The Antecedents and Consequences of Corporate Social *Ir*responsibility: Evidence from Large U.S. Corporations, 1991-2009

by

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ABSTRACT

Both academic and practical attention to corporate social responsibility (CSR) has been increasing over the past few decades. Past research on CSR largely focuses on the positive side of corporate social issues management, explaining why and how firms engage in CSR activities and how such engagement influences corporate financial performance. Paying little attention to the negative side of social issues management, this research has generated little understanding as to why firms, even those with a strong record of CSR investment, commit irresponsible activities. In this study, we focus on corporate social irresponsibility (CSiR) and explore the antecedents and consequences of CSiR. From a strategic management perspective, we propose four key antecedents of CSiR, including selective management of stakeholders, technical orientation, past history, and performance pressure. We also propose that CSR moderates the negative effect of CSiR on corporate financial performance. We used an unbalanced dataset of large U.S. corporations from 1991 – 2009 to test our theory, and most of the hypotheses were supported. We discuss the implications of our findings and the contributions of this study to research on organizational misconduct, stakeholder theory and strategic management.

INTRODUCTION

Increased reports on corporate scandals and organizational misconducts have given rise to an important phenomenon: corporate social irresponsibility (CSiR), the reverse side of corporate social responsibility (CSR). Some typical examples of CSiR include deceptive accounting practices, abusing employees and polluting environment, whereas CSR often involves donations, community support and environmental protection initiatives. Despite numerous incidents of CSiR, there has been little understanding about the causes of CSiR. What's more interesting, many firms have been found to engage in responsible and irresponsible activities simultaneously (Strike, Gao & Bansal, 2006). For instance, Nike has been criticized for ignoring sweatshops in its suppliers, while, at the same time, Nike has been actively engaging in philanthropic activities such as donating to hurricane Katrina relief efforts (Connor, 2001). So the questions is: why do firms, even those with a strong record of CSR, choose to commit irresponsible actions?

Prior studies on CSR do include irresponsible behaviors in the measures of CSR, typically by aggregating positive scores and negative scores (e.g. Waddock & Graves, 1997; Hillman & Kim, 2001). Their theories, however, primarily focus on the antecedents and consequences of positive actions such as donations (e.g., Brammer & Millington, 2004). As a result, the potentially distinct dynamics of CSiR have been overlooked. Firms very often engage in good deeds and bad activities for very different reasons, so it is important to uncover the scenes behind the CSiR, especially when the number of corporate scandals keeps increasing.

In the meantime, previous literature on organizational misconduct largely focuses on corporate illegality, particularly in stock market, where the dominant inquiry is the stock market reaction to illegal activities (Daboub, Rasheed, Priem, & Gray, 1995; Frooman, 1999). With a few exceptions, scholars have given little attention to the antecedents of misconduct. For example, Mishina and colleagues (2010) point out the importance of performance aspirations in explaining why financially strong firms commit illegal actions, while Williams et al. propose that top management team tenure might explain the occurrence of illegal activities (Williams, Fadil, & Armstrong, 2005). Greve et al. (2010) propose three broad categories of causes of organizational misconduct, including resource strain, rational choices and inter-organizational network. To our best knowledge, no studies have explicitly focused on CSiR and attempted to understand its antecedents and consequences.

In addition, it would be intuitive to suspect that CSiR negatively influences corporate financial performance while CSR benefits firms financially. After all, CSiR may lead to declined sales, lost access to important resources, increased capital cost, and certainly tarnished reputation (Davidson & Worrell, 1988; Fombrun, 1996; Karpoff & Lott, 1993; Wiesenfeld, Wurthmann, & Hambrick, 2008). Such losses may be particularly severe to prominent firms (e.g., Fombrun, 1996; Rhee & Haunschild, 2006; Wade et al., 2006). However, we would argue that, due to the interaction of CSR and CSiR, the negative effect of CSiR on financial performance would be weakened, partly because CSR can offer an insurance-like cushion to performance shocks (Koh, Qian & Wang, 2014).

In this study, we take the first step to explore the antecedents and financial consequence of CSiR. From a strategic management perspective, we propose four antecedents of CSiR, including selective management of stakeholders, technical orientation, past history of CSiR, as well as performance pressure. We then argue that CSR moderates the relationship between CSiR and financial performance. We contribute to the research on misconduct and CSR by identifying the antecedents of CSiR and demonstrating the distinction between CSiR and CSR.

LITERATURE REVIEW

Research around CSR

The modern era of CSR dates back from Bowen's publication "Social Responsibilities of Businessman" (Bowen, 1953). Ever since Bowen recommended to "pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953, p.6), CSR research has grown fast and has been reviewed in different levels (e.g., Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003). Formal research on CSR has been well developed in the past 60 years. It is necessary to comprehend CSR evolution to better understand its impact on organization behaviors.

In the 1950s, discussion on CSR mainly focused on basic labor rights, but environmental issues gradually became an increasingly important issue as the negative impacts of the production became more difficult to ignore. There was little research link CSR with business benefits since at this time the researches mainly focus on businesses being

responsible of society (Carroll & Shabana, 2010). Most of CSR activities were philanthropy (Carroll, 2008).

The research topic of CSR expanded significantly during the 1960s. It expanded to discuss why social responsibility is important to both the business and society (Carroll & Shabana, 2010). Move towards the end of the 1960s, social responsibility activities might be categorized as philanthropy, customer relations, employee improvements and stockholder relations (Heald, 1970). In this time, numerous pieces of legislation carried out to regulate businesses' conduct and protected consumers' right and employees' rights. For instance, American governments carried out the Textile Fiber Products Identification Act in 1958, the Equal Pay Act in 1963 to protect employee rights and enacted the National Traffic and Motor Safety Act in 1966 to protect consumer rights (Lee, 2008). In these two decades, CSR research was carried out at a macro-social level (Lee, 2008). Some research faintly studied the relationship between CSR and corporation financial performance.

In 1970s, many academics begun to examined this relationship. In the 1970s, many authors focused on define what CSR is and how to effectively integrate CSR into corporation strategy while did not conflict with the vital interests of business. Researchers also started to analyze internal factors influence organizations decision making process and implementation mechanisms (e.g., Ackerman, 1973).

In the 1980s, more and more corporations became responsible for society and their stakeholders groups. Meantime, beyond developing new definitions of CSR, there was a splintering of writings of alternative or complementary concepts and topics. Researchers

started to analyze relative research fields such as corporate code of conduct, corporate social performance, corporate citizenship, related public policy, corporate ethics and stakeholder management (Waddock, 2004, developed a list of CSR related concepts and analyzed them).

During the 1990s, the idea of CSR became almost universally recognized and promoted at various levels. From governments and corporations to consumers and non-governmental organizations, all organizations in society recognize the importance of CSR. Meanwhile, international organizations (e.g. The United Nations, the World Bank, the Organization for Economic Co-operation and Development, the International Labor Organization) also build guidelines to international corporations to support CSR movements (Waddock, 2008). In the mid-1990s, the global communications capabilities of the internet and related technologies improved the power of institutions to create new pressures on companies to foster greater CSR. In the 1990s, more than half of corporations' assets were already found not in tangible but rather in intangible assets such as brand recognition, goodwill, patents, and human capital (Waddock, 2008), which highlight the importance of CSR. At that time, researchers started to discuss related CSR topics from a strategic height and discussed its relationship with market outcomes (Orlitzky et al., 2003; Porter & Kramer, 2006).

