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Corporate Social Performances: the Financial Effects of Responsive and Strategic Approaches

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Abstract

The empirical research on corporate social responsibility (CSR) has largely focused on the strategic and positive aspects (strengths) of corporate social performance (CSP) and neglected the analysis of actions and initiatives that would qualify as responsive, defensive or negative CSP (or weakness in CSP). Using data from the KLD collected over a three-year period, this study examines the relationship between both strategic and responsive CSP and company financial performance (CP) across individual stakeholder domains. Results of the study suggest that strengths in strategic CSP – as measured by strong technical and strong institutional relationships about selected stakeholder domains – are associated with superior financial performance. As for responsive CSP related to all other technical and institutional relationships, the results suggest that a firm performing only defensively in meeting the expectations of stakeholder groups, it is penalized in the form of inferior CP.

La ricerca empirica sulla responsabilità sociale d'impresa si è molto concentrata sugli aspetti positivi delle prestazioni sociali ed ha trascurato l'analisi delle azioni ed iniziative che sarebbero da qualificare come di risposta, difensive o negative. Utilizzando il database KLD relativo ad un periodo di tre anni, questo studio esamina la relazione tra prestazioni sociali (strategiche e/o di risposta) e le prestazioni finanziarie relative a diversi stakeholder. I risultati suggeriscono che i punti di forza nelle prestazioni sociali – misurate come forti relazioni tecniche e forti relazioni istituzionali con selezionati stakeholder – si associano con superiori prestazioni finanziarie. Mentre per le prestazioni sociali di risposta, relative a tutte le altre relazioni tecniche ed istituzionali con gli stakeholder, i risultati segnalano che le imprese attive solo con azioni difensive verso i propri stakeholder sono in media associate a prestazioni finanziarie inferiori.

Keywords: stakeholder management, positive and negative CSP, stakeholder domains.

1 – Introduction

Despite some lingering doubts, the view that corporate social performance and superior firm performance go hand in hand has now become commonplace both in the academic and professional communities (Porter and Kramer, 2011). But the finding that a firm's superior Corporate Social Performance (CSP) in a stakeholder domain is positively associated with Corporate Financial Performance (CP) does not necessarily suggest that firms treat all stakeholders equally. It would seem logical to ask that if strategic corporate social performance is positively related to firm performance, and the relationship is such that positive and high CSP in a stakeholder domain leads to improved CP, how does this relationship extend to a more responsive and defensive corporate social performance in a stakeholder domain.

Although "the elusiveness of the CSP construct" has resulted in the creation of numerous measures and scales to operationalize it (see Margolis and Walsh, 2001; Mattingly and Berman, 2008, for a review), based on our literature review, we can say that to the best of our knowledge the majority of the studies that have examined the CSR-CP relationship has either identified CSP on a single dimension consisting of high or low CSP toward different stakeholder groups (e.g. Hillman and Keim, 2001), or simply created an aggregate measure of CSP by averaging scores on various dimensions, with an equal weight (e.g. Choi and Wang, 2009). In their empirical study Mattingly and Berman (2006) found that positive and negative corporate social performances (strengths and concerns

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or weaknesses) are empirically and conceptually distinct constructs, and concluded that their effects across different stakeholder domains should be separately investigated. Their suggestion was also echoed more recently by Choi and Wang (2009) in their influential study in the Strategic Management Journal which examined the effect of CSP on persistence of corporate financial performance. While acknowledging the assessment of CSP with a measure in which strengths and weaknesses were combined, as a limit of their study; they concluded by saying that, "…future research might explore further…by examining the separate effects of strengths and weaknesses, both conceptually and empirically" (p. 904).

This study attempts to fill in this gap identified in the research on CSP-CP relationship by explicitly examining firm-level differences in CSP, both in terms of strategic and responsive CSR corporate behaviors, across different stakeholder domains. We argue that a more fine-grained approach like this to studying the CSP-CP relationship will not only contribute to a richer empirical understanding of the relationship, but will also help clarify findings of some previous empirical research, which has been less than unequivocal about the CSP-CP relationship.

