enduring effect because of the inability of competitors to imitate it (Alniacick *et al.*, 2011). CSR initiatives that are prioritized based on strategic concerns have often been described by researchers as 'investments' comparable to those made in R&D or employee training because such initiatives lead to future growth potential in the same way (Fombrun *et al.*, 2000). Prioritization can also give a company advantages in identifying trends or changes that are taking place in the market, allowing the company to act quickly to establish itself at the forefront of the change (Falck and Heblich, 2007). Finally, such CSR initiatives may help the company build competencies proactively by improving its scanning skills, processes, and systems that increase the organizational preparedness for change, turbulence, and crises (Orlitzky *et al.*, 2003; Welford *et al.*, 2007).

Managing the CSR initiatives of the firm in terms of doing things better than and differently from how competitors do them can contribute to competitive success in the same way that other aspects of competitive strategy do (Porter and Kramer, 2006). More than ever before, strategic considerations of externalities are critical to a company's competitive performance. By linking the CSR initiatives to the likely preferences of the stakeholders and channeling company CSR resources to objectives favored by top management and directors, companies can ensure that their corporate capabilities will be particularly suited to helping create value for the stakeholder groups whose needs they are trying to address (Ruf *et al.*, 2001; Porter and Kramer, 2002). Therefore, it is proposed that:

> H1: *Firms whose CSR activities are prioritized based on strategic concerns see a more positive relationship between CSR and CP than other firms do.*

Research Method

Sample and Data Collection

Data on CSR were drawn from the KLD Social Ratings database. KLD rates the social, environmental, and governance performance of companies on more than 280 data points using a proprietary rating system. The database includes all firms on the Standard and Poor's 500, as well as approximately 150 firms included in the Domini Social Index (DSI) 400. Based on these ratings, KLD publishes the list of 100 Best Corporate Citizens annually, providing

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evaluations on the performance of these companies in seven areas: environment, community, corporate governance, diversity, employee relations, human rights, and product quality and safety. We used the KLD ratings of the 100 Best Corporate Citizens for 2005, 2006, and 2007 because we were specifically interested in companies' long-term strategic approach to CSR and CSR's resulting effect on CP. Since not all companies made the 100 Best Corporate Citizens list in all three years, the selection process yielded a final sample of 188 companies. The data gathered consisted of their performance ratings in terms of CSR initiatives related to the seven areas listed above.

KLD data is considered 'the most comprehensive and prominent data' on stakeholder management (Coombs and Gilley, 2005, p. 830). It has been referred to as 'the *de* facto standard at the moment' for measuring stakeholder management (Waddock, 2003, p. 369). KLD's Social Ratings database, which has become the standard for quantitative measurement of companies' CSR initiatives, has been extensively used in scholarly research to operationalize companies' CSR initiatives (Graves and Waddock, 1994; Hillman and Keim, 2001; Coombs and Gilley, 2005; Choi and Wang, 2009; Melo and Garrido-Morgado, 2011). Data on CP and control variables were collected from Thomson's DataStream, one of the largest databases of financial performance and other company-related statistics.

Measures of Corporate Performance (CP)

The primary dependent variable in this study was CP. A company's performance can be measured in terms of short-term accounting-based measures, long-term accounting-based measures, and market-based measures (Waddock and Graves, 1997; Roman *et al.*, 1999; Richard *et al.*, 2009). Orlitzky *et al.'s* (2003) meta-analytic study found that CSR is more highly correlated with accounting-based measures of CP than with market-based indicators, but we chose to measure CP using both. For accounting-based measures, we chose EBITDA, capital expenditure, and intangibles. EBITDA is less subject to managers' discretionary policy choices regarding surplus resources than many other accounting-based measures, so it provides a better reflection of a company's actual financial performance (Orlitzky *et al.*, 2003). Capital expenditures indicate the long-term initiatives that companies are pursuing to improve their future performance, and intangibles capture gains that may not be directly reflected in the accounting-based measure but have the potential to improve a company's future performance.

