Does the Business Case Matter? The Effect of a Perceived Business Case on Small Firms' Social Engagement

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Does the Business Case Matter? The Effect of a Perceived Business Case on Small Firms' Social Engagement

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Rajat Panwar

Erlend Nybakk

Eric Hansen

Jonatan Pinkse

Abstract

The business case for social responsibility (BCSR) is one of the most widely studied topics in the business and society literature that focuses on large firms. This attention is understandable because large firms have an obligation to shareholders who, as commonly assumed, seek to maximize returns on their investments, in turn, pressing corporate managers to show that firms' expenditures in social engagement would pay off. Small firms, on the other hand, rarely face such pressures, yet the BCSR logic is increasingly applied to small firms as well. Our primary objective in this paper is to examine whether and how much do small firm owners' perceptions of BCSR affect the firm's social engagement. In finding a finegrained answer to those questions, we consider BCSR as a two-dimensional construct consisting of tangible and intangible benefits, and also integrate the BCSR perspective with the slack resource perspective to offer a motivation-capacity lens to examine firm's social engagement. Drawing on a multi-industry sample of 478 small firms in the US, we find that while small firm owners' perceptions about potential tangible benefits of social engagement are not related to the firm's social engagement, perceptions about potential intangible are positively related. Firm's financial performance is also

positively related to its social engagement, but there is no interaction between potential benefits and financial performance. This study contributes to an improved understanding about small firms' social engagement, which still remains an understudied area. Our results are in line with studies which argue that firms' social engagement is a response to institutional factors.

Keywords: *Business case; CSR; Small firms; Slack resources; Social engagement; Tangible intangible benefits*

Introduction

Corporate social responsibility (CSR), defined as firms' contributions to societal well-being through voluntary activities (EC 2001; Vogel 2006), emerged as a formal topic of study in a large firm context. But because large firms are often publicly traded, CSR soon became a subject of criticism on the grounds that CSR expenditures violated firms' fiduciary duties toward their stockholders (Friedman 1970; Jensen 2002; Levitt 1958). Perhaps as a response, several studies appeared in quick succession to defend CSR by offering its economic rationale (Alexander and Buchholz 1978; Fogler and Nutt 1975; Spicer 1978) and by articulating a win–win scenario such that CSR was not only good for society, but also for a firm's financial performance (Baden and Harwood 2013). If such a win–win scenario existed, CSR proponents would find it easier to convince more firms of voluntary CSR actions, and managers, turn, could justify associated expenditures to stockholders (Schreck 2011). It is then no happenstance that the search for this win–win scenario, the so-called business case for social responsibility (BCSR) has been one of the most well-researched topics in the CSR literature (Carroll and Shabana 2010; Dyllick and Hockerts 2002; Epstein and Roy 2003; Revell and Blackburn 2007; Salzmann et al. 2005; Weber 2008; Weber and Gladstone 2014). Several recent surveys also unravel that managers of the world's largest companies explicitly link CSR with potential economic benefits (Hockerts 2015).

Notwithstanding the fact that small firms do not often face such pressures from stockholders since the majority of them are family owned (Panwar et al. 2014b), there is a growing interest within both the academic community and policymakers to apply the prevalent BCSR view to small firms as well. A fundamental argument here is that if small firms could find economic benefits in social engagement, more of them would be motivated to do so (Jenkins 2009). On the

other hand, the extant small firm social responsibility (SFSR) literature argues that small firms engage in social issues largely due to genuine concerns for surrounding communities (Fitzgerald et al. 2010). Amidst these conflicting viewpoints, the question remains whether and how much a perceived BCSR drive small firm's social engagement. Our primary objective in the present study is to address this question. Toward that end, we consider BCSR as a two-dimensional construct consisting of perceived tangible and intangible benefits of social engagement (Bowd et al. 2006; Nurn and Tan 2010) and thus develop a more fine-grained view of a small firm owner's economic motivations underlying the firm's social engagement.

