

The Importance of Corporate Social Responsibility Strategic Fit and Times of Economic Hardship

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Abstract

Previous research investigating the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) reveals the importance of industry specificity. Drawing on strategic stakeholder theory, we argue that the strategic fit between CSR activities and value chain activities contributes to industry-specific effects in the CSR–CFP relationship. Given the multidimensional nature of CSR, some CSR activities will be more impactful for certain industries than others, because industries differ in value chain activities and salient stakeholders. Specifically, we propose and test a set of hypotheses for two industries positioned on the different ends of the industry spectrum based on their ecological footprint – healthcare and resource extraction. We further examine the industry specificity of the CSR–CFP relationship by exploring external economic conditions (the 2008–2009 recession) as a boundary condition. Our study contributes to the extant literature by demonstrating the role of strategic fit between CSR and value chain activities in explaining the influence of CSR on CFP. Additional testing of this mechanism in times of economic hardship adds a unique aspect to our theoretical and empirical contributions.

Introduction

The relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) has attracted extensive attention. Meta-analyses show a positive yet weak relationship and suggest that the strength of the relationship depends on various organizational and environmental factors (Baird, Geylani and Roberts, 2012; Margolis and Walsh, 2003; Orlitzky, Schmidt and Rynes, 2003; Van Beurden and Gossling, 2008). Barnett (2007) similarly notes that a firm's capacity to influence its stakeholders cannot universally produce favourable returns for all firms all

the time. Accordingly, recent research has focused on identifying conditions that may influence the CSR–CFP association (Brammer and Millington, 2008).

Some studies highlight the impact of industry context on the CSR–CFP relation (Baird, Geylani and Roberts, 2012; Van Beurden and Gossling, 2008). For example, Inoue and Lee (2011) have found that community CSR improves the CFP of hotels and restaurants while environmental CSR does not. One recent study shows that employees, society, environment and market CSR practices affect the financial performance of organizations in different industries differently

(Feng, Wang and Kreuze, 2017). Although these studies suggest that ‘industry matters’, they did not adequately examine the mechanism by which the industry context influences the CSR–CFP relationship. In this paper, we aim to unpack this mechanism by arguing that certain CSR activities are more aligned with the primary activities of the firm than other activities, thus creating strategic synergies that result in an improved CFP. In other words, the CSR–CFP relationship depends on the congruence between the type of CSR and the industry value chain: CSR activities congruent with the primary value chain activities have a more positive impact on CFP than other CSR activities. We further argue that the role of CSR strategic fit will be more salient under adverse macroeconomic conditions that limit firms’ resources and strategic flexibility.

Specifically, we develop hypotheses pertaining to the strategic fit of CSR in two industries – natural resource extraction and healthcare. We have chosen these two industries because of their highly different configuration of dominant stakeholders. The healthcare industry provides personal products and services to individuals in any community and thus makes a direct and immediate impact on its members and typically has a prominent presence in the community. The resource extraction industry, in contrast, is somewhat removed from the community but its key silent stakeholder is the environment represented by non-governmental organizations (NGOs) and other actors of the ‘environmental issues industry’. Our results confirm our prediction that engaging in community CSR has a more positive impact on CFP among healthcare firms than resource extraction firms. Conversely, environmental CSR has a more positive impact on CFP among resource extraction firms than healthcare firms. We also find that these differential effects are stronger during the 2008–2009 recession.

Our paper makes several contributions to the literature. First, we demonstrate that companies channelling their CSR activities towards issues relevant to their main line of business will see more positive financial outcomes. This result supports the notions of *strategic CSR* (which makes the most significant social impact and reaps the greatest business benefits) and *shared value* (actions that benefit both business and social spheres), propagated by Porter and Kramer (2006). Second, we show that CSR strategic fit is particularly impor-

tant during economically challenging times, when companies are forced to maintain their core activities and carefully allocate limited resources. Little research empirically explores how returns on investments in CSR can be affected by fluctuations in economic conditions. Our analysis provides useful and timely insights to companies operating during difficult times and/or in developing countries more broadly.

Theoretical background

CSR–CFP relationship

As succinctly summarized by Tang, Hull and Rothenberg (2012), research to date has examined the ‘what’ question (i.e., what CSR is) and the ‘why’ question (i.e. reasons for engaging in CSR) extensively. The ‘how’ question (i.e., how to engage in CSR) has not been looked at extensively, despite well-reasoned calls for such studies in this area (Margolis and Walsh, 2003). Moreover, although the potential positive effects of CSR are well theorized, empirical studies of the CSR–CFP relationship have not produced unambiguous findings. Margolis and Walsh’s (2003) meta-analysis of 127 empirical studies points to a weak and mixed pattern, where only less than half (54 studies) of the sample found significant, positive relationships between CSR and CFP. Other reviews of the literature indicate that a substantial number of studies find the CSR–CFP relationship to be negative or neutral (Brammer and Millington, 2008; Roman, Hayibor and Agle, 1999; Schreck, 2011). Although Van Beurden and Gossling (2008) find an overall positive association between CSR and CFP in their meta-analysis, they claim that industry effects influenced the results and suggest that future research should consider the role of industry context. Similarly, Baird, Geylani and Roberts (2012) conclude that industry characteristics play a significant role in determining the direction and strength of the CSR–CFP relationship. For example, Hull and Rothenberg (2008) find that CSR affects CFP the most in industries with low product differentiation, because it allows firms to distinguish themselves through their CSR. Among single-industry studies, Kang *et al.* (2010), investigating the relationship within the hospitality domain, find a positive relationship between CSR and CFP. Simpson and Kohers (2002) study the relationship within the context of the banking industry and

demonstrate a positive association between social performance and financial operating performance.