2 – Classification of CSP

Porter and Kramer (2006) classified the way firms approach CSR into responsive CSR and strategic CSR. Responsive CSR comprises of acting as good corporate citizens, attuned to the evolving social concerns of stakeholders, and mitigating existing or anticipated adverse effects of firm activities. Strategic CSR involves mounting a small number of corporate social initiatives that are tied to the social issues related to select stakeholder groups, with the goal of developing a symbiotic relationship that benefits both the firm and the stakeholders. This approach to CSR, while anchored in the justifications made by the earlier schools of thought, offers a framework companies can use to identify the social issues that benefit stakeholders while simultaneously strengthening the companies' competitiveness. Good citizenship is a *sine qua non* of CSR and that companies must be attuned to the evolving social concerns of stakeholders, develop measurable corporate social goals, and track results over time. However, the authors also argue that, in doing so, companies should focus and invest more on social issues that are closely tied to the company's business and undertake social initiatives whose social and business benefits are large and distinctive. Such a strategic CSR approach, Porter and Kramer further argued in 2011, will result in a symbiotic relationship between a company and its stakeholders since the success of the company and the success of the stakeholders become mutually reinforcing.

On the same line, previous empirical evidence related to classification of CSP comes from the study conducted by Mattingly and Berman (2006), which examined the KLD ratings data and discovered a taxonomy with four latent constructs, similar to those indicated in prior literature (Wartick and Cochran, 1985, Wood, 1991). To interpret and explain the four dimensions of CSP, Mattingly and Berman distinguishes between institutional and technical segments of a firm's stakeholder environment. The institutional segment of a firm's CSP includes those aspects of stakeholder interactions in which the firm's CSP is in response to normative expectations of stakeholder groups, such as, environment, community and diversity expectations of the society at large. The technical segment of a firm's CSP involves interactions with those stakeholder groups with which the firm is involved in resource exchange, such as customers, employees or governance (investors & markets). They demonstrate the independence of four factors—institutional strength, institutional weakness, technical strength, and technical weakness—and provide evidence of validity.

The literature review, in summary, highlights how a firm's CSP in both the institutional and technical realm consists of positive and negative social performance (strengths and weaknesses) and can be reached developing a corporate social agenda more strategic or more responsive (Porter and Kramer, 2006).

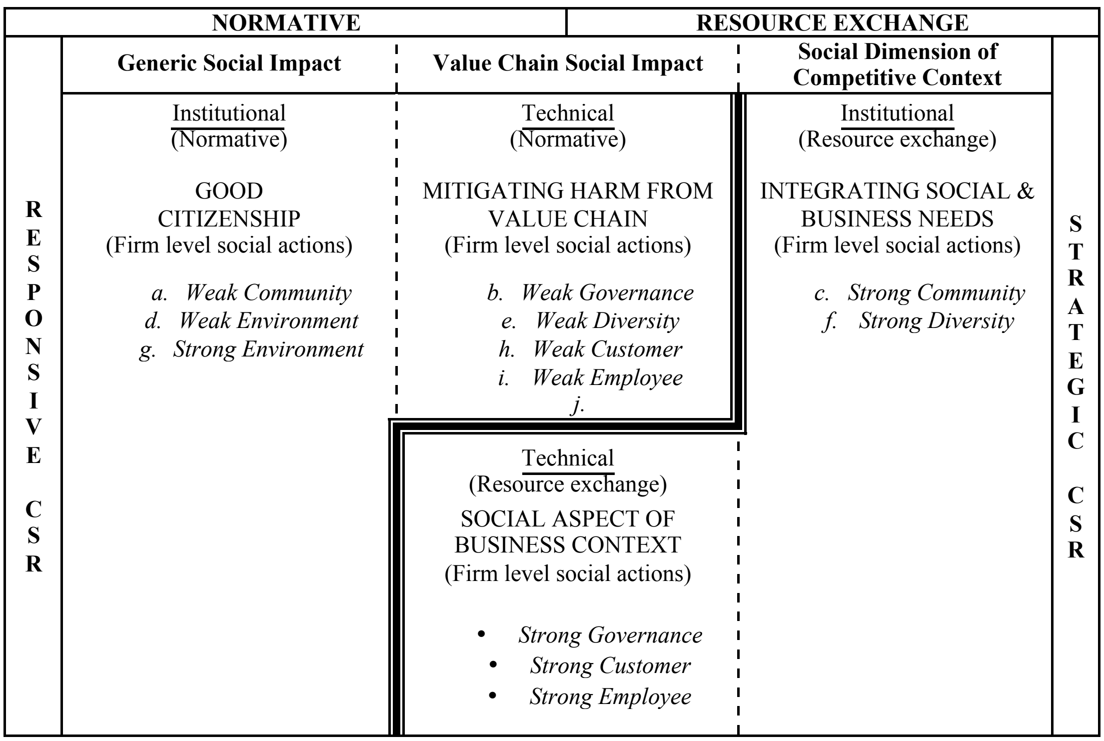
This study utilizes the technical vs. institutional taxonomy developed by Mattingly and Berman (2006) and merges it with the strategic and responsive CSR approaches proposed by Porter and Kramer (2006 and 2011).

