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# Performance Implications of Fortune 500 Companies' Self-Interest in Corporate Social Responsibility Activities

Peter M. Neeves  
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# Walden University

College of Management and Technology

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Walden University  
2015

Abstract

Performance Implications of Fortune 500 Companies' Self-Interest in Corporate Social  
Responsibility Activities

by

Peter M. Neeves

MBA, IONA College, 1988

BS, Clarkson University, 1982

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

Management

Walden University

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## Abstract

Numerous prior studies examining the relationship between Corporate Social Responsibility (CSR) and corporate financial performance have produced mixed results. Consumers expect alignment between corporation's CSR and business activities, yet a paucity of research examines the nature of CSR activities as related to corporate financial performance. Corporate leaders lack direction as to what CSR activities are most impactful. CSR is grounded in stakeholder theory, ethical work climate, and servant leadership theories. The relationship between self-interest in CSR activities, an index of alignment between business activities and CSR activities, and financial performance as measured by return on assets (ROA), return on equity (ROE), and change in market value added (MVA) as a percentage of assets has been underresearched. This study examined the financial performance of 77 companies from the 2014 Fortune 500. Information for the construct of self-interest in CSR activities was obtained from the websites of the sample companies. Correlational analysis was used to examine the relationship between self-interest in CSR activities and financial performance metrics. Multiple regression was used to control for firm size, industry, and CSR perception. Self-interest in CSR activities was found to be a significant predictor of both ROA and ROE, and was not found to be a significant predictor of change in MVA as a percentage of assets. This study contributes to positive social change by helping to illustrate a business case for CSR, providing leaders with incentive to invest in socially responsible activities in line with their business activities. Increased CSR activity directly benefits the most marginalized in a society, including those populations who lack voice.

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## Chapter 1: Introduction to the Study

In this study I examined the relationship between the self-interest of Fortune 500 companies' corporate social responsibility (CSR) efforts and the financial performance of these companies. Communication of CSR has become an increased focus in large companies (Arvidsson, 2010). Corporations must communicate their CSR activities in order to be perceived as socially responsible (Arvidsson, 2010). Yet Arvidsson (2010) found information resource managers' CSR focus to be more to avoid "value destruction" than for enhancing financial performance. The nature of the relationships among a company's CSR focus, the communication of that focus, and the company's financial performance, have been underresearched.

Nearly all Fortune 500 corporations communicate their CSR activities on their websites (Smith & Alexander, 2013). If an organization engages in CSR activities that enhance the financial performance of the organization this result should be reflected in standard measures of financial performance. Knowledge of a relationship between a company's CSR focus and financial performance could have a significant positive social impact. If CSR can be accomplished in a manner that improves the company's financial performance, then there would be incentive for management to engage in CSR or increase engagement in CSR, from which all levels of society would benefit.

This chapter includes background of corporate social responsibility, details the specifics of the problem and purpose of this study, and presents the research questions and hypotheses which were examined. Additionally, the theoretical framework and methodology are introduced with additional details to follow in Chapters 2 and 3. Key

terms are defined here, as well as the assumptions of the study and its scope, delimitations, and limitations. Finally the significance of the study as it relates to the problem, the existing body of knowledge, and implications for positive social change are presented.

### **Background**

CSR's recent rise to prominence has been driven by societal demands coupled with social actors' new possibilities for real-time mass communication through social media. The societal demands have been fueled by recent ethical failures and increased awareness of harms, environmental and other, perpetrated by corporations. CSR is not required by law or regulation; corporations are free to choose how, and to what extent, they engage in CSR activities. This can be driven by stakeholder pressure, desire to not risk being viewed as *socially irresponsible*, or more altruistic motives.

Prior studies examining the impact of CSR on financial performance have produced mixed results (Foote, Gaffney, & Evans, 2010). A significant factor is how CSR is measured. CSR is not rigidly defined; there is no consensus definition of the term (Arvidsson, 2010; Büchner, 2012; Clifton & Amran, 2011; Enderle, 2010; Foote et al., 2010; Ludesher & Mahsud, 2010). Corporations have, however, continued to allocate increasing resources to their CSR activities (Barnea & Rubin, 2010). In the past 2 decades numerous sets of principles and guidelines have emerged as CSR standards available for companies to adopt (Werhane, 2010). Adoption of one or more of these sets of principles would both guide an organization's CSR efforts and serve as a measure of its commitment and compliance. Many multinational enterprises have not committed to

any form of these established guidelines (Werhane, 2010). Corporations may be unwilling to commit to Western rights-based guidelines that may not be implementable in some non-Western cultures in which they operate (Werhane, 2010).

The level of an organization's financial investment into CSR is not readily identifiable, so researchers have focused on CSR ratings as a proxy for expenditures. Nelling and Webb (2009) conducted a large-scale time series approach study and found that CSR efforts do not influence corporate financial performance. In this study the KLD Socrates Database was used as a measure of CSR (Nelling & Webb, 2009). This database has been used in other studies and is a broad measure of CSR. These studies using the same database have produced mixed results. Erhemjamts, Li, and Venkateswaran (2013) deconstructed the KLD data into its two components of strengths and concerns and found a positive relationship between CSR and financial performance. Little research has been done utilizing determinants of CSR other than agency ratings. The relationship between communication via social media and CSR is one such underresearched area.

The use of social media to communicate CSR information has increased significantly, with 98% of Fortune 500 companies now addressing CSR on their websites (Smith & Alexander, 2013). Barnea and Rubin (2010) attributed low CSR investment by insider owners to be a form of self-interest, where insider owners invested less into CSR than insiders with lower incidence of ownership. This may be due to CSR not being seen as value adding (Barnea & Rubin, 2010). Self-interest from a corporate standpoint, whether the CSR activities are or are not directly related to financial performance, has been little studied in current research. This study extends the work of Smith and

Alexander (2013) who examined how corporations report CSR activities on their websites. The study also extends the work of Erhemjamts et al. (2013) and Nelling and Webb (2009) by examining the relationship of a different aspect of CSR with financial performance. The study extends the work of Whelan, Moon, and Grant (2013), where social responsibility in the environment of social media was examined. This study adds to the existing knowledge base by determining the relationship between companies' self-interest in CSR activities and their financial performance.

### **Problem Statement**

The problem addressed in this study was the lack of direction for strategic leaders in selecting CSR initiatives. There is a gap in the existing literature quantitatively connecting a corporation's CSR efforts with financial performance. CSR has been shown to have "positive, negative, and neutral impacts on financial performance" (Foote et al., 2010). It is a challenge for an organization to be socially responsible and remain competitive (Delios, 2010). A value maximizing firm will only allocate resources to CSR efforts to the extent it can receive a positive return (Barnea & Rubin, 2010).

This study examined the relationship between three dependent variables—the performance metrics of return on assets, return on equity, and change in market value added as a percentage of total assets—and the primary independent variable of self-interest in CSR activities while controlling for several other variables. Companies focus CSR efforts along a continuum between social assets and production assets (Rath & Gurtoo, 2012). Sabbaghi and Xu (2013) found a positive correlation between inclusion in a social responsibility ranking and return on equity. Different types of firms have

different CSR focuses and articulate them differently on their websites (Smith & Alexander, 2013). An organization can focus its CSR efforts directly on issues in its self-interest, such as activities that provide a sustainable raw material supply, or focus on philanthropic activities geared towards enhancing their social image. Self-interest can be determined by the nature of the CSR activities reported by companies on their websites. There has been little analysis between a company's CSR focus and financial performance. In this study I examined the extent of self-interest in Fortune 500 companies' CSR activities and the implications for the companies' financial performance.

### **Purpose**

This quantitative study correlated the nature of an organization's self-interest in CSR as communicated on their websites with measures of financial performance. The population the sample was drawn from was the 2014 Fortune 500. The primary independent variable was organizations' self-interest in CSR activities. Additional variables served as control variables. The dependent variables were return on assets, return on equity, and change in market value added as a percentage of total assets.

### **Research Questions and Hypotheses**

To determine a potential relationship between the independent variable of self-interest in CSR activities and the dependent variable of financial performance, three research questions were examined, each using a different dependent variable. The accounting metrics of return on assets and return on equity were used to measure financial performance. These metrics had ample support in the literature as relevant

measures for this type of study. The third metric was an indicator of market effect, which is an indicator of investor reaction. Change in market value added as a percentage of assets was used to determine market effect. Both of the accounting metrics control for size; change in market value added as a percentage of assets was calculated instead of market value added to likewise control for size, which has been indicated as a CSR factor in the literature. The dependent variables were measured using available secondary data such as Standard & Poor's reports and Reuter's investment profile reports.

The construct for the independent variable of self-interest in CSR activities was determined from the websites of the sample companies. An informal review of Fortune 500 company's websites showed that companies list their CSR efforts in what appears to be a priority order, where more significant efforts are listed, then less significant, and so on. The construct was calculated as the number of CSR activities appearing before a CSR activity that is not self-interest, such as a philanthropic activity, divided by the total number of CSR activities. This created a CSR index with values ranging from 0 to 1. The basis for this construct is addressed in Chapters 2 and 3.

Three additional variables served as control variables. The inclusion of control variables based on what is known from the literature creates a more robust regression model to illustrate better the effect, if any, of the primary variable of interest, self-interest in CSR activities. The three control variables were firm size, industry, and CSR perception factor. The rationale for inclusion of these three particular variables as control variables is discussed in detail in Chapter 3.



The following research questions were examined in this study:

RQ1: What is the relationship between Fortune 500 companies' return on assets and their self-interest in corporate social responsibility?

RQ2: What is the relationship between Fortune 500 companies' return on equity and their self-interest in corporate social responsibility?