For the market-based measure, we selected companies' market value at the end of each of the three fiscal years. A company's market value over time should reflect the tangible and intangible gains that may have resulted – and even those likely to result – from sound CSR initiatives over time (Coombs and Gilley, 2005; Wahba, 2008; Choi and Wang, 2009). Data for the accounting-based and market-based measures were drawn for 2005, 2006, and 2007. We used concurrent performance data rather than lagging or leading indicators because results of meta-analytic studies have shown that CSR and CP are as likely to be concurrent as they are to be lagging or leading (Orlitzky *et al.*, 2003; Mattingly and Berman, 2006).

Measurement of Corporate Social Performance (CSP)

The independent variables used in this study are the seven areas of stakeholder management on which KLD rates company's CSR initiatives: environment, community, corporate governance, diversity, employee relations, human rights, and product quality and safety. Because these measures have been widely used in a number of prominent studies (Graves and Waddock, 1994; Hillman and Keim, 2001; Coombs and Gilley, 2005; Choi and Wang, 2009) we do not describe in detail the activities included in these measures. The final rating in each of the seven areas of CSR is based upon the assessment made by KLD analysts after extensive investigation of public records, including more than 14 000 global media sources, company websites, reports from governmental agencies, and NGOs, financial reports filed with various regulatory agencies, company annual reports, direct communications with company officers, and visits to company facilities by KLD analysts.

KLD ratings indicate the presence or absence of strengths and weaknesses in a number of attributes in each of the seven areas of CSR (Mattingly and Berman, 2006). A low rating in an area is indicative of weakness or the absence of strength, while a high rating indicates the presence of positive activity toward a stakeholder group and the absence of weaknesses.

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Measures of Strategically Prioritized CSR Activities

Since measures that link firms' CSR priorities to stakeholder preferences are not available in the extant literature, we created the measures ourselves. Prioritization occurs in every organization. However, the level of CSR prioritization and corresponding resource allocation varies across organizations since different organizations attempt to link their CSR initiatives to the preferences of their stakeholders in their own unique ways (Hillman and Keim, 2001).

We first measured the extent to which a company prioritized its CSR initiatives based on the preferences of the stakeholders by calculating the variance in each company's CSR rating related to the seven areas for each of the three years. If the variance was greater than the average variance for all observations for a given year, it was deemed to provide evidence that the CSR initiatives of the company were linked to its stakeholders' preferences. By approaching prioritization in this way, we capture the outcome of the prioritization process that selectively addresses the CSR issues related to the demands of various stakeholder groups. A dummy variable for 'priority' was created, and companies were assigned a value of 1 if the variance was greater than the average variance and 0 otherwise.

Next, to measure whether a company channeled its CSR resources to initiatives related to the demands of various stakeholders in a strategic manner, we calculated the mean score for each of the seven areas of CSR for all the companies in the sample for each of the three years. If a company's score was higher than the overall mean for a given year for a specific area of CSR, we classified the company as addressing the demands of that stakeholder group in a strategic way. Accordingly, a dummy variable 'strategic' was created, and companies were given a value equal to 1 if a company's score was higher than the overall mean and 0 otherwise. Seven dummy variables, one for each area of CSR, were created in this way.

Despite their limitations, we believe that these two proxy measures together allow us to capture what is at the core of strategically prioritized CSR activities. A company must prioritize its CSR initiatives to the likely preferences of the stakeholders (captured by greater emphasis on some areas of CSR than others) and then use CSR resources strategically to pursue those CSR objectives (reflected by superior relative score in some areas of CSR than others). Examining the variances in the sample's means in order to understand variability/consistency in a company's practices is an approach used in many previous studies (Simerly and Li, 2000). Wang and Choi (2010) examined inter-domain constancy in CSR initiatives of a company toward various stakeholders using a similar measure.

Control Variables

We included size and industry as control variables based on the recommendations and findings of previous researchers (McWilliams and Siegel, 2000; Coombs and Gilley, 2005; Choi and Wang, 2009). Size was controlled for because one could argue that as companies grow, they are more likely to adopt CSR initiatives as a result of increased pressure by stakeholders (Boesso and Kumar, 2007). The average cost of implementing CSR initiatives may also be proportionately less for large firms than for smaller ones (McWilliams and Siegel, 2001) since large size often facilitates economies of scale or scope (Roberts and Dowling, 2002). However, inertia can be a more significant problem in larger firms than in smaller, more nimble ones. We measured firm size by the natural logarithm of the number of employees. We chose number of employees over other measures, such as revenue or sales, because companies in our sample come from many different industries, with very different revenue and sales pattern.