Because of institutional changes, CSR became an essential strategic resource for corporations to gain institutional legitimacy in the 2000s. Be brief, to the point, corporations have to incorporate social responsibilities as well as legal responsibilities into their business. The essence of CSR in the 2000s is ''doing good to do well'', although this assumption is valid only under the condition that related organizations support and large enough market

(Carroll & Shabana, 2010). Since not all CSR activities bring equal potential profitability to corporations or have same market demand, corporations make selective invest certain social issues that are less costly and potentially profitable while ignore other more costly social issues. These social issues ignored by corporations may well be much more urgent issues that require continuing investment and continuous concern.

In 2000s, scholars further observed that firms not only doing responsible activities but also doing irresponsible activities, and they may do responsible and irresponsible activities simultaneously in recent studies (Fombrun, Gardberg, & Barnett, 2000; Mishina et al., 2010). Recently, researchers have begun to answer why "good" firms may conduct irresponsible activities (Johnson, Ryan, & Tian, 2009) and tried to explain why firms may engage in irresponsible behaviors during "good times" (Povel, Singh, & Winton, 2007). Given the simultaneous occurrence of CSR and CSiR, instead of simply collapse the two into one dimension, researchers started to consider CSiR distinct from CSR and behaved in different dynamics (Godfrey, Merrill, & Hansen, 2009; Mattingly & Berman, 2006). Due to fail to disaggregate CSR from CSiR, previous research failed to explain the inconclusive findings on the relationship between social responsibility and corporate financial performance (Strike *et al*., 2006).

In summary, in the past 60 years, the focus of CSR research has evolved along two dimensions. In accordance with the level of analysis, CSR research has shifted from a social level discussion to an organizational-level analysis of CSR and has further discussed CSR effect on organizational strategies and financial performance. In accordance with the

theoretical development, CSR field has transferred from explicitly formal and moral-oriented debates to implicitly formal and performance-oriented strategy management researches (Lee, 2008). Up to 2000s, CSR research topics have moved from understanding “why” to engage in CSR and “what” is the CSR) to “how” best to integrate CSR activities into business strategies and decision making processes that effectively implement CSR decisions into organizations (Gardberg & Fombrun, 2006; Mirvis & Googins, 2006).

CSR is often described as any voluntarily organization action attempted to improve social and environmental welfare that exceeds the organization’s economic goals and goes beyond the legal requirements (McWilliams & Siegel, 2001). For instance, a corporation donates money to charities, benefits the community by building a theatre complex, develops new technology to reduce pollution in river systems, treats employees decently by providing childcare facilities, supports its suppliers by providing training to suppliers or sharing technologies, complies with the law, and generally maintains moral integrity are all CSR activities (McWilliams & Siegel, 2001).

An organization approach social issues in responsible way is better suited to the stakeholder business model. According to the stakeholder business model (Freeman, 1984), organization should not only focuses on profit maximization but also should meet the expectation of the organization’s various stakeholders. Drucker (1984) is one of the first suggest that a company’s profitability and social responsibility are compatible and should also ensure its social responsibilities become business opportunities. CSR activities can empower a firm to differentiate its products from competitors in the consumer marketing

(McWilliams & Siegel, 2001), can enable a corporation to avoid potential government-imposed fines (Freedman & Stagliano, 1991), can avoid consumers' social concerns, and can form halo effect to protect a firm from risks (Godfrey, 2005)**.** This argument is also get support from the long stream of CSR empirical research that corporations engage in CSR can get benefit from social responsible actions than those firms not (Baron, 2001; McWilliams & Siegel, 2001; McWilliams, Siegel, & Wright, 2006).

First, firms engage in CSR programs can lower the cost of conflicts with social stakeholders. When firms have conflicts with other groups, competitors will have an opportunity to seize market share and depress earnings and stock prices. In addition, society generally and many firms particularly believe that corporations have moral responsible to engage in social issues to give back to society; whether or not these actions make profit (Porter & Kramer, 2006). Corporations are under increasing pressure to truly integrate social responsibility into business strategies, in a way due to growing legal standards for social responsibility, in a way due to the growing of independent evaluation organizations, and in a way due to the increasing scandals in real world.

Second, corporation creates business value by integrate CSR activities into business strategy (Porter & Kramer, 2006). Above all, CSR behaviors have been shown to gain the customers' support and increase their buying willingness (Dacin & Brown, 1997; Sen & Bhattacharya, 2001); prevent consumer boycotts (Micheletti, 2003). In addition, CSR activities create an imagination of ethical superior quality of the corporation products (McWilliams & Siegel, 2001; Siegel & Vitaliano, 2007). Based on this view, a firm can

embody its CSR attributes in its products design or use CSR-related resources in making products (McWilliams & Siegel, 2001). For instance, a business may build new environmental friendly production lines to reduce wastewater discharge (Konar & Cohen, 2001; Porter & van der Linde, 1995) thus increasing overall productive efficiency (Klassen & Whybark, 1999; King & Lenox, 2002). Thereby, the corporation can successfully differentiate its products from competitors (Porter & van der Linde, 1995; Fombrun et al., 2000).

Third, social responsible activities help a firm effectively build strategic resources. Through CSR actions, a firm builds strong stakeholder relationships and earns a good CSR reputation. According to Ashforth and Mael research, people classify themselves into several social categories based on their perceptions of themselves and other ones (Ashforth & Mael, 1989). Therefore, a firm constantly engage in social issues will attract stakeholders who consider themselves as social responsible people (Turban & Greening, 1997) and builds tight relationship with them. Through constant CSR behaviors, a firm signals to the stakeholders that it is a social responsible citizen, resulting in a good reputation (Fombrun & Shanley, 1990). A good CSR reputation will enable a firm to gain and to maintain legitimacy (Bansal & Roth, 2000). The business can also charges higher prices for its products and services (Klassen & McLaughlin, 1996), attracts talented employees (Fombrun & Shanley, 1990; Turban & Greening, 1997), and improves employee morale loyalty to the company (Turban & Greening, 1997)

Fourth, a firm can turn a good CSR standard into a competitive advantage. Previous research found that altruistic investors or banks are more likely to provide capital support to firms with good CSR standards (Vogel, 2005; Mackey, Mackey, & Barney, 2007). In the last ten years, assets managed by socially responsible investors grew rapidly.

Fifth, CSR activities protect corporate against potential dangers (Godfrey, 2005; Godfrey et al., 2009). For firms that generally operate beyond legal requirements, their CSR actions also lower additional costs subjected to abide by stricter industry code of conducts or legal requirements (Hart, 1995). In addition, CSR actions also help firms avoid potential shocks from unexpected scandals (Bansal & Roth, 2000). Once a social responsible corporation is exposed of doing irresponsible behaviors, the moral capital it saved through past social responsible activities will soft the blow from negative sanctions and lower value loss (Godfrey, 2005). In addition, corporations could use CSR to avoid taxes and even to influence regulations which in turn increase their competitors' costs (McWilliams, Van Fleet, & Cory, 2002).

Research around CSiR

Though more and more firms now broadly recognize the strategic importance of CSR, examples of corporate scandals continue (e.g., Enron, Worldcom, and Conrad Black). CSR reports may not reveals the real essence of CSR engagement and hide the corrupted inside behind a glossy facade (Sims & Brinkmann, 2003; Laufer, 2003). Rochin and Googin (2005, p.2) further mentioned that more and more corporations are at risk for what they say in public and what they do in real world. "What they say" may be showed as CSR and "what they do"

may be equated with CSiR. The gap might equate with the difference between management rhetoric and reality.