RQ3: What is the relationship between Fortune 500 companies' change in market value added as a percentage of total assets and their self-interest in corporate social responsibility?

In this study I tested the following hypotheses developed from the three research questions:

### **Hypothesis 1**

$H_01$ : Fortune 500 companies' return on assets does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

$H_11$ : Fortune 500 companies' return on assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

For Hypothesis 1 the self-interest of Fortune 500 companies' CSR activities was the primary independent variable, and was measured from the companies' websites. The variable of firm size was measured by revenue, industry using a three classification system discussed in Chapter 3, and CSR perception factor using a three classification system also discussed in Chapter 3. The dependent variable was return on assets

measured as net income divided by total assets.

Hypothesis 1 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the significance of the regression coefficients.

$$ROA = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (1)$$

where, ROA is return on assets,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\varepsilon$  is the error term.

## **Hypothesis 2**

*H<sub>02</sub>*: Fortune 500 companies' return on equity does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

*H<sub>12</sub>*: Fortune 500 companies' return on equity does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

For Hypothesis 2 the self-interest of Fortune 500 companies' CSR activities was the primary independent variable, and was measured from the companies' websites. The variable of firm size was measured by revenue, industry using a three classification system discussed in Chapter 3, and CSR perception factor using a three classification system also discussed in Chapter 3. The dependent variable was return on equity measured as net income divided by shareholder's equity.

Hypothesis 2 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the

significance of the regression coefficients.

$$\text{ROE} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \quad (2)$$

where, ROE is return on equity,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\epsilon$  is the error term.

### **Hypothesis 3**

*H<sub>03</sub>*: Fortune 500 companies' change in market value added as a percentage of total assets does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

*H<sub>13</sub>*: Fortune 500 companies' change in market value added as a percentage of total assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

For Hypothesis 3 the self-interest of Fortune 500 companies' CSR activities was the primary independent variable, and was measured from the companies' websites. The variable of firm size was measured by revenue, industry using a three classification system discussed in Chapter 3, and CSR perception factor using a three classification system also discussed in Chapter 3. The dependent variable is market value added as a percentage of total assets measured as the change in market value added, company market value minus invested capital, divided by total assets and expressed as a percentage.

Hypothesis 3 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the

significance of the regression coefficients.

$$MVA = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \quad (3)$$

where, MVA is change in market value added as a percentage of assets,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\varepsilon$  is the error term.

### **Theoretical Framework**

The theoretical framework for this study included ethical climate theory, servant leadership theory, and the stakeholder theory of corporate social responsibility. Ethical climate theory was introduced by Victor and Cullen in 1987. At the highest level of ethical climate theory, caring, decisions are based on the utilitarianism concept of maximizing well-being (Martin & Cullen, 2006). Ethical climate theory is multifaceted, extending past the organization to include society (Martin & Cullen, 2006). Ethical climate theory holds that organizations would therefore include societal actors in decisions beyond legal requirements—in other words, CSR.

In a similar vein, servant leadership theory likewise extends beyond the firm's boundaries to include all members of society (Reed, Vidaver-Cohen, & Colwell, 2011). Servant leadership theory was introduced by Greenleaf (1970/2008) in 1970. A significant aspect of servant leadership theory is in building community, specifically going beyond the concept of do-no-harm by engaging in constructive improvement (Reed et al., 2011). Like with ethical climate theory, CSR activities are implied by servant leadership theory.

The stakeholder theory of CSR holds that the broadest set of stakeholders should

be considered in the firm's decisions (Werther & Chandler, 2011). Stakeholder theory was introduced by Freeman in 1985. Although there are various definitions of what constitutes a stakeholder, stakeholders include both internal and external actors. In approaching CSR utilizing a broad stakeholder approach, all members of society are included. Stakeholder theory is frequently cited as a basis for CSR decisions.

In all three of these theories, an organization goes beyond legal requirements to include society as a stakeholder. CSR is implicit in each theory, as CSR is going beyond legal requirements for the benefit of society. The relationship of these theories to CSR is further developed in Chapter 2.

### **Nature of the Study**

This quantitative study of the relationship between CSR and financial performance used a different approach to an organization's CSR activities compared to other studies. In this study I used existing financial data and CSR information from the websites of the Fortune 500 companies selected in a random sample. The nature of this study was quantitative analysis. Questions where data can be verifiably observed can be analyzed scientifically (Singleton & Straits, 2010). Quantitative analysis can be used to examine the relationship between quantitative variables (Singleton & Straits, 2010). The subjects of this study were corporations listed on the 2014 Forbes Fortune 500. The primary independent variable for the research questions was corporations' self-interest in CSR activities as determined from their websites. Three additional variables served as control variables. The dependent variable for Research Question 1 was return on assets. The dependent variable for Research Question 2 was return on equity. The dependent

variable for Research Question 3 was market value added as a percentage of total assets. All measures were quantitative variables, subject to verifiable observation, and thus subject to quantitative analysis.

Quantitative analysis is appropriate for studies that use existing data. The dependent variables of return on assets, return on equity, and change in market value added as a percentage of assets were obtained from publicly available existing data. The data for the independent variable of self-interest in CSR was obtained from the websites of the sample companies. Analysis of the data was done using SPSS. This unique analysis helps determine the effect of corporations' self-interest in CSR as reported on their websites on accepted financial performance metrics.

### **Definitions of Terms**

*Corporate social responsibility*: Defined by Barnea and Rubin (2010) as “actions taken by firms with respect to their employees, communities, and the environment that go beyond what is legally required of a firm” (p. 71).

*Greenwash*: When firms mislead the public and consumers with regard to their CSR activities in an attempt to reap financial gain (Werther & Chandler, 2011).

*Market value added (MVA)*: The “difference between the sum of the market value of debt and equity and the capital invested” (Gupta & Kumar, 2013, p. 8).

*Return on assets (ROA)*: The ratio of net profit after taxes to average total assets (Islahuzzaman, 2014).

*Return on equity (ROE)*: The ratio of net income returned to shareholders' equity (Mainul Ahsan, 2012).

### **Assumptions**

There were several important assumptions for this study. The calculation of the financial performance metrics relied on publicly available financial information. The results depended on that information being valid, that companies reported their financial information accurately. The results also relied on CSR information reported on company websites. In this study I relied on that information likewise being valid, that companies are engaged in the activities they are reporting and to the extent that they report them. Assumptions regarding the statistical analysis of the quantitative data and the associated tests are discussed in detail in Chapter 3.

### **Scope and Delimitations**

This study was restricted to companies that were listed in the Fortune 500 list for 2014. Companies that were not included on this list were excluded from this study. This focus was chosen for several reasons. The population of Fortune 500 companies has been studied for CSR impacts on financial performance using the CSR metric of CSR ranking; this study complements and extends the finding of those prior studies. This delimitation further addresses confounding variables, discussed further under limitations. Erhemjamts et al. (2013) found a U-shaped relationship between the size of a company and its level of CSR activity, indicating that small and large firms are more active in the CSR arena than mid-size firms are. Using the Fortune 500 as a population reduces the possibility of size effects distorting the results of the study. U.S. firms approach CSR with an external focus while European and Asian firms approach CSR with an internal focus (Foote et al., 2010). Using the Fortune 500 list excludes non-U.S. companies from the study and

prevents this confounding variable from being an issue. The delimitations of this study mean that results may not be generalizable to other populations.

### **Limitations**

Numerous factors such as size, research and development, financial health, and debt load have been associated with CSR in a variety of prior studies. Analysis of these various subfactors was beyond the scope of this study. The extent, if any, that these factors alter the results cannot be determined by this study. By limiting the scope of the study to Fortune 500 companies and utilizing performance metrics that account for size, the influence of these factors should be mitigated. Influence of various other factors in conjunction with self-interest of CSR activities is an area for future study.

The study only includes large U.S. corporations and U.S. subsidiaries of foreign corporations. As noted previously, European and Asian firms approach CSR differently than U.S. firms do. Additionally, firms in the U.S and United Kingdom (UK) focus more on shareholders as the primary stakeholder, while European firms tend to employ a broader stakeholder view (Sadri & Sadri, 2014). There is a further difference between U.S. and UK firms, with CSR in the UK being less driven by adherence to regulation than in the United States (Sadri & Sadri, 2014). These additional variables complicate CSR beyond the scope of this study. The results of this study may not be generalizable outside of the United States.

### **Significance**

The study is unique in that I addressed an area of CSR as it relates to a company's financial performance that has been underresearched. The results of this study help



address a research gap that exists in knowledge of the impact of the self-interest of CSR activities and their relationship, or lack thereof, to corporate financial performance. The study contributes to the advancement of theory, practice, and social change.

### **Significance to Theory**

There is a paucity of research relating an organization's alignment of CSR activities to financial performance. Munro (2013) found that "aligning CSR with core business is one of the greatest challenges multinational corporations face" (p. 72). A company's CSR efforts need to be genuine; greenwashing will not pass the scrutiny of interested parties (Vallaster, Lindgreen, & Maon, 2012). This study was well grounded in ethical climate theory, servant leadership theory, and stakeholder theory. In tying these three foundational theories together with CSR, the study contributes to the theoretical field of CSR by exploring how CSR is grounded in leadership theory. The results of studies linking CSR activities to financial performance tends in the literature to be based upon CSR rankings, this study approaches the correlation between CSR and financial performance through the underresearched area of CSR alignment with business activities, or self-interest in CSR activities. As such, this study advances the body of knowledge in the arena of CSR theory by addressing an underresearched area through determining the correlation, if any, between self-interest in CSR activities and financial performance.