Whilst the above studies do not show a clear and precise relationship between CSR and CFP, they do show the need for a narrow and targeted investigation. Overall, previous studies identify industry context as a boundary condition in determining the CSR–CFP relationship. However, many studies in this area are mostly exploratory in nature (Baird, Geylani and Roberts, 2012) and do not provide clear explanations for such differences in performance (Brammer, Brooks and Pavelin, 2006; Godfrey, Hatch and Hansen, 2010, p. 337). We aim to go one step further in this research by exploring the underlying mechanisms of the industry-specific influence.

Stakeholder theory grounding of CSR–CFP relation

We ground our theoretical development in instrumental, or strategic, stakeholder theory (Freeman, 1984; Jones, 1995). Stakeholders are ‘any group or individual who can affect or is affected by the achievement of the organization’s objectives’ (Freeman, 1984, p. 46). An organization can have a number of stakeholders who wish to claim rents from it, regardless of whether these claims are legitimate or even recognized. As a result, a firm typically must proactively engage in managing stakeholder interests (Dore, 2000; Matten and Moon, 2008). Since satisfying the legitimate and moral claims of the stakeholders can be a means to maximize organizational performance, a firm’s strategic management of stakeholders underpins its financial performance (Jones, 1995).

An increasing volume of evidence in the supporting literature suggests a positive CSR–CFP link and that organizations aligning their CSR with stakeholder concerns reap financial benefits through different mechanisms. Maqbool and Zameer (2018) demonstrate that CSR which is aptly integrated into the business operations and properly aligned with primary stakeholder priorities can aid in achieving social and financial targets, thus resulting in better financial performance. This idea is further elaborated by Chen, Wen and Luo (2016), who detail the spillover effects of CSR on prices, outputs and competition, noting a positive increase in firms’ outputs and prices with an opposite spillover effect on non-CSR competitors. Quéré, Nouyrigat and Baker (2018) find that

having a better CSR rating in the past is associated with future CSR spending which simultaneously affects the accounting results and stock returns.

Perrini *et al.* (2011) map the major mechanisms by which each type of CSR turns into performance outcomes. Specifically, community and society-related CSR influence performance through social capital, license to operate and other organizational drivers, whilst natural environment CSR acts through innovation, reliability and reputation, leading to positive impact on both the revenue and cost side of CFP. Kurucz, Colbert and Wheeler (2008) further classify the positive effects of CSR into four different categories. Cost and risk-reduction benefits result from CSR activities directed at employees, environment or community, in a direct form of cost savings or indirect forms of avoiding heavy taxes, strict government regulations and harsh stakeholder sanctions. This is evident in the literature, as Young and Marais (2012) find that high-risk industries are stronger in CSR reporting compared to low-risk industries. Additionally, Aqueveque, Rodrigo and Duran (2018) highlight the positive effect of CSR on firm value for those organizations operating in controversial industries. Legitimacy and reputation benefits are obtained through stakeholders’ approval of an organization’s activities when these stakeholders perceive that the organization can meet their needs and operate profitably. This idea is further corroborated by Melo and Garrido-Morgado (2012), who find that the various dimensions of CSR have a significant impact on corporate reputation. Competitive advantage benefits arise from both customers and employees who may regard a CSR-active organization as superior to its competitors and select it as a supplier or an employer of choice. Pérez and Bosque (2015) find that only a relatively small number of customers were not supportive of CSR. Finally, synergetic value creation is obtained when the same corporate activities satisfy both social and economic goals. In the hotel industry, for instance, CSR is likely to be part of a hotel’s product differentiation strategy (Calveras, 2015).

Whilst numerous stakeholders are related to a firm, each stakeholder receives a varying degree of attention from the firm. Individuals and firms have limited cognitive capabilities and resources to attend to all stakeholders equally (March and Olsen, 1976; Ocasio, 1995; Weick, 1979). Managers allocate their limited amount

of attention among stakeholders based on each stakeholder's salience, which is associated with each stakeholder's: (1) power, (2) legitimacy and (3) urgency (Mitchell, Agle and Wood, 1997). Depending on the presence or absence of each of these three factors, we can categorize stakeholders into different groups. Shareholders, employees and customers are often considered more salient than government and community, because the former group possesses all three characteristics (power, legitimacy and urgency) while the latter group usually lacks one of them (government might not have urgency and community – the power to act) (Mitchell and Sonnenfeld, 1999). Overall, our review suggests that the way in which firms in different industries cater to different sets of stakeholders can help account for variance in the CSR–CFP relationship (Godfrey, Hatch and Hansen, 2010).

Industry effects on CSR–CFP relation

Industries are heterogeneous not only in their internal resources and capabilities, but also in external pressures such as public visibility and government regulations, and configuration of stakeholders (Holmes, 1977; Mellahi, Demirbag and Wood, 2012). For instance, it is argued that an industry's perceived pollution potential plays a significant role in adopting voluntary or mandated environmental management practices (Tatoglu *et al.*, 2014;2019). A firm interacts with diverse stakeholders, who may have divergent demands, and a firm's strategic management of stakeholders' demands underpins its financial performance (Freeman, 1984). Wood (1991) simply explains this mechanism as: 'customers [can] stop buying products, shareholders sell their stock and employees withhold loyalty and best efforts' (p. 697).

The most salient stakeholders receive a great amount of managerial attention and their actions can significantly impact CFP (Mitchell, Agle and Wood, 1997). However, in different industries, the impact of salient stakeholders on financial performance may vary. We have chosen two specific industries (healthcare and resource extraction), which have succinct and well-delineated differences in their societal orientation based on the nature of their primary value chain activities (Bonson and Bednarova, 2015; Hilson, 2012). The healthcare industry provides products and services to individuals in nearly any community, with a general

focus on disease treatment and prevention. The operation of the resource extraction industry, in contrast, is often removed from the broad community because it is geographically bound and often situated in remote locations. Although we recognize the impact on local communities immediately proximate to their operation (Dorobantu and Odziemkowska, 2017), the key social domain for resource extraction companies has typically been considered to be 'the environment', represented by NGOs and other activists (Cordeiro and Tewari, 2015). In fact, the resource extraction industry is known for its high environmental risks and exploitation of resources in fragile ecosystems.