Previous approach fails to recognize that CSiR activities are independent to CSR activities. However, it is important to realize that the fact that that some corporations may get high CSR score by using traditional CSR standards but engage in a lot of CSiR activities. For instance, a firm may donate 1 million dollars to disasters but systematically pollute the environment, manipulate financial information, or force people work excessive hours in the workplace. Furthermore, though this prior research provides a thorough examination of categories of corporate misconduct, and the motivating influences of such behaviors, it rarely addresses the repetition of the various types of misconduct and the influence of corporate social responsible behaviors. All in all, previous literature leaves a blind spot that requires research attention and this paper tries to fill the gap.

Previous research suggested that CSiR business approach is better sit on shareholder business model. The shareholder business model suggest that companies should focus on maximize the wealth of their firm's shareholders and don't care about social and environment issues (Friedman, 1962). If for a corporations profit is the sole purpose and should be achieved at any cost, a corporation will do at any costs to achieve its objective—even engage in irresponsible actions if it believes doing so can help it reach the goal. Indeed, several economy theories, such as Williamson's (1985: Chapter 2) classic transaction cost theory, analyze the firms put in the context that people, and by extension to the corporations

managed by these people, tend to behave in opportunistically ways. Therefore, under this assumption, both the people and firms they run are not fully trustworthy.

Given the incentives for fear of losing the public support and want maximizing profit, not to mention acting in opportunistically ways, CSiR has been broadly considered as organization pursuit any kind of actions considered irresponsible from both ethical and legal perspective. Researchers have responded by examining different types of organizational conducts that considered improper, including manipulating financial information, deceiving customers environmental degradation and pollution (e.g., McKendall & Wagner, 1997), swindling investors, brutalizing employees, producing dangerous goods (e.g., Szwajkowki, 1985), faking sales practices, working with suppliers on unfair basis, violating of government labor regulations (e.g., Hill, Kelley, Agle, Hitt, & Hoskisson, 1992), and cheating the government and more (Vogel, 1992).

Previous literature on CSiR argues that a combination of pressure and opportunity drives the irresponsible behaviors (Baucus, 1994; Szwajkowski, 1985; Cochran & Nigh, 1987). Internal or external pressure and opportunity all can drive firms to irresponsible activities. Szwajkowski (1985) proposes three key explanatory variables as predictors for corporate misconduct: pressure from external environment; corporate, industrial, or legal structure; and inner decision making processes. McKendall and Wagner (1997) further categorized the influential factors into three groups: motive, opportunity, and choice. Later, by listing three pressure-related and two opportunity-related antecedents, MacLean (2008) extended the existing pressure-opportunity model of CSiR. MacLean also specified

organizational culture as a mediator in corporate misconduct. The main five pressures and opportunity antecedents are the resource scarce, environmental diversity, organization financial performance, organization size and structure, and industry structure.

A large number of comparative political economy researches discuss that, under competitive environments, corporate runs under separate ownership and is controlled by direct producers, consumers, and others are structural incentive to create all sorts of irresponsible activities to harm others to benefit themselves. Instead of contribute to collective or public welfares, a number of firms more prefer free rides and ruin social welfare (e.g., cheating on product quality, dumping toxic waste into rivers). Only when institutions in place to deter such irresponsible behaviors, these firms will not stop pursuit any short term profits (e.g., Crouch & Streeck, 1997). But such irresponsible activities not only damage society but also firms from several dimensions.

First, companies that operate in CSiR manners can have disastrous social and environment consequences. For instance, in 2008, the world's economic system almost collapsed and severely downturn due to irresponsible American banking practices. Likewise, firms have also caused great environment destruction. According to the satellite images, the BP oil spoil in 2010 directly polluted 180,000 km^2 of ocean area which as big as Oklahoma (Norse & Amos, 2010).

Second, companies' CSiR acts will cause serious consequence to employees. For employees, previous research showed that the perceived CSiR of the corporation will not only affect employee well-being (e.g., work satisfaction, health condition, working emotion)

but also influence organization's relevant outcomes, such as employee productivity and turnover rate. Research implies that a firm's social responsible standards also impact employees' perceptions of the firm (Ramus & Steger, 2000). For responsible corporations, employees' are more willing to take part in, dedicate themselves to, and start to make social change positively. For instance, an offensive or abusive leader will impede employees from engaging in organizational activities and may even push them to engage in anti-organizational activities (e.g., Giacalone & Rosenfeld, 1987; Tepper, 2000). Further, Ashforth proposed that unethical working environment would increase employees' complain, reduce productivity, resist and quit, and eventually lead to organizational failure (Ashforth, 1994).

Third, CSiR affect consumers' motivations of buying products. First of all, through media, consumers are more exposed and attracted to CSiR news than CSR news (Branch & Tkacik, 2003). Consumers will have negative emotions about socially and environmentally irresponsible corporations and further affect their buying motivations. In addition, consumers are more likely to share CSiR news with each other than CSR information (Harmon & McKenna-Harmon, 1994). Such sharing information behavior tends to decrease other consumers' buying motivations as well.

Fourth, CSiR activities also damage corporate reputations. Some researchers further argue that CSiR actions significantly impact an organization's reputation if CSiR actions are directly related to the corporation's business areas. For instance, research shows firms that have higher product quality reputations will significantly damage their reputation if find out

have quality problems (Barber & Darrough, 1996; Rhee & Haunschild, 2006). Other researchers further test how irresponsible behaviors can reducing the organization's general reputation through a scope of socially expected outcomes such as quality, efficiency, or ethical.

Fifth, corporations engage in CSiR activities get punished by law and external stakeholders. External stakeholders punish a corporation's irresponsible action by selling the corporation's stock which lead to stock price drop. For instance, BP was convicted to 11 counts of negligence, two minor crimes, and one heavy offense in 2010 oil spoil. In addition, the stock market rolled away BP $32 billion which is far exceed analyst's estimation of $3 to $12 billion.

In addition, CSiR increase costs of banking loans. After analyzed the relationship between CSR and the cost of bank loans, Goss and Roberts (2007) found that corporations with the low CSR scores have to pay higher to get loan while corporations with high CSR scores do not pay less to get fund.

Unlike CSR positive effects, CSiR activities have disastrous consequences, such as undermine economic returns by adding costs and lower stock price, damage corporation reputation and adding financial loans cost. In the meantime, some research suggests that a firm's CSiR not only harms the corporation's financial performance (e.g., Baucus & Baucus, 1997) but also punish by legal and stock market (Bromiley & Marcus, 1989). All these internal and external factors can sufficiently stop irresponsible actions.

Previous approach fails to recognize that CSiR activities are dependently exist in companies and will not easily disappear when CSR activities carry on. Given the fact that some corporations may gain high CSR score by using traditional standards but systemically engage in CSiR activities, it is not only theoretical but also practical important. For instance, a firm may help communities building a library and donate large amount of money to charities but prepensely pollute the environment, manipulate financial information, or hire child labor. Furthermore, though this prior research provides a thorough examination of categories of corporate misconduct, and the motivating influences of such behaviors, it rarely addresses the repetition of the various types of misconduct and the influence of corporate social responsibility behaviors. Therefore, this paper tries to fill the blind spot left in previous literature that requires attention.

CONCEPTUAL DEVELOPMENT

In this study, we define CSR as "the set of corporate actions that positively affects an identifiable social stakeholder's interests and does not violate the legitimate claims of another identifiable social stakeholder", and define CSiR as "the set of corporate actions that negatively affects an identifiable social stakeholder's legitimate claims" (Strike et al., 2006, p. 852). We chose these definitions because they are most consistent with our theory and data.