In particular, the theoretical framework proposed in Figure 1 allocates to "Responsive CSR" the more external and defensive institutional social scores which will be from now on framed as "Good citizenship initiative" (namely: weak community, weak environment and strong environment) together with the milder technical social score framed as "Mitigation harm initiative" (weak governance, weak diversity, weak costumer; weak employee). To complete the theoretical framework, the remaining stronger technical social scores are framed in the "Social aspect of business context activities" (strong governance, strong customer, strong employee) together with the remaining and more internally driven institutional social scores framed as "Integration of social aspects in business needs" (strong community and strong diversity) in order to generate the overall concept of "Strategic CSR" approach. While the division of technical scores in weak (responsive) and strong (strategic) is fairly intuitive, for the split of the institutional scores we followed Choi & Wang (2009) findings which posit for diversity and community dimensions as particularly helpful in improving the connection between CSP and CP.

Accordingly, we formulate our model based on the premise that a firm's level of social commitment to stakeholder groups will vary. Given the hypercompetitive and socially conscious environment in which many companies operate, managers face increasing pressure to find a balance between shareholder value and societal welfare (Hull & Rothenberg, 2008), which is often difficult. Differences in a firm's commitment to stakeholder groups will manifest in the form of strength in some areas of CSP and weakness in others.

The strengths and weaknesses in a firm's CSP result from the firm's strategy or posture in stakeholder relationships and issues (1995, p. 109). Following Clarkson's framework, logic dictates that weaknesses in CSP related to a particular stakeholder domain will result when a firm adopts a reactive posture (deny responsibility and do less than required) or a defensive posture (admit responsibility but fight it and do the least that is required). On the other hand, strengths in CSP related to a particular stakeholder domain will be the outcome of an accommodation posture (accept responsibilities and do all that is required) or a proactive posture (anticipate responsibilities and do more than required).

Figure 1. Corporate Social Activities: Understanding Firm-Level Differences



Example of items as measured by KLD.
Community weaknesses: Investment controversies, Negative social impact, etc.
Community strengths: Generous giving, Support for housing and/or education, etc
Environment weaknesses: Regulatory problems, Substantial emissions, etc.
Environment strengths: Pollution prevention, Beneficial products and services, etc.
Governance weaknesses: Ownership concern, Tax disputes, etc.
Governance strengths: High accountability, Good investor relation, etc.
Diversity weaknesses: Non-representation, Controversies, etc.
Diversity strengths: Women and minority policies; Family benefits, etc.
Employee weaknesses: Poor union relations, Safety controversies, etc.
Employee strengths: Strong union relations, Active Involvement, etc.
Customer weaknesses: Product safety controversies, Antitrust controversies, etc.
Customer strengths: Quality awards, R&D innovation records, etc.

holder domains. As Clarkson (1995) noted, such postures are "central elements in applying a measure and evaluating the levels of [corporate social] responsibility that a company demonstrates in its management of

Figure 1 is the first innovative contribution of this paper and helps in better portraying the options CSR managers have: to be compliant with minimal social requirements (normative approach) or to exploit stakeholder relationship as a driver of competitive advantage (resource exchange approach).

3 – Stakeholder relations, CSP and Company Financial Performance

According to the stakeholder-agency theory (Hills and Jones, 1992) managers can be seen as the agents of all stakeholders. However, stakeholders differ among themselves with respect to the importance of their stake in the firm and their power vis-a vis the managers (Greenley, Hooley, Broderik, and Rudd, 2004). Hills and Jones (1992) argue that there is "no reason to assume that stakeholder-agent relationships are in equilibrium at any particular time" (p. 132).