Industry effects may also influence a company's CSR initiatives and its performance (Waddock and Graves, 1997; Hillman and Keim, 2001). When assessing CSR, researchers must recognize 'business exposure', that is, the degree to which a firm is vulnerable to its environment. Firms in industries like consumer goods, utilities, and oil and natural gas are under substantial scrutiny from a broad range of stakeholders (i.e. they face significant business exposure), so they are more likely than firms in other industries to engage in certain acts of CSR. This effect was apparent in a KPMG report that found that companies in industrial sectors with relatively high environment impact led other companies in CSR reporting (KPMG, 2005). The industry in which a firm operates can also affect the pressures it faces from different stakeholder groups. For example, consumer product companies see their largest exposure and greatest pressure from customer groups, while firms in industrial sectors like utilities and oil and gas face the greatest pressure from stakeholders concerned about environmental impacts.

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Modeling the Effect of Strategically Prioritized CSR

The data for this study consisted of seven different CSR ratings for the 100 companies that were ranked as the best corporate citizens. Data was collected over a period of three years (2005–2007). Since many companies made the list more than one time during this three-year period and since ratings on the seven CSR issues may have varied, the data set was panel data. Panel data have the between-subjects information among subjects for any given time period, and they have the within-subjects information for the same subjects across time (Wooldridge, 2002).

Panel data regression uses this within-subjects information across time to adjust the standard errors of variables, thereby adjusting the substantive analysis of results (Pedhazur, 1997). We found different error variances for different cross-sections; since with such cross-section heteroskedasticity, the ordinary least squares (OLS) standard errors are inconsistent, we performed a panel-corrected standard error model assuming within-unit homoskedasticity. In order to perform a robustness check of our results, we ran all regression models using robust variance estimates.

We also performed the Wooldridge test for autocorrelation in panel data and identified serial correlation in the error term of some of our models (shown in Table 3). Since serial correlation in linear panel-data models biases the standard errors and reduces the efficiency of the results (Wooldridge, 2002), we ran our regression correcting for within panel first-order autocorrelation assuming the AR(1) process is common to all the panels. Therefore, these models obtain the Prais-Winsten (rather than OLS) estimates of the parameters (Kmenta, 1997). Both the OLS and Prais-Winsten estimates with panel corrected standard errors are conservative, so they are valid alternatives to feasible GLS estimates (Beck and Katz, 1995).

Since the focus of the study was on examining the effects of CSR activities on CP, we first examined the main relationship between the seven CSR areas and CP using the following model:

$$CompanyPerformance_{it} = a_0 + \mathrm{a}_1 Community_{it} + a_2 Governance_{it} + a_3 Diversity_{it} + a_4 Employee_{it} + a_0 HumanRights_{it} + a_6 Environment_{it} + a_7 Product_{it} + a_7 Size_{it} + \sum_{ind=1}^{8} a_{9ind} Industry_{ind_{it}}$$

Next, in order to examine the effect of strategically prioritized CSR activities on CP, we used moderated multiple regression analysis. We specified the following model to test this relationship:

$$CompanyPerformance_{it} = \alpha_0 + \alpha_1 priority_{it} + \alpha_2 CSR_{it} + \alpha_3 strategicCSR_{it} + \alpha_4 CSR_{it} * strategicCSR_{it} + + \alpha_5 Size_{it} + \sum_{ind=1}^{8} \alpha_{6ind} Industry_{ind_{it}}$$

where CP is measured by EBITDA, market value, capital expenditure, and intangible assets; priority is a dummy variable that indicates whether the CSR initiatives of the company are linked to stakeholder preferences; CSR is the KLD ratings in the areas of community, governance, diversity, employees, environment, human rights, and product; strategic CSR is a dummy variable that indicates whether the company channeled its CSR resources to CSR initiatives in a strategic way in the seven areas of CSR; size is a logarithmic transformation of the number of employees in the company; and $industry_{ind}$ are industry dummies (basic materials, cyclical consumer goods, non-cyclical consumer goods, cyclical services, financial services, general industrials, information technology, utilities).