There have been different conceptions about CSR. According to Barnea and Rubin's research, if the primary goal of CSR activities is not to maximize corporation's value, such activities waste valuable resources and potentially damage the corporation's value (Barnea & Rubin, 2010). Based on shareholder theory, Friedman (1970) proposed that CSR is to conduct

the organization according to shareholders' desires while following to the basic rules of society. Friedman assumes that the government takes in charge of distributional issues and protects property rights. Under this assumption, Friedman proposed that managers don't need to do CSR and should do what is the best for shareholders to maximize profit which is also the best for society. Under this assumption, any corporation's policies that tend to benefit outside interest groups and shareholders should not define as CSR but simply profit maximization. On the contrary, policies that tend to benefit only outside groups but not to shareholders will violate shareholders' rights. In addition, these policies are also not efficient for society in long run.

In contrast, based on stakeholder theory, Carroll proposed the following four-part definition of corporate social responsibility "...encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979, p.500). For corporations, Carroll argues that they should not only care about shareholders but also embrace the whole stakeholder groups. Meanwhile, OECD raises government's role in promoting CSR development and comments that government should encourage multinational enterprises to minimize operational difficulties across various countries and make positive contributions to economics, environment, and society. In addition, *The Economist* conducted a survey on CSR and synthesized the CSR concept as "the art of doing well by doing good" (*The Economist,* 2005).

HYPOTHESES DEVELOPMENT

We develop hypotheses on the antecedents of CSiR from a strategic management perspective. From the literature we identify three contrasting approaches of social issues management, including selective vs. balanced management, technically vs. value oriented management, and reactive vs. proactive management. We maintain that current business communities are largely selective, which means they choose some issues to invest in and ignore less important stakeholders. We also argue that the firms are largely technically oriented - pursuing financial success and downplaying ethics, and reactive – only tacking actions when they feel some threat. These overarching beliefs bring forward our hypotheses on the antecedents, H1-H4. We then explore how CSiR and CSR interact as they relate to corporate financial performance, which allows us to develop H5. Please see the Conceptual Model (Figure 1) for a map of the hypotheses.

Selective vs. Balanced Management of Social Issues

Selective management refers to the approach to stakeholders by which some issues are attended while others are ignored because the associated stakeholders are less powerful or influential. Firms choose some stakeholders to please because these stakeholders are important to their operations. In contrast, a firm taking a balanced management approach often attend to all stakeholders simultaneously or to similar degree. For the purpose of this study, selective management means that the firms engage in CSR or CSiR to different degrees across different stakeholder groups such as employees and customers. The greater the variance in CSR/CSiR a firm presents across stakeholder groups, the more selective the firm is. This means that more selective firms do not necessarily have lower or higher CSR or CSiR

scores than firms with balanced management. The key is the variance rather than the level of commitment to CSR and CSiR.

When firms are selective, they implicitly apply a strategic approach to social issues management. This means that they do not fully embrace ethics in their operations; decisions are often driven by profits rather than by justice and ethics. Such a philosophy is a hotbed to irresponsible behaviors. These firms play with stakeholders rather than truly attend to stakeholder interests in a balanced way. Although selective management risks losing some stakeholder support (Wang & Choi, 2013), the firms might find it beneficial to do so because the costs outweigh potential loss. This approach might be especially attractive to firms with scarce resources or face financial difficulty, in which case some strategy of prioritizing has to be implemented. There is a possibility that firms apply selective management not because they do not care about stakeholders but because they only have so much resource to invest in a few social issues and have to take steps to cover other issues. In this case, firms may not be motivated to commit any wrongdoings. However, we argue that even these firms may not choose to harm some stakeholders intentionally to gain profits, they may restrain from taking due actions to protect those less advantaged stakeholders; the latter case can still result in increased CSiR.

On the other hand, we argue that balanced management decreases CSiR. A balance engagement will build stakeholder confidence in the corporation's CSR commitment. The relationship between stakeholders and the firm is strong and hard to replicate by competitors. For example, balance management can improve employee commitment (Carmeli, Gilat, &

Waldman, 2007). Employees in high balance management organizations will exhibit more positive behaviors and innovation ability (Lee, 2008; Delery & Doty, 1996). With these improved ties with stakeholders and experienced benefits, firms that are balanced in managing stakeholders will be less likely to engage in CSiR. Based on these arguments, we propose that:

H1: The more selective a firm is in managing social issues, the more CSiR activities the firm will commit.

A Technically- vs. Value-oriented Management of Social Issues

Previous research on corporate social irresponsibility argue that an organization's culture can influence it's motivation for and engagement in CSiR (Clinard & Yeager, 1980; Ermann & Lundman, 1982; Victor & Cullen, 1988; Waters & Bird, 1987). According to research in 2009, corporations with the weakest ethical cultures experienced five times CSiR than corporations with strong ethical cultures.

Based on culture, we divide organizations into two groups: technically-oriented management organizations and value-oriented management. Technically-oriented firms care more about the achievement and weigh ends more than means, thus having an tendency to ignore ethics as they reach goals. These firms normally promote risk-taking, rule-breaking and a culture of intelligence, often with a high level of R&D spending. These firms also focus on product and service differentiation rather than cost leadership. Conversely, a value-oriented firm focuses more on ethical culture and treats its employees as an integral

part of the firm. At the same time, employees have strong responsibility of both the firm's short and long-run and care about the corporation's failure and success.

In this paper, we propose technically-oriented culture as an important antecedent of CSiR for following reasons. First, in regard to membership, a technically-oriented corporation mainly focus on technical efficiency promotes CSiR actions. In a technical-oriented firm, employees are expected to follow rules, obey orders, and comply with advisors, even if disagree or conflict with their own behavior standard. Sometimes, employees' ethical standards will conflict with technical oriented corporations' standards. For example, in Stanley Milgram's classic study, participants were asked to execute electric shocks to a person (Milgram, 1963). In this study, research found that 66 percent of the participants continued to do electric shocks regardless of the person pleading for help (Johnson, 2007). A technically- oriented management culture is more like military culture which punishes members who disobey orders. In such firms, members don't have the power to make changes. As well, it is difficult to express dissent within the organization because it does encourage employees to express their disagreement. Even worse, corporations often create major barriers to discourage employees from expressing their discontent. Furthermore, according to conservation of resources theory, ethical conflicts in workplace give rise to frustration and emotionally exhausted if employees feel isolated from corporation and keep on working at the corporation that conflict with their own ethical standards is a waste of time (Hobfoll & Freedy, 1993).

Meanwhile, a technically-oriented culture also impedes transparency. In Bennis and

Shepard' study, the culture of honest is one of the most important criterion in evaluating a corporation is social responsible or irresponsible (Bennis & Shepard, 2008). A technically-oriented firm tends to ignore reports of irresponsible behaviors or public whistleblower identifications. All these behaviors could impede transparency. In contrast, in a value-oriented firm, members are free to access information and work in a more transparent organization. A value-oriented firm is known for encouraging whistleblowers. Managers who defend employees will also praising by the firm. Thus, a value-oriented firm constructs a transparency culture.

In addition, a technically-oriented culture focuses on achieving ends. Consequently, a lack of concern about moral character facilitates CSiR. Because firms often encourage rule-breaking and pay less attention to ethic issues, members' responsible behavior is unimportant or unappreciated. Members in these firms often face the challenge of cynicism and lack of responsibility. For instance, Kulik (2005) contended that Enron's culture placed supreme importance on personal achievement and corporation's financial gain and paid less attention to how people get there. Sims and Brinkmann (2003) further argued that Enron's culture cares more about smart and intelligence and encouraged rule-breaking behaviors. Even more explicitly, Enron's culture tolerance irresponsible actions as long as such behaviors bring profits.