In fact there is often a considerable friction in the stakeholder-agent relationship because of "some stakeholder's ability to retard equilibrating adjustments that are unfavourable to them" (Donaldson and Preston, 1995, p. 78). As a result stakeholders are drawn into relationships with a firm to accomplish mutually important goals as efficiently as possible.

Jensesn (2002) suggests that firms should improve stakeholder welfare only until the marginal cost of doing so. Thus although high CSP may result in superior performance, firms that spend resources directed at improved CSP in excess of the marginal benefits may find a decline in performance (Hillman and Kein, 2001). This may explain the finding of Brammer, Brooks and Pavelin (2006) who found that high levels of CSP was negatively related with stock returns.

Based on the discussion above, it seems reasonable to expect that firms may not be consistent in crafting their social initiatives across stakeholder domains. In fact, differential treatment may even be desirable if the firm needs strategic flexibility, because there are differences in what firms aim to achieve through their stakeholder management efforts over time. This flexibility in the use of CSR means that the relationship between a firm and each of its stakeholder groups may be idiosyncratic (Post, Preston, & Sachs, 2002). After conducting a detailed analysis of the effect of CSP on CP in terms of each stakeholder groups, Choi & Wang (2009) found that, while the employee and customer aspects of CSP are most critical in maintaining high levels of CP, diversity and community dimensions of CSP are particularly helpful in improving CP. Choi and Wang concluded by observing that "it might be necessary for firms to strategically prioritize their attention to different stakeholder groups in order to benefit the most from their stakeholder management practices [and] that management of human resources and … [customers] should be on top of managers' agenda, ahead of community and environmental issues" (p. 906). Accordingly, our hypothesis development about the relationship CSP-CP will be developed considering separate and independent measures of CSP.

4 – Development of Hypothesis

Different stakeholder groups are known to relate differently to a firm (Woods, 1991), and firms are known to treat different stakeholder groups differently (Mitchell, Agle and Wood, 1997), depending upon the performance outcomes they are attempting to achieve. Based on the theoretical and empirical evidences that we have examined in the preceding sections, we proceed to formulate our hypotheses based on the premise that a firm's level of social commitment, with respect to various stakeholder group will vary. It would be correct to believe that such an approach most appropriately reflects the way CSP is followed in practiced, but such an approach is also in direct opposition to the normative view that argues that, "the social and economic purpose of the corporation is to create and distribute increased wealth and value to all its…stakeholders, without favoring one group at the expense of others. (Clarkson, 1995, p. 112).

Based on the resource dependence theory (Pfeffer and Salancik, 1978), we argue that different stakeholder groups will attract different levels of attention from a firm. Because of resource dependencies, managers must make strategic decisions within constraints in ways that improves firm performance. In the context of CSP, firms will pay more attention to and be more concerned with issues of stakeholder groups that possess resources critical for firm performance, than to stakeholder groups who do not control such resources. It would seem logical to conclude that different levels of attention devoted to different stakeholder groups will be manifested in form of strengths in some areas of CSP and weaknesses in others.

Based on the discussion above we argue that strengths in the technical segment of a firm's CSP, which involves interactions with those stakeholder groups with which the firm is involved in resource exchange, such as customers, employees and governance (meaning investors and markets) as framed by our theoretical model (figure 1) in the "social aspects of the business context", will be positively associated with company performance. The stakeholders included in the technical segment include those stakeholders who have often been referred to as primary stakeholders. A firm's interaction with such group has been characterized as "relational" (Hillman and Keim, 2001), involving trust and cooperation, developed over a period of time and will lead to the definition of relevant social aspects to be included in the business model.

H1: **Strengths in the social aspects of the business context will be positively associated with corporate financial performance.**

At the top of these technical strengths, we expect some additional institutional strengths to positively influence CP if and when these strengths represent the appropriate integration of relevant social needs in the corporate strategy (Figure 1). Based on Choi and Wang (2009) findings, we assume that leading corporate social behaviors in dealing with the general community issues and the diversity issues, despite the fact that these issues are often referred as secondary stakeholder - or those without a clear resource exchange relationship with the company -, are very likely to generate corporate financial value if targeted by companies that are integrating these issues in their business models as well as in their strategies for the creation of competitive advantage. It is therefore hypothesized that:

H2: Strengths in integrating business and social needs will be positively associated with corporate financial performance.