Results

Table 1 reports descriptive statistics and correlations for the variables included in the study. Since KLD ratings in various categories of CSR are done using different scales, the ratings were standardized across the seven categories of CSR. The characteristics associated with the companies included in the sample are reported in terms of the average market value of the companies, the average value of their intangible assets, their average EBITDA, and capital

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	mean	sd	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1.community	1.17	1.42	.49**	1																		
2.governance	0.52	1.07	.15**	-.22**	1																	
3.diversity	1.12	1.07	.26**	.32**	-.38**	1																
4.employee rel.	1.01	1.09	.31**	-.02	-.10	-.02	1															
5. human rights	0.18	0.81	.03	-.11*	.05	-.09	-.16**	1														
6.environment	0.92	1.11	.51**	.15**	.02	.12*	.01	-.25**	1													
7.product	0.52	0.79	.04	-.28**	.01	-.29**	.01	-.05	-.02	1												
8.priority	0.33	0.47	.43**	46**	-.21**	.40**	.14*	-.34**	40**	-.11*	1											
9.str_comm	0.42	0.49	.32**	.81**	-.24**	.26**	.07	-.04	.08	-.24**	.32**	1										
10.str_gov	0.52	0.50	.01	-.21**	.73**	-.25**	-.09	.06	-.07	.02	-.17**	-.14*	1									
11.str_div	0.44	0.49	.26**	.27*	-.25**	79**	-.02	-.11	.18**	-.26**	40**	.19**	-.18**	1								
12.str_er	0.48	0.50	.18**	-.02	-.17**	.02	.80**	-.14*	-.06	.10	.12*	-.05	-.06	.03								
13.str_env	0.37	0.48	.43**	.14*	.01	.15**	.05	-.24**	.84**	-.03	34**	.07	-.08	.20**	-.01	1						
14.str_hr	0.85	0.35	-.14**	-.11*	.01	-.17**	-.24**	.81**	-.29**	.01	-.45**	.05	.10	-.20**	-.14*	-.27**	1					
15.str_prod	0.52	0.50	.16**	-.16**	.09	-.22**	.15**	-.01	.13*	.66**	-.01	-.22**	-.11*	-.13*	.07	.08	-.06	1				
16.prior*overall	0.28	0.45	.70**	.51**	-.09	.39**	.24**	-.22**	.50**	.07	.90**	.33*	-.11*	.39**	.16**	.41**	-.38**	.025	1			
18.EBITDA	2,358.4	4,596.4	.20**	.33**	-.23**	.47**	.15**	-.23**	.01	-.28**	.39**	.25**	-.18**	.35**	.16**	.15**	-.28**	-.16**	.36**	1		
19.com_value	34,900.2	94,400.1	.10	.29**	-.25**	.31**	.10**	-.18**	.02	-.19**	.30*	.23**	-.18**	.27**	.14**	.02	-.16*	-.07	.25**	.92**	1	
20.cap_exp	451.8	888.4	.28**	.18**	-.01	.34**	.24**	-.31**	.20**	-.08	.33**	.11	-.03	.28**	.16**	.28**	-.31**	.06	.36**	.72**	.40**	1
21.intangibles	2,873.3	7,779.8	.11	.23**	-.15**	.40**	.02	-.07	-.01	-.22**	.27**	.16**	-.09	.25**	.04	.06	-.16**	-.14**	.23**	.72**	.67**	.45**

Table 1. Mean, standard deviation and correlation of all variables
*p < .05, **p < .01

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expenditures. Also included in Table 1 are the CSR performance ratings of companies in the sample. On average, companies perform better with issues involving community relations (mean = 1.17), diversity (mean = 1.12), and employee relations (mean = 1.01) and environment (mean = 0.92) than they do on issues related to human rights (mean = 0.18), product responsibility (mean = 0.52), and governance (mean = 0.52). The standard deviation associated with the ratings in each of the seven areas indicates a fair degree of variation among companies in their corporate social actions; ratings on community and environmental issues show the largest variance, while human rights and product-related ratings have the lowest variance.

