

Corporate Social Responsibility Activities:
Appropriability and Impact on Social Performance

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Abstract: To explore strategic aspects of corporate social responsibility (CSR), this paper examines the impact of CSR activities on corporate social performance (CSP). Drawing from and synthesizing two literatures, the well-known instrumental/strategic stakeholder theory and research on CSR strategic value criteria (Burke and Logsdon, 1996), we conceptualize appropriability as a variable intermediating between a firm's CSR activities and its CSP. We suggest that two considerations shape appropriability in the context of corporate social performance: 1) the extent to which social actions go beyond legal requirements and dominant social norms (voluntarism and proactivity) and, 2) the coherence of stakeholder groups' interest aggregation and articulation. We hypothesize a clear positive connection between investment in corporate social activities and CSP where appropriability is high. Our second conceptual contribution is to categorize CSR activities as performance-oriented and learning/information acquisition-oriented. Where appropriability is low, we expect activities will be learning/information acquisition-oriented and the association between corporate social activity and CSP negative. In preliminary statistical tests we find empirical support for the value of developing the appropriability concept in research on corporate social activity and corporate social performance and further exploring the differences between performance-oriented and learning-oriented corporate social activities.

Keywords: strategic corporate social responsibility, corporate social performance, corporate social activity, appropriability, instrumental stakeholder theory

In the annual budget and program planning process for Microsoft's corporate citizenship a country manager proposed including a free condom with every Microsoft software CD sold. After a global review, that proposal was cut from MS citizenship programming. At the time of the Exxon Valdez oil spill, Exxon's corporate social responsibility focused almost exclusively on charitable giving. In their corporate post-mortem, Exxon emphasized how one of their key competitors, Arco (later merged with BP) included extensive collaboration with environmental defense groups in its citizenship efforts. In the face of rising controversy, AT&T debated its support for Planned Parenthood International. Each of these examples reflects the gradual shift in corporate practice from traditional philanthropy toward strategic CSR (Porter & Kramer, 2006)

From the academic perspective, efforts to evaluate the strategic value of corporate social responsibility activities encompass 30 years of scholarship developing instrumental stakeholder theory and testing the relationship between corporate social performance (CSP) and corporate financial performance (CFP). (Margolis & Walsh, 2003; Orlitzky et.al., 2003) This literature includes important efforts to disaggregate, contextualize and generally better specify how, why and when there might be a financial return to corporate social responsibility activity (McWilliams and Siegel, 2001; Barnett, 2007; Siegel & Vitaliano, 2007). Yet relatively little CSR scholarship focuses on the particular link, in the complex causal chain connecting CSR to financial performance, between investment in corporate social activities and corporate social performance. Barnett (2007, pp. 797) notes that the connection between CSR resource allocation and corporate social performance is "often unexplained and untested".

Strategic CSR (Baron, 2001; Husted & de Jesus Salazar, 2006) typically involves assessing investment in corporate social responsibility activities for their impact on financial performance. But as the CSR function becomes more and more professional, strategic decision-making, defined as making disciplined choices about resource allocation, also applies to impact on corporate social performance (CSP). This exercise requires clearly defining CSP.

CSP is a problematic and controversial concept (Rowley and Berman, 2000; Liston-Hayes & Ceton, 2008; Chatterjee et. al., 2007) but academic assessments identify its value and suggest improvements (Carroll, 2000; Griffin, 2000) while the growing number of large business services enterprises engaged in CSP measurement and reporting (Thompson-Reuters, Bloomberg) testify to its value for practitioners. CSP is the profile of business's social face. Acts of corporate social responsibility are "investments that, over time, aggregate into certain CSP postures" (Barnett, 2007). Corporate social activity refers to voluntary corporate actions designed to improve social conditions, that firms undertake to build a CSP posture (Mackey et al., 2007), or as corporate actions or programs not required by law that attempt to increase social benefits or resolve social problems involving stakeholders (constituencies) beyond the explicit transactional interests of the firm (McWilliams & Siegel, 2000).

Any given firm can engage in a vast array of different social activities. These In practicing strategic CSR, firms must choose between dedicating time and money to particular activities/programs with impact on particular stakeholder groups, such as convincing product development teams to consider a particular "green feature" or expanding an employee volunteer program or joining other industry participants in an

effort to build an industry-wide protocol for responsibility in a particular social issue arena. Practicing strategic CSR implies that firms make choices about how to allocate a firm's resources across an array of possible social activities. But how do firms choose?

Two strands of literature help frame our investigation of this question. Instrumental/strategic stakeholder theory emphasizes stakeholder prioritization as the key to strategically leveraging corporate social activity. Mitchell et. al.'s (1997) framework for categorizing stakeholders dominates existing research (Parent & Deephouse, 2007). Another strand of literature on strategic CSR identifies a variety of criteria for predicting the value of corporate social activities: centrality, visibility, proactivity, specificity/appropriability, and voluntarism (Burke & Logsdon, 1996; Husted & Allen, 2007; Husted & Allen, 2009; Gyves & O'Higgins, 2008). In both cases strategic value is usually defined in terms of financial rather than social performance. We synthesize and extrapolate from these two literatures to illuminate the connection between investment in corporate social activity and corporate social performance. The concept of appropriability helps us connect and combine aspects of these two approaches to strategic CSR.