Recognizing the nuances between the effect of a business case and a firm's slack resources on its social engagement that previous studies have highlighted (Orlitzky et al. 2003; Waddock and Graves 1997), we also consider firm's slack resources while we examine the effect of perceived tangible and intangible benefits on a firm's social engagement. However, we depart from previous studies in that we argue BCSR and slack resources represent two fundamentally distinct variables. We view BCSR as a specific motivation for social engagement that is dependent upon the disposition of a firm's decision maker about potential benefits of social engagement. A favorable perception could motivate a firm for social engagement, while a negative view may deter it from doing so. In contrast, we view slack resources as a firm's capacity that may enable (or prevent) a firm to act upon (or refrain from acting upon) the motivation arising out of a favorable view of BCSR. Thus, we consider that perceptions of BCSR and a firm's slack resources complement each other in explaining a firm's social engagement; and therefore integrate them in this study to develop a motivation-capacity lens to execute this study.

This paper contributes to the business and society literature in several ways. Foremost, it responds to an oft-repeated call for an improved theoretical understanding of small firms' social engagement (Jamali et al. 2009; Jenkins 2006). In particular, it examines the applicability of theoretical canvases developed within a large firm context. While the relevance of such canvases for small firms has been contested previously (Baumann-Pauly et al. 2013; Jamali et al. 2015; Spence 2007), empirical evidence is lacking. The paper also advances debates, especially the ones rooted in institutional theory, which claim that a firm's motivations for social engagement are primarily rooted in its need to align with its broader context (Brammer et al. 2012; Campbell 2007; Julian and Ofori- Dankwa 2013). The paper uniquely integrates the BCSR and slack

resources perspectives that, with one notable exception (Orlizky et al. 2003), have grown independently in the CSR literature and are sometimes even seen as contradictory explanations of firms' social engagement (Salzmann et al. 2005). Our motivation-capacity lens proposed here could provide a basis for future studies to develop a robust framework by leveraging a possible theoretical and empirical synergy between the two perspectives, ultimately leading to a holistic understanding of firms' social engagement.

The layout of this paper is as follows. Below in the theoretical background section, we briefly review the BCSR and the slack resource perspectives. Subsequently, we develop hypotheses for this study. We then describe details of the empirical study including data, analyses, and results. Next, we contextualize results within existing business and society literature. Finally, we highlight key contributions and outline future research directions.

Theoretical Background

The Business Case for Social Responsibility

The business case is a ubiquitous term used to collectively denote a variety of benefits that firms could derive from their social engagement. However, most of the empirical research concerning the business case argument has examined the effect of social engagement on a firm's financial performance. To this end, a large number of empirical studies have been conducted over the last forty years but only to produce inconsistent results. Follow-up review papers (Carroll and Shabana 2010; Griffin and Mahon 1997; Lu et al. 2014; Van Beurden and Go¨ssling 2008; Wood and Jones 1995) and meta-analytic studies (Endrikat et al. 2014; Margolis & Walsh 2003; Orlitzky et al. 2003), however, conclude that on balance there is a positive, yet mild, relationship between social engagement and a firm's financial performance.

Although it is not very clear how social engagement would lead to superior financial performance (Wood 2010), several rationales are presented in the literature (Orlitzky et al. 2011). For example, instrumental stakeholder theorists (Clarkson 1995; Donaldson & Preston 1995; Freeman 2010; Jones 1995) argue that through social engagement, a firm is better able to address, balance, coordinate, and prioritize multiple stakeholder demands; all of which help it become more efficient in adapting to external demands, and thereby financially be more successful. Similarly, the resource-based view (Barney 1991; Wernerfelt 1984) has also been

used to explain how voluntary CSR actions produce benefits for a firm. Here, voluntary actions can enable a firm to develop valuable resources and capabilities (Hart 1995; Russo & Fouts 1997) that could in turn help a firm, for example, in differentiating its products from competitors' offers (McWilliams & Siegel 2001) or in better managing external changes and turbulence (Shrivastava 1995), all of which, again, lead to better financial performance.