Table 2 presents the results of the main effect model, in which CP (measured in terms of EBITDA, capital expenditure, company market value, and intangibles) was regressed on the seven areas of CSR while controlling for company size and industry in order to determine the nature of the CSR-CP relationship. Results show that employee- and diversity-related CSR initiatives are positively and significantly associated with three of the four performance measures, while governance has a significant positive association with capital expenditure. On the other hand, environment has a significantly negative association with intangibles, and human rights have a significantly negative association with capital expenditure. CSR initiatives in the areas of community and product are not associated with any of the performance measures, and the CSR-CP relationship is stronger (as is evident in the variance explained) in terms of the financial performance measures – EBITDA (r square = .50), capital expenditure (r square = .47) and intangibles (r square = .29) – than in terms of the market-based measure of company value (r square = .26). Similar to the findings of previous researchers (Orlitzky *et al.*, 2003; Chiu and Sharfman, 2009), these results provide mixed evidence about the relationship between CSR and CP.

To investigate the effects of CSR initiatives that are prioritized via strategic concerns on the CSR-CP relationship, seven moderated multiple regressions were run, one for each of the specific areas of CSR initiatives Table 3. The seven moderated models were run for each of the four dependent performance variables. The effect of each variable was analyzed after controlling for the others, and size and industry were controlled for in each regression. After we entered the proposed main effect into the regression model, we added a multiplicative term to examine the moderating effect of the strategic approach adopted in each of the seven areas of CSR across the four performance measures.

Priority – which measured the attempt of top executives and directors to link the firm's CSR initiatives to the likely preferences of the stakeholders – was positively associated with CP in each of the areas of CSR initiatives, except human rights. In terms of various measures of CP, prioritization appeared to affect the CSR-CP relationship more in terms of EBITDA, the company's market value, and capital expenditure. However, this relationship was tenuous in terms of intangibles. These results provide support for the assertion that CSR initiatives based on the likely preference of stakeholders are positively associated with CP.

As for the moderating effects of strategic approach in various areas of CSR on the CSR-CP relationship of the 28 potential interaction effects (seven areas of CSR across four corporate performance measures), only eleven interaction terms were significant, all of which were in the predicted direction (positive effect). A strategic approach to CSR initiative positively moderated the CSR-CP relationship in terms of five of the seven CSR areas (except employee relations and environment), when CP was measured in terms of EBITDA. The moderating effect was noticeable in fewer areas of CSR when CP was measured in terms of a company's market value (four areas of CSR) and capital expenditure and intangibles (each in only one area of CSR). Also, no moderating effect was noted in terms of any of the measures of CSR-CP relationship in the area of environment. Although not across the board, but these results do provide general support for the hypothesis. However, they require further explanation and discussion.

In eight cases, five of which were statistically significant, the main effect was negative and the interaction effect was positive. For example, diversity-related and product-related CSR actions were, by themselves, negatively related to EBITDA, but the interaction terms were positive. Similarly, governance-related and product-related CSR were negatively related to company value, but the interaction terms (governance*strategic and product*strategic) were positive. These results suggest that, while CSR initiatives in certain areas may have a negative effect on CP (presumably in terms of the cost incurred and the benefits derived), when the company executives and directors use the company's CSR resources in a strategic manner to pursue social objectives that are favored by the company's stakeholders, performance (evaluated in terms of profitability) is likely to improve.

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Robustness and Sensitivity Analyses

Although the results of this study show that CSR initiatives have a greater impact on company performance if the company prioritizes them in keeping with the likely preferences of the stakeholders and channels company resources strategically to pursue the CSR initiatives related to stakeholder preferences than if it does not, no conclusion can be drawn about the direction of this relationship. Does superior company performance create opportunity and provide slack resources for enhanced and targeted CSR, or does targeted CSR improve company performance?

What about the simultaneity in the CSR-CP relationship, especially in terms of profitability? Our own test for a lagged effect (Table 4), in which strategically prioritized CSR measures at time *t* were regressed on company performance during time *t+1*, showed no major difference in the CSR-CP relationship from the results obtained from data collected during the same period, confirming the somewhat enduring nature of this relationship. This finding is in line with Choi and Wang (2009), who examined the effect of good stakeholder relationships on the persistence of superior company performance. Choi and Wang's study found that effective stakeholder management not only helps a firm achieve superior financial performance, it also helps sustain it over a period of time. Therefore, it is reasonable to say that effective CSR creates a 'virtuous cycle' of a strengthening CSR-CP relationship in which each element eventually supports the other. Moreover, following Callan and Thomas (2009, 2010), we performed a three-stage least square regression model using two simultaneous equations in order to deal with this endogenous relationship between CSR and CP. Untabulated results confirm that current financial performance does not have a statistically significant direct effect on its current CSR performance. In line with Callan and Thomas (2009), this finding suggests that CSR and corporate performance can be reinforcing goals.