In technical-oriented firms, members are more like followers who neither control nor share responsibility of an organization's success and failure. This situation can result in a culture that nobody cares about the destiny of the organization and fell no responsible for it.

Employees form a logical that if they have no power to change corporation, they should also absolved of any blame for unethical environments. Such cynical attitude ruins trust, blocks people's communication and further lowers commitment to the corporation. Obviously, technical-oriented corporation is a hotbed of irresponsible behaviors.

Furthermore, through previous irresponsible behaviors, technical-oriented culture will impede responsible behaviors. Vaughan's study describe the situation likes to put a frog into a warm water (Vaughan, 1996). If slowly cooked the water, the frog will stay in the water and eventually be boiled to death. However, if throw the frog directly into a hot boiled water, it will instantly jump out of the water and save its life (Vaughan, 1996). For example, NASA acted in such a manner that slowed increased the irresponsible actions which ended in a disastrous event. In a technical-oriented firm, it fosters competition, cares about achieving goals, tolerances irresponsible actions. Under such strong goal-achievement culture, employees will get used to break rules and firms will have catastrophic consequences.

Moreover, the challenge of achieving extraordinary performance in technically-oriented cultures is another enabler of CSiR. For example, Enron applied a mandatory ranking system to evaluate employees' performance, creating substantial pressure on employees to exceed their workmates (Sims & Brinkmann, 2003). Corporations overemphasize goal achievement may generate enormous pressure on employees that impelled employees to adopt irresponsible actions of achieving goals.

Besides, members of different-culture organizations are highly attached to their own culture and form the dreaded phenomenon of "groupthink". In a technically-oriented firm, the

culture consists of achieving goals and breaking rules implemented by a group of like-minded people will impede whistleblowers and drive them out of their social group through degradation, shift or fire (Goleman, 1985). In a technically-oriented firm, we hypothesis that:

H2: The more a firm's culture is technically oriented, the more CSiR the firm will commit.

We also argue that subsequent misconduct relate to previous events, as an unethical value may have been built into the firms through previous misconducts. Compared with those companies without misconduct engagement, companies that engage in social irresponsible behaviors tend to repeat similar behavior (Hartogh, 2005). Particularly, a company that believes it successfully achieved its goals through unethical conduct will tend to repeat the behavior (Baucus, 1994; Vaughan, 1983). Daboub pointed out that "the very fact that an organization has engaged in an illegal behavior predisposes it for further illegalities" (Daboub et al., 1995, p.161). Geriesh (2003) argued that corporations start with minor illegal activities more likely to repeat these activities and eventually moved on to large-scale scandals.

The persistent misconduct may even "develop an aberrant corporate culture that contributes to unanticipated negative outcomes by condones or encourages illegal behavior" (Baucus & Baucus, 1997, p.133). Previous irresponsible activities develop an unethical culture that tolerance misconduct and accepted by existing corporation members. Furthermore, such culture affects individual's perception. People try to find excuse of irresponsible behaviors and make sense of it. They will finally see their own action is acceptable and right even when the behavior is objectively wrong (Zucker, 1977; Vaughan,

1996). Thus, we can expect a positive relationship between previous irresponsible actions and future irresponsible actions.

H3: Previous CSiR of a company is positively correlated with future CSiR.

Reactive vs. Proactive Management of Social Issues

We argue that firms facing strong performance pressure will tend to respond the pressure and protect reputation through irresponsible behaviors.

First, according to strain theory, firms may resort to irresponsible ways when they find few perceived legitimate solutions to achieve their goals (Merton, 1938). When firms are not performing well, they have incentive to do irresponsible behaviors if they believe doing so will help them turn to profit and survive. Other research further argues that individuals in one organization may be motivated to engage in misconduct when the organization is under pressure.

Second, the pressure from analysts and financial markets also drive firms to perform in irresponsible ways. For analysts and financial markets, they normally don't like any unexpected negative information (Rozin & Royzman, 2001) and tend to overreact (e.g., DeBondt & Thaler, 1985). If any data indicate that a corporation may not meet stakeholders' expectations, stakeholders often overreact to negative information and result in a rapid decline in the stock price (Beneish, 1999). Despite strong financial performance, Google Inc.'s stock price rapidly dropped 16 percent on the day after it reported its earnings for the fourth quarter of 2005, wiping more than 20 billion dollars from its stock market value, due to lower Wall Street expectations (Richard Waters in S. F., 2006). The most important reason

for over-reaction is because corporation does not meet market expectation (Martin, 2007). For firms with high performance, they also face pressure to maintain their current position or improve their position in the industry. Inability to maintain current position or improve its position in the industry can be detrimental to any firm. Under high performance pressure, corporations are more likely to engage in risk-taking activities. Most of the time, risk-taking activities include irresponsible actions. So we hypothesis that:

H4: The higher the performance pressure a firm faces, the more CSiR the firm will commit.

The Financial Consequence of Corporate Social Irresponsibility

There have been a lot of CSR studies examining the relationship between a firm's financial performance and its CSR activities. However, the results show huge differences that some researches show positive relationship, some are negative, and some show little relationship between the CSR and CFP (Elfenbein, 2007). Meanwhile, CSR becomes more and more important to firms. Indeed, according to a report conducted by the Economist magazine, it shows that over half of directors deem CSR as "important" or "very important". Compare with three years ago, it was roughly 34% and increased a lot in past three years. Furthermore, the report also shows that almost ninety percent of corporations now have a CSR program. Following this line, many schools now include CSR course into their MBA programs.

We posit that the CSR is first function as an insurance mechanism that protects the firm's value. Corporations investing in CSR activities can help them build social capital

reputations that soften the potentially business shocks. Previous researchers point out that corporations with irresponsible reputation are more likely to engage in CSR activities to rebuild their reputations (Brammer & Millington, 2005). Corporations engage in CSR to compensate prior CSiR activities (Kotchen & Moon, 2008). In addition, Knight and Pretty observed that different firms will affected by CSiR to different degree (Knight & Pretty, 1999). During negative events, some corporations lost more while some lose less (Knight & Pretty, 1999). Recent research points out that this difference is partly because of CSR history. Corporations engage in CSR create reputation capital. Reputation capital is more like putting money into bank account and taking out money in to offset potential damage during crises (Godfrey, 2005).When a corporation in risks, previous strong CSR reputations protects corporate value and faces fewer deadweight costs (Godfrey et al., 2009).

For stakeholders, they deem a firm's irresponsible action based on its history (Barnett, 2007). People have a tendency to interpret information that confirms their prior beliefs (Einhorn & Hogarth, 1986). In CSiR context, due to sticky initial imagination and reluctant to revise their initial perceptions, a stakeholder's assessment of CSiR depends upon previous impression. For a firm with a good CSR reputation, it builds strong relationships with key stakeholders. If theses stakeholders believe the corporation engaging in crisis is simply bad luck rather than intend to behave bad, stakeholders will give the corporation a second thought. On the contrary, a poor CSR reputation may not obtain the same benefits because its stakeholders don't trust the corporation. For a firm with more socially favorable history, CSR functions as a sort of insurance and get more protection from stakeholder punishment

(Godfrey et al., 2009).