STAKEHOLDER CHARACTERISTICS AND THE IMPACT OF CORPORATE SOCIAL ACTIVITY ON CORPORATE SOCIAL PERFORMANCE

Instrumental Stakeholder Theory

Donaldson and Preston (1995) delineated between three stakeholder theories: normative stakeholder theory which proscribes what managers should do from an ethical standpoint, descriptive stakeholder theory which describes and sometimes explains what

managers actually do, and instrumental (strategic) stakeholder theory which explores the financial consequences of how managers' act towards stakeholders. Instrumental stakeholder theory (Jones, 1995) suggests that managers' views about stakeholders should mediate the relationship between investment in corporate responsibility activities and specific arenas of corporate social performance. For example, Brammer and Pavelin (2006) show that the impact of corporate social activities on firm reputation is a function of how well the firm achieves strategic alignment between the type of corporate social responsibility activity and the firm's stakeholder environment. Hillman and Keim (2001) present evidence that corporate social responsibility activity directed to primary stakeholders creates value for shareholders while other social activity does not. Johnson and Greening (1999) find that accounting performance should be related to CSR activities in "people" dimensions such as community, diversity and employee benefits, but not to CSR activities in "product quality" dimensions. In short, instrumental stakeholder theory directs attention to the alignment of corporate social responsibility activity and 'strategically important' stakeholders (Wood & Jones, 1995; Griffin & Mahon, 1997; Orlitzky et. al., 2003).

"Strategic use of CSR," requires firms assess "which sub-dimensions of social performance" are most important for its stakeholders. (Akpinar et. al., 2008); Ruf et. al., 2001; Wood & Jones, 1995). Thus, how managers' prioritize among different stakeholders, and the issues important to those stakeholders, is critical for the development and empirical operationalization of instrumental stakeholder theory. Based on the resource dependency paradigm (Pfeffer & Salancik, 1978) instrumental stakeholder theory indicates that financial performance is best if managers respond

mostly to ‘strong’ stakeholders, those commanding resources upon which the firm depends, and possessing the motivation and ability to withhold those resources if necessary. This approach to instrumental stakeholder theory centers on stakeholder importance defined as salience.

In this view, part of making CSR strategic is choosing between alternative investments in social activity based on social performance targets in issue arenas crucial to the firms’ most salient stakeholders. From a stakeholder prioritization perspective, strategic CSR involves decisions to “earn” corporate social performance by investing in particular corporate social activities based on the importance, defined as salience, of different stakeholder groups.

Salience is usually conceptualized as the potential influence of the stakeholder group on the firm seen through the eyes of corporate leaders. Salient stakeholders are those who “posses the ability to impact the reputation and operations of the firm” (Peloza & Panaia, 2008). Salience rests on the power, urgency and legitimacy of the stakeholder group. (Mitchell et. al, 1997; Agle & Wood 1997; Magness, 2007; Gago & Antolin, 2004). Mitchell and colleagues (1997) suggest seven categories of stakeholders based on different combinations of these three criteria. Despite the general dominance of the Mitchell et. al. (1997) framework, there is relatively little agreement on which stakeholder group criteria best help describe managers’ prioritization. Gago and Antolin (2004) treat salience as a separate criteria rather than a summation of power, urgency and legitimacy. Parent and Deephouse (2007) conduct a qualitative empirical study and conclude that power and legitimacy are more important than salience. Another effort to more carefully delineate stakeholder attributes includes dividing power into utilitarian,

normative and coercive power (Ryan & Schneider, 2003). Mattingly (2004) argues that urgency precedes power and legitimacy – in other words, urgency makes stakeholders more legitimate and powerful.

As Cennamo et. al. note (2008, p. 493), “a fundamental problem in SM [stakeholder management theory] is how to define and identify relevant stakeholders.” Furthermore, there is growing acknowledgement that stakeholder groups’ issue preferences are not stable and that stakeholder importance probably varies, not just across industries, but over time (Jawahar & McLaughlin, 2001; Shropshire & Hillman, 2007; Parent & Deephouse, 2007; Magness, 2007) and across firms within similar industries (Henriques & Sadorsky, 1999). Building on work on CSR strategic value criteria (Burke & Logsdon, 1996), we develop an approach to conceptualization of stakeholder and stakeholder issue importance to the firm based on the concept of appropriability.

Strategic CSR Value Criteria: Appropriability and Stakeholder Salience

Schumpeter (1950) introduced the concept and logic of appropriability to the field of business and management. He posited a tension between innovation and competition due to the challenge of competitors imitating and therefore undermining the gains from any individual firms’ innovation efforts (Nelson and Winter, 1982). Economists (Arrow, 1962; Levin & Klevorick, 1987) and students of business strategy (Teece, 1986) went on to explore and further refine the parameters and logic of this posited trade-off between innovation and competition. The appropriability regime (Teece, 1986) determines the likelihood that a firm can appropriate returns to expenditure/resource allocation innovation requires. What are the critical aspects of an appropriability regime? Scholars

have taken two different paths: one focused on ways to obstruct imitation (protection) and one on capabilities for leveraging innovation including marketing and propensity for learning. The approach focused on protection examines intellectual property law and its enforcement, and contracting practices and possibilities – especially in the area of employment law (non-compete clauses, for example). Through varied mechanisms the appropriability regime creates incentives or disincentives for innovation that vary across industries and firms.