### **Significance to Practice**

There has been an increasing volume of literature related to CSR activity in the United States (Hoi, Wu, & Zhang, 2013). In spite of the volume of research, the relationship between CSR and financial performance remains unclear. The literature,

however, focuses on the relationship between CSR ratings and financial performance, which does not provide practical guidance for an organization's leadership in terms of how best to structure their CSR activities. Shareholders demand return on corporate investment; other stakeholders demand genuine CSR. If an organization can engage in CSR activities that positively impact financial performance, that would be incentive for stakeholders in demanding CSR activities. At a minimum it would provide needed justification for management decisions to engage in or expand engagement in CSR activities.

This study is unique in attempting to establish a linkage between the types of CSR activity an organization engages in, as related to the organization's core business activities, and financial performance. Such a linkage provides unambiguous direction for corporate leadership in how to focus their CSR activities. If there is a significant correlation between self-interest in CSR activities and financial performance, then there is rationale to pursue specific CSR activities, as they relate to core business activities, to simultaneously produce both social and economic good. The establishment of such a linkage could cement the business case for CSR, both in terms of its potential impact and the types of CSR activities an organization should engage in to produce positive financial results from CSR. This is a significant contribution to CSR practice, as such direction is not clear in the extant literature.

### **Significance to Positive Social Change**

This quantitative study examined the linkage between self-interest in CSR activities and corporate financial performance. The existence of such a linkage improves

the business case for CSR. This in turn can increase both the quantity and quality of CSR efforts. Without a clear business case for CSR, corporate boards and leadership may be limited in the scope of their CSR activities as they lack a mechanism with which to demonstrate that CSR is a sound business practice. A linkage that correlates the type of CSR activity and self-interested CSR with financial performance provides boards and leaders with a foundation upon which to base a call for increased CSR activities. Additionally, this helps establish direction for how to pursue CSR activities in that those activities aligned with core business activities have been indicated to produce greater financial result than activities not aligned with core business activities.

In addition to providing direction and aiding in development of the business case for CSR, such a linkage helps to move CSR from an add-on activity to a long-term strategic activity. Organizations do not continue ineffective CSR activities on a long-term basis (Schreck, van Aaken, & Donaldson, 2013). In approaching CSR from the basis of a long-term strategic activity, the scope and potential impact of CSR activities expands as organizations may be willing to commit to activities that require resources or engagement on a long-term basis. This increases the potential impact of CSR activities. CSR activities are, by nature, good for society. CSR is uniquely a business technique with embedded social betterment. Increases in socially responsible engagement by corporations improve conditions for individuals, communities, and the planet.

### **Summary**

The relationship between CSR and financial performance has not been clearly established, although the literature tends to favor a positive relationship. Measurement of

CSR in prior studies examining the relationship between CSR activities and financial performance has predominantly used CSR ratings as a proxy for investment into CSR. Use of social media by organizations is increasing; this is a little-researched area as it relates to CSR. Some research has linked self-interest, as indicated by insider ownership, with investment into CSR. CSR investment is consumer driven; organizations have moved into the CSR arena in response to societal demands. Large and small companies have embraced CSR to a greater degree than their mid-size counterparts. Most large organizations report their CSR activities on their websites.

This study is grounded in ethical climate theory, servant leadership theory, and stakeholder theory. In the study, I determined the relationship between organizations' self-interest in CSR and their financial performance, addressing a significant gap in the knowledge base. The study has significant implications for positive social change, as knowledge of a relationship between self-interest in CSR activities and financial performance could drive CSR investment with society being the major benefactor.

The remainder of the study is arranged as follows. In Chapter 2 is a review of the current and seminal literature. Knowledge of CSR and financial performance is addressed as well as more detailed analysis of the theoretical basis of the study. In Chapter 3 I detail the specifics of the study in terms of data sources and data collection and the methodology of the analysis of the data. In Chapter 4 I detail the results of the study. In Chapter 5 I further interpret the results of the study, detail recommendations for further research, and close with discussion of implications for positive social change.

## Chapter 2: Literature Review

The potential impact of corporate social responsibility on corporate financial performance has generated a large volume of literature (Carroll & Shabana, 2010; Schreck, 2011; Wang & Basal, 2012). The results have been inconclusive (Foote et al., 2010; Schreck, 2011). The inconsistency in the results may be the result of differences in methodology or the presence of mediating variables or other factors impacting the relationship (Carroll & Shabana, 2010).

CSR is not legislated; companies are free to choose whether or not to engage in CSR activities as well as free to choose what activities to pursue (Kornfeldová & Myšková, 2012; Monachino & Moreira, 2014; Owazuaka & Obinna, 2014). Although CSR is voluntary, corporations frequently embrace CSR after ethical failures or public conflicts (Torres, Garcia-French, Hordijk, Nguyen, & Olup, 2012). Most large publicly traded corporations engage in CSR. Nearly all Fortune 500 companies report their CSR activities on their websites (Smith & Alexander, 2013). Organizations can achieve maximum return on their socially responsible activities by aligning them with their business activities (Porter & Kramer, 2011). Consumers expect firms to engage in CSR activities related to the firm's core business (Du, Bhattacharya, & Sen, 2010). Social responsibility is in the firm's self-interest (Carroll & Shabana, 2010). CSR activities closely related to the firm's business activities should have a greater impact on financial performance than CSR activities not in line with business activities. For example, cooperation between companies engaged in transportation can reduce greenhouse emissions while significantly reducing transportation costs (León & Juan, 2014). The

relationship between this self-interest in CSR activities and financial performance is underresearched in the literature.

In this study I examined the empirical relationship between a Fortune 500 firm's self-interest in CSR activities and the firm's financial performance. Self-interest in CSR activities, the independent variable, was determined from websites of the Fortune 500 companies in the sample. There were three dependent variables: return on assets, return on equity, and change in market value added as a percentage of total assets.

In this chapter I detail the literature search strategy and the theoretical foundation of the study, which included ethical climate theory, servant leadership theory, and stakeholder theory. Literature related to utilizing social technologies in research is also examined. Several models of CSR are compared, contrasted, and synthesized. Literature related to the role of corporate governance and prior studies related to financial performance are examined, showing how the study fits into and extends the knowledge base.

### **Literature Search Strategy**

The literature search for this study was conducted using EBSCO and ProQuest databases as well as the Google Scholar search engine. Search terms used for literature relating to key variables included *corporate social responsibility*, *corporate financial performance*, *corporate social responsibility and financial performance*, *corporate social responsibility and self-interest*, *corporate social responsibility and social media*, *corporate social responsibility and social technology*, *corporate social responsibility and governance*, and *corporate social responsibility and communication*. Search terms used

for literature related to the theoretical framework included *ethical climate*, *ethical work climate*, *servant leadership*, and *stakeholder theory*. Each of these terms was also paired with *corporate social responsibility*. Each search covered at least the last 5 years; most search terms were viewed back further than 5 years to look for seminal works. The searches focused on peer-reviewed literature as well as dissertations. Additionally, I sought literature based upon references found in readings, adding breadth to the review. Literature was selected for inclusion based upon my interpretation of its value as related to this study. There is a large volume of CSR related literature, and some is not applicable to this study; other literature, while applicable, would not have added materially to this dissertation.

### **Theoretical Foundation**

The theoretical framework was grounded in ethical climate theory, servant leadership theory, and stakeholder theory. Each of these theories provided a meaningful contribution to the framework of the study. In this section I provide background on the three theories, their major propositions and hypotheses, and key assumptions. The relationships and interrelationships between the theories and the research study are developed in detail.

#### **Ethical Climate Theory**

Ethical climate theory was first proposed by Victor and Cullen in 1987. The theory was developed out of economic theory and organizational theory (Victor & Cullen, 1988). The ethical climate of an organization determines how groups and individuals make moral decisions (Victor & Cullen, 1988). The theory deals with

normative decision making, which would naturally be subject to variance. A major aspect of this theory is that institutionalized normative moral decisions vary from the moral standards of individuals. Individuals often make decisions based on the ethical climate of the workplace, sometimes in conflict with their personal moral standards (Victor & Cullen, 1988). Victor and Cullen's (1988) original framework consisted of two constructs.

The construct of ethical theory divided the climate into three strata of egoism, benevolence, and principle (Victor & Cullen, 1988). The construct of level of analysis consisted of three strata of individual, local, and cosmopolitan. This yielded a three by three matrix of nine distinct ethical work climates. Through empirical analysis the researchers found these could be consolidated into five common derivatives of instrumental, caring, independence, rules, and law and code (Victor & Cullen, 1988).

In the instrumental ethical climate the perception of work group members is that ethical decisions are made to serve either the individual or the institution (Martin & Cullen, 2006). This corresponds to the egoism construct of the original matrix, with these decisions serving self-interest and being localized to the individual or institution (Martin & Cullen, 2006). This is the only ethical work climate empirically verified at the ethical theory level of egoism. Decisions would be perceived as moral even if they caused harm to others but not to the individual or institution.

In the caring ethical work climate, the perception of work group members is that ethical decisions are made to maximize well-being, including the individual, the organization, and society (Martin & Cullen, 2006). This ethical work climate type has



been found to be the type of ethical work climate most frequently preferred by employees (Martin & Cullen, 2006; Victor & Cullen, 1988). This ethical work climate consists of the benevolence level of ethical theory and combines the individual and local locus of analysis. This is the only ethical work climate empirically verified at the ethical theory level of benevolence. The original nine climate matrix specifically had an ethical work climate of social responsibility at the intersection of the ethical theory of benevolence and the cosmopolitan locus of analysis. The ethical work climate of social responsibility did not manifest in the empirical derivation of climate types. While the caring ethical work climate is depicted as operating at the individual and local locus of analysis, concern for society at large is explicitly included as an ethical decision factor in the caring ethical work climate (Martin & Cullen, 2006).