If strengths in the relationships between firms and selected strategic stakeholders are positively associated, despite their financial costs, with CP, does this relationship also extend to more normative and weak technical relationships between the firm and the generality of its stakeholders? The normative segment of a firm's CSP includes those aspects of stakeholder interactions and investments in which the firm's CSP is in response to general and legitimate expectations of various stakeholder groups, such as the environmental groups, advocate groups, community groups, labor unions and diversity expectations of the society at large. A firm's defensive reaction to these expectations fall outside of the direct relationships to primary stakeholders if a clear resource exchange between firm and stakeholder is missing. These relationships are characterized as "transactional" (Hillman and Keim, 2001). Investing in relationships with this group may be desirable from a normative view point, but a strong CSP with this stakeholder segment is not likely to be associated with company performance because often the costs could be greater or equal to the benefits. It would certainly appear desirable for a firm to establish minimal relationship with the community or take environment friendly measures. However, resource dependencies, often may force managers to make strategic decisions in ways that improves firm performance. Thus, if a firm's weakness or strength in these segments is the result of the "ecological selection process" (Husted, 2000), based upon evaluation of the salience of the issues critical to business operation and competitive context of the firm, then one would not expect to see much impact of weaknesses in this segment on company performance. The relationship among mild social actions and strong but wide environmental actions ("good citizenship" in figure 1), as well as weak technical relationships with other primary stakeholders ("mitigating harm" in figure 1), and company performance, therefore, need not necessarily be inverse, but simply distinct from what those in other stakeholder relationships where the resource exchange linkage is clearer and/or stronger.

H3: Defensive actions for preserving the good citizenship of firms will not be associated with corporate financial performance.

H4: Defensive actions for mitigating the value chain of firms will not be associated with corporate financial performance.

Finally, it would seem logical to aggregate the firms' strategic behaviors in dealing with business and society as recommended by Porter and Kramer (2006 and 2011) and to test whatever strategic social actions (the integration of social & business needs and the fortification of the social aspect of the business context) are positively related to firm performance while responsiveness social actions (the preservation of good citizenship and the adoption of a mitigating harm) are not. Accordingly, we can hypothesize as follow:

H5: Strategic CSR will be positively associated with corporate financial performance.

H6: Responsive CSR will not be associated with corporate financial performance.

5 – Research Method

5.1 – *Sample and data collection*

Data on CSR were drawn from the Kinder, Lyndenberg, Domini Analytics, Inc. (KLD) Social Ratings database. KLD rates the social, environmental and governance performance of companies on more than 280 data points using a proprietary rating system. The database includes all firms on the Standard and Poor's 500, as well as approximately 150 firms included in the Domini Social Index (DSI) 400. Based on these ratings, KLD annually publishes the list of 100 Best Corporate Citizens, providing evaluations on the performance of these companies in seven areas: environment, community, corporate governance, diversity, employee relations, human rights, and product quality and safety. We used the KLD ratings of the 100 Best Corporate Citizens for a period of three years (2005, 2006, and 2007) because we were specifically interested in a company's longer term strategic approach to CSR and CSR's effect on CP. Since not all companies made the 100 Best Corporate Citizens list in all three years, the selection process yielded a final sample of 188 companies. The data gathered consisted of their performance ratings in terms of CSR initiatives related to the seven areas listed above.

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

KLD has been most commonly operationalized using KLD index, a multifaceted measure which includes community relations, diversity issues, environment, product safety (customers), employee, and governance issues. Most studies using KLD database have addressed CSP with a measure in which strengths and weaknesses (concerns) in the KLD ratings are combined. However, recent work by Mattingly and Berman (2006) has suggested that the effects of strengths and weaknesses in stakeholder relations be separately investigated. It is argued that the relationship between CSP-CP may be better understood by separating social performance into two components, strengths and weaknesses. If results indicate that these two components have opposing relationships to CP then this may provide some explanation about the ambiguous findings noted, at times, in the empirical literature.

5.2 – *Measures*

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

For the market-based measure we selected companies' market value at the end of each of the fiscal years.