A first-order extension of the appropriability regime concept to corporate social responsibility activity would be to focus on the second of these two paths to understanding appropriability: tacit or explicit knowledge and knowledge management creation (Midttun, 2007; Bartlett, 2009). This CSR-as-innovation framing suggests new research possibilities relating firms' investment in CSR to corporate social performance and corporate financial performance (Vilanova et. al., 2009; McManus, 2008; Hull and Rothenberg, 2008). To integrate and build on the stakeholder salience aspect of instrumental stakeholder theory and strategic CSR value criteria research, we take a slightly different approach. We hypothesize about the nexus of appropriability and stakeholder characteristics.

Burke and Logsdon (1996) identify five strategic dimensions of CSR that impact its value creation. These are: centrality, visibility, proactivity, specificity/appropriability and voluntarism. These criteria predict the impact of corporate social activities on value defined as financial performance. But how might these criteria also apply to the prioritization of stakeholders in the search for improved corporate social performance?

In the economics and management literature appropriability refers to capturing

financial returns following the standard measure of strategic success as above average profitability. This is also how the criteria of specificity/appropriability is defined in the strategic CSR literature. In seeking to understand the impact of corporate social activity on social performance the concept of appropriability is different. In the case of corporate social performance, it refers to the firm's ability to ascribe improvement in corporate social performance to the corporation's social activities. This conceptualization of appropriability only makes sense in the more nuanced research agenda of contemporary corporate sustainability/social impact management scholarship where corporate social activity is clearly distinguished from corporate social performance.

In this conceptualization, appropriability stems to a large extent from proactivity that will overlap extensively with voluntarism. The possibility to improve corporate social performance with corporate social activities comes from being able to show the corporation is going beyond compliance (voluntarism). From the perspective of competitive advantage, anticipating emerging social issues (proactivity) is also critical for achieving above-average corporate social performance through first-mover advantages. Combining voluntarism and proactivity amounts to a firm strategy of addressing social issues not covered by law or dominant social norms because the firm can appropriate "credit" in stakeholders' eyes, measured as improved corporate social performance. Where law evolves in response to social norms, as in a common law system, the criteria of proactivity is tightly linked to voluntarism.

In summary, the first element of our reconceptualization of appropriability is that it encompasses two of the other criteria used in strategic CSR value criteria literature: proactivity and voluntarism because it is defined as the extent to which activities are

concerned with stakeholders/issues that are beyond the law and dominant social norms.

A fourth criteria laid out in the strategic CSR value criteria literature is visibility which considers observability of corporate social activities by stakeholders. Visibility is a communications function that comprises both outbound (corporation to stakeholder) and inbound (stakeholder from corporation) components. The inbound portion of the communication dynamic involved in unpacking the visibility criteria offers an additional opportunity to synthesize instrumental/strategic stakeholder theory and strategic CSR literature. This opportunity centers on the question of what shapes the ability of stakeholder groups to hear and value corporate communication about corporate social activity.

Building on the literature debating the distinctions between stakeholders that need human proxies and those that do not (Driscoll & Starik, 2004; Phillips, 1997; Phillips & Reichart, 2000; Starik, 1995) and between technical versus people (Mitroff, 1983) or institutional stakeholders (Miles, 1987; Mattingly & Berman, 2004), we suggest that the role of visibility is critically related to political characteristics of the stakeholder group – does the group aggregate interests and can it articulate to the group and to outsiders the aggregated (consensus) stand on issues?

Political science identifies how groups' interests influence government action and assigns an important intermediating role to political parties. Political parties serve two main purposes in the translation of group interests into government actions: interest aggregation and interest articulation (Almond et. al., 2007). Interest aggregation refers to bringing together viewpoints around a more or less broadly shared group stance on a particular issue or issue set. Interest articulation is defining and expressing, in other

words, communicating a groups' interests in a way that in-group members and other groups can understand. Visibility as a criteria for choosing between different corporate social activities hinges on how well stakeholder groups are organized for the purposes of aggregating and articulating their interests. The visibility of corporate social activities will only impact social performance to the extent that those who care about performance in a particular social arena have effectively aggregated and articulated their interests. Interest aggregation and articulation determines whether you "hear the tree falling in the forest." It helps determine the visibility of corporate social actions and their impact. Davis and Thompson (1994, p. 160) apply this logic in their study of shareholder activism and corporate governance. Critical in their results is the advantage institutional investors derive from their organizational and interest cohesion.

The strategic CSR value criteria literature defines appropriability as: "the firm's ability to capture or internalize the benefits of a CSR program, rather than simply creating collective goods which can be shared by others in the industry, community or society at large" (Burke and Logsdon 1996, p. 497). In a careful analysis of the complex interaction of appropriability, legal protection, spillovers and first mover advantage Kopel (2009) ties the concept to specificity and legal protection for the fruits of innovation. In this view the firm is appropriating value defined, by either the "five forces" or "resource based view" of corporate strategy, as above-average profits. In other words, the firm's incentive to invest in corporate social activity is its potential to generate financial returns. Following the call (Barnett, 2007) to focus on the links between corporate social activity and corporate social performance, we draw on both instrumental stakeholder theory and strategic corporate social responsibility values literature to

redefine appropriability in the context of corporate social performance. In this context, two considerations shape appropriability: 1) the scope for demonstrating commitment beyond legal requirements and dominant social norms (proactivity and voluntarism) and, 2) the coherence of stakeholder groups' interest aggregation and articulation.