Specifically, firms may expect previous CSR reputation can help corporation access to the critical materials in post-scandal recovery procedures (Wang, Choi, & Li, 2008). In addition, when firms invest in CSR indicate their ethical standard, investors and regulators will trust a corporation after a negative event.

Thus, if scandals result in losses in corporation value, corporation might expect previous CSR will pay them back an improved post-scandal outlook. Corporations engage in CSR actions are not primary wishing to increase their value but rather to protect their value through crisis. We hypothesis that:

H5: CSR moderates the relationship between CSiR and corporate financial performance, such that the higher the CSR, the weaker the negative effect of CSiR on financial performance.

METHODS

Data and Sample

In this research, we use two databases: one is the KLD data, which provides information on the CSR and CSiR of large U.S. corporations, and the other is COMPUSTAT, which provides financial data of U.S. corporations.

The KLD data are considered as one of the best available sources of CSR measures, despite their limitations (Waddock, 2003; Hillman & Keim, 2001). Furthermore, the KLD data shows high consistence with other commonly used measures of CSR. Meanwhile, KLD are widely accepted by practitioners and academics. In addition, KLD data is also the most

frequently cited source of CSR within the CSR literature and makes big contribution to CSR-related studies (Margolis, Elfenbein & Walsh, 2011).

The KLD data have evaluated the CSR of U.S. publicly listed corporations since 1991, with varying numbers of firms each year. From 1991 to 2003, KLD provides CSR data with a collection of roughly 650 companies. Since 2001, KLD expended its coverage a few times to include over 3000 publicly traded firms in 2009. Appendix B provides a summary of the companies included in KLD data set across years and approximating numbers.

The KLD data we obtained span 19 years from 1991 to 2009, and we obtained matching corporate financial performance information and other explanatory and control variables from COMPUSTAT. After deleting missing observations from the COMPUSTAT series, the complete data set included 4669 firms and contained 28130 firm-year observations. On average, each firm appeared in the data for 6.02 years.

Dependent Variables

Corporate Financial Performance. Corporate financial performance in this study was measured as return on assets – ROA. ROA was measured as earnings divided by total assets and it captures short-term corporation financial performance. We choose ROA to measure financial performance for two reasons. First, many prior studies on CSR have used this measure (Berman et al., 1999), so continuing to use this measure will allow comparability and consistency across relevant studies. Second, we did not include a stock market performance measure such as tobin's q because stock price can react to a variety of factors, introducing a lot of noise. As well, it is easier to interpret the results to have a single financial measure, especially when our primary interest is whether CSiR influences the profitability.

CSR and CSiR. KLD measures firms CSR actions from thirteen social issue areas, including employee relations, product quality, natural environment, diversity, community relations, corporate governance, human rights, alcohol, tobacco, gambling, firearms, nuclear

power, and military contracting. Within each of the first seven areas, KLD rates corporations CSR actions on both social responsibility (KLD calls this a strength) and social irresponsibility (KLD calls this a concern). For the last six controversial business issues such as gambling, KLD only contain concern indicators. In this study, we only used first seven categories to measure CSR and CSiR because arguably the six exclusionary screens are industry-biased. More importantly, they only have strength items, and do not have concern items that we will need to measure CSiR.

KLD's rates a company's activities in a binary way. For each strength or concern rating item, KLD rates a company "1" if it meets the stated criterion and "0" otherwise. This means that a firm can score very differently across categories and across items within a particular category such as employee relations. We have provided a summary of major items in Appendix A.

To construct variables for overall CSR and CSiR, we sum the strengths scores and the concerns scores respectively across the seven social issue areas for each company in research sample. In the KLD ratings, different dimensions have different numbers of evaluation criteria. For example, in the community dimension, KLD evaluates a firm's strengths from seven aspects while assess the concerns from four aspects. For the product dimension, KLD evaluates a firm's strengths and concerns from same four aspects. In order to accommodate these differences and make the scores comparable across dimensions, we use the total raw scores of each year divided by the maximum number of items in that year. This results in scores that are all relative to the respective year's maximum value.

Independent variables

Previous CSiR In this study, we measure previous CSiR by calculating the moving average of CSiR scores in the previous three years. For example, when testing H3, CSR in year 2000 will correspond to the moving average of CSiR from 197 to 1999. We chose a span

of three years to eliminate year specific fluctuations in CSiR activities.

Selective Management Wang and Choi (2013) developed the measure of inter-domain consistency - the dispersion of a firm's social responsible activities across various KLD categories. In this study, we use this measure of interdomain consistency to proxy for selective management. Specifically, we calculate the variance of the normalized social performance scores across the seven dimensions for each firm (Harrison & Klein, 2007), and we do this separately for CSR and CSiR to obtain two different measures of selective management. We reversed the signs such that the lower the score on consistency, the higher the score on selective management. The two measures of selective management are entered into the analysis in separate models to avoid multicollinearity.

Technical Orientation We argue that a firm's R&D intensity indicates the extent to which this firm is technically oriented, because commitment to research and development represents the firm's emphasis on technical efficiency and advancement. We measure R&D intensity by dividing each firm's R&D expenditure with total assets (Coff, 2003; Cohen & Levinthal, 1990). Because corporations are not forced to report R&D expenditures each year, there are many missing values for this variable in COMPUSTAT. To avoid potential distortion of the results because of missing values, we replaced missing values by zeros, assuming that missing reports of R&D expenditure means that R&D expense is minial to these firms (Wang & Choi, 2013; Morck & Yeung, 1991; Villalonga, 2004).

Performance Pressure. According to Mishina et al. (2010), performance relative to industry peers is a better indicator of financial pressure than the performance relative to past history. We therefore measure performance pressure using ROA relative to the firms' two digit SIC industry peers. Specifically, we use the firms' ROA after subtracting the industry mean.

Control Variables

In addition to the above-mentioned dependent and explanatory variables, we controlled a number of variables including firm size, slack resources, leverage, following previous studies (Ullmann, 1985). We also controlled for industry since the number of CSiR varies significantly across different industries in our data. The data source for these control variables was the COMPUSTAT series.

Firm Size Firm Size has been shown to affect CSR (Johnson & Greening, 1999) and CFP, since large firms often have more resources to invest in CSR and gain competitive advantages (Luo & Bhattacharya, 2006; McWilliams & Siegel, 2001; Waddock & Graves, 1997). Given their public visibility, large firms are also more likely to meet the criteria set by KLD, either on strength or on concerns. We measure firm size in two different ways, both included in the tests later. One is measured as the natural log of total assets, and the other the log of the number of employees.

Slack Resources Slack resources have been argued to influence social issues management (Waddock & Graves, 1997; Bansal, 2005). We measure slack resources as the ratio of current assets over current liabilities (Bansal, 2005). A log transformation was applied to normalize the values of this variable.

Leverage Previous research revealed that high levels of debt, which result in high leverage values, have a negative effect on CFP (Capon, Farley, & Hoening, 1990). Leverage, estimated as a firm’s long term debt divided by its total assets, is controlled in the study (McWillams & Siegel, 2000; Waddock & Graves, 1997).

Industry Effects We control for industry effects by including nine industry dummies created according to two digit Standard Industry Classification Code.

Data analysis

There are several advantages associated with using panel data rather than cross-sectional data, including less collinearity, increased levels of freedom, and more control

for unit heterogeneity (Certo & Semadeni, 2006). Panel data help to rule out alternative explanations by controlling for unobserved and firm specific effects(Halaby, 2004), and they also allow researchers to control for endogeneity (Hamilton & Nickerson, 2003).