	Performance variables			
Independent variables:	EBITDA	Market Value	Capital Expenditure	Intangibles
Community	182.42	5,484.93	15.94	376.98
	[130.42]	[3,452.35]	[30.05]	[245.92]
Governance	43.39	−10,380.03	**128.26****	449.916
	[259.17]	[6,873.97]	[62.98]	[601.45]
Diversity	**752.66*****	5,960.15	**97.89****	**1,878.09*****
	[229.53]	[3,762.90]	[49.45]	[720.63]
Employee relations	**421.53****	**5,661.82****	**125.58****	48.36
	[172.52]	[2,780.76]	[57.35]	[293.83]
Human rights	−922.49	−18,176.25	**−221.63*****	−418.55
	[758.38]	[16,963.64]	[85.39]	[1,111.03]
Environment	−281.64	−2,320.04	−7.41	**−1,120.40***
	[191.67]	[3,108.78]	[39.95]	[671.72]
Product	−646.63	−7,287.72	26.52	−714.62
	[395.07]	[8,904.51]	[64.74]	[520.69]
Size	1,365.86***	13,867.59***	289.05***	1,547.39***
	[175.77]	[3,634.71]	[37.58]	[284.49]
Constant	−7,733.55***	−49,307.57***	−1,949.13***	−10,047.91***
	[1,174.14]	[24,595.23]	[298.83]	[2,296.95]
Industry effects	YES	YES	YES	YES
N	271	281	282	260
Wald Chi2	131.21	106.32	156.00	66.86
R squared	.50	.26	.47	.29

Table 2. Regression results of the effect on CSR initiatives (aimed at various stakeholder groups) on corporate performance
Standard Errors are in brackets.
*p < .05, **p < . 01, ***p < .001

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	Performance variables			
Independent variables:	EBITDA	Market value	Capital expenditure	Intangibles
Priority	**921.969****	**30,612.783****	**240.150****	1,223.845
Community	−382.571	−8,756.689	12.734	1,136.979
Strategic	−1,866.036	−19,099.575	−283.820	−1,841.419
Community*Strategic	**1,411.026***	18,842.753	57.955	−652.103
Priority	**1,251.110*****	**29,076.091****	**223.093****	**1,451.990****
Governance	−678.425	**−30,870.982****	−82.919	−35.205
Strategic	279.689	1,806.372	131.495	1,071.244
Governance*Strategic	**1672.786***	**29,140.551****	**281.751***	266.411
Priority	**813.516****	**30,859.844****	94.184	438.769
Diversity	−390.247	−4,531.037	**−72.760***	−633.616
Strategic	**−2,856.566****	−22,358.601	−178.528	**−5,712.349****
Diversity*Strategic	**2,122.277****	22,678.770	172.248	**3,960.955****
Priority	**1,662.878*****	**63,101.570*****	**174.161****	**1,498.771***
Employee relations	109.788	7,640.631	63.494	−62.686
Strategic	**2,224.881***	**74,599.229****	−345.221	1,965.046
Employee*Strategic	−661.258	**33,404.863*****	214.217	−733.066
Priority	538.154	27,951.344	70.480	−39.817
Human rights	−2,329.816	−55,779.989	−255.817	−472.829
Strategic	795.341	51,914.261	181.485	−4,575.342
Human rights*Strategic	**4,171.626*****	**76,371.844***	124.997	3,803.67
Priority	**1,549.922*****	**48,133.223*****	**145.080****	**1,755.784****
Environment	−31.752	29,754.039	64.862	−3,924.470
Strategic	1,114.305	**27,464.429****	**227.606***	−353.203
Environment*Strategic	−525.112	−43,952.959	−134.116	3,015.474
Priority	**929.334*****	**34,388.685****	**164.185****	710.520
Product	**−1,518.543***	−25,034.111	−25.313	−2,309.279
Strategic	**−1,625.361*****	−5,786.526	**−147.489***	**−1,064.019***
Product*Strategic	**2,271.128****	**38,168.94***	116.831	2,461.286