Applying this conceptualization of appropriability offers insight into strategic choice-making about corporate social responsibility activities. Expectations about appropriability will guide firms strategic CSR practice toward investment in corporate social responsibility activities where appropriability is high.

H1: Where appropriability is high, corporate social activity will have a positive impact corporate social performance.

PERFORMANCE VERSUS LEARNING ORIENTED CORPORATE SOCIAL ACTIVITIES

Beyond which stakeholders and stakeholder issues are targeted, scholars have categorized different corporate social activities according to various criteria: how much social responsiveness the activity reflects (Carroll 1979), the extent of dialogue versus unilateral action involved in the activity (Mattingly 2004; Freeman 1994), the “restriction” or “exchange” orientation of the stakeholder engagement the activity involves (Tokoro, 2007), whether it is philanthropic, integrative or innovative (Kourula & Holmes, 2008) or whether it is “market” or “non-market” focused (Lankoski, 2008).

Considering the question of how, when and why corporate social activities impact corporate social performance another issue is critical: is all social activity oriented toward relatively short-term achievement measured as social performance “output”? The

“boundary-spanning” aspect of corporate social activity helps fuel *continuous* corporate adaptation for social benefit. In this case the time frame and mind-set may be longer term while still involving strategic choice-making. Boundary spanning occurs through stakeholder engagement in forms ranging from ad hoc meetings of CSR board committees with particular stakeholder groups (Post et. al., 2002; Sloan, 2009) to negotiated and formally-contracted corporate-non-profit partnerships (Holmes & Moir, 2007). Scholars identify slightly different causal stories linking these corporate social activities to innovation and learning. One is that it allows the corporation to sense future trends (Senge, 2004; Bindu & Salk, 2006; Hanke & Stark, 2009) that may help set the corporate citizenship agenda by identifying emerging issues and spurring evolution of corporate social responsibility practice. A second causal story is that these corporate social activities seed ideas for new products and markets (Kantor, 1999; Hart & Christiansen, 2002; Sharma, 2006; Louche et. al., 2010; Holmes & Smart, 2009). Another approach is to focus on the impact of corporate social activity on management systems emphasizing that engaging in corporate social activities brings a firm closer to a “learning organization” (Gond & Herrbach, 2006; Zwetsloot, 2003).

Gond and Herrbach (2006) see social accounting, broadly defined, as a learning tool. Building on this approach we hypothesize that some social activities will be more closely tied to short-term performance improvements (Jones & Murrell, 2001) and others more tightly associated with learning/information acquisition as part of a process of longer-term change. Considering the conceptualization of appropriability expectations as intermediating the nexus of corporate social activity and corporate social performance, the short-term performance improvement orientation for corporate social activity may be

more likely when appropriability is high. When appropriability is low, corporate social activities will likely be more learning-oriented. The relationship between corporate social responsibility activities and CSP in this case may be more circular than in the case of short-term performance improvement oriented social activities. Poor performance may spur increased learning-oriented activity.

H2 Where appropriability is low, corporate social activities will be learning oriented and negatively associated with corporate social performance.

RESEARCH METHODS

Concepts and indicators

Independent Variables – Corporate Corporate Social Activities.

Identifying measureable indicators that capture the extent or nature of corporate social activity on a consistent, reliable basis across many different firms is problematic. There is a cottage industry of CSR performance consultants each with a different methodology for cost benefit analysis. Existing empirical studies of CSR activity by scholars tend to measure the level of investment using charitable giving, even when the conceptualization of CSR activity/programming is much broader than philanthropy (Brammer and Pavelin, 2005; Adams and Hardwick, 1998). Marquis, Glynn and Davis (2007) suggest disaggregating philanthropy by using KLD's threshold level data. KLD gives points to firms passing level thresholds on six different criteria which disaggregate philanthropic donations into: charitable giving, innovative giving, support for housing, support for education, non-US charitable giving and "other strength" (such as volunteer

programs of in-kind donations.) Other scholars have operationalized the level of social responsiveness, the RADP scale (Clarkson, 1995; Henriques & Sadosky, 1999). Because we are interested in both the totality and diversity of corporate social activities in order to explore their impact on corporate social performance philanthropy is too narrow an indicator and the RADP scale is resource-intensive.

We use four indicators of corporate social activity: publication of a CSR report, authenticated GRI reporting, existence of a board committee charged with social responsibility/sustainability and use of third party auditors to review social responsibility/sustainability. Our use of several disclosure activities as a proxy for social activity in general follows other empirical studies that explicitly seek to measure the association of disclosure and performance (Clarkson et. al., 2008; Prado-Lorenzo et. al., 2009; Roberts, 1992; Vurro & Perrini, 2009).

We categorize CSR and GRI reporting as performance-oriented types of social activities. CSR reporting is increasingly prevalent in the US although it lags corporate practice in Europe. GRI reporting is less prevalent because to be considered a GRI reporter a company must report on at least one criterion in each of the GRI's six standards areas.

We categorize CSR committee and external audit as proxies for learning-oriented corporate social activities. These are partially "outsourced" or externalized corporate social activity management that can help the firm gain new understanding of stakeholders and their issues.

Dependent Variable – Corporate Social Performance for Stakeholders. Scholars interested in the role of appropriability in shaping the value of corporate social activity

note its complexity and attendant measurement difficulties (Kopel 2009). We have conceptualized appropriability as a criteria related to stakeholders and the issues they champion. The appropriability associated with stakeholder groups' and their issues are the function of two criteria: the extent of voluntarism and proactivity, which we argue covaries, and the extent of interest aggregation and articulation coherence.