A company's market value over time, one could argue, reflects the tangible and intangible gains that may have resulted—and even those likely to result—from sound CSR initiatives over time (Choi & Wang, 2009). Data for the accounting-based and market-based measures were drawn for the period from 2005 through 2007. We used concurrent performance data rather than lagging or leading indicators because results of meta-analytic studies have shown that CSR and CP are as likely to be concurrent as they are to be lagging or leading (Orlitzky, et al., 2003; Mattingly & Berman, 2006).

Control variables. We included size and industry as control variables based on the recommendations and findings of previous researchers (Brammer, Brooks, & Pavelin, 2006; Choi & Wang, 2009). Firm size was measured by the natural logarithm of the number of employees since, as companies grow, they are more likely to adopt CSR initiatives as a result of increased pressures of stakeholders. The average cost of implementing CSR initiatives may also be less for large firms than for smaller ones (McWilliams & Siegel, 2001). Large size also often brings economies of scale or scope (Roberts & Dowling, 2002), although inertia can be more significant in larger firms than in smaller, more nimble ones.

Industry effects may also influence both a company's CSR initiatives and its performance (Hillman & Keim, 2001; Waddock & Graves, 1997). When assessing CSR, researchers need to recognize "business exposure," that is, the degree to which a firm is vulnerable to its environment.

Firms in industries like consumer goods, utilities, and oil and natural gas are under greater scrutiny from a broader range of stakeholders (i.e., they face greater business exposure) and are more likely to engage in certain acts of CSR than are firms in other industries.

This effect was apparent in a recent KPMG report, which found that companies in industrial sectors with relatively high environment impact lead other companies in CSR reporting (KPMG, 2011). Industry can also affect the pressures that companies face from different stakeholder groups. For example, consumer product companies have the largest exposure and pressures from customer groups, while firms in industrial sectors like utilities and oil and gas face greatest pressure from stakeholders concerned about environmental impacts.

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

KLD ratings indicate the presence or absence of strengths and weaknesses regarding a number of attributes in each of the seven areas of CSR (Mattingly & Berman, 2006). A low or negative rating in an area is indicative of the greater presence of weakness or absence of strength, while a high rating means a strong presence of positive activity towards a stakeholder group and absence of weaknesses. Based on the framework used in this study separate measures were created for strengths and weaknesses. We measure CSR weaknesses as equal to the KLD score if below the yearly median, 0 otherwise and CSR strengths = KLD score if above the median, 0 otherwise.

6 – Results

Table 1 provides results for the regression analyses relative to the associations between firms' CP and CSR corporate approaches as measured by strengths and weakness of firms' CSP in each of the seven KLD domains. All of the models are significant, although the relationship is generally stronger in terms of accounting-based measures than market-based measures. Hypotheses 1 and 2 proposed positive relationships between strengths in strategic CSR's components (social aspect of business context and the integration of social & business needs) and CP, and results provide support for both hypothesis but for a non-significant positive coefficient for INTANGIBLES. As for hypothesis 2 and 4, we were not expecting significant associations, while regression results show significant negative coefficients but for CAPITAL EXPENDITURE which is positive and not significant. Further discussion and possible explanations for the findings that did not support the hypothesized relationships are provided in the discussion section. Finally, in table 2, our hypothesis 5 is fully supported in term of positive relationship between strategic CSR and CP, while hypothesis 6 is unverified because we found significant negative relationships between responsive CSR and CP instead of the hypothesized no association.

6.1 – *Robustness Checks*

We subjected our results to retest using robustness and sensitivity tests. First, we ran all regression models using both robust (clustered) variance estimates, which provided similar results. We also performed a Durbin–Wu–Hausman test for simultaneity in the relationship between CSP and CP, as suggested in Davidson and MacKinnon (1993), and found no evidence of simultaneity. Therefore, the estimates provided by the panel-corrected standard error model are consistent. We also performed the Wooldridge test for autocorrelation in panel data and found no serial correlation in the error terms of our models. Next, we tested the sensitivity of our results to the measures employed in our study with results similar to those noted in our multivariate regression analyses when size is measured as the natural logarithm of sales instead of number of employees and when all dependent variables are scaled by either number of employees or total sales or total assets. Results are also similar if we introduce a lag of 1 year between CSP (at year t) and CP (at year t+1) across our panel.