These various business benefits that firms could derive from social engagement, and which may lead to better financial performance, are categorized as tangible and intangible benefits (Bowd et al. 2006; Jenkins 2006; Nurn & Tan 2010; Wan-Jan 2006; White 2006). Tangible benefits are easy to both quantify and measure, and their link to better financial performance (e.g., increased sales) is direct; whereas intangible benefits are difficult to quantify and their link to superior financial performance (e.g., improved goodwill) is rather indirect. Amidst an emerging recognition that social engagement may lead to these potential tangible and intangible benefits, one question remains unaddressed: do firms get motivated to be socially engaged because of these benefits? To what extent is a firm's social engagement driven by potential tangible and intangible benefits? We will explore this question in the context of small firms but before doing that, below we briefly review the literature on slack resources as they determine a firm's capacity to act upon its decision makers' motivations arising out of a BCSR and thus have an indispensable bearing upon the effect of a perceived BCSR on a firm's social engagement.

Slack Resources and Firms' Social Engagement

Resources are critical for a firm's survival and growth because they act as buffers in periods of economic distress and allow the firm to pursue its goals during periods of economic growth (George 2005). Accordingly, the presence or absence of excess resources, often termed slack resources, could have important implications for a range of management decisions within a firm as it could affect the firm's overall performance. The extant literature, however, is divided on how slack resources affect a firm's performance. On the one hand, slack is considered a resource cushion (Baker and Nelson 2005; Cyert and March 1963; Greve 2003) that a firm can discretionarily use to both counter threats (Greenley and Oktemgil 1998) and exploit opportunities (Weinzimmer 2000). On the other hand, slack is also viewed as a source of inefficiency (Jensen 1986; Phan and Hill 1995) as it encourages satisficing, politics, or self-serving managerial behavior that ultimately hurt a firm's performance (Daniel et al. 2004). In

between, there is also a reconciled view (Bourgeois 1981) which finds merit in both extremes by arguing that the relationship between slack and performance of a firm is curvilinear such that slack improves a firm's performance within a given range but hurts beyond that. To further explicate how slack resources lead to better performance, several studies have proposed mediated relationships, such that slack resources enhances a firm's adaptability, risk-taking, and innovation (Cheng and Kesner 1997; Daniel et al. 2004; Nohria and Gulati 1996)—all of which, in turn improve its performance.

A firm's social engagement is also considered an outcome of its slack resources and the slack resources perspective offers a primary theoretical grounding of antecedents of firms' social engagement. Although a firm's slack may include both financial and non-financial resources, previous research has generally considered the effects of a firm's financial performance on its social engagement (McGuire et al. 1988; Saiia et al. 2003; Seifert et al. 2004; Ullmann 1985; Waddock and Graves 1997). With two notable exceptions (Arora and Dharwadkar 2011; Chiu and Sharfman 2011), where financial performance was included as a moderator; others examine its direct effect on social engagement. The role of financial performance is, however, not previously understood in the context of small firms' social engagement, despite their increasing importance in the social realm and also their oft-mentioned resource constraints. We address this gap through one of hypotheses below.

Hypotheses Development

While a firm's motivations (i.e., a perceived business case) and its capacity (i.e., its slack resources) are independently important in determining its social engagement, the two would also work in conjunction to produce an overall effect. In order to develop a more fine-grained view of how a perceived BCSR drives a firm's social engagement, below we develop three separate hypotheses. In the first hypothesis, we consider an independent effect of a perceived BCSR on a firm's social engagement, which represents a motivation. Through the second hypothesis, we introduce the capacity component by considering the effect of a firm's financial performance, which we use in this study as a proxy for slack resources. In the third hypothesis, we include both motivation and a firm's capacity and examine an interaction effect between a perceived BCSR and a firm's financial performance to produce an overall effect on a firm's social engagement.

Effect of Perceived Tangible and Intangible Benefits on a Small Firm's Social Engagement

Owners of small firms view their social engagement as a matter of personal pride because their business relationships and personal networks substantially overlap (Longenecker et al. 2006). Also, they are cautious about their image and tend to view any potential negative perception as ''indelible stains on themselves'' (Dyer and Whetten 2006, p. 789). All these features considered, a small firm's approach toward social engagement tends to be personalized, informal, and highly influenced by owner values (Russo and Tencati 2009; Spence and Rutherfoord 2003). Moreover, because owners tend to have a genuine concern toward communities, their firms' social engagement programs mirror the needs of the community (Smith and Oakley 1994) and aim at making real, positive differences (Fitzgerald et al. 2010).