The remaining three empirically verified ethical work climate types were all found at the ethical theory level of principle (Martin & Cullen, 2006; Victor and Cullen, 1998). At the individual locus of analysis is independence, where ethical decision making is perceived by work group members as based on personal moral conviction (Martin & Cullen, 2006). At the local locus of analysis is rules, where ethical decision making is perceived by work group members as based on company rules or standards of conduct (Martin & Cullen, 2006). At the cosmopolitan locus of analysis is law and code, where ethical decision making is perceived by work group members to be based on external codes (Martin & Cullen, 2006).

Organizations are not restricted to one ethical work climate, different work groups, organizational levels, and locations may have different ethical climates (Martin &

Cullen, 2006; Victor & Cullen, 1988). Organization form is also a determinant and predictor of ethical work climate (Martin & Cullen, 2006; Victor & Cullen, 1988). The type of ethical work climate that exists has practical applications.

Practical application of ethical work climate theory has shown direct relationship with organizational outcomes. Organizational commitment, psychological well-being, and job satisfaction have been clearly linked with ethical work climate (Martin & Cullen, 2006). Higher levels of organizational commitment have employees more engaged and more willing to sacrifice to achieve organizational objectives (Martin & Cullen, 2006). Psychological well-being results from positive association of the organizational climate with affective factors such as trust and support (Martin & Cullen, 2006). Job satisfaction can be broadly viewed to include not only task satisfaction, but also satisfaction with supervisors, co-workers, and advancement opportunities (Martin & Cullen, 2006).

In a meta-analysis of ethical work climate research Martin and Cullen (2006) found a positive relationship between a caring ethical work climate and all three organizational outcomes of organizational commitment, psychological well-being, and job satisfaction. The positive relationship was found to be stronger for each of these outcomes in the ethical work climate of caring than in any of the other ethical work climate types. Additionally, the instrumental ethical work climate, driven by egoism at the expense of others, was found to lead to negative reaction by employees (Martin & Cullen, 2006). The instrumental ethical work climate type has been associated with dysfunctional organizational behaviors, including ethical failures (Martin & Cullen, 2006).

The meta-analysis of Martin and Cullen (2006) clearly shows positive organizational outcomes as the result of a caring ethical work climate. This is the same ethical work climate type shown by both Martin and Cullen (2006) and Victor and Cullen (1988) to be most preferred by employees. An organization can positively influence aspects of productivity such as organizational commitment, psychological well-being, and job satisfaction by fostering a caring ethical work climate. Corporate social responsibility is explicit in a caring ethical work climate and is not explicit in any of the other four models in ethical work climate theory.

Leaders can influence their ethical work climate. This can be accomplished by modeling behavior, specifically caring behaviors that would promote the positive benefits associated with a caring ethical work climate. Silén, Kjellström, Christensson, Sidenvall, and Svantesson (2012) found the receipt of peer support and shared responsibility for outcomes to be determinants of a positive ethical climate. As CSR is explicit in a caring ethical work climate as organization must engage in CSR to be perceived as having a caring ethical work climate.

### **Servant Leadership Theory**

Servant leadership theory was introduced by Robert Greenleaf in 1970 (Greenleaf, 1970/2008). A servant leader places the needs of others first (Greenleaf, 1970/2008). The servant leader seeks first to serve, leadership grows out of service (Greenleaf, 1970/2008). This is in opposition to traditional leadership views where a leader is driven by other motivations and may or may not chose to serve (Greenleaf, 1970/2008). In being of service to others, ethics is intrinsic to servant leadership; one

cannot be both a servant leader and act in an unethical manner (Ruiz, Martinez, & Rodrigo, 2010). Servant leadership suffers from a lack of empirical verification (Barbuto & Wheeler, 2006; Reed et al., 2011; Sendjaya, Sarros, & Santura, 2008). Models for measuring servant leadership have been developed in several studies.

Barbuto and Wheeler (2006) developed a scale for measuring servant leadership. They began with 11 potential characteristics, in line with the characteristics first outlined by Greenleaf. Their research produced a validated measuring instrument with five subscales of altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship (Burbuto & Wheeler, 2006). Of particular interest for this study was Burbuto and Wheeler's (2006) construct of organizational stewardship and its relationship to CSR.

Organizational stewardship includes deliberately effecting positive social change in local communities (Barbuto & Wheeler, 2006). Organizational stewardship specifically requires that servant leaders take responsibility to improve conditions and circumstances for members of the local community. This places CSR as an explicit and inherent aspect of servant leadership. Greenleaf's (1970/2008) theory anticipated positive social outcomes; that the least privileged would benefit, or at least, would not be harmed.

Sendjaya et al. (2008) likewise created an empirically derived scale of servant leadership behavior. The measure produced by Sendjaya et al. (2008) consisted of six subscales of voluntary subordination, authentic self, covenantal relationship, responsible morality, transcendental spirituality, and transforming influence. The authors indicated that their construct was comparable with that of Barbuto and Wheeler (2006); the primary

difference being the addition of a measure of spirituality (Sendjaya et al., 2008). The subscales defined by Sendjaya et al. (2008) do not provide a construct readily mappable to CSR. As Sendjaya et al. (2008) stated that their construct was comparable with that of Barbuto and Wheeler (2006) it appears that the issue is one of codification; the arrangement of Sendjaya et al.'s (2008) scales embed CSR into other dimensions, with aspects of CSR possibly being contained in multiple subscales. CSR is inferred in Sendjaya et al.'s (2008) model of servant leadership.

Shaw and Newton (2014) conducted a correlational study examining teachers' perception of servant leadership and job satisfaction. Teachers' perception of servant leadership was found to be positively correlated with job satisfaction (Shaw & Newton, 2014). Additionally, intended retention in the teaching field was positively correlated with servant leadership (Shaw & Newton, 2014). Servant leadership has been correlated with a positive work climate (Black, 2010; Dierendonck & Nuijten, 2011). These studies provide additional support for direct positive outcomes of servant leadership. This does not, however, indicate that servant leadership is always the most appropriate leadership model. In tying servant leadership to the particular needs of the health care field Trastek, Hamilton, and Niles (2014), while noting servant leadership as particularly suited to leadership in the health care field, cautioned against its use in critical situations, such as in the emergency room. Servant leadership may not allow for sufficiently quick response times in critical situations (Trastek et al., 2014). Gender and age may also have an effect on an individual's receptiveness to servant leaders (Rodriguez-Rubio & Kiser, 2013).

Culture also effects individual's receptiveness to servant leadership (Rubio-Sanchez, Bosco, & Melchar, 2013).

An additional scale to measure servant leadership was developed by Reed et al. (2011). The Reed et al. scale differs from Barbuto and Wheeler (2006) and Sendjaya et al. (2008) in that it is specifically designed to measure servant leadership of executives. Reed et al. determined five constructs to indicate executive servant leadership, interpersonal support, building community, altruism, egalitarianism, and moral integrity. The construct of building community related directly to the theoretical foundation of the study.

Building community includes both within the organization and outside the organization (Reed et al., 2011). In building community external to the organization executives must recognize not only a moral duty to do no harm but must also recognize a need to proactively improve conditions (Reed et al., 2011). This is the essence of CSR, explicit in Reed et al.'s (2011) construct for determining executive servant leadership. Reed et al. (2011) further identified this relationship of executive servant leadership and CSR as an important direction for future research.

Recent ethical failures and corporate scandals have renewed interest in moral and ethical theories of leadership including servant leadership (Reed et al., 2011; Sendjaya et al., 2008). CSR is explicit in Greenleaf's theory of servant leadership (Christensen, Mackey, & Whetten, 2014). Servant leadership is measured, either directly or indirectly, in recent scales designed to measure servant leadership. The scales of Barbuto and Wheeler (2006), Reed et al. (2011), and Sendjaya et al. (2008) fall short of Greenleaf's

vision of CSR in servant leadership. Each construct includes measures that capture CSR, but Greenleaf's (1970/2008) theory is that servant leaders will consider the "effect on the least privileged in society" (p. 15). It cannot be said that any of the three other servant leadership measurement scales captures CSR at this level. Each of the proposed measures of servant leadership is empirically grounded yet validation through additional studies is lacking in the literature.

Servant leadership is closely related to the caring ethical work climate of Martin and Cullen (Reed et al., 2011). The caring ethical work climate, as indicated earlier, promotes organizational commitment, psychological well-being, and job satisfaction – all factors tied to corporate performance. Servant leadership should create a caring ethical work climate and benefit likewise from the associated rewards.

### **Stakeholder Theory**

Stakeholder theory, frequently referred to as the stakeholder approach, emerged in the 1980s (Clifton & Amran, 2011). Stakeholder theory gained momentum and importance as the result of R. Edward Freeman's 1984 book on strategic management (Clifton & Amran, 2011).

Freeman's central thesis was that managers' strict allegiance to shareholders needs to be replaced with a concept where management has a fiduciary responsibility to the firm's stakeholders (Freeman, 2001; Freeman & Reed, 1983). Freeman used a broad definition of stakeholders including all directly impacted by the organization (Freeman, 2001). Freeman (2001) further delineated stakeholders as including the local community and the managers of the organization. This is a transition in management view,

questioning who should reap the benefits or bear the costs of the firm's decisions (Freeman, 2001). Importantly, stockholders are part of the set of stakeholders Freeman's (2001) theory suggests replacing them with. There are multiple ways to consider who is, and who is not, a stakeholder.