7 – Discussion

The results of this study confirm what several researchers have noted: that firms' level of social commitment toward stakeholder groups differs as they craft their CSR initiatives. Furthermore, because of this different crafting, CSR initiatives differently impact on CP according to their high or low level of integration with the current business model.

More specifically, CSR initiative can be crafted in the form of better integrated and strategic CSR or more general and responsive CSR that ultimately impact on corporate financials in a different way. In particular, strengths in strategic CSR actions, such as the optimization of the social aspect of the business context and the integration of social and business needs proved to pay out in term of better CP (as measured by: EBITDA, COMPANY Market VALUE and CAPITAL EXPENDITURE) but for the level of INTANGIBLE assets. A possible reason being the creation, trough CSP, of intangible assets that are not properly reported in the balance sheets, such as: reputation, trust and loyalty; assets which are better discounted and represented by the company market value rather than the intangible amounts as reported in the balance sheet.

In addition to this positive financial effect of the strategic CSR, the results of this study provide additional mixed evidence that requires appropriate discussion and explanation. In particular, responsive CSR behaviors, such as "good citizenship" and "mitigating harm", showed an unexpected negative impact on CP when companies do report some weaknesses, despite the fact that strengths in environmental domain where included among these CSR attributes. Accordingly, also the responsive CSR proxy (measured as sum of the two last behaviors) negatively associates with the large majority of CP financial measures.

Table 1. Regression model, social performance and financial performance at year t

Predictors and controls	Model 1 EBITDA	Model 2 COM_VALUE	Model 3 CAP_EXP	Model 3 INTANGIBLES
SOCIAL ASPECTS	284,20**	3,931.68*	126.72***	79.90
	[118.14]	[2,122.46]	[37.56]	[158.59]
INTEGRATION	461.77***	5,424.4**	64,28***	709.70***
	[131.21]	[2,519.50]	[24.41]	[249.69]
GOODCITIZENSHIP	-319.22*	-6,219.95**	20.68	-906.53**
	[173.14]	[3,155.99]	[36.67]	[416.51]
MITIGATING HARM	-533.01**	-11,625.27**	15.65	-585.01*
	[235.00]	[5,112.48]	[37.94]	[325.44]
Size	1,542.53***	22,820.46***	276.40***	1,723.23***
	[154.49]	[3,695.61]	[35.55]	[367.55]
Industry dummies	Yes	Yes	Yes	Yes
Wald Chi2	135.35	91.14	110.74	63.36
R	0.52	0.32	0.43	0.26
N	271	282	282	282

Predictors and controls: industry dummies not reported in the table
* significant at 10%; ** significant at 5%; *** significant at 1%, standard error in brackets

Possible explanation is twofold, first when firms expend resources of any kind in a stakeholder domain in excess of marginal benefits, they experience a corresponding decline in CP and this explanation could be consistent considering how costly it is to create strengths in the environmental policies. This later finding is also consistent with the absence of any association between our Responsive CSR proxies and CAPITAL EXPENDITURE. Only cosmetics and superficial CSR can pursue with little long term investments.

Second, KLD dataset focuses on weakness more in term of negative circumstances (i.e. crises, controversies and disputable issues, and major problems dealing with different several stakeholders domains) than in term of defensive actions (i.e. limited or non-representation, minimal union relations, etc.) and it is very likely that companies reporting enough weaknesses to counterbalance their strengths are not only mitigating and underplaying their CSR initiatives, as generally hypothesized in the research design of this study, but they are really experiencing corporate troubles, scandals and negative public opinion that ultimately adversely impact on their financials.

The sample for this study, the 100 best corporate citizens across 3 years, was selected in order to dilute as much as possible this later negative effects (it is rare to see heavily disputed corporations in the best 100 list), and for this reason we hypothesized no association between responsive CSR and CP, but data clearly shows that, on average, when social weaknesses partially counterbalance social strengths, companies show poorer financials comparing with companies accredited with major strengths or, on the opposite, with major weaknesses. The analysis of the weaknesses vectors, in fact, highlights that company at the very bottom of the list, which do little then average in CSR, report better financials that companies having a mix or defensive approach. Accordingly, as long as crisis are avoided “limited or very targeted” CSR seems to be financially better than “some or general” CSR, probably because of the cost savings involved with a limited CSR approach.