To what extent is a small firm's social engagement driven by the business case, then? How far do small firms seek business benefits through social engagement? Previous literature suggests that the majority of small firms do not engage in cause-related marketing (Varadarajan and Menon 1988), and, if ever, rarely seek tangible benefits, such as premium pricing or new market development for their products (File and Prince 1998). Also, most small firms finance their capital needs through internal sources, once they reach beyond the start-up phase (Vyakarnam et al. 1997), their social responsibility actions are unlikely to emanate from a need to appeal to banks and/or other investors. Often, small firms' social engagement is ad hoc in nature with little if any ties to business strategy (Jenkins 2006), again indicating that social engagement is not primarily a business proposition for them. Thus, we find it unlikely that small firms would engage in social issues because doing so could help them potentially reap tangible benefits, such as premium prices, cost reduction, and access to capital, etc.

Concurrently, reputation among communities is vital for small firms (Chrisman et al. 2012), because it helps them in procuring locally available necessary yet rare resources, such as skilled workers and a support network (Goldberg et al. 2003; Perrini 2006). Community reputation is also important to small firms for cultural reasons. In the US, for example, running a small firm epitomizes an individual's success in life; and therefore, small firm owners cherish the reputation that they derive through their ventures. In this sense, reputation is important and goodwill is paramount to small firm owners for purely business and personal reasons. However, unlike large corporations that could derive reputation through PR campaigns and big-ticket advertisements,

resource-constrained small firms have to derive reputation in communities through their on-the ground actions.

Overall, we argue that small firms would pursue social engagement because of their owners' favorable perceptions of underlying intangible benefits, but perceptions about tangible benefits will have no effect. Therefore, we formally propose the following two hypotheses:

H1 (a) There would be no relationship between a small firm owner's perceptions of tangible benefits of social engagement and the firm's social engagement.

H1 (b) There would be a positive relationship between a small firm owner's perceptions of intangible benefits of social engagement and the firm's social engagement.

Effect of Financial Performance on a Small Firm's Social Engagement

The discretionary nature of social engagement suggests that it often depends on the availability of a firm's discretionary resources that provide it necessary capacity to carry out social engagement. Discretionary resources constitute organizational slack, which a firm can use to pursue activities that it considers important but are not critical for running its day-to-day operations. Scholars have conceptualized many forms of slack resources (e.g., extra raw materials, human resources, and machine capacity), but the most relevant form of discretionary slack, especially for social engagement is financial resources. Role of financial resources is previously understood in the business and society literature (McGuire et al. 1988; Ullmann 1985; Waddock and Graves 1997). Many recent studies have also further clarified and confirmed the previous findings (Amato and Amato 2007; Brammer and Millington 2008; Surroca et al. 2010) by concluding that when financial resources are abundant (such as when profits are high), a firm is more likely to pursue greater social engagement (Julian and Ofori-Dankwa 2013).

In a small firm context, financial resources play an even more important role in social engagement. Several studies report that small business owners cite a lack of financial resources as one of the most important barriers to social engagement (Hillary 2000; Lepoutre and Heene 2006; Ludevid Anglada 2000). This limitation is exacerbated by the fact that small firms often experience immediate cash needs and are rarely able to build up large financial reserves (Carpenter and Petersen 2002; Lepoutre & Heene 2006) to draw on. In this sense, we would

expect a small firm's recent financial performance would affect its social engagement and, therefore, hypothesize:

H2 There would be a positive relationship between a small firm's recent financial performance and its social engagement.