Determining what groups or individuals are a stakeholder can be done in a narrow sense or in a wide sense (Freeman, 2001; Freeman & Reed, 1983). In the narrow sense a stakeholder is limited to those groups or individuals that the organization is dependent on (Freeman & Reed, 1983). This includes groups such as shareholders, employees, and some customers and suppliers (Freeman & Reed, 1983). The wide sense includes stakeholders capable of impacting the results of the organization or who could conversely be impacted by those results (Freeman & Reed, 1983). The wide sense of a stakeholder includes all the stakeholders included in the narrow sense, plus others. The wide criterion is broader in two ways. The wide sense of stakeholders includes those who can affect the achievement of an organization's objectives as opposed to those that the organization is dependent upon. In this sense minor customers or suppliers would be stakeholders even though they may have been excluded in the narrow definition. Secondly, the wide sense includes those affected by the activities of the organization, without regard to their ability, or lack thereof, to affect the organization's ability to meet its objectives. This is far more inclusive than the narrow definition and brings community members, additional governmental bodies, and even competitors into the stakeholder arena. Management needs to consider all stakeholders in its strategic decisions (Freeman & Reed, 1983).



The task of management is one of balancing stakeholder relationships (Freeman, 2001). It is not possible to always satisfy all stakeholder demands, at times some stakeholders will benefit while others do not (Freeman, 2001). Freeman's (2001) view is not that stakeholder theory can be or should be broken down into a set of rules but is instead more of a code of relationship concepts. There are several reasons for this flexible view of stakeholder theory. A corporation and its stakeholders have different needs than do other corporations and their stakeholders. Managers need to balance the needs of their corporation's stakeholders for the good of their corporation; which will be different from the decisions best for another corporation or at another point in time. One major aspect of this is the environment or environments the organization operates in. Large corporations in particular frequently operate in multiple cultures and societies, each with their own needs, customs, and demands. Perceptions of CSR also vary based upon gender, work experience, and other factors (Fitzpatrick, 2013). CSR is explicit in the wide view of stakeholder theory.

The wide stakeholder view requires managers to consider all who can be impacted by the business when making strategic decisions (Freeman & Reed, 1983). Strategy formation frequently suffers from a lack of inclusion, where involved or interested parties are frequently not participating in strategy formation (Romme & Barrett, 2010). Freeman detailed six groundrules for stakeholder guidance, which he referred to as the "Doctrine of Fair Contracts" (Freeman, 2001, p. 47). The principle of entry and exit is that the company's contracts must spell out unambiguously entry and exit provisions (Freeman, 2001). The principle of governance is that changes to rules affecting stakeholders can

only be accomplished by unanimous consent (Freeman, 2001). This protects less powerful stakeholders. The principle of externalities is that any stakeholder affected by a contract has a right to be party in that contract (Freeman, 2001). The principle of contracting costs is that these costs be shared between all contracting parties (Freeman, 2001). The agency principle is that any agent must consider the interests of all of the affected stakeholders (Freeman, 2001). Finally, the principle of limited immortality is that the corporation exists indefinitely and should be managed so as to not self-extinguish (Freeman, 2001). This last principle is of particular relevance to CSR.

Sustainability is a general concept which deals with the indefinite continuance of life on Earth (Clifton & Amran, 2010). Sustainability is an aspect of CSR, that the environment should be treated as a stakeholder and managed to exist on a sustainable—not ending—basis. Extinguishing a resource that an organization needs for production would violate the principle of sustainability and likewise violate Freeman's (2001) principle of limited immortality.

Two aspects of stakeholder theory then define CSR as an integral component of stakeholder theory. The wide view of stakeholder theory requires a firm to consider all of those who may be impacted by a firm's decisions. Freeman's (2001) doctrine of fair contracts gives all affected parties voice via the principle of externalities and embraces sustainability in the principle of limited immortality. Freeman (2001) indicated that strategic management and corporate social responsibility were inseparable; that viewing the social and economic aspects of business separately is a grave error of ignoring the inherent and inseparable interrelationships.

While corporate social responsibility is inherent in ethical climate theory, servant leadership theory, and stakeholder theory, it is not inherent in all major leadership theories. Transformational leadership theory is based on ethical decision making but in practice transformational leaders may act ethically or unethically (Reed et al., 2011). Transformational leaders seek to inspire followers for the purpose of achieving organizational goals (Barbuto & Wheeler, 2006). The betterment of society may or may not be an organizational goal, but there is not a grounding of social betterment in transformational leadership. Authentic leadership theory also requires ethical decision making (Reed et al., 2011). Like transformational leadership, authentic leadership has an internal, leader-based focus; CSR is not explicitly required in either of these theories.

### **Literature Related to Key Variables**

#### **Social Media and CSR Communication**

Corporations have been increasingly using social media to communicate their CSR activities (Eberle, Berens, & Li, 2013; Kesaven, Bernacchi, & Mascarenhas, 2013). Research relating to the importance of, and benefits of, using social media to communicate CSR activities is limited (Lyes, Palakshappa, & Bulmer, 2012; Whelan et al., 2013). Social media have an efficiency advantage as compared to traditional media; the interactivity of social media expands the message beyond what was originally created by the organization (David, 2012; Lee, Oh, & Kim, 2013). This creates additional coverage for the organization without the work and cost of generating the additional content (Lee et al., 2013). Social media can be defined in several ways.

Social media definitions are frequently done in list form. For example Whelan et al. (2013) provided examples of Facebook and Twitter, Kesavan et al. (2013) provided examples of Facebook, Twitter, and LinkedIn as well as others such as YouTube. Social media can be defined in other ways as well. Whelan et al. (2013) also distinguished between old media and new media where new media includes social media, smartphones, and the internet. Skaržauskienė, Tamosiūnaitė, & Žalėnienė (2013) instead defined social technologies, which incorporated social media as well as other collaboration tools. This distinction was specified in other terms by de Bakker and Hellsten (2013).

De Bakker and Hellsten (2013) referred to “relatively stable websites” as “Web 1.0 applications” and “more dynamic and interactive Web 2.0 applications such as social media” (p. 808). They further differentiate on the basis of content generation, with Web 1.0 content generated by limited individuals and Web 2.0 content which can be created by readers of the media (de Bakker & Hellsten, 2013). The two types of media are linked and de Bakker and Hellsten recommended further analysis of Web 1.0 applications which are not as analyzed as Web 2.0 applications in the literature.

The various definitions can be separated into two groupings. One grouping would form a narrow definition, limited to interactive social networking sites. The other group would form a broad definition that would include, in addition to interactive social networking sites, less interactive sites that provide the opportunity for feedback, such as YouTube, and sites or technologies that may or may not be interactive, such as company webpages. This broad definition approaches Whelan et al.’s (2013) new media in a form closer to Skaržauskienė et al.’s (2013) social technology approach. Eberle et al. (2013),

for example, included corporate webpages related to CSR in a broad definition of interactive online media. The primary difference between a narrow approach and a broad approach to defining social media is degree of interactivity.

The narrow approach includes only those medium where interactivity is explicit. The broader approach includes medium where interactivity is limited, or where interactivity can or cannot exist, depending on the specific design of the channel. Eberle et al. (2013) specifically included company websites as an interactive medium as the majority of company CSR webpages allow for at least user comments. The degree of interactivity has importance for CSR communication.

Eberle et al. (2013) found perception of interactivity to be positively related to credibility. The actual interactivity was not related, the perception of interactivity by the consumer was the determinant of message credibility (Eberle et al., 2013). A consumer who perceives they can respond to an organization's message may perceive the message as more likely to be credible as the organization would not risk publishing non-credible information which could be immediately refuted (Eberle et al., 2013). Additionally, the perception of interactivity may increase positive identification with the company (Eberle et al., 2013). This is in turn positively related to corporate reputation and positive word-of-mouth communication (Eberle et al., 2013). The interactivity of the message alters the receiver's perception of the message.

The credibility of messages is higher for messages received from third parties than it is for messages received directly from the company (Du et al., 2010; Eberle et al., 2013). As long as the responses of other users can be seen then this distinction between

media sources becomes less clear (Eberle et al., 2013). The credibility of the corporation's message is enhanced and becomes similar to a third-party message when the viewer of the message perceives the communication as interactive. Consumers are also more likely to pass on to others messages they perceive as interactive, enhancing word-of-mouth communication (Eberle et al., 2013).

The relationship between the content of the message and consumer's reaction to the message is also linked to credibility (Du et al., 2010; Eberle et al., 2013). Consumers want companies to engage in CSR activities that are directly related to their business activities (Du et al., 2010; Eberle et al., 2013; Lyes et al., 2012). There exists a disconnect between CSR activities not related to the company's business activities and positive perception by consumers.

Consumers are skeptical of the corporation's motives when business activities and CSR activities do not align (Du et al., 2010). Consumers view companies' motives for CSR activities as either extrinsic or intrinsic (Du et al., 2010). When consumers view the motives as extrinsic they view the company's CSR efforts as strictly for the purpose of increasing profits (Du et al., 2010). When consumers view the company's motives as intrinsic they view the company's CSR efforts as based in real concern for the issue (Du et al., 2010). CSR efforts in line with the company's core business are viewed as a better fit; they are viewed as intrinsic motives (Du et al., 2010). When communicating a CSR activity organizations need to make this relationship between the business and the activity explicit in order to minimize skepticism (Du et al., 2010). Failure to provide adequate information likewise results in increased skepticism (Lyes et al., 2012). Consumers

expect organizations to act in a self-interested fashion; failure to communicate the relationship between the firm's interest and the CSR activity increases consumer skepticism and negates or reduces the positive attributes and benefits of the corporation's CSR activity. A caution is for corporations to communicate honestly and acknowledge that they benefit from the activity. Business leaders are perceived as not trustworthy or credible (Pless, Maak, & Waldman, 2012). Honest communication with corresponding behavior enhances trust; inconsistency between communication and behavior decreases trust (Caldwell & Hansen, 2010). Consumers also quickly become skeptical when they perceive the organization as being overly aggressive in promoting their CSR activities (Du et al., 2010). It is important that the actual actions of the firm align with their message.