8 – Implications and Conclusions

The rationale for this study was based upon the fundamental argument that CSP is a multidimensional construct and that disaggregation of CSP into social performance measures in terms of strengths and weaknesses across several corporate CSR behaviors (namely: building good citizenship, adopting a mitigating harm, reinforcing the social aspect of business context and integrating social and business needs) is necessary in order to understand CSP's relationship with CP.

To analyze the relationship this paper applies an innovative framework (figure 1) which summarizes relevant previous research on stakeholders and CSP classifications.

Table 2. Regression model, CSR approach and financial performance at year t

Predictors and controls	Model 1 EBITDA	Model 2 COM_VALUE	Model 3 CAP_EXP	Model 3 INTANGIBLES
STRATEGIC CSR	415.94***	5,627.83**	93.85***	366.82**
	[115.43]	[2,215.86]	[25.25]	[144.93]
RESPONSIVE CSR	-422.64***	-8,799.16***	19.64	-768.40***
	[134.04]	[2,611.76]	[29.15]	[276.44]
Size	1,614.59	23,854.10	260.42	1,852.46
	[183.38]	[4,140.42]	[32.43]	[376.81]
Industry dummies	Yes	Yes	Yes	Yes
Wald Chi2	123.92***	84.95***	108.32***	59.62***
R	0.52	0.32	0.42	0.26
N	271	282	282	282

Predictors and controls: industry dummies not reported in the table
* significant at 10%; ** significant at 5%; *** significant at 1%, standard error in brackets

Consistently, also the strengths in the environment domain ultimately turned out to pay negative in term of CP, probably because of their relevant long term cost (partially signaled in our data by a positive coefficients of capital expenditure, even if not significant) or because associated by our methodology to other community weakness able to counterbalance the environmental strengths in many of the analyzed corporations.

For managers, the findings of this study suggest that, specific investments made in strategic stakeholder issues (when social expectations and business model are integrated) pay out in form of improved CP, while general and philanthropic investments made in not sensible stakeholder issues and/or very costly social attributes (i.e. the environmental features) on average negatively affect CP and ultimately turned out to be more financially costly then escaping CSR initiatives.

Our research suggests that investing in CSP related to strategic social behaviors (reinforcing the social aspect of business context and integrating social and business needs) results in strengths that complement CP, but we cannot be certain that this relationship always extends to higher intangible assets managed by the company.

We also found an unexpected negative relationship between CSP related to responsive strategic behaviors (building good citizenship and adopting a mitigating harm) and CP, which further stresses the importance for companies and corporate leaders to define an appropriate social agenda in order to avoid milder CSR approaches which ultimately result in certain costs and uncertain benefits. While this point is well addressed by strategic literature (Porter and Kramer, 2006 & 20011), to our knowledge it has not been properly investigated by the empirical literature yet. Our results confirm that good corporate citizenship should not be presented to shareholders as a positive investment, if supported by general social initiatives disconnected from the corporate competitive advantage.

A major limitation of this study lies in the sample chosen for analysis. While limiting the sample to companies that made the list of the 100 best corporate citizens over a three-year period allowed us to examine the issue of strengths and weaknesses across various stakeholder domains in a more targeted way, it also appears to have resulted in including corporate social behaviors that have the potential to confound some of the results. In particular, this sample is not suitable for analyzing companies refusing social initiatives. In addition, the three-year time period for which data was examined in this study may not be adequate, as a longer period may be required before a firm benefits from investments in some social initiatives (Barnett & Salomon, 2012). To this extent, one must be cautious in drawing inferences from these results. Finally, using a database other than KLD to capture positive and negative CSP may be desirable since KLD's measures of performance across stakeholder domains create some limitations in measuring the CSP-CP relationship especially when trying to isolate the effects of responsive CSR. The limitations noted for this study also create opportunities for future research.

Notwithstanding its limitations, this study provides a somewhat novel and more complete insight into the CSP-CP relationship. Its findings also help to clarify some of the inconsistent findings about the CSP-CP relationship that have been noted in extant studies, which have led to an intense debate among scholars and managers concerning whether CSP and CP are positively related, negatively related, or unrelated. We do not suggest that our findings put an end to this long-standing debate, but we hope that it has added one more piece to the puzzle. Further research efforts along these lines can enrich the stakeholder management and CSR literature and provide meaningful and practical guidelines for crafting corporate social initiatives.

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