Size and Industry dummies are not reported in the table.
* $p < .05$, ** $p < .01$, *** $p < .001$
Note: Using the Wooldridge test for autocorrelation in panel data we found first-order autocorrelation in some of the models. The following table shows which models were run using first order autocorrelation structures AR(1) in order to fix the autocorrelation problem:

Independent variables	EBITDA	Market Value	Capital Expenditure	Intangibles
Community	AR(1)			AR(1)
Governance	AR(1)			AR(1)
Diversity	AR(1)		AR(1)	AR(1)
Employee Relations				AR(1)
Human rights			AR(1)	AR(1)
Environment	AR(1)		AR(1)	AR(1)
Product				AR(1)

Table 3. Results of moderated multiple regression analysis (Effect of strategically prioritized approach on the CSR-CP relationship)

	Performance variables			
Independent variables:	$EBITDA_{(t+1)}$	Market Value $_{(t+1)}$	Cap. $Expenditure_{(t+1)}$	$Intangibles_{(t+1)}$
Priority	**868.681****	**43,133.358****	**417.331*****	260.460
Community	−317.037	**−13,786.968***	−152.445	−127.691
Strategic	343.028	**43,723.651***	219.137	1,199.809
Community*Strategic	**221.137***	1,349.373	70.067	396.262
Priority	**674.640****	**23,622.049***	**288.613****	**272.567***
Governance	−702.606	**−30,816.862****	−109.905	−1,860.490
Strategic	127.767	−8,073.566	112.672	−638.203
Governance*Strategic	906.930	**32,666.350***	**255.179****	1,942.415
Priority	**456.628***	**28,428.368***	**249.124****	30.484
Diversity	−447.496	1,494.290	**−43.287***	−58.425
Strategic	**−4,291.562*****	−5,700.634	−235.963	**−17,533.630****
Diversity*Strategic	**2,992.805*****	12,330.664	192.582	**9,954.340*****
Priority	**998.842****	**53,968.507*****	**247.174***	620.173
Employee relations	−317.949	11,910.387	−12.338	−1,051.843
Strategic	**626.689***	**71,887.971***	−613.578	127.159
Employee*Strategic	15.343	**32,577.163***	342.969	−157.190
Priority	932.106	43,253.848	**197.312***	3,564.419
Human rights	−1,094.792	−7,554.974	−389.374	22.360
Strategic	937.634	29,110.489	479.651	6,139.377
Human rights*Strategic	**3,475.541*****	**29,714.356***	−135.388	4,583.099
Priority	**1,322.775****	**42,132.825***	**255.429****	**2,260.424***
Environment	1,351.795	77,458.244	199.098	2,078.557
Strategic	**2,372.049***	**44,467.493***	**460.969***	8,050.346
Environment*Strategic	**2,480.358***	−96,830.467	−280.821	−6,376.532
Priority	**559.091****	**27,423.818***	**230.533****	1,378.908
Product	−601.909	−9,064.964	168.229	2,057.173
Strategic	**−1,766.455*****	−7,837.629	**−300.316***	−1,746.784
Product*Strategic	**2,107.524***	**25,775.927****	281.897	−1,860.932

Table 4. Effect of strategic approach to CSR at time *(t)* on corporate performance at time *(t + 1)*
Size and industry dummies are not reported in the table.
*p < .05, **p < . 01, ***p < .001

Because of the way in which we created the measures for strategically prioritized CSR initiatives, these variables may contain measurement errors, so we performed sensitivity analyses by estimating our results using alternative measures. We first built a new measure of CSR initiatives prioritized in terms of stakeholder preferences by calculating the standard deviation (instead of the variance) for each company in each of the seven areas of stakeholder management. We then defined a dummy variable that is equal to 1 when the standard deviation of the company is greater than the average of standard deviation for all observations in the year t, and 0 otherwise. The results in the models did not vary from the results reported in Table 3, confirming that our results are robust to alternative statistical proxies.