Social problems are multiple and not all of them are attended to equally because of the limited attention and compassion capacity of the public (Hoffman and Ocasio, 2001). Hilgartner and Bosk (1988) suggest that problems which are easy to conceptualize and that have specific, easily identified targets ('culprits' and 'heroes') have a tendency to attract more public attention. The two industries that we have chosen tend to be stigmatized in very different ways in public opinion. The healthcare industry is generally perceived to enhance societal well-being by providing their products and services efficiently. In general, society will not only have a positive view of such industries but also *expect* them to 'do good' (Leisinger, 2005). In contrast, resource extracting (mining, coal and petroleum), given its sheer size and impact on the environment, is typically viewed by society with suspicion and distrust, and thus, has to work harder to change this stakeholder perception.

Industries differ not only in their public perception, but also in the types of external stakeholders that may impact firm performance. As healthcare has a close connection with almost everyone, consumers and communities would have a strong stake in the relationship with healthcare providers. Not only will the community expect the healthcare industry to fulfil its direct function of supplying medical products and curing the sick, they will also expect more and above what is required, transforming industry acts of goodwill into almost moral obligations (Leisinger, 2005).

In contrast, resource extracting companies do not typically have direct relationships with end consumers. Instead, they usually only affect the communities in which they operate through their impact on the environment. As environmental awareness increases, the whole 'environmental

issues industry' of television producers, lawyers and public relations specialists has developed (Hilgartner and Bosk, 1988). These actors have started to give more voice to environmental issues, giving the previously voiceless and vaguely defined 'environmental issues' a more concrete shape and power. As a result, it would be more sensible to assume that for resource extracting industries the environment represents a more salient stakeholder than the communities.

Scholars have further distinguished between CSR oriented towards internal stakeholders and that towards external stakeholders. Berman *et al.* (1999) find that two internally oriented aspects of CSR – product performance and employee relationships – are positively related to CFP; however, there is no relationship between externally oriented CSR – community relations and the environment – and CFP. In this paper, we focus on external stakeholders and maintain that one reason for the lack of a strong relationship between externally oriented CSR and CFP is under-appreciated and under-explored inter-industry differences with respect to the salience of external stakeholders and their divergent influences. For example, the salient external stakeholders of healthcare organizations will be more vigilant about delivering CSR activities aiming to improve access to health, an important part of community-oriented CSR (Leisinger, 2005; Leisinger and Schmitt, 2011). In contrast, actors of the 'environmental issues industry' who engage with resource extracting companies would be more concerned about environmental CSR than about community health or educational activities. This contrast concerning the most salient external stakeholders in the healthcare and resource extraction industries makes them an interesting juxtaposition to investigate in this study.

In addition, some studies have made a distinction between 'clean' and 'dirty' industries, depending on their ecological footprint (Cordeiro and Tewari, 2015). 'Dirty' industries include chemicals, utilities and resource extraction industries, whilst healthcare and other services are considered 'clean'. This classification is consistent with various 'green' rankings, where 'clean' industries are ranked the highest and 'dirty' industries the lowest (e.g. Newsweek 500 green performance ranking; see Cordeiro and Tewari, 2015). Thus, to be consistent with the extant literature, we focus on the opposite ends of this spectrum and examine

the differential effects of CSR in the resource extraction and healthcare industries.

Strategic fit

The concept of 'fit', or congruence, has been addressed in many theories in social and organization studies (Argote, McEvily and Reagans, 2003; Burton, Lauridsen and Obel, 2002). The fit between the organization and the characteristics of its task or environment predicts organizational performance in structural contingency theory (Comstock and Scott, 1977) and survival in population ecology theory (Hannan and Freeman, 1989). Porter and Kramer (2006) note that each industry has an industry-specific value chain and that each firm participates in some or all parts of this value chain. Primary activities are the core activities within the value chain, which involve industry-specific resources and capabilities. These core activities are often common among firms in the same industry. For example, pharmaceutical firms' primary activities include molecular discovery, testing and production, whereas those of an oil company usually focus on activities from field exploration to oil extraction and refinement. In this study, CSR's strategic fit refers to an alignment between firms' core value chain activities and their specific CSR activities.

Porter and Kramer (2006) argue that strategically chosen CSR activities can not only meet stakeholder needs, but also help the firm to improve its competitiveness and profitability. This synergetic effect of CSR can create a virtuous circle between CSR and CFP. For instance, river blindness disease – which affects some 18 million impoverished people in Africa and Latin America – will be a generic social issue for a bank or an oil producer, but a value chain-related issue for a pharmaceutical company that has the necessary capabilities to develop an effective drug (Spreitzer and Sonenshein, 2004). Therefore, the incremental cost of investing in this type of CSR will be lower for a pharmaceutical company than for a bank, and the social benefits much greater, resulting in a relatively higher CFP. Tang, Hull and Rothenberg (2012) similarly suggest that CSR, aided by the resources, skills and knowledge that are already present within the firm, will be more successful in achieving a positive CFP impact, allowing the firm to leverage experience and learning curve while

benefitting from various operational and corporate synergies.