Based on the CSR literature and several CSR standards, we identify six common stakeholder groups: consumers, employees, diversity constituencies, human rights constituencies, environmental constituencies and community members. We consider the appropriability that firms can anticipate with regard to these groups and their issues in the US context. We note that both aspects of appropriability in our conceptualization are highly sensitive to geographic cultural context. Our assumptions for the US are evident in Figure 1 and explained below.

Figure 1 about here

As a general stakeholder category, communities typically have issues that are guided by dominant social norms and they tend not to have mechanisms to consistently aggregate/synthesize interests. Support for open park land is not likely a cutting edge issue but at the same time community organization to support taking land off the residential or commercial tax rolls is not likely to draw consistent, coherent support because of the trade-off between green space and tax revenue that might support other community needs. This combination of low opportunity for voluntarism and proactivity and poor interest coherence gives community stakeholders and their issues relatively low

appropriability. At the opposite extreme are environmental stakeholders who tend to champion issues that are often only weakly protected by law/dominant social norms. They also tend to be well organized by interest associations that facilitate interest aggregation and articulation. This combination of high opportunity for proactivity and voluntarism plus high interest coherence and articulation puts the environmental stakeholders and their issues at the high end of the appropriability continuum.

The interests of employees and consumers in the US are relatively well covered by laws about competition, safety, and standards, but as groups they tend to have interest associations or other vehicles that facilitate interest aggregation and articulation. Labor unions serve this purpose for employees. Public defenders in the US are often good vehicles for aggregating and articulating consumer interests in class action suits. This combination of low opportunity for voluntarism and proactivity yet higher interest aggregating and articulation put these stakeholders in an intermediate position on the appropriability continuum. Also in an intermediate position are human rights and diversity stakeholders whose issues afford opportunity to be out ahead of law and social norms but who do not consistently have the organizational coherence of some other stakeholder groups.

Data and Sample

In order to test our hypotheses, we assembled multiple data sources into a dataset of companies which are publicly held in the U.S. and internationally well known. Our initial dataset consists of companies selected in the Fortune Global 500 in 2007. We chose the Fortune Global 500 because these are large companies which would typically

consider CSR activities directed toward a variety of stakeholders. Since 2005 Fortune magazine has announced a ranking of the top 500 public corporations all over the world as measured by gross revenue.

Next, we collected data indicating the types of CSR activities. We examined each company's website and reports to see if the company had a CSR committee, issued a CSR report, issued a GRI report, and used professional auditors to assess CSP.

Finally, we compiled corporate social performance data using KLD social data. In order to test the temporal impacts of CSR activities on CSP, we compile KLD data for both 2007 and 2008. It only covers U.S. companies. Thus, merging the Global Fortune 500 and the KLD datasets yields 162 U.S. companies.

For the other variables we obtained financial data from the Standard & Poor's CompuStat and the Center for Research in Security Price (CRSP). Merging these data sets from several different datasets including Fortune Global 500 List, KLD social data, CompuStat, CRSP and company websites impacts our sample size. The final sample size in our statistical analysis models is 88 and 84 for large U.S. companies in 2007 and 2008 respectively.

Measurements

We use six different dependent variables and four independent variables in order to test the proposed hypotheses. The six dependent variables cover six stakeholder groups: consumers, employees, human rights advocates, diversity advocates, the environment and community. Each variable is a measure of corporate social performance in issue areas of concern to a particular stakeholder group. We call this measure "CSP for

Stakeholders”. For four independent variables we use the following programs as proxies for CSR activities: ‘CSR reporting’, ‘GRI report’, ‘CSR committee’, and ‘Professional audit’. In addition, we create other variables to control each company’s size, asset and intangible resources.

Independent Variables – CSR Activities. We compiled data for each of these four variables for all 500 companies on the Global Fortune 500 list for 2007 from company websites and external relations offices. We scored each variable as “0” or “1” depending upon whether each company engaged in the form of disclosure or not. For GRI we specifically chose to review corporate websites and verify the actual reports rather than relying on GRI’s list of reporting companies because the GRI list results from corporations registering their report with GRI. We found the GRI list was incomplete.

The final sample yields reasonable variation on the independent variable of social activity measured through disclosure actions. 31 U.S. companies have a CSR committee, 88 publish a CSR report, 48 publish a GRI report, and 13 subject disclosure to a professional audit.

Dependent Variables – CSP for Stakeholders. CSP for stakeholders data are taken from KLD Stat data compiled by Kinder, Lydenberg and Domini Research & Analytics. Since 1991 KLD has produced annual CSR data on all of the S&P 500 firms, plus another subset of companies; KLD now assesses the Russell 3000 as well, which is included in 2001. Since 1991 KLD has produced annual CSP data on corporate practices of large U.S. firms associated with multiple stakeholder groups (A full description of the KLD system is available at www.kld.com).

Specifically, we are interested in six stakeholder-related performance arenas taken

from the KLD database: (a) consumer (product); employee relations; human rights; diversity (minority); environment; and community.