Interaction Effect of Perceived Intangible Benefits and a Small Firm's Financial Performance on Its Social Engagement

Potential intangible benefits may provide a firm the necessary motivation for social engagement, but the firm cannot initiate such engagement without possessing the required resources (Grimm and Smith 1997). Thus, even when small firm owners may want to undertake, for example, an employee training program or a broader community program because doing so would bring their firm benefits of some sort, a weak financial situation might force them to postpone such investments and prioritize more pressing needs (Fassin 2008; Ludevid Anglada 2000). On the other hand, owners of a resource-abundant firm would more confidently undertake such programs because they may even be prepared to allocate additional resources, should there be a need in order to reap full benefits of such programs. We would, therefore, expect an interaction between perceived intangible benefits—firm owners' motivations—and a firm's financial performance— its capacity—to produce an overall effect on its social engagement such that the firm's financial performance would enhance the effect that its owner's perceptions of potential intangible benefits may have on the firm's social engagement. This is consistent with previous studies that consider financial performance as a moderating variable in analyzing effects of variables, such as firm's corporate governance and firm's visibility to stakeholders on social engagement (Arora and Dharwadkar 2011; Chiu and Sharfman 2011). Here, we propose that to the extent potential underlying intangible benefits motivate a small firm to social engagement, its capacity to act upon such motivation is moderated by its financial performance. Formally, we hypothesize:

H3 A firm's financial performance would positively moderate the relationship between its owner's perception of underlying intangible benefits of social engagement and the firm's level of social engagement; such that the higher its financial performance, the higher the positive effect of perceived intangible benefits on the firm's social engagement.

Data and Methodology

We sought data in the fall of 2012 by sending a questionnaire to CEOs/owners of 3408 small US manufacturing firms (firms with less than 500 employees, as stipulated in the US Small Business Administration criteria for defining a small firm) in five industry sectors: food, wood products, furniture, paper, and chemical products. We selected these five sectors because together they represent a diverse range of organizational contexts to study firms' social engagement. For example, the wood, paper, and furniture sectors represent a context wherein social engagement is important for organizational legitimacy (Panwar et al. 2014a). In the food sector, social engagement is driven by supply-chain demands and also higher visibility to consumers (Hartmann 2011; Maloni and Brown 2006). The chemical sector represents a capital intensive context that is also subject to closer public scrutiny where social issues are considered paramount (Delmas et al. 2011). Moreover, these sectors are populated by a large number of small firms and hence appropriate for this study. We requested individual site level information for firms that had multiple manufacturing sites.

We followed the general principles of the Tailored Design Method (Dillman 2007) that included sending a second wave of questionnaires (three weeks after the initial wave) to improve response rate. Four hundred and seventy-eight valid responses were received for an adjusted response rate of 13.2 percent. We tested for nonresponse bias by comparing early versus late respondents as recommended by Armstrong and Overton (1977) and found no significant differences in any of the constructs between the two groups (p\0.05) and thus believe that non-response bias is not a significant concern for results of this study.

Measures

Social Engagement

Because of the small firm context of this study, we did not use the readily available indicators (such as the ones used in the KLD database or Fortune Rankings) to assess social engagement. Instead, drawing on the existing literature pertinent to the five industry sectors, we first developed a list of eleven initiatives covering the customer, employee, and community realms. Many of the initiatives from this list did not appear to be particularly relevant for small firms, for example, child labor issues are not especially relevant for small US firms as the issue is covered

by law. Therefore, we sent this list to a select group of experts drawn from academia, NGOs, and industry organizations with a request to indicate the relevance of these initiatives for small firms relevant to the industry they represented. This step helped us in securing face validity for these initiatives. We ended up with seven total initiatives including three directed toward community and two directed toward customers and employees each (Table 1). We used these seven items to assess small firms' social engagement level by asking respondents to self-report on a seven-point bipolar scale the changes in their firm's level of social engagement during the previous 3 years (1–3 representing decrease, mid-point 4 representing no change, and 5–7 representing increase). We assessed changes in these social initiatives as opposed to current level of engagement following previous CSR literature (Ruf et al. 2001) that advocates for this approach in order to minimize response biases that are common to CSR research.