Hypothesis development

Based on what has been presented above, we argue that a firm would have an inherent advantage if it aligns its CSR activities with its core line of business. This is because the strategic fit between a firm's CSR activities and the primary value chain of the industry will generate support from a firm's salient stakeholders, which differ by industry. Moreover, firms stand to benefit more from CSR activities that are congruent with their primary value chain, because they possess valuable resources and capabilities underlying these activities. By utilizing the same resources and capabilities in both primary business activities and CSR, firms can leverage synergetic gains (Porter and Kramer, 2006). Congruent CSR activities will also increase reputational capital and stakeholder influence capacity (SIC) (Barnett, 2007). For example, CSR activities targeting the environment require substantial technical expertise as they are grounded in material sciences and involve complex multidisciplinary processes (Bansal, Jiang and Jung, 2015). Environment-related technical expertise is a part of industry-specific capabilities and a required part of its value chain in the resource extraction industry, but not in the healthcare industry. Finally, a firm's CSR activities signal its strategic intent (Barnett, 2007). When firms, especially those whose production is perceived as potentially damaging to the environment, engage in CSR in unrelated social domains, such activities can be viewed with suspicion as marketing tactics of 'greenwashing' or 'image management' (Demirbag et al., 2017; Laufer, 2003; Yoon, Canli and Schwarz, 2006). In the absence of strategic fit, stakeholders' responses can be immediate disapproval or indifference, leading to negative potential impact on CFP. Our conceptual model – along with hypothesized relationships – is delineated in Figure 1. As highlighted in our conceptual model, we argue that firms stand to benefit more from CSR activities, which are congruent with their primary value chain (the CSR–CFP relation is stronger). We further argue that the industry matters, as firms have an inherent advantage to align their CSR activities with their core line of business (the CSR–CFP relation is stronger).

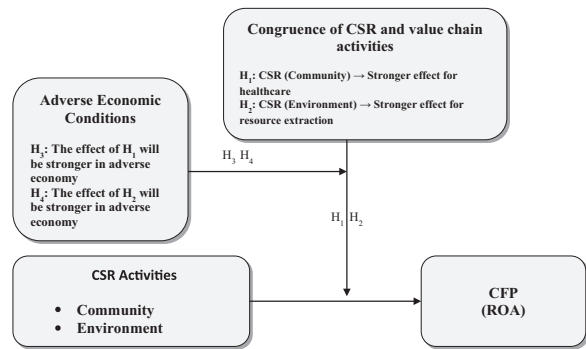


Figure 1. Conceptual framework

Drawing on the arguments presented above, we suggest that healthcare firms are better suited than resource extraction companies to deal with community-related issues, because the former already have the necessary resources and knowledge embedded in their main value chain activities. Their engagement in community-oriented CSR will not only be viewed as credible but expected, and even demanded, by their stakeholders (Lesinger, 2005), and will not be viewed as a simple 'greenwash'. In contrast, resource extraction companies have inherent competencies to deal with environmental remediation (Russo and Fouts, 1997), but not so much with health and other community-related issues (Demirbag et al., 2017; Hoffman and Ocasio, 2001). Therefore, we propose the following hypotheses:

H1: CSR in the domain of community will have a more positive impact on CFP for firms operating in the healthcare industry than for those in the resource extraction industry.

H2: CSR in the domain of environment will have a more positive impact on CFP for firms operating in the resource extraction industry than for those in the healthcare industry.

We further maintain that the industry contingency effect may become more prominent when macroeconomic conditions deteriorate. We specifically examine the impact of the recent recession in 2008–2009. Far-reaching economic shocks, such as the 2008–2009 global financial crisis, present an opportunity to explore the theoretical boundaries to which strategic fit is consequential to firms' operation and the extent to which social capabilities can help firms to cope with adverse environmental disturbances (Chang, Kogut and Yang 2016; Gittell et al., 2006; van der Vegt et al., 2015).

Empirically speaking, using an exogenous economic shock in the analysis of the CSR–CFP relationship also helps ameliorate the concern for endogeneity (DesJardine, Bansal and Yang, 2019).

During recessions, firms often face declines in market demand that can lead to a negative waterfall effect throughout the supply chain. Under normal economic conditions, firms can hedge such shifts in demand by relying on investors, banks, and governments for resources (Gorton and Huang, 2004). However, during recessionary periods, support from these sources may not be forthcoming. For instance, the global stock markets fell by nearly 60% in 18 months during the 2008–2009 recession (Anand *et al.*, 2013). Firms across all industries were severely affected and many incurred significant financial losses and endured an extended period of reduced consumer spending, credit crunch and lower investor confidence.

One of the primary factors influencing firm CSR activity is the general health of the economy (Bansal, Jiang and Jung, 2015). McWilliams and Siegel (2001) maintain that CSR has the properties of normal goods where higher levels of income and/or wealth are associated with greater demand for CSR and more resources to be allocated to CSR activities. Accordingly, cross-country studies have shown that corporate commitment to CSR is more prevalent in developed than in developing countries (Albareda, Lozano and Ysa, 2007; Gugler and Shi, 2009; Welford, 2005). There is also evidence that firm-level resource availability is directly related to the level of socially responsible activities (Seifert, Morris and Bartkus, 2004; Xu *et al.*, 2015). Prior studies generally suggest that favourable economic conditions can contribute to slack resources which enable non-core activities such as CSR to expand, whereas adverse conditions often force the firm to retreat to its essential value chain activities (Bansal, Jiang and Jung, 2015; Sharma, 2000).

However, we argue that adverse economic conditions would not affect corporate practices in all social domains equally. More specifically, we draw on research on the organizational and behavioural underpinnings of firms' responses to threats to suggest that the 2008–2009 recession is likely to accentuate the role of CSR strategic fit, thereby enhancing the effects proposed in H1 and H2 (Bansal, Jiang and Jung, 2015; March and Shapira, 1987; Staw, Sandelands and Dutton, 1981). First, recent research suggests that CSR practices con-

gruent with a firm's primary value chain activities are likely embedded in its core routines, organizational structures and management systems (DesJardine, Bansal and Yang, 2019). These critical CSR practices, which often involve recurring resource and information exchange, foster interdependence between the firm and its salient stakeholders. This interdependence forms the relational foundation of strategic fit. Meanwhile, managers are likely to shift their focus from performance enhancement to survival when faced with serious threats (March and Shapira, 1987). As a result, firms tend to prioritize asset preservation, only allocating resources to essential value chain activities directly related to survival (Staw, Sandelands and Dutton, 1981). We thus argue that although firms may reduce the overall amount of resources allocated to CSR during the 2008–2009 recession, they are likely to remain committed to practices of strategic salience, enhancing the effect of strategic fit in that period (Bansal, Jiang and Jung, 2015).