Each of these six KLD attributes summarizes corporate practices with respect to a specific stakeholder. For each of these six attributes, KLD assesses a company's strengths and weaknesses. Based on assessments of each company, we construct a total strengths count for each stakeholder attribute by summing a number of 0/1 "reason codes" which contribute to that particular strength. Reason codes are binary 0/1 variables that contribute to each of the KLD attributes.

Taking employee relations as an illustration, there are seven 0/1 reason codes that contribute to the total employee relations strengths count: union relations, no-layoff policy, cash profit sharing, employee involvement, retirement benefits, health and safety programs, and other. For the employee relations attribute then, the strengths variable may range from 0 to 7. Using another example, environment, there are five reason codes for strengths such as environmentally beneficial products or services, pollution prevention, recycling, clean energy, and other. Thus, for the environment stakeholder, the strength index ranges from 0 to 5. (The KLD Research and Analytics website, www.kld.com, lists the entire set of criteria used for each variable under the "Research" heading.)

The next step is to combine the reason codes of each stakeholder into a single normalized dependent variable. Due to different number of reason codes for diverse stakeholder, this net strength value is normalized by being divided by the range. For the case of employee relations, net strength of each company is divided by 7. For the case of environment, net strength ranges from 0 to 5, and it is normalized by being divided by 5. Variables for the other four stakeholder groups are calculated in the same way.

Control Variables. In order to screen out other effects influencing the relationships between investment in CSR activity (CSI) and CSP for stakeholders, we include proxies for each firm's profitability, size, asset size, intangible resource and industry categorization in statistical analysis models.

Scholars have argued that profits drive CSR activity, so-called the slack resource theory (Waddock and Graves, 1997). Siegel and Vitaliano (2007) also argue that a firm's profitability indicates its competitiveness in the industry. Profitability is used as a proxy for the market structure of a firm's industry (McWilliams and Siegel, 2001). Thus, we use each firm's revenue in each year as a proxy for its profitability.

Researchers have argued that economies of scale and scope in delivering CSR attributes will result in a positive correlation between a firm's size and its CSP (McWilliams & Siegel, 2001). In order to control this effect, we include two variables, employee count and asset size as proxies for company size, following Waddock and Graves (1997). We use the log transformation of both variables to adjust their skewed distribution.

To account for intangible resources, we include the market price to book value ratio or the MPBV ratio which would capture typical intangibles such as brand, reputation and employee loyalty. MPBV also captures R&D intensity which has been popularly used as a proxy for product differentiation. McWilliams and Siegel (2001) propose that companies with a higher level of product differentiation will have more opportunities to pursue CSP. Thus, we calculate the ratio of stock market price to book value, using data from CRSP.

Industry classification for each firm is one of the most common control variables

(Margolis & Walsh, 2003). We utilize the North American Industry Classification System or NAICS as a variable, industry categorization of each firm. Compared to the Standard Industrial Classification (SIC), another commonly used industry classification, NAICS has superior availability and reliability (Bhoraj et. al., 2003; Weiner, 2005). We created 18 industry dummy variables for the 19 industry classifications. All data for these control variables except industry categorization which is based on NAICS codes are taken from COMPUSTAT and CRSP for the year of 2007.

Model

As proposed in previous sections, a main goal of this research is to examine and determine whether there are any relationships between corporate social activities and “CSP for stakeholders”. Thus, our empirical models treats investment in four corporate social activities such as CSR board committee, CSR reporting, GRI report, and Professional Audit as the independent variables, and “CSP for stakeholders” as the dependent variable. Our model is as follows:

$$CSP_{i,s} = \alpha + \beta(CSI_{i,d}) + \gamma(revenue_i) + \tau(employee_i) + \lambda(asset_i) + \theta(MPBV_i) + \sum_{k=1}^{18} \delta_k(industry_k) + \varepsilon_i \quad \text{From this}$$

formula, the dependent variable, $CSP_{i,s}$, represents the CSP for a stakeholder s by i th company. The coefficient β represents the effect of CSR activity d by i th company. The coefficient γ represents the effect of revenue, and the coefficients, τ and λ represent the effect of company size. The effect of market price to book value ratio is θ . The 18 coefficients, δ_k , each represent the effect of the k th industry, modeled by dummy variables. ε_i is the usual OLS error term.

The primary interest in this research is in β , the coefficient of the CSR activity variable, with all other variables included only as controls. We estimate various models assigned with four CSI activity variables and seven CSP for stakeholder variables.

Data Analysis and Results

Data Analysis. Statistical analysis was done using the Ordinary Least Squared regression analysis. We ran twelve regression variations with four CSR activity variables associated with six “CSP for stakeholder” variables with same set of four control variables and industry dummies for year 2007 and 2008. For empirical testing, we used the regression algorithm (REG) in STATA.

STATA automatically checks for multicollinearity using the STAT algorithm “VIF”. The VIF results indicates "by how much other coefficients variances are increased due to the inclusion of each variable", and $1/VIF$ shows "each variable's variances independent of other variables". In other words, if the VIF indicator is too large (> 10), and if $1/VIF$ is too small (< 0.10), the variable is multicollinear. We have not reported these results for all variables and models in our tables but note here the results for CSR and GRI reporting in model 12 where both have significant impact on the dependent variable.

Multicollinearity might be a concern here because in practice many companies’ GRI reports refer to data in their CSR reports using the technique of a “GRI index” to the CSR report. The STATA “vif” report does not indicate any multicollinearity problem. GRI report has "1.93" VIF and 52% independent variance and CSR report has "1.70" VIF and 59% of independent variance.