Next, we performed regression analyses based on median values instead of mean values. We calculated the median score for each of the areas of CSR for the year t and then defined a dummy variable that is equal to 1 when the score in a specific area of CSR obtained by a company was greater than the median and 0 otherwise. These measures once again

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allowed us to determine whether a company was channeling resources to a CSR initiative in a strategic way. The results obtained using this measure were similar to those reported in Table 3 except that environmental performance was not significantly associated with capital expenditure and that some differences were noted in the area of product responsibility, although the coefficient signs were in the same direction as those reported in Table 3.

Discussion

Despite being one of the most highly researched areas in management, the CSR-CP relationship in terms of companies' social actions toward specific stakeholder groups has seen somewhat limited empirical investigation. Most studies that have examined the CSR-CP relationship have focused on correlating firm-level corporate social performance with measures of CP, while some have examined the relationship between specific CSR activities and CP, and none we found has examined the impact of targeted CSR initiatives on company performance. To gain a better understanding of the nature of the CSR-CP relationship, this study examined CSR initiatives in terms of strategic choices that companies make and pursue based on the likely preferences of the firms' stakeholders.

The results indicate that companies whose CSR activities are prioritized based on strategic concerns have superior financial performance and that the process of prioritization and the strategic approach adopted by the firm strengthens the CSR-CP relationship. The effect of prioritizing CSR in a strategic way is clarified when one compares the CSR-CP relationship in Table 2 (main effect) with those in Table 3 (moderating effect of strategically prioritized CSR). In addition, prioritizing CSR in a strategic manner appears to affect CP more strongly in terms of financial measures than it does in terms of market-based measures.

However, this relationship was not observed across the board for all of the seven areas of CSR. Tests for interactions between strategically prioritized CSR and the CSR-CP relationship found no interaction effect between CP and environment-related or employee-related CSR initiatives. This finding is not unusual; other researchers (Hillman and Keim, 2001; Callan and Thomas, 2009) have found similar results, indicating that some types of corporate social initiatives are more important than others for CP.

The interaction effects that were positive and so provided support for the hypothesis included the effect of strategically prioritized CSR initiatives on CP in the areas of community, governance, diversity, human rights and product/customer. The fact that the intercepts of these variables themselves were negative while the interaction effect was positive suggests that, in the absence of strategic prioritization, corporate social actions in these areas may primarily be expenses that are not justified in terms of enhanced CP. These results once again confirm the findings of a previous study (Hillman and Keim, 2001, p. 135), which noted that merely participating in social issues leads to diminished financial outcomes, while corporate social initiatives directly tied to the preferences of stakeholders may not only benefit stakeholders but also increase shareholder wealth.

Conclusions and Limitations

The main conclusion from the findings of this study is that, when companies link their CSR initiatives to likely preferences of the stakeholders and channel resources to these initiatives, they are able to maximize their CSR efforts in terms of improved company performance. When implementing CSR initiatives, managers will see the largest impact if they undertake the corporate social actions that link their firms' CSR initiatives to stakeholder preferences and channel their CSR resources in terms of strategic objectives related to these preferences (Peloza, 2006).

The study also implicitly highlights the importance of companies undertaking stakeholder dialogue to gauge the views and aspirations of their stakeholders. Based on the understanding that is likely to emerge from such dialogues, companies can prioritize which stakeholders' demands to address and construct their CSR initiatives in a strategic way by creating propositions that are based on corporate capabilities that are particularly suitable to creating value for different stakeholder groups. In addition, by adapting a strategic approach to CSR companies can create

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relationships with stakeholders that are valuable in contributing to the corporate success and avoid unprofitable and non-productive corporate social initiatives.

While this study addresses a critically important issue regarding the relationship between CSR and company performance, and it has laid down a path to explore, the topic warrants further investigation. Future research should move beyond correlating broad measures of a company's CSR initiatives with CP by examining specific firm-level corporate social actions in order to clarify the complex relationship between CSR and CP.

An important limitation of this research is the lack of direct measures of strategic prioritization of firm-level corporate social actions. We used variance among and between company's corporate social actions as a proxy for these measures, but future studies can extend this line of inquiry by collecting primary and direct data on these two measures. The generalizability of the findings of the study is also limited given the nature of sample used in this study, and it remains for future studies to determine whether these results will hold for a larger cross-section of companies.

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