To estimate our model, we used a cross-sectional time-series linear model (i.e., xtgee in Stata) with a Gaussian distribution. Generalized estimating equations (GEEs) have several advantages. They facilitate regression analysis on dependent variables that are not normally distributed and they have recently been recommended for use in strategy research (Ballinger, 2004).

We checked the underlying covariance structure of the variables and found that the autoregressive structure represented the best fit. We therefore used that covariance structure to specify our GEE models. We used the Huber/White/sandwich estimator of variance by specifying the 'robust' option in the estimation, in order to obtain consistent results despite potential heteroskedasticity. Not surprisingly, we found significant autocorrelation within firm panels, so we specified first-order autocorrelation in the estimation.

RESULTS

Descriptive statistics

Table 1 illustrates a descriptive summary of the variables: the means, standard deviations, and correlations for all variables, expect industry dummies used in the study. We report the descriptive statistics of the mean collapsed data. To collapse the data, we took the

mean and standard deviation of each variable for each firm across the 19 years, and reported the statistics of these variables.

Test of Hypotheses

Hypothesis 1 predicts a positive relationship between CSiR and selective management, and this hypothesis is partially supported, as shown in Table 2. While selective management in terms of *irresponsible* actions across stakeholder groups does increase future CSiR as expected, selective management in terms of *responsible* actions is insignificant.

Hypothesis 2 argues that the firm's technically-oriented culture was positively related to CSiR, and this hypothesis was supported. Table 3 shows that R&D intensity significantly contributes to CSiR ($p<0.001$). Hypothesis 3 was also supported, indicating that previous CSiR is positively related to future irresponsible behaviors. In fact, this relationship is supported across all the models testing different hypotheses. Hypothesis 4 was supported as well. As shown in Table 3, performance pressures in the previous year increases CSiR in the following year.

Hypothesis 5 suggests that CSR moderates the negative effect of CSiR on corporate financial performance, and this hypothesis was supported (Table 4). In addition, the results corroborate the negative effect of CSiR over and above the moderation effect, whereas CSR does not seem to significantly influence financial performance when the moderation effect was included.

DISCUSSIONS

In this study, we focus on CSiR, an emerging construct, and take the first step to explore the antecedents and consequences of CSiR. We find that CSiR is path dependent, and that firms largely take a "strategic" or responsive approach in managing social issues. Specifically, firms that selectively choose some issues while ignoring other issues are more

likely to increase CSiR. Firms that emphasize technical success and/or face strong performance pressure are also more likely to engage in irresponsible behaviors. These findings suggest that business community may not be as responsible as they claim through their websites and sustainability reports. Rather, they invest in CSR and commit irresponsible actions when it is potentially profitable to do so. Although the society has been pushing for responsible business, it seems that more time is needed for businesses to integrate CSR into their operations.

We contribute to the strategic perspective of CSR by showing that firms are indeed instrumental or strategic in managing social issues. Although many firms claim to have embraced social responsibility in their business, the data suggest the otherwise. In fact, our results imply that firms might have played with CSR and CSiR to obtain most financial benefits, since CSR can provide a cushion to the potential shocks that might occur as a result of a reputation crisis associated with CSiR. Future research may explore the antecedents of CSiR from other perspectives such as psychology and sociology. In fact, a multi-level model would be very helpful to understand the key antecedents of CSiR.

Further, our results indicates that firms do not appear to learn from past failures in dealing with stakeholders in the sense that they continue to commit misconduct after stakeholder concerns have already been raised. This clearly suggests that CSiR are intentional actions rather than organizational failures due to ineffective control. The question remains whether the firms continue CSiR because of inability to improve or strategic choice to save costs. Future research might be fruitful to discover whether there are particular types of social

issues that firms tend to repeat CSiR on. It would also be interesting to examine how firms react to disclosure of CSiR. Do they engage in more CSR to offset potential reputation loss, as suggested by Muller and Kraussl (2011)?

Our research also shows that CSiR is a distinct construct, not the other end of the same scale as CSR. That is, decrease in one does not preludes the increase in the other. Not only do they have separate paths and relationships with respect to different stakeholder groups, but they also interact as they relate to financial performance. Such interaction offers enormous opportunities for the firms to exploit the benefits of playing with the two strategically.

Future research on the consequence of CSiR should consider other measures of performance such as organizational efficiency, and organizational commitment. Scholars should also examine stock market performance since large firms are quite sensitive to changes in their stock prices, thus they may engage in CSR or CSiR in response to the stock price change.

Limitations

This study has several limitations that potentially limit the generalizability of the results and, in turn, suggests future research opportunities. First, we don't have data on the decision making process regarding CSR and CSiR. So some of our arguments risk extending individual level thinking to organizational level decision making. This is exacerbated by the binary nature of KLD data, as it seriously reduces richness information. Future research might need to get deeper into the process and understand how firms manage CSiR exactly.

This line of inquiry might generate some interesting mediators between antecedents and CSiR.

Second, it is also important to acknowledge the US-centric nature of the arguments and data analysis. Other markets comprise a diversity of economic stages, political regimes, and norms, which would lead to quite different assessment of CSR and CSiR. We suspect some different, yet interesting, results might be revealed when testing the theory in a different context. For example, Chinese and Americans view bribery very differently. Some issues considered CSiR in the U.S. may be normal in other counties. Therefore, examining CSiR in different contexts might be promising to not only test existing theories about CSR and CSiR but may also provide great opportunities to develop new theories.

Third, although we chose large publicly traded U.S. firms as the research sample, there may be benefits to explore different sizes of organizations, such as smaller, entrepreneurial, and owner-operated firms. Given the difference in visibility and the professionalism in management, different types of firms might approach social issues very differently.

CONCLUSION

CSiR has been overlooked despite increased attention on CSR in the past few decades. Looking at this dark side of organizations, however, is important to understand why firms engage in misconducts and continue to do so even after they are caught. We took the first step to identify important antecedents of CSiR, but there is so much to discover regarding what drive CSiR. Are there other aspects of organizational culture, apart from technical orientation,

that encourage CSiR? Given similar performance pressure, why some firms choose to react by engaging in CSiR while others choose to continue to behave ethically? Is CSiR really an organizational level phenomenon or something driven by individuals in organizations? Answering these questions will help further clear the mist around CSiR. Our work is only a start for this important line of inquiry but we are glad that we have started.

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Table 1 Descriptive statistics and correlation matrix

Variable	Mean	S.D	1	2	7	8	9	10	11	12	13	14	15
CSiR	.06	.06	1.00										
CSR	.03	.05	.29***	1.00									
ROA	.02	.21	.02*	.06***	1.00								
Performance pressure	3.87	.20	-.02*	-.07***	-.98***	1.00							
R&D intensity	.03	0.10	-.04***	-.02	-.57***	.51***	1.00						
Selective management CSiR	0.10	0.07	.85***	.19***	.01	-.02	-.02**	1.00					
Selective management CSR	0.06	0.06	.24***	.89***	.07***	-.07***	-.03***	.15***	1.00				
Size1	7.50	1.77	.41***	.40***	.16***	-.14***	-.29***	.30***	.37***	1.00			
Slack	2.55	2.65	-.13***	-.12***	-.06***	.02	.19***	-.10***	-.12***	-.37**8	1.00		
Leverage	.19	.21	.07***	-.05***	-.10***	.10*8*	-.08***	.06***	-.07***	.15***	-.21***	1.00	
Size2	1.29	1.93	.38***	.36***	.20***	-.16***	-.24***	.29***	.33***	.65***	-.44***	.06***	1.00

†p<0.1, *p<0.05, **p<0.01, and ***p<0.001, respective

Table 2 XTGEE analysis results of Hypotheses 1

Independent variable	**Dependent variable**
	Model 1: CSiR
Selective management on CSR	0.009(0.0061)
Selective management on CSiR	0.0282*** (0.0061)
Previous CSiR	0.714*** (0.0104)
Size1	0.0075*** (0.0005)
Slack	0.0005** (0.0002)
Leverage	-0.0008 (0.0019)
Size2	0.0001 (0.0004)
Industry dummies were included	
Observations (N)	16317
Wald chi^2	12686.65***

"Previous" denotes moving average of the last three years of the DV.