Financial Performance

In line with numerous previous studies (Beal 2000; Dess and Robinson 1984; Morgan and Strong 2003), we assessed financial performance using subjective measures because (i) objective financial data for small firms is difficult to obtain, and (ii) these studies have found that subjective measures provide reliable data in a small firm context. Specifically, we included the following five items to measure financial performance: return on sales, return on investment, rate of sales growth, net profit, and cash flow (Table 1). Consistent with the approach used to assess social engagement, we asked respondents to self-report on a seven-point bipolar scale the changes in their firm's performance on these five items during the previous 3 years (1–3 representing decrease, middle point of 4 representing no change, and 5–7 representing increase).

Perceived Potential Tangible and Intangible Benefits

The BCSR has not previously been operationalized as a formal construct. In order to develop a measure for this study, we, therefore, drew on previous literature and compiled a list of sixteen tangible and intangible benefits associated with social engagement. In order to ensure face validity, we sent this list for feedback to seven CSR scholars, all of whom had previously published on the business case topic in leading CSR journals. Recommended regrouping resulted in seven total benefits (Table 1), which we used for data collection. We asked respondents to

indicate on a seven-point bipolar scale how they thought social engagement affected an average firm in their industry (1–3 = negative effect, 4 = mid-point, 5–7 = positive effect).

Following the results of previous studies (e.g., Callan and Thomas 2009), we included firm ownership type (public versus private), age, sales volume, and industry sector as controls. We assessed age and sales volume as continuous variables, and industry sector and firm ownership as categorical variables.

Measurement Properties of Constructs

Table 1 contains all measurement items used to operationalize the constructs and their measurement properties. Consistent with our theoretical conceptualization, we forced a two-factor solution for all BCSR items in an exploratory factor analysis. All items loaded distinctly on one of the two dimensions: tangible and intangible benefits. We calculated coefficient alphas (a) and composite reliabilities (CR) for all constructs—all values suggest reliable measures. Moreover, we performed confirmatory factor analysis among all first-order factors, using the maximum likelihood procedure (Hair et al. 2006) in structural equation modeling software EQS (Byrne 2006). The goodness of fit measures had satisfactory values ($v2 = 450.02$; $df = 146$; $v2/df = 3.08$; CFI = .95; MFI = .79; SRMR = .058, RMSEA = .057). We then assessed discriminant validity following Fornell and Larcker (1981) and found that all pairs of constructs met the minimum criteria (Table 2).

Social Desirability and Common Method Biases

Social desirability and common method biases are significant concerns for CSR studies (Du et al. 2007; Husted and Allen 2007). We made every possible effort to minimize the potential for these biases during the questionnaire design phase by following the recommendations by Podsakoff et al. (2003). To note, we asked respondents to indicate the changes that happened within their own firms rather than asking them to compare their performance with competitors, which often gives rise to socially desirable responses. We also flipped the direction of scales among constructs, and also separated the financial information section from the social engagement section in the questionnaire as much as we could. Moreover, we asked respondents to report their perception of a BCSR for an average firm in the industry, thus capturing their generalized notion of a BCSR while reducing potential for biased responses.

Notwithstanding such precautions, common method variance could still be a problem. To detect, we conducted Harman's one-factor test by loading all items used in the study into an exploratory factor analysis. No single factor explained more than 30 % of the total variance. In addition, we conducted a one-factor confirmatory factor analysis which showed a poor fit for a single-factor model (RMSEA = .188; CFI = .437). Thus, we believe that common method bias is not a serious concern for this study.

Analysis and Results

OLS regression was used to test all the hypotheses. Items for each construct were averaged and interacting variables were mean centered to address potential multicollinearity problems. The following regression equation was estimated:

Change in social engagement = a + b1 firm ownership type + b2 firm age + b3 Ln sales + b4 industry type 1 + b5 industry type 2 + b6 industry type 3 + b7 industry type 4 + b8 potential tangible benefits + b9 potential intangible benefits + b10 change in financial performance + b11potential tangible benefits x change in financial performance + b12 potential intangible benefits x change in financial performance +e

Regression results are presented in Table 3, which includes three separate models. Model 1 includes only control variables; model 2 introduces main effects of potential tangible benefits, potential intangible benefits, and financial performance. In model 3, we added an interaction term to controls and main effect models. Variance inflation factor (VIF) values were assessed for all explanatory variables included in all three models. The highest value was 1.5, indicating that multicollinearity was not a concern (Kleinbaum et al. 1988).