Results. Tables 1a and 1b present results from our statistical regression analyses.

Table 1a presents regression results showing the impact of CSR activities on corporate social performance for the same year, 2007, and Table 1b presents the results for the impact of CSR activities on corporate social performance with a one-year time lag, 2008. We present results from regression analyses in two tables for 2007 and 2008 in order to explore the possibility that the impact of CSR activities on performance might involve a time lag. Overall the correlation between social activities and performance is tighter with the time lag.

Our first hypothesis is that for high appropriability stakeholder arenas, corporate social activity will have a positive impact on corporate social performance. Our highest appropriability stakeholder arena is the environment and we find that CSR reporting has a positive impact on environmental performance in 2007 and both CSR and GRI reporting have a positive impact in 2008. The impact for 2008 is significant at the highest level. In intermediate appropriability stakeholder arenas, CSR committee had a significant correlation with performance in the diversity arena in both 2007 and 2008 and in the human rights arena in 2007. None of the activity measures had any impact on the employee and consumer arenas where the firm opportunity for proactivity is low while interest aggregation and articulation is high. We did not expect any of the social activity measures to have an impact on community performance because we postulated that the community arena offers few opportunities for appropriability due to dominant social norms and inchoate interests. Contrary to expectations, one of our social activity indicators, professional audit had a significant impact on community performance in 2008 and we discuss this finding more below.

Our second hypothesis was that we would expect, where appropriability was low,

to find that learning-oriented corporate social activities would be more likely associated with corporate social performance than would performance-oriented corporate social activities. The results reported in Tables 1a and 1b show partial confirmation for this hypothesis. CSR committee, a learning-oriented activity, is significantly associated with corporate social performance in the diversity and human rights arenas in 2007 and with corporate social performance in the diversity arena in 2008. These correlations were significant and negative. Contrary to expectations, one of our two performance-oriented social performance measures, GRI report, was correlated with diversity performance. We postulated diversity as an intermediate appropriability arena because, while opportunity for proactivity and voluntarism is moderately high, interest aggregation is moderately low.

Insert Tables 1a and 1b about here

DISCUSSION, FURTHER RESEARCH AND CONCLUSIONS

The primary framing of research on strategic corporate social responsibility is on the impact of either CSR or CSP on financial performance. This paper frames a different question for practitioners and scholars concerned with strategic corporate social responsibility: when, how and why is investment in corporate social responsibility activity linked to corporate social performance as it is measured and reported on in the business information world? The maturity of CSR practice and the evolution of research on CSR pave the way for this type of “second-order” framing. CSR activity is here to stay, whether or not its financial impact can be theorized or empirically proven.

To explore the connection of corporate social responsibility activity and corporate social performance we reconceptualize the concept of appropriability and use it to bridge the stakeholder salience and strategic CSR value conditions literature. Stakeholder theory is increasing in weight in the management literature (Laplume et. al., 2008) yet there is little consensus about the best conceptualization of stakeholder salience for empirical investigation and practical application. The paper shows how the concept of appropriability can be a valuable bridge between instrumental stakeholder theory and the smaller, but more concrete strand of research on strategic CSR value conditions. Our analysis shows that corporate social responsibility activities are positively linked to corporate social performance in arenas where appropriability is relatively high.

Our effort to marry conceptual work with empirical validation suggests the value of pursuing both the appropriability concept and the distinction between performance and learning-oriented corporate social activity. Our work is based on a unique dataset of indicators of corporate social responsibility activity for large US firms, but data limitations still render conclusions preliminary. Aside from controversy over the validity of CSP data, another challenge is to empirically validate the appropriability conceptualization proposed. While suggestive, our limited empirical investigation leaves room for much further exploration. The viability of our conceptualization should be explored through qualitative investigation of managers' views. Our results on the impact of reporting on social performance in the community social performance arena suggests the complexity of assigning appropriability 'values' to different stakeholder issue arenas. In addition, our categorization of appropriability opportunities in different stakeholder

arenas is very US-centric and should not only be validated for the US context but could be usefully explored in other national contexts.

We build on prior research that conceptualizes, and in some cases measures, CSR activity. The difficulty of measuring CSR activity is a challenge in the quest to explore the costs and benefits of attaining a particular CSP posture. We move beyond the most commonly used measure of extent/level of social activity, which is charitable giving, and draw a distinction between social activities oriented toward performance outputs and those with a learning orientation. Just as we propose moving away from the focus on financial consequences of CSR, the focus on a relatively short-term instrumental logic of appropriability has its limits. Our discussion of performance and learning-oriented corporate social activities builds on research that teases out the different business cases for CSR (innovation cost-cutting, employee loyalty, etc.). Where tangibility is low, our results offer evidence that relatively poor corporate social performance spurs learning-oriented corporate responsibility activities. Again our empirical exercise suggests possibilities for further exploring and fine-tuning the distinction between performance and learning-oriented activities and their connection with corporate social performance. One possibility is to explore the different impact of CSR and GRI reporting. Our analysis found, for example, that GRI reporting had an impact on diversity while CSR reporting did not. Our two-fold characterization of corporate social activity dovetails on existing literature but leaves considerable scope for further research refining conceptual understanding of variation in social activity and its measurement.