Standard errors are in parentheses.

†p<0.1, *p<0.05, **p<0.01, and ***p<0.001, respectively.

Table 3 XTGEE analysis results of Hypotheses 2, 3 and 4

Independent variable	**Dependent variable**	
	Model 2: CSiR	Model 3: CSiR
RD intensity	0.0174*** (0.0039)	
Performance pressure		0.0089*** (0.0017)
Previous CSiR	0.68*** (0.0078)	0.6807***(0.0078)
Size1	0.0075*** (0.0005)	0.0076*** (0.0005)
Slack	0.0005** (0.0002)	0.0005** (0.0002)
Leverage	-0.0007 (0.0019)	-0.0022 (0.002)
Size2	0.0004 (0.0004)	0.0002 (0.0004)
Industry dummies were included		
Observations	16358	16351
Wald chi^2	12936.06	12998.83

"Previous" denotes moving average of the last three years of the DV.

Standard errors are in parentheses.

†p<0.1, *p<0.05, **p<0.01, and ***p<0.001, respectively.

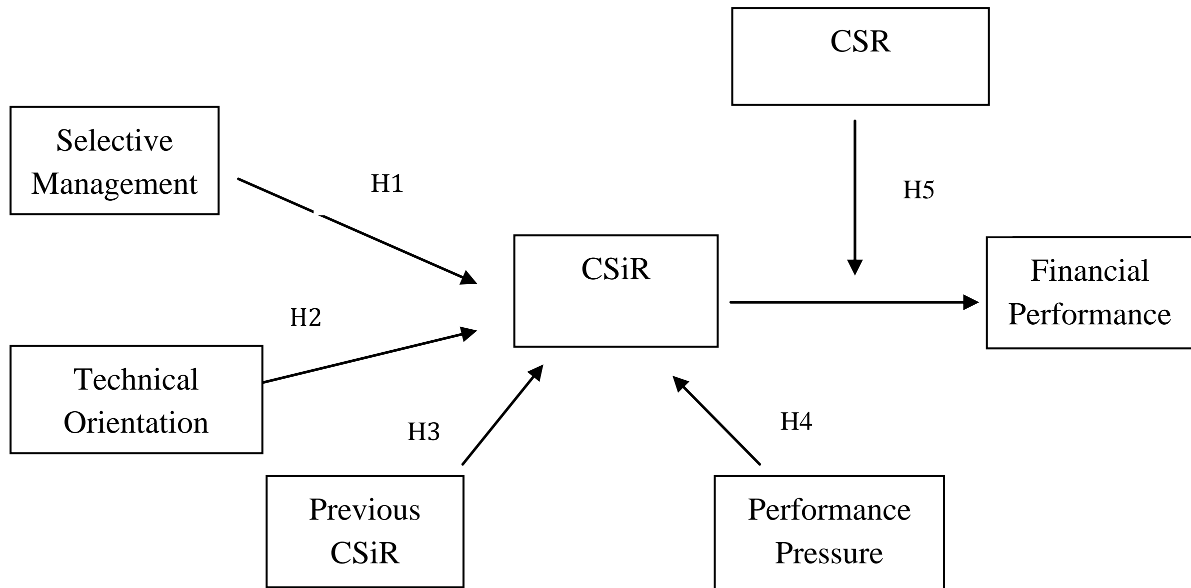
Table 4 XTGEE analysis results of Hypotheses 5

Independent variable	Dependent Variable Model 4: ROA
CSR	-0.0159 (0.0506)
CSiR	-0.1844*** (0.0357)
CSRxCSiR	-1.0065** (0.3552)
Size1	0.0235*** (0.0022)
Slack	0.0052*** (0.0007)
Leverage	-0.1767*** (0.0086)
Size2	0.01752*** (0.0018)
Industry Dummies were included	
Observations	18712
Wald chi^2	1259.03

Standard errors are in parentheses.

†p<0.1, *p<0.05, **p<0.01, and ***p<0.001, respectively.

Figure 1: Conceptual Model



Appendix A: Strength and Concern Areas of KLD Data

KLD Category	Strength Items	Concern Items
Community (*com*)	• Generous Giving • Innovative Giving • Support for Housing • Support for Education (added '94) • Indigenous Peoples Relations (added '00, moved '02) • Non-U.S. Charitable Giving • Other Strength	• Investment Controversies • Negative Economic Impact • Indigenous Peoples Relations ('00-'01) • Other Concern
Corporate Governance (*cgov*)	• Limited Compensation • Ownership • Transparency/Communications (added '05) • Political Accountability (added '05) • Other Strength	• High Compensation • Tax Disputes (moved '05) • Ownership • Accounting (added '05) • Transparency (added '05) • Political Accountability (added '05) • Other Concern
Diversity (*div*)	• CEO • Promotion • Board of Directors • Family Benefits • Women/Minority Contracting • Employment of the Disabled • Progressive Gay & Lesbian Policies • Other Strength	• Controversies • Non-Representation • Other Concern
Employee Relations (*emp*)	• Union Relations • No Layoff Policy (ended '94) • Cash Profit Sharing • Involvement • Strong Retirement Benefits • Health and Safety Strength (added '03) • Other Strength	• Union Relations • Safety Controversies • Workforce Reductions • Pension/Benefits (added '92) • Other Concern
Environment (*env*)	• Beneficial Products & Services • Pollution Prevention • Recycling • Clean Energy • Transparency/Communications (added '96) • Property, Plant, and Equipment (ended '95) • Other Strength	• Hazardous Waste • Regulatory Problems • Ozone Depleting Chemicals • Substantial Emissions • Agricultural Chemicals • Climate Change (added '99) • Other Concern
Human Rights (*hum*)	• Positive Operations in South Africa (added '94, ended '95) • Indigenous Peoples Relations (added '02) • Labor Rights (added '02) • Other Strength	• South Africa (ended '94) • Northern Ireland (ended '94) • Burma (added '95) • Mexico (added '95, ended '02) • International Labor (added '98) • Indigenous Peoples Relations (added '00) • Other Concern
Product Quality (*pro*)	• Quality • R&D/Innovation • Benefits to Economically Disadvantaged • Other Strength	• Product Safety • Marketing/Contracting Controversy • Antitrust • Other Concern

Source: KLD Research & Analytics, Inc. (2008)

Appendix B: Summary of Companies Included in the KLD Data

Index	**1991-2000**	**2001**	**2002**	**2003-2009**
S&P 500	Yes	Yes	Yes	Yes
Domini 400 Social Index	Yes	Yes	Yes	Yes
Russell 1000 Index		Yes	Yes	Yes
Large Cap Social Index			Yes	Yes
Russell 2000 Index				Yes
Broad Market Social Index				Yes
Approximate total number	650	1100	1100	3100

Source: KLD Research & Analytics, Inc. (2008)