Lee et al. (2013) indicated that the risks associated with communicating CSR are related to a firm's self-identification with truly being socially responsible. Lee et al. (2013) found more socially responsible firms to be early adopters of social media for communicating CSR activities and that these firms also built a greater online presence around their CSR activities. An oft overlooked aspect, however, is corruption. Many firms fail to report any anti-corruption activities in their CSR disclosures (Branco & Delgado, 2012).

Smith and Alexander (2013) found consistency amongst CSR headings on Fortune 500 companies' websites. The most common CSR related headings dealt with community and the environment (Smith & Alexander, 2013). This was consistent whether the organization's primary business activity was in manufacturing, retail, or

service (Smith & Alexander, 2013). Beyond these two primary CSR headings the CSR headings of manufacturing firms differed from those of retail or service firms (Smith & Alexander, 2013). Manufacturing firms were more likely than either retail or service firms to have a CSR heading related to sustainability (Smith & Alexander, 2013). This would be expected if companies are aligning their CSR activities, and the communication of those activities, with their core business. For retail companies ethics was the next most common heading after community and the environment (Smith & Alexander, 2013). Smith and Alexander (2013) attributed this as possibly being related to a prevalence of employee theft problems in the retail industries. For service companies diversity was the next most common heading after community and the environment (Smith & Alexander, 2013). Smith and Alexander (2013) attributed this to the labor intensive nature of service businesses. Smith and Alexander's (2013) analysis indicated a great deal of consistency in how organizations title their CSR activities on their webpages, especially within business classifications. That the three general classifications used by Smith and Alexander (2013) have different headings at the third level may indicate a degree of self-interest, where organizations may be aligning their CSR activities with their core business activities. The results of the study significantly expand on the findings of Smith and Alexander (2013) in examining directly the degree of self-interest and its relationship to financial performance.

### **CSR Models**

Geva (2008) compared and contrasted three major models of CSR. The pyramid model, presented by Carroll in 1991, is widely used in CSR literature (Geva, 2008). The



intersecting circles model is a Venn diagram type depiction of the areas of CSR (Geva, 2008). The concentric circle model, originally the work of the Committee for Economic Development, also has strong support in the literature (Geva, 2008).

Carroll's (1991) pyramid model is broken into four levels of CSR, the economic, the legal, the ethical, and the philanthropic. The economic level serves as the foundation for the pyramid (Carroll, 1991). Carroll depicted this as the first level a business needs to meet "All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations" (p. 41). This is consistent with utilitarianism, placing economic maximization as the primary responsibility of the firm (Renouard, 2011). Economic responsibilities under Carroll's (1991) pyramid of CSR include maximizing earnings and profits.

The legal level of the pyramid sits atop the foundational economic level. The elements of the legal depict compliance with the letter of the law and meeting the minimum of legal standards for products (Carroll, 1991). While compliance with the letter of the law is explicit, Carroll (1991) listed this adherence to the letter of the law as a component of CSR at the legal level of the pyramid that further required meeting government expectations. This is in conflict with legal responsibility as defined elsewhere in the article; the conflict being that adherence to expectations implies a higher standard than the letter of the law. The issue is simply one of where meeting expectations exists in the pyramid, as it is explicit in Carroll's (1991) next level of ethical responsibilities.

Ethical responsibility sits atop legal responsibilities in the CSR pyramid (Carroll, 1991). Ethical responsibilities exist in terms of a social contract and are specifically not codified (Carroll, 1991). Ethical responsibilities are considered in a normative fashion; they are not depicted by Carroll (1991) as based in moral code or theory, although consideration should be given to general ethical principles. Ethical responsibilities under Carroll's (1991) pyramid require exceeding compliance with the law by meeting social and ethical norms and expectations. It is important for organizations to operate in an anticipatory way towards evolving ethical norms (Carroll, 1991). Carroll (1991) also viewed social ethics as a precursor to law; the source from which laws are ultimately created.

Carroll's (1991) pyramid is topped with the level of philanthropic responsibilities. Carroll (1991) indicated that corporate philanthropic activities are discretionary, but driven by social expectations of corporate citizenship. Carroll (1991) separated the philanthropic from the ethical as failure to meet the philanthropic would not cause an organization to be seen as unethical, failure to meet the ethical does reflect negatively on the organization. Philanthropic responsibilities under Carroll's (1991) pyramid include "consistent with the philanthropic and charitable expectations of society" and "assist the fine and performing arts" (p. 41). Carroll (1991) indicated the philanthropic level to be the least important of the four categories, a sort of a bonus category but not a requirement.

Carroll (1991) did not see the pyramid as a perfect representation of CSR, nor were the levels of the pyramid to be viewed as mutually exclusive. The goal for

management was to meet each level simultaneously (Carroll, 1991). The levels exist in tension, with the primary tensions existing between the economic and each of the other three levels (Carroll, 1991). The pyramid was designed for practical, not theoretical, purposes (Carroll, 1991).

There are issues with the pyramid design from both a theoretical and practical standpoint. Given that the pyramid has served as a basis for considerable CSR research (Geva, 2008), the issues may be attributable to social changes since the time the pyramid was introduced.

A company which meets economic, legal, and ethical requirements does not meet the current view of being socially responsible. The current view of CSR includes organizations going beyond the level of economic, legal, and ethical—and doing so voluntarily. Philanthropic activity is expected by society, placing these activities into the business-society contract (Grigore, 2010). Carroll (1991) viewed the philanthropic level as optional, which in current CSR would not hold. Economic requirements as a foundation is also problematic, both from a practical and theoretical standpoint. An organization must meet its economic requirements within the context of legal and ethical, not as a prerequisite to legal and ethical. From both a practical and theoretical standpoint legal must come before economic; ethical must come before economic at least in regards to being a model for social responsibility. The alternative is having a model where violation of law or ethics is acceptable when necessary to assure profit. This is neither legally nor ethically acceptable. A contributing factor may be neglecting timeframe in considering economics as the foundation of the model.

A business needs to meet economic requirements on a long-term basis, which may be subject to short-term fluctuations, including short-term loss. With timeframe factored in meeting economic needs becomes a long-term condition, but legal and ethical requirements must still be met continuously, there is no business situation where violation of the law for economic purposes is an acceptable situation.

There is an irreconcilable conflict in Carroll's (1991) model between economic requirements and philanthropic requirements. The philanthropic, as previously stated, is optional in the model. Economic requirements are based on the maximization of profit on a per-share basis (Carroll, 1991). Maximization of earnings per share would restrict participation in philanthropic activities to those which maximize return compared to any other possible activities; any other choice would not maximize earnings. Philanthropic activities are, however, to meet societal expectations and also to provide assistance to both the fine and the performing arts (Carroll, 1991). Societal expectations for an organization's philanthropic activities are not likely to result in maximum earnings per share. Assistance to fine arts or performing arts would not generally be a revenue producing activity and would directly dilute earnings per share. As both of these are required, philanthropic activities cannot be undertaken using Carroll's (1991) pyramid of corporate social responsibility without violating the stated requirements of the model. Further, philanthropic activity such as donations to the arts lacks long-term focus and may not contribute to real social change (Sharma & Mehta, 2012).

Schwartz and Carroll (2003) presented a three construct approach to address the weaknesses found in Carroll's (1991) pyramid model. Schwartz and Carroll (2003)

referred to this new model as the three-domain model. This model is referred to by Geva (2008) as the intersecting circles model. The three-domain model eliminates the hierarchical presentation of the pyramid model, preventing an inappropriate assumption of importance for the top-positioned philanthropic level (Schwartz & Carroll, 2003). The three-domain model, through the use of overlapping circles, better depicts the overlapping aspect of the three constructs (Schwartz & Carroll, 2003).

The three domains of the new model were the economic, legal and ethical domains (Schwartz & Carroll, 2003). The philanthropic responsibility level of the prior pyramid structure was eliminated as a separate construct of CSR (Schwartz & Carroll, 2003). The new model proposed that philanthropic activities might or might not exist in CSR, due to their discretionary nature (Schwartz & Carroll, 2003). Philanthropic activity in the three-domain model would fall under either the ethical or economic domain, depending on the motivation behind the activity (Schwartz & Carroll, 2003). In addition to these conceptual changes, the domains of economic, ethical, and legal were defined in greater detail in the new model (Schwartz & Carroll, 2003). The three overlapping circles of economic, ethical, and legal create seven distinct categories with the central category consisting of the intersection of all three domains (Schwartz & Carroll, 2003). This central category is where companies should operate on an on-going basis (Schwartz & Carroll, 2003). Schwartz and Carroll (2003) did identify limitations of the three-domain model.

The three-domain model assumes that each domain is discrete (Schwartz & Carroll, 2003). It is difficult to imagine that an activity could exist purely in one domain

without impact on another (Schwartz & Carroll, 2003). This places at least three of the seven categories as strictly theoretical without practical application. The model further assumes that the three domains are exhaustive (Schwartz & Carroll, 2003). This assumption appears problematic for a CSR model, as it leaves the possibility of satisfying the three domains without any voluntary activity for the betterment of society.