In addition, we have argued that CSR activities demand managerial attention to a broad range of external issues and stakeholders (Freeman, 1984). Divergent stakeholder issues can limit managerial control and increase uncertainty related to CSR. The firm's SIC and CSR strategy thus typically evolve to address the concern of the most salient stakeholders (Barnett, 2007; Tang and Tang, 2018). Research on firms under threat conditions has shown that when a firm falls under financial duress, it tends to resort to its core routines because managers would strive to reduce the information complexity by selectively prioritizing information that fits existing cognitive categories and frames (Staw, Sandelands and Dutton, 1981). When the scope of managerial perspectives narrows, managers are more likely to attend to information from existing operations, which is more easily interpreted and rationalized within the context of the firm's extant organizational structure and value chain (McDonald and Westphal, 2003). Thus, we expect that CSR domains which are congruent with firms' essential value chain activities will be least affected during the recession. These domains are enmeshed with firms' core competencies, making them difficult to isolate and defund. These domains are likely to continue to receive disproportionately more managerial attention and resources than other domains during the recession, not only because firms will increasingly

rely on the relationships with salient stakeholders to sustain and improve financial performance, but also because managers can exercise greater control over a smaller number of issues when financially challenged firms strive to reduce information complexity.

Therefore, based on the above considerations, we posit:

H3: The moderating effect of industry on the CSR–CFP relationship will be further moderated by economic conditions in that the difference between the healthcare industry and the resource extraction industry in the domain of community would be larger during economic recession than during economic expansion.

H4: The moderating effect of industry on the CSR–CFP relationship will be further moderated by economic conditions in that the difference between the resource extraction industry and the healthcare industry in the domain of the environment would be larger during economic recession than during economic expansion.

Method

Data

We tested our hypotheses using environmental, social and governance (ESG) ratings from the MSCI ESG STATS (STATS) database, for the period between 1998 and 2011. The STATS database [formerly provided by Kinder, Lydenberg and Domini (KLD)] was first published in 1991 and its coverage of publicly traded companies expanded significantly in 2001 and 2003. The 2011 STATS data covers nearly 3000 of the largest US companies by market capitalization. The database rates a company's corporate social performance in a number of domains: community, environment, diversity, employee relations, human rights, product quality and safety, and corporate governance. The ratings are based on a wide range of data sources, including public disclosures, company surveys and expert assessments. The latest edition of STATS data we obtained was published in 2011. We dropped observations prior to 1998 because the STATS database changed the reporting scheme significantly in 1998. We drew firms' financial data from Compustat and matched the financial data and the STATS data using unique CUSIP numbers assigned to each company.

Measures

Dependent variable. The dependent variable – Corporate Financial Performance – is measured as yearly return on assets (ROA). ROA, defined as net income divided by total assets, is a commonly used performance measure in the literature (Waddock and Graves, 1997). Tang, Hull and Rothenberg (2012) also use ROA in their study of the moderating effect of CSR dimensions related to CFP.

Independent variables. Following prior research, we created the main independent variables – CSR–Community and CSR–Environment – using the net scores in the domains of community and environment, respectively (Chatterji, Levine and Toffel, 2009; Johnson and Greening, 1999; Waddock and Graves, 1997). We subtract the aggregate 'concern' score from the aggregate 'strength' score for a given company in a given year to measure the firm's overall level of performance in a specific domain.

We include interactions between CSR and industry classification to capture differential CSR–CFP relations in different CSR domains. We create two binary variables – Healthcare and Natural Resources – to identify firms operating in the industries of theoretical interest. Based on the Fama–French industry classification (Fama and French, 1997), the healthcare industry includes firms that provide pharmaceutical products, medical equipment and healthcare services. The natural resources industry includes firms from several groups: precious metals, non-metallic mining, coal, petroleum and natural gas. Our regression analysis then includes four interaction terms involving two industry classification variables and two CSR variables in order to test the hypothesized relationships.

The Great Recession officially began in late 2007 (National Bureau of Economic Research, <http://www.nber.org/cycles.html>); however, it crested in 2008 with bankruptcies, bailouts and sales of large financial institutions, such as Merrill Lynch, Lehman Brothers and AIG. Corporate financial performance declined significantly in the fiscal year of 2008 and the recession officially ended in June 2009. Accordingly, we create a binary variable – Recession – to separate 2008 and 2009 from other years. Additional interaction terms involving Recession are included in our analysis to test H3 and H4.

Control variables. We create CSR-Others to account for the influence of CSR in domains other than community and environment on CFP (Bansal, Jiang and Jung, 2015; Sen and Bhattacharya, 2001). The variable is measured as the difference between the aggregate ‘strength’ score and the aggregate ‘concern’ score in other domains. The STATS data provide exclusionary screens to identify and evaluate firms whose ratings may be negatively affected by the fact that they operate in controversial industries (i.e. alcohol, gambling, firearms, tobacco, military and nuclear power). We create Controversial Business as the sum of STATS controversial business indicators (Baron, Harjoto and Jo, 2011).

We control for the firm- and industry-level factors that might influence firms’ CFP. First, to control for autocorrelation in CFP over time, we create Prior CFP measured as ROA lagged by 1 year (Katila and Ahuja, 2002). We also include Firm Size measured as the logarithm of total assets and Debt Ratio measured as the ratio of long-term liabilities to total assets. Research has shown that large firms and less leveraged firms are more likely to participate in CSR and benefit from such activities (Oh, Chang and Martynov, 2011; Udayasankar, 2008). We include the industry Herfindahl–Hirschman Index (HHI) based on firms’ annual sales data from Compustat to account for the impact of industry concentration on firm financial performance (Porter, 1985). Some researchers suggest that CSR can be more influential as a source of differentiation in more competitive industries (Fernandez-Kranz and Santalo, 2010). After removing cases with missing values, the final sample includes 26,482 firm-year observations for 4534 firms, among which 498 firms are in the healthcare industry and 223 in the natural resources industry. All time-varying explanatory variables are lagged by 1 year.