The main contribution of this paper is to explore the relationship between investment in CSR activities and CSP for stakeholders using the framework of

instrumental stakeholder theory and extending the concept of appropriability introduced in the strategic CSR values literature. If these conceptual suggestions spur further consideration and empirical research on the impact of CSR activities on CSP they should build knowledge and contribute to the best practice of corporate responsibility.

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Figure 1
Appropriability in Relation to Stakeholders

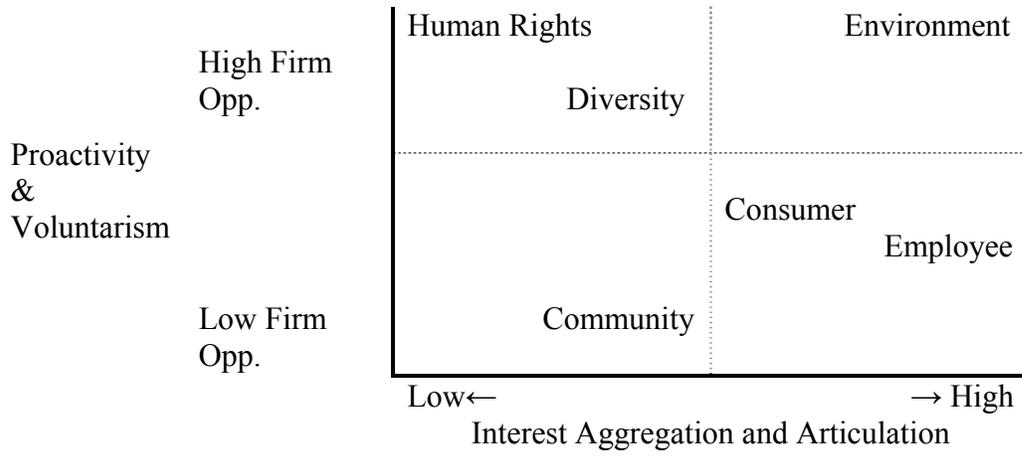


TABLE 1a
CSR Activities on CSP for Stakeholders ^a
(DV: 2007; n=88)

Stakeholder (Stakeholder Category)	Dependent Variable					
	Consumer (I) Model 1	Employee (I) Model 2	HumRight (III) Model 3	Diversity (III) Model 4	Env't (II) Model 5	Community (IV) Model 6
<i>Control Variables</i>						
Revenue	0.000 **	0.000	- 0.000	- 0.000	- 0.000	- 0.000 ***
Employee #	0.001	0.005 **	- 0.000	0.005 *	0.003 *	0.004 *
Ln (Asset)	0.160	0.064	0.038	0.325	- 0.009	0.716 ***
Market Price to Book Value Ratio	0.029	0.006	0.010	0.079	- 0.021	0.025
<i>Independent Variables</i>						
CSR Report	- 0.104	- 0.463	0.079	0.437	0.598 *	- 0.205
GRI Report	0.113	0.365	0.015	0.504	0.481	0.184
CSR Committee	0.061	- 0.135	- 0.098 *	- 0.810 *	0.071	- 0.181
Professional Audit	0.149	- 0.044	- 0.111	- 0.368	0.713	0.748
<i>Model Fit</i>						
R ²	0.273	0.478	0.319	0.452	0.590	0.561
(Adj. R ²)	(0.042)	(0.312)	(0.103)	(0.277)	(0.459)	(0.422)
F (Prob>F)	1.18 (0.297)	2.88 (0.001)	1.47 (0.119)	2.59 (0.002)	4.51 (0.000)	4.02 (0.000)

*** p < 0.01, ** p < 0.05, * p < 0.10

^a All regression coefficients for 13 industry dummies are not significant, so they are not presented in this table.

TABLE 1b
CSR Activities on CSP for Stakeholders ^a
(DV: 2008; n=84)

Stakeholder (Stakeholder Category)	Dependent Variable					
	Consumer (I) Model 7	Employee (I) Model 8	HumRight (III) Model 9	Diversity (III) Model 10	Env't (II) Model 11	Community (IV) Model 12
<i>Control Variables</i>						
Revenue	0.000 *	0.000	- 0.000	- 0.000	- 0.000 **	- 0.000 **
Employee #	0.001	0.004 **	- 0.000	0.005 *	0.002	0.004 *
Ln (Asset)	0.018	- 0.001	0.028	0.082	0.063	0.365 *
Market Price to Book Value Ratio	- 0.007 *	- 0.013	0.001	- 0.002	- 0.003	- 0.000
<i>Independent Variables</i>						
CSR Report	0.007	- 0.242	0.061	0.644	0.809 ***	- 0.222
GRI Report	0.089	0.306	0.037	0.772 *	0.475 *	0.442 *
CSR Committee	- 0.004	- 0.202	- 0.084	- 0.967 **	0.013	- 0.332
Professional Audit	0.125	- 0.015	- 0.114	- 0.211	0.432	0.710 *
<i>Model Fit</i>						
R ²	0.359	0.457	0.318	0.470	0.665	0.546
(Adj. R ²)	(0.142)	(0.273)	(0.087)	(0.291)	(0.551)	(0.392)
F (Prob>F)	1.65 (0.007)	2.49 (0.003)	1.38 (0.165)	2.62 (0.002)	5.85 (0.000)	3.54 (0.000)

*** p < 0.01, ** p < 0.05, * p < 0.10

^a All regression coefficients for 13 industry dummies are not significant, so they are not presented in this table.