Geva (2008) defined eight categories for the three-domain or overlapping circles model. As the model is depicted in Venn diagram format, there would be an additional outer category of not legal, not ethical, and not economic in which the three overlapping circles lie (Geva, 2008). From a theoretical standpoint this is as important as purely any one of the three domains; from a practical standpoint it has similarly little value. From a management perspective the model does not hold managers responsible for the effect of their actions upon either the organization or society (Geva, 2008). While the three-domain model specifically addresses some shortcomings of the CSR pyramid it fails to provide a clear theoretical foundation for CSR or provide clear managerial direction.

Geva (2008) also presented an adaptation of the concentric-circle model of CSR, first presented by the Committee for Economic Development in 1971. The original concentric-circle model consisted of a central circle of economics embedded in a circle of ethics and further embedded in a circle of philanthropic activity (Geva, 2008). Geva's adaptation of the model includes a legal circle embedding the economic circle and contained within the ethics circle. Legal was presumed as a constraint of economics in the original model (Geva, 2008). There are significant differences in what is represented by the concentric circles model and the intersecting circles model or levels of the CSR

pyramid (Geva, 2008). Geva labeled the circles using Carroll's (1991) and Schwartz and Carroll's (2003) nomenclature to aid comparison.

CSR is inherent in Geva's (2008) concentric-circles model. In the two models previously discussed it was clear that the levels of the model could be achieved with or without being socially responsible. The economic circle of the concentric-circle model incorporates CSR as it requires a constructive profitability, requiring social benefit as an economic condition (Geva, 2008). This is an inclusive economic viewpoint, the betterment of society is a necessary outcome (Geva, 2008). This stands in direct contrast to the CSR pyramid and the intersecting circles models, wherein the betterment of society is optional.

The legal circle as depicted by Geva (2008) is a proactive relationship with law, not mere compliance. Mere compliance with the law is not necessarily a socially responsible tactic. Geva's (2008) model requires, in addition to obedience, an active posture with regard to law. This could include, for example, promoting environmental legislation which would have economic impact (Geva, 2008). Geva's specific example was one of removing a cost disadvantage, yet could be expanded to a leveling of the field, where costs are borne industry-wide for societal betterment.

Ethical issues are inseparable from business activity (Geva, 2008). This is an internal focus on ethics as opposed to the external focus of meeting expectations found in the other two models (Geva, 2008). A gap exists in the CSR pyramid and the intersecting circles model where local ethical norms or conditions could be met by an organization in what some stakeholders and others might not see as being ethical (Geva, 2008). In the

concentric-circle model an organization should be an agent for positive social change in the ethical arena as well as the other arenas (Geva, 2008).

The outermost philanthropic circle represents those actions and activities which a business should undertake to proactively improve social conditions (Geva, 2008). As all other business activity is depicted inside this outer ring there is no business activity in this model which can be undertaken without consideration to social context. The concentric-circle model does not leave CSR as an optional aspect as in the CSR pyramid and the intersecting circles models.

Perhaps the most significant difference of the concentric-circle model is the intra-relationships inherent in the circles. While both the CSR pyramid and intersecting circles model are purported to represent CSR there are areas where CSR is not inherent in the models; the models allow for non-responsible behavior. The concentric-circle model has intra-relationships between all aspects; economic activity, at the core, is embedded in legal, ethical, and philanthropic, or social betterment, arenas. In the concentric-circle model there cannot be economic activity in an illegal or unethical fashion. It is not that such an activity cannot exist in the world – but instead that it cannot exist in the world of corporate social responsibility. The model infers that CSR is a strategic activity, all business activity of a socially responsible organization can only be done legally, ethically, and in regard for society.

The concentric-circle model has implications for examining the relationship between CSR and corporate financial performance (Geva, 2008). Geva (2008) hypothesized an inverted U-shaped relationship between CSR and corporate financial



performance. Most existing studies have presumed a linear relationship (Geva, 2008). In this hypothetical relationship corporate financial performance would improve with increasing CSR until a normal level of profit is achieved (Geva, 2008). This would be a causal relationship, increasing CSR being rewarded by stakeholders (Geva, 2008). Above normal profits would be associated with diminishing CSR as profits advanced further above normal (Geva, 2008). This would be inferred from the model that organizations should not achieve above normal profits as excess profit should be used for social betterment (Geva, 2008). This hypothetical relationship has not been empirically tested (Geva, 2008). This is not the only relationship between CSR and financial performance that could exist under the concentric-circle model. There are numerous factors affecting corporate financial performance of which CSR is only one aspect.

### **Governance and Leadership**

Critics of CSR practice point to boards of directors as the barrier to effective CSR (Mason & Simmons, 2014). This is consistent in the literature; CSR needs to be implemented at the top and permeate throughout the organization (Mason & Simmons, 2014; Peloza, Loock, Cerruti, & Muyot, 2012). For an organization to be truly socially responsible decisions of business and decisions of ethics cannot be isolated (Freeman, 2010; Mason & Simmons, 2014, Purnell & Freeman, 2012). Socially responsible organizations give consideration to all stakeholders, including those stakeholders who lack voice (Mason & Simmons, 2014). Business leaders, however, tend to believe there is alignment between their CSR activities and their financial objectives (Peršič & Markič, 2013). Lack of clear planning leads to inefficiency with low probability of obtaining

ambiguous goals (Xueying, 2014). Voice is an issue, as only shareholders elect directors of the firm. This gives shareholders voice which other parties interested in CSR lack (Gevurtz, 2011).

Businesses face increasing pressure to meet the expectations and demands of society and stakeholders (Kestane, 2014; Kreng & Huang, 2011). This is exacerbated by social media technologies which increasingly enable consumers to hold organizations accountable for their actions in near real time (Pavitt, 2012). A conflict of interest may exist in firms with high concentration of insider-owners. Peng and Yang (2014) found that firms with high incidence of insider ownership invested less into CSR activities. There are also industry specific considerations.

Firms can benefit from positive CSR perceptions or be harmed by negative CSR perceptions based upon the industry in which they operate (Peloza et al., 2012). Information technology firms enjoy a halo effect where these firms are perceived as being relatively socially responsible simply because the industry is perceived that way (Peloza et al., 2012). The positive perception may not be in alignment with reality. Sandoval (2013) found that for Microsoft and Google, the two most highly rated firms for CSR, the reputation exists despite the organizations engaging in activities which are not socially responsible. The halo effect extends to their communication of CSR activities which are perceived as credible because the industry is socially responsible (Peloza et al., 2012). Conversely firms associated with energy or financial services suffer from negative perception of social responsibility (Peloza et al., 2012). For these firms communication of CSR activities bears additional risk of being received negatively (Peloza et al., 2012).

Additionally, firms in industries associated with public health problems, such as alcohol and tobacco industries, utilize CSR to help prevent adverse regulation while also influencing the perception of their being socially responsible (Yoon & Lam, 2013). The risk of negative perception is increased if there is not a good fit between the firm's core business activity and the CSR activity (Peloza et al., 2012).

Peloza et al.'s (2012) analysis highlighted the importance of a strategic perspective of social responsibility. Strategic CSR activities should be aligned with communication and public relations strategies to assure a consistent and accurate message (Peloza et al., 2012). Companies with highly visible brands are at higher risk for exposure by activists, especially if the company's message and activities are not in alignment (Van Cranenburgh, Liket, & Roome, 2013).

### **Financial Performance**

A significant amount of literature has been generated examining possible links between CSR and corporate financial performance (Carroll & Shabana, 2010; Schreck, 2011; Wang & Bansal, 2012). There has not emerged an agreement as to a linkage (Schreck, 2011). Whilst the literature tends toward depicting a positive relationship inconsistencies remain, preventing agreement (Carroll & Shabana, 2010). These inconsistencies may result from differences in methodology as well as mediating variables and other factors that impact upon the relationship (Carroll & Shabana, 2010). In spite of this lack of consensus of linkage between CSR and financial performance CSR continues to advance in practice and research. This is likely due to the evolving and more

inclusive interrelationship between business actors and social actors (Carroll & Shabana, 2010).

The possible link between CSR and corporate financial performance is based upon positive expectations of long-term effects of CSR. There are several facets to this expectation. One aspect is the “belief that it is in businesses’ long-term self-interest—enlightened self-interest—to be socially responsible” (Carroll & Shabana, 2010, pp. 88—89). Additionally, social responsibility of business is seen as a mechanism to prevent adverse governmental regulation (Carroll & Shabana, 2010). It cannot be said that these are the primary drivers of CSR, but rather the lens through which expectation of linkage between CSR and financial performance is expected. These expectations of positive financial results can be broken down into four categories (Carroll & Shabana, 2010).

The primary category for improved financial performance based upon CSR activity is cost and risk reduction. Cost reduction can be realized in numerous ways, such as decreased energy costs or reduced employee turnover. For example, Kim and Scullion (2013) found a positive link between CSR and employee motivation, implying increased productivity, reduced turnover, and additional recruiting opportunities based upon proper implementation and evaluation of CSR activities. Proactive environmental stewardship reduces risk of regulation and potentially reduces risks associated with social concerns (Carroll & Shabana, 2010). CSR activities generating cost and risk reduction are directly in an organization’s self-interest. Reducing cost directly impacts financial performance and should be undertaken by management even without social gain; risk reduction reduces potential cost and is likewise in the self-interest of the organization.

The next category for improved financial performance from CSR activities is in gaining competitive advantage (Carroll & Shabana, 2010). While cost and risk reduction would similarly relate to competitive advantage this category is based on competitive advantage through differentiation (Carroll & Shabana, 2010). Competitive advantage through differentiation can be achieved several ways. A primary facet of a CSR differentiation strategy is enhanced customer relationships. Differentiation is achieved to the extent customers or other stakeholders perceive the organization differently because of its CSR activities. Consequences of an effective differentiation strategy can include increased sales, increased brand loyalty, and increased attractiveness to investors (Carroll & Shabana, 2010).