Firm ownership type, firm age, and sales volume were not associated with social engagement. However, industry had a significant impact—specifically, firms in the paper sector were significantly more socially engaged than others ($p<0.01$). Furniture firms were also engaged at a marginally higher level (p\0.05).

Perceived potential tangible benefits do not have a significant effect on social engagement ($p>0.1$), therefore, H1(a) was supported. As hypothesized, perceived intangible benefits were found to have a significant effect on social engagement ($p<0.01$), and thus H1(b) was also supported. As predicted, financial performance had a significant ($p<0.001$) and profound effect

(R2 = 0.4) on social engagement. Therefore, H2 was supported. Unexpectedly, the interaction effect between perceived intangible benefits and a firm's financial performance was insignificant; suggesting that firm's financial performance did not moderate the effect of potential benefits on its social engagement. Therefore H3 was not supported.

Discussion

How perceptions of small firm owners about business benefits underlying social engagement and the firm's financial resources affect its social engagement are key questions in our attempt to improve the understanding of CSR in a small firm context. Hockerts (2015) recently concluded in an empirical investigation that the business case perspective had ''so far permeated the consciousness of [business managers] that [they] would not admit to any other motivation for addressing corporate sustainability'' (p. 9). This claim does not appear to hold the same virility in a small firm context: we found that it is only small firm owners' favorable perceptions of the intangible benefits that affected firm's social engagement, while tangible benefits had no effect. These results are in line with CSR studies that have theoretically or anecdotally challenged the explanatory power of the business case perspective for a firm's social engagement (Baden and Harwood 2013; Brammer et al. 2012; Jackson and Apostolakou 2010; Yang and Rivers 2009; Wood 2010). Here, we empirically conclude that indeed the business case perspective is not the dominant driver of social engagement that its prevalent use might suggest, even though it may be the case in a large firm context. In terms of the role of a small firm's financial performance in its social engagement, we found that the firm's financial performance is a very strong predictor of its social engagement. The total variance explained through financial performance is approximately three times that of perceptions of intangible benefits. Further, financial performance did not moderate the relationship between perceptions of intangible benefits and social engagement. Together these results suggest independent effects of reputational motivation and financial capacity on small firm's social engagement. Overall, we contend that small firms engage in social issues for two separate reasons, to seek reputational benefits, and to ''pay back'' to the society as they must, to the extent financial resources allow.

The effect of potential intangible benefits on small firms' social engagement is consistent with previous literature that explains small firms' prioritization of non-economic goals, especially those aimed at reputation gains (Chrisman et al. 2003; Ensley and Pearson 2005; Chrisman et al.

2012). Our results add to this literature by expanding the idea that such reputational gains are important drivers of small firms' social engagement. Theoretically, it underscores the importance of discerning between tangible and intangible benefits to understand the effect of a perceived business case on social engagement as their effects are not similar. On the policy side, our results bring into question the efficacy of market-based approaches that use the business case as a core argument to promote social engagement among small firms. While previous studies in the environmental realm revealed that small firms' environmental behavior is driven primarily through regulation and not through market forces (Williamson et al. 2006), here we found that marketplace benefits are not dominant drivers of small firms' social engagement either. We, therefore, argue that engaging small firms in social responsibility can be more effective by emphasizing non-market motivations and by developing policies that are based on institutionally defined notions rather than on blanket assumptions about the efficacy and appeal of market-based approaches. For example, it may be worthwhile to develop mechanisms- possibly in cooperation with local governing bodies- to formalize the ways in which small firms may gain local reputation through social initiatives.

Our integrating the business case perspective with the slack resource perspective also advances the broader CSR literature. Previous studies have often used these two as competing explanations of the social responsibility-firm performance relationship: the business case perspective considering social responsibility an antecedent to superior firm performance, and the slack resource perspective viewing social responsibility as an outcome of superior firm performance. Waddock and Graves (1997) reconciled this dichotomy and viewed the two perspectives as forming a synergistic ‘‘virtuous circle’’ within which discerning between antecedent and outcome was difficult. Departing from an antecedent-outcome paradigm, we view the business case and the slack resource perspective as supplementary (Orlitzky et al. 2003) and fundamentally different explanations of firms' CSR behavior representing, respectively, the firm's motivation and capacity for social engagement.