Results

The cross-sectional time-series nature of the data allows for a panel analysis. The Hausman test rejected the assumption that the random error associated with each cross-sectional unit was orthogonal to other regressors. Therefore, a random effects model is not appropriate. We thus fit our panel data using a fixed-effects model,

which allows us to control for unobserved firm attributes. Since Healthcare and Natural Resources are invariant over time, their main effects are omitted from our models. We obtained estimates with robust variance specification to account for potential within-group serial correlation.

Table 1 reports descriptive statistics and correlations for the variables. Variance inflation factors (VIFs) of all independent variables were below three, indicating that multicollinearity is unlikely to bias the estimation results (Kennedy, 2003). Table 2 reports the results of a series of regression models. Model 1 is the baseline specification without any interaction terms, which are introduced successively in Models 2 and 3.

Hypothesis 1 proposes that CSR in the domain of community will be more positively related to the financial performance of firms in the healthcare industry than those in the natural resources industry. We find the main effect of CSR-Community to be negatively related to CFP (Model 1). This result implies that, in general, high levels of charitable giving and community engagement may decrease firm performance. One possible explanation is that corporate social investment in this particular domain is partially driven by non-strategic factors, such as managers’ personal values (Hemingway and Maclagan, 2004). However, the coefficient estimate on CSR-Community * Healthcare in Model 2 shows a significant and positive interaction effect ($p < 0.05$, respectively), suggesting that strong performance in the domain of community would yield a positive return for firms in the healthcare industry. In contrast, the interaction between CSR-Community and Natural Resources shows no significant effect in the model. A Wald test based on Model 2 confirms that the coefficients on the two interaction terms are significantly different [$F(2, 4533) = 3.09, p < 0.05$]. Therefore, H1 is supported.

H2 suggests that firms in the resource extraction industry would benefit more from strong environmental performance than firms in the healthcare industry. The main effect of CSR-Environment is not statistically significant (Model 1), which suggests that firms, on average, do not benefit financially from high levels of environmental CSR. We find no significant interaction effect between CSR-Environment and Natural Resources. By contrast, the statistically significant and negative coefficient on CSR-Environment * Healthcare in Model 2 ($p < 0.01$) indicates that high levels of

Table 1. Descriptive statistics and bivariate correlations

Variables	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9
1 CFP (ROA)	0.02	0.16	-7.58	0.65									
2 CSR-Community	0.07	0.52	-2	5	0.037								
3 CSR-Environment	-0.02	0.73	-5	5	0.012	0.235							
4 CSR-Others	-0.55	1.88	-10	11	0.052	0.244	0.197						
5 Controversial Business	0.09	0.30	0	3	0.041	0.003	-0.078	-0.024					
6 Prior CFP	0.02	0.16	-6.78	0.64	0.547	0.034	0.007	0.062	0.045				
7 Firm Size	6.68	1.83	0.01	12.96	0.270	0.176	-0.042	0.082	0.197	0.292			
8 Debt Ratio	0.19	0.21	0	3.97	-0.057	-0.033	-0.047	-0.070	0.053	-0.103	0.123		
9 HHI	0.05	0.06	0.01	0.78	0.015	0.006	0.007	-0.059	0.230	0.022	0.034	0.025	
10 Recession	0.20	0.40	0	1	-0.118	-0.060	-0.030	0.002	-0.013	-0.054	-0.006	0.023	0.031

N = 26,482. Correlations with absolute values greater than 0.006 are significant at $p < 0.05$.

environmental CSR are related to lower financial performance in the healthcare industry. This finding suggests that whilst environmental CSR in the resource extraction industry is as critical as it is in the general population, the impact is significantly greater than that in the healthcare industry. The significant difference between the coefficients on the two interaction terms is confirmed by a Wald test [$F(2, 4533) = 7.41, p < 0.01$]. Therefore, H2 is supported.

H3 suggests that during the recession, the differential influence of CSR-Community would increase between the healthcare and natural resources industries. The negative and statistically significant coefficient estimates on Recession in different specifications confirm the strong effect of the recession on corporate profitability. In Model 3 we include additional three-way interactions to test our predictions. The coefficients on CSR-Community * Healthcare * Recession and that on CSR-Community * Natural Resources * Recession are starkly different: the former is positive and statistically significant ($p < 0.05$) whereas the latter is negative ($p < 0.05$). The result implies that a strong commitment to community-related CSR helped firms in the healthcare industry sustain and even improve their financial performance during the recession, but it led to lower profitability in natural resources firms. A Wald test confirms the difference between the two three-way interaction effects [$F(2, 4533) = 5.76, p < 0.01$]. This finding is consistent with H3. Note that the interaction between CSR-Community and Healthcare is non-significant.

H4 similarly proposes that the recession would amplify the difference between the natural resource and healthcare industries with respect to CSR-Environment. The coefficient on CSR-

Environment * Healthcare * Recession is not statistically significant; however, the coefficient on CSR-Environment * Natural Resources * Recession is positive and statistically significant ($p < 0.05$). The difference is confirmed by a Wald test [$F(2, 4533) = 2.58, p < 0.1$]. The result implies that natural resources firms with strong environmental performance were more likely to sustain and improve their financial performance during the recession than firms in the healthcare industry. Therefore, H4 is supported.