Conclusion

We set out in this study to examine to what extent a perceived BCSR actually drives a small firm's social engagement. We found that small firms' social engagement was driven by their owners' perception of underlying potential intangible benefits, although minimally, but that

tangible benefits had no impact. We speculate that small firms' motivation for social engagement is rather non-instrumental in nature, rooted in their community connections. We also found that small firms' financial resources had the greatest bearing upon their social engagement, and that perceived benefits and financial resources affect social engagement only independently, and they do not produce an interactive effect.

Future studies can complement and improve this work in a number of ways—most importantly, it would be important to include in the same sample both small and large firms in order to examine whether the effect of BCSR is different between the two categories. Also, it would be worthwhile to include alternative motivations in the same study to understand relative effects of divergent motivations. Similarly, it is important to examine how the perceived benefits and slack resources affect small firms' environmental engagement, especially because the business case arguments are more commonly made in the environmental domain. Similarly, future studies may also include other forms of slack resources and not just financial resources. Also, our results pertain only to manufacturing firms, and future studies may consider also including service sector firms as their social engagement motivations might differ. Similarly, future studies could consider follow- up qualitative studies for a deeper dive into when and how the interaction between perceived benefits and slack resources evolves. More importantly, future studies must replicate this study in a large firm context.

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Table 1

Descriptive statistics and measurement scales

Variables and underlying items	Mean	SD	α	CR
Social engagement (1= substantial decrease , 4=no noticeable change, 7= substantial increase) • Initiatives to improve customer service quality • Initiatives to promote recycling among customers • In-kind contribution to community programs/events • Cash contribution to community programs/events • Support to non-profits • Initiatives to improve diversity among employees • Workers' non-salary benefits	3.92	.91	.81	.97
Perceived BCSR				
(i) Potential tangible benefits (1= highly negative impact, 7= highly positive impact) • Cost reduction • Commanding premium price • Access to capital	3.40	1.09	.81	.94
(ii) Potential intangible benefits (1= highly negative impact, 7= highly positive impact) • Understanding the business context • Goodwill development • Attractiveness to employees • Brand-building	3.55	1.30	.88	.94
Financial performance (1= substantial decrease , 4=no noticeable change, 7= substantial increase) • Return on sales • Return on investment • Rate of sales growth • Net profit • Cash flow	3.53	1.57	0.93	.99

α denotes Chronbach's alpha

CR is composite reliability

Table 2 shows correlations among variables.

Table 2
Correlation matrix

Variables	**1**	**2**	**3**	**4**
1. Social engagement	1.00			
2. Potential tangible benefits	.14**	1.00		
3. Potential intangible benefits	.16**	.55**	1.00	
4. Financial performance	.43**	.15**	.09	1.00

**Correlations significant at the 0.01 level

Table 3

Results of OLS regression showing effects of control, main and interacting variables on social engagement

Variables	Social engagement		
	Model 1	*Model 2*	*Model 3*
Control			
Firm ownership type	.09	.07	.07
Firm age	.01	-.01	-.01
Log sales	.04	.01	.00
Industry[1]			
Food products	.16***	.08	.08
Furniture	.12*	.10	.10*
Paper	.25***	.15	.15**
Chemicals	.10*	.04	.04
Main effect			
Potential tangible benefits		.01	.01
Potential intangible benefits		.13 **	.14**
Financial performance		.39 ***	.40***
Interaction effect			
Potential tangible benefits X financial performance			.03
Potential intangible benefits X financial performance			.05
R^2	.070	.235	.240
ΔR^2		.165	.005
F	4.840	13.755	11.707
ΔF		8.915	-2.048

[1] Using wood products as the base group

*= $p < 0.05$

**= $p < 0.01$

***= $p < 0.001$