Robustness of findings

Although the recent recession officially ended in June 2009, its impact on corporate social and financial performance may take longer to manifest. To check the robustness of our findings to the possible time lag in the effects of the recession, we fit our models using alternative timeframes to measure the recession. Models 4 and 5 present the estimation results using alternative measures. Instead of a 2-year period (i.e., 2008–2009), we extend the timeframe of the recession to include 2010 in Model 4 and 2010 and 2011 in Model 5. The differences in coefficient estimates related to healthcare and natural resources industries remain largely consistent with those reported in Model 3, indicating robustness in our main findings. One notable exception is that the coefficient on CSR-Community * Natural Resources * Recession becomes statistically non-significant when we extend the recession period. The diminishing of the negative effect found in Model 3 appears to be consistent with the recent finding that community-related CSR can be quickly reversed or scaled back when firms experience financial difficulties; and as a result, their impact on corporate financial

Table 2. Fixed-effects regressions with robust variance

Variables				Model 4	Model 5	Model 6	Model 7
	Model 1	Model 2	Model 3	Recession 1998–2010	Recession 1998–2011	Net income as DV	
CSR-Community	-0.003* (0.001)	-0.004** (0.001)	-0.004** (0.001)	-0.001 (0.001)	-0.001 (0.001)	-23.0 (34.5)	-22.6 (34.4)
CSR-Environment	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	0.004** (0.001)	0.008** (0.001)	59.3 [†] (35.7)	59.1 [†] (35.6)
CSR-Community * Healthcare		0.015* (0.006)	0.01 (0.008)	0.009 (0.009)	0.007 (0.010)	225.2 (158.7)	97.3 (184.4)
CSR-Environment * Healthcare		-(0.003)*	-(0.003)*	-(0.004)*	-(0.002)*	-(52.8)	-(62.3)
CSR-Community * Natural Resources		-(0.003)	(0.004)	-(0.006)	(0.006)	(252.6)	(349.4)
CSR-Environment * Natural Resources		(0.003)	-(0.003)	-(0.004)	-(0.004)	(86.8)	-(94.8)
CSR-Community * Healthcare * Recession			(0.033)	(0.022)*	(0.021)[†]		(693.3)*
CSR-Environment * Healthcare * Recession			(0.009)	(0.004)	(0.008)		(250.9)
CSR-Community * Natural Resources * Recession			-(0.035)*	-(0.003)	-(0.002)		(382.8)
CSR-Environment * Natural Resources * Recession			(0.005)*	(0.006)*	(0.005)*		(293.3)*
CSR-Others	0.002** (0.001)	0.002** (0.001)	0.002** (0.001)	-0.001 (0.001)	-0.002** (0.001)	25.8** (8.1)	27.0** (8.2)
Controversial Business	-0.004 (0.003)	-0.004 (0.003)	-0.004 (0.003)	-0.001 (0.003)	0.001 (0.003)	51.3 (67.6)	51.0 (67.3)
Prior CFP	0.123** (0.026)	0.122** (0.026)	0.122** (0.026)	0.119** (0.026)	0.12** (0.026)	0.5** (0.1)	0.5** (0.1)
Firm Size	0.015** (0.004)	0.015** (0.004)	0.016** (0.004)	0.014 (0.004)	0.018** (0.004)	89.0** (29.6)	91.7** (29.8)
Debt Ratio	0.000 (0.015)	0.000 (0.015)	0.000 (0.015)	-0.002 (0.015)	-0.003 (0.015)	172.0* (84.3)	171.5* (84.2)
HHI	0.159 (0.185)	0.158 (0.186)	0.157 (0.186)	0.144 (0.190)	0.184 (0.194)	1991.4 [†] (1071.5)	1809.9 [†] (1080)
Recession	-0.045** (0.003)	-0.045** (0.003)	-0.045** (0.003)	-0.031** (0.003)	-0.034** (0.003)	-131.1** (26.1)	-123.0** (23.7)
No. observations	26,482	26,482	26,482	26,482	26,482	26,482	26,482
No. groups	4,534	4,534	4,534	4,534	4,534	4,534	4,534
R-squared	0.63	0.63	0.63	0.62	0.62	0.67	0.68
F-statistics	57.8**	42.0**	32.4**	43.2**	25.0**	19.5**	15.8**

[†]p < 0.10.

*p < 0.05.

**p < 0.01 (standard deviation in parentheses).

performance may tend to be transient (Bansal, Jiang and Jung, 2015).

Researchers have suggested that the choice of performance measures may affect the identification of the impact of CSR activities (Orlitzky, Schmidt and Rynes, 2003). We thus follow Barnett and Salomon (2012) and use net income as an alternative measure of CFP in Models 6 and 7. Model 7 shows that net income is positively related to community CSR in the healthcare industry during the recession and, meanwhile, is negatively related to environmental CSR in the natural resources industry. This robust finding implies that the industry-level differences are most prominent when firms operate in a challenging environment, because a strong relationship with the most im-

pactful external stakeholders may yield the greatest financial benefits when firms face economic adversity. However, the interactions between CSR-Community and CSR-Environment and Healthcare are no longer statistically significant. The results indicate that different measures might reveal different aspects of performance and results based on any particular measure should be interpreted with caution (Orlitzky, Schmidt and Rynes, 2003).

McWilliams and Siegel (2000) show that an analysis of the relationship between corporate social performance and financial performance may produce biased results when R&D investment, an important determinant of firm profitability, is omitted. However, the majority of natural

resources firms did not report R&D expenditure during the studied period. If R&D investment were to be included in a specification, natural resources firms would be severely under-presented due to missing values. Nonetheless, we performed additional analysis to examine the robustness of our findings by including R&D Intensity, measured as R&D expenditure divided by annual sales, in our models. The number of natural resources firms dropped from 223 to 31 when R&D Intensity is included. However, the results remain largely consistent with those reported in Models 1–3. We also winsorized ROA at the 0.5% and 99.5% levels to verify whether our results are driven by performance outliers, the results of which remained consistent (Muller and Kräussl, 2011).¹

Discussion

Globalization and changing conditions of doing business, coupled with improved access to information worldwide, resulted in more negative attention to business practices from NGOs, media and consumers (Beschorner, 2006). This, in turn, led to an emergence of industry-specific codes of conduct spearheaded by industry associations (Beschorner and Muller, 2007). Businesses taking charge of establishing the fair ‘rules of the game’ at times when the influence of governments seems to be weakening is an important phenomenon, indicating the increasing level of social consciousness and responsibility among the business community. At the same time, businesses should not forget their direct mission of efficiently producing goods and services for the benefit of society. How can these two imperatives be reconciled for an optimum effect for all stakeholders?

The importance of bridging ethical theory and business practices is highlighted by Beschorner (2006), who argues for the development of normative orientations for practical purposes based on fair dialogue. In our paper, we attempted to answer this author’s call for the development of concrete ethical and sustainable practices for businesses. Based on our results, we suggest that businesses should be involved in activities which are already a part of their core competencies and which their stakeholders will understand and

approve of. Nowadays, societal stakeholders do not shy away from expressing their demands on businesses. However, for the fair dialogue to take place, businesses should positively engage with those stakeholders. Symbolic actions, slogans and glossy annual reports profiling CSR activities are a one-way communication that society can easily see through. Prior research found that consumers will view ‘promoted CSR’ with suspicion, especially when the advertising expense exceeds CSR investment (Yoon, Canli and Schwarz, 2006).

Our paper makes several contributions to the field of CSR research and business–society relations more broadly. First, this study extends prior research on the industry effects of the CSR–CFP relationship by focusing on the concept of CSR strategic fit. Previous studies of industry effects on the CSR–CFP relationship have mainly been exploratory in nature. Their results led to a general conclusion that certain industries are better off engaging in certain types of CSR. Our paper goes a step further in this direction. We identify value chain synergies and stakeholder salience as the main reasons for the industry-specific CSR–CFP relationship. CSR activities that are congruent with a specific industry value chain will satisfy the demands of salient stakeholders and have a more positive impact on CFP because of synergetic effects. This would create a virtuous cycle of positive reinforcement for both the business and the stakeholders in question. Indeed, our findings provide support for notions of *strategic CSR* (which makes the most significant social impact and reaps the greatest business benefits) and *shared value* (actions that benefit both business and social spheres) proposed by Porter and Kramer (2006), whereby strategically chosen CSR activities make the most sense not only in meeting stakeholder needs, but also in helping the firm improve its competitiveness and profitability by creating concrete operating and social synergies over time.

Our paper also contributes to management practice by establishing a path towards more focused CSR activities and sustainable stakeholder management practices. In practical terms, our results can be interpreted in a simple way, but are likely to result in useful guiding implications for CSR practitioners. Given that most companies continue to approach CSR as a luxury add-on, that is performed sporadically and in a scattered and piecemeal manner, our results clearly indicate the need for a change in approach for the firm to reap

¹The results, which are available upon request, are not reported here due to space constraints.

financial benefits. Our findings suggest that CSR needs to be better aligned with the strategy of the firm and its core competence to start making a dent in relation to financial performance. By focusing on salient issues for stakeholders in the industry and across the value chain, this kind of strategic CSR is likely to be considered more useful and genuine, and will over time reflect positively on financial performance and the financial bottom line. For many practitioners that continue to practice CSR the old-fashioned way, these practice implications may be considered as ground-breaking.

Practitioners at smaller firms, or those with fewer resources, may also benefit from our research in practical terms, as they are likely to face similar challenges as those operating under economic hardship. Our findings indicate that less endowed firms can benefit from CSR significantly by concentrating limited resources on social activities that leverage the firm's primary strength in its value chain. Although a narrower focus may lack appeal to the wider range of stakeholders, it would allow the resource-constrained firm to synthesize its operational and CSR activities and, thus, create a more sustainable basis for strong financial and social performance.

For policy-makers, our results are also likely to suggest a new and different orientation in providing policy guidance and assessments of CSR. What is required for policy-makers is to go beyond a traditional assessment of CSR, along metrics related to the triple bottom line of profits, people and planet, and to encourage companies to focus more on their specific industry and salient and relevant issues from an industry perspective, whether they touch more on people issues, planet issues, or both. In other words, our findings suggest the need to go beyond a standardized approach in guiding CSR, revolving around ticking boxes relating to the three Ps of profits, people and planet and, rather, emphasize the need for more alignment and focus on industry-specific relevant issues. Depending on the industry, these issues may be more social or environmental in nature, but proper focus and alignment will eventually reflect positively on both profits and people.

We also demonstrate that the role of strategic fit was stronger during the recent recession, suggesting that strategically congruent CSR activities can not only improve firms' long-term sustainability, but also, enhance CFP when stakeholder support is most needed. This dimension has not been ex-

plored before, although it has significant relevance to companies struggling with financial uncertainties when managers must maintain their core activities and, in the meanwhile, carefully allocate limited resources to meet stakeholder demands. Our results imply that allocating limited resources to synergetic CSR activities could help companies navigate difficult economic periods when the preservation and use of scarce resources becomes a paramount consideration.

Notwithstanding these important contributions, our study has a number of limitations. First, we have used only one source of data, the KLD database. Although widely accepted for this purpose, other sources of data may have beneficially enriched our study. Second, we limited our investigation to two theoretically distinct industries. Future research could extend our theoretical model to explore more nuanced relationships in other industries. The generalizability of our results is limited by the fact that our sample consists mainly of large corporations, many of which are multinational enterprises (MNEs). Research has shown that MNEs may not maintain consistent CSR standards in foreign locations (Surroca, Tribo and Zahra, 2013); therefore, the CSR–CFP relationship may be location-specific. In addition, as large firms are more visible and thus more scrutinized, they tend to be more motivated to participate in CSR (Strike, Gao and Bansal, 2006; Udayasankar, 2008). Although the aforementioned factors are beyond the conceptual scope of our study, future research could extend our work and explore the link between CSR strategic fit and firm performance in other contexts. Finally, researchers can further verify and extend our theoretical model by using industry-specific performance measures, for example the Access to Medicine Index (ATMI).

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