Carroll and Shabana (2010) placed the impact of philanthropic activity into the competitive advantage category. In the case of philanthropic activity organizations would still need to make certain there is a good fit between the organization's business activity and the philanthropic activity or risk increased skepticism. Differentiation could also be in the form of product features or characteristics associating the product with environmental stewardship or social responsibility. Further, this aspect could include responsible product sourcing, such as Fairtrade.

CSR differentiation strategies used to create competitive advantage are in the organization's self-interest; competitive advantage should lead to increased financial performance. Carroll and Shabana's (2010) inclusion of philanthropic activity in this category is problematic from the standpoint of self-interest in CSR. To the extent that a philanthropic activity can be clearly tied to competitive advantage there would be an

indication of self-interest. Philanthropic activities may or may not be clearly tied to competitive advantage and hence may or may not be clearly tied to self-interest.

The third category for improved financial performance through CSR activities is reputation and legitimacy (Carroll & Shabana, 2010). Both reputation and legitimacy are purported to be enhanced through engagement in CSR (Carroll & Shabana, 2010). Reputation and legitimacy are strengthened through reporting of CSR activities, especially when the reporting is verified by an independent third party (Carroll & Shabana, 2010). In addition to reporting, cause marketing can be used to enhance reputation and legitimacy (Carroll & Shabana, 2010). Legitimacy is enhanced when organizations demonstrate meeting stakeholder expectations while working in the context of social norms and building mutualistic relationships (Carroll & Shabana, 2010). Cause marketing can increase legitimacy by showing the organization as a member of society, meeting shareholder needs while contributing to social betterment (Carroll & Shabana, 2010). Some firms may use philanthropic activities to enhance their reputation and legitimacy (Carroll & Shabana, 2010). Firms in negative perception CSR industries such as chemicals or financial services may try to offset the negative perceptions associated with their industry through a positive perception associated with philanthropic activities. This may not be an effective strategy. Virvilaite and Daubaraite (2011) found adherence to societal norms and expectations to be the primary factor in determining consumers' perceptions of CSR.

The fourth and final category of improved financial performance through CSR activities is synergistic value creation (Carroll & Shabana, 2010). Synergistic value

creation occurs through achieving a win-win scenario where stakeholders' expectations are met through profitable business activities (Carroll & Shabana, 2010). This value creation can exist in other forms as well. For example, community training programs can benefit the community while likewise creating a new pool of potential employees for the organization (Carroll & Shabana, 2010). An aspect of synergistic value creation not discussed by Carroll and Shabana (2010) is communication. Benefits accrue to an organization not from its CSR activities but from consumers' perceptions of the businesses' CSR activities (Liston-Heyes & Ceton, 2009). Financial returns from CSR can only be realized to the extent of consumers' awareness of the activities (Du et al., 2010).

The four categories of improved financial performance of Carroll and Shabana (2010) are not mutually exclusive. A CSR activity can exist in one or multiple categories. Nor does the appearance of a CSR activity in a category directly indicate improved financial performance, rather it can lead to improved financial performance in some circumstances. Likewise, improved financial performance due to CSR activities is subject to limitation.

One limitation is in the form of timeframe; even when improved financial performance exists there is no reason to believe it will continue indefinitely (Carroll & Shabana, 2010). CSR leads to competitive advantage due to improved customer relationships (Grigore, Grigore, & Grigore, 2010). The potential gain in customer relationship is limited to an organization's ability to differentiate; as increasing numbers of organizations become socially responsible the differentiation and potential benefits of

differentiation diminish. Various factors have been considered in studies researching the CSR—financial performance relationship.

Liston-Heyes and Ceton (2009) compared actual corporate social performance to perceived corporate social performance. There was a large gap between the actual social performance of companies and the perception of their social responsibility (Liston-Heyes & Ceton, 2009). Additionally both larger firms and more financially successful firms were found to have perceived social performance greater than actual social performance (Liston-Heyes & Ceton, 2009).

Nelling and Webb (2009) used a time series fixed effects approach to conduct a large-scale study of the relationship between CSR and corporate financial performance. CSR in this study was measured via the KLD Socrates Database, which has been used in numerous studies examining this potential relationship (Nelling & Webb, 2009). The fixed effects model was used to control for unobservable variables which ordinary least squares regression (OLS) does not (Nelling & Webb, 2009). The authors conducted an OLS regression on the data set and found a positive relationship between CSR and corporate financial performance (Nelling & Webb, 2009). In using a fixed effects model no significant relationship was found between CSR and corporate financial performance (Nelling & Webb, 2009). The authors attribute the positive relationship found in the OLS regression model to the unobservable variables which are not controlled for in OLS regression (Nelling & Webb, 2009). Nelling and Webb (2009) concluded that any benefits accruing to an organization through CSR activities are not in the form of improved financial performance.



Erhemjamts et al. (2013) deconstructed the KLD index used by Liston-Heyes and Ceton (2009) and by Nelling and Webb (2009) to analyze the relationship between CSR and corporate financial performance. The KLD index as used by prior researchers sums strengths and weaknesses, distorting any difference in effect between the two (Erhemjamts et al., 2013). For example, in the KLD index a firm with many strengths and weaknesses can net the same score as a firm with few strengths and weaknesses (Erhemjamts et al., 2013). Strengths and weaknesses may not have the same magnitude of effects (Delmas, Etzion, & Nairn-Birch, 2013; Erhemjamts et al., 2013). As a result the composite score of the KLD index may not accurately reflect the firm's true CSR as compared to other firms (Erhemjamts et al., 2013). Erhemjamts et al. (2013) controlled for effects of omitted variables and endogeneity, and found a positive relationship between strengths of the KLD index and corporate financial performance. Additionally, the effect of CSR weaknesses was found to be a lesser factor (Erhemjamts et al., 2013). This may explain why prior studies have failed to consistently find a positive relationship when using this database as an indicator of CSR (Erhemjamts et al., 2013).

Foote et al. (2010) argued that despite the lack of empirical evidence linking CSR with financial performance that significant and positive impacts of CSR activities was supported in the literature. The Baldrige Criteria for Performance Excellence includes CSR as a factor of corporate leadership that will result in improved performance (Foote et al., 2010). Foote et al. (2010) examined the propositions underlying CSR through the lens of the Baldrige Criteria and suggested that these criteria imply that strategic CSR leads to improved performance. There is no consensus measure of CSR; varying differences in

definitions, measures, and methodologies lead to ambiguity in the empirical measurement of the relationship between CSR and corporate financial performance (Foote et al., 2010).

Sabbaghi and Xu (2013) found no significant difference in market performance between a portfolio of socially responsible companies and a broad market portfolio of companies. The portfolio of socially responsible companies was found, however, to have lower risk than the broad market portfolio (Sabbaghi & Xu, 2013). This indicates there is some difference in market performance, at least in terms of volatility.

Flammer (2013) conducted a large scale long timeframe study examining the relationship of the impact of environmental news on stock prices. The study covered the period of 1980 through 2009 with a population of all publically traded US companies (Flammer, 2013). Flammer (2013) found that companies that had positive environmental news regarding the company published in the Wall Street Journal experienced a significant increase in stock price. Conversely, those companies that had negative environmental news regarding the company published in the Wall Street Journal experienced a significant decrease in stock price (Flammer, 2013). Two additional significant factors emerged from the study. There was a trend of decreasing impact, where more recent news events produced smaller impact than was observed for earlier in the study period (Flammer, 2013). Additionally, the CSR reputation of the firm was a moderating variable, where firms perceived as highly responsible experienced a relatively lower stock price impact from either positive or negative news (Flammer, 2013).

Whelan (2013) examined the relationship between CSR and financial performance using the Boston College Center for Corporate Citizenship CSR index.

Whelan (2013) found a positive relationship between CSR and ROA. The relationships between CSR and ROE and between CSR and EPS were not found to be significant (Whelan, 2013). The population Whelan (2013) used was the top 50 companies in the aforementioned index. The narrow population of high-CSR companies may have moderated the results of this study.

In a broader view of CSR impact Boulouta and Pitelis (2014) examined the relationship between CSR and competitiveness on a national level. Panel data techniques were used to control for unobservable effects (Boulouta & Pitelis, 2014). National CSR was found to be a predictor of national competitiveness (Boulouta & Pitelis, 2014). The impact on national competitiveness was found to be greater for countries lower in national innovation (Boulouta & Pitelis, 2014). Importantly, the study used a narrow sample of leading CSR companies for each country and may not be generalizable to a larger population.

Social issues are best addressed by business when business addresses them through conducting business, not as an add-on to business (Porter & Kramer, 2011). The answer, according to Porter and Kramer (2011) is through the concept of shared value.

Shared value focuses on improving the competitiveness of an organization at the same time as improving social conditions (Maltz, Thompson, & Ringold, 2011; Porter & Kramer, 2011). Due to the interdependent relationship which exist between business and society, activities can be undertaken which create mutual value (Verboven, 2011). Creating social value can serve to generate improved financial performance through three mechanisms (Porter & Kramer, 2011). Reconceiving products and markets addresses the

unmet needs of society, such as care for the aged or healthy foods, to generate economic gain (Porter & Kramer, 2011). The unmet needs of society provide a plethora of opportunity to conduct profitable business (Porter & Kramer, 2011). Unmet needs exist at all levels of society, in advanced as well as in emerging markets (Porter & Kramer, 2011).

The second of the three shared value opportunities is through a new approach to opportunities within the value chain (Porter & Kramer, 2011). Logistics, energy consumption, packaging, and other opportunities exist in the value chain to increase efficiency and improve financial performance while benefiting society (Porter & Kramer, 2011). This area of synergistic improvement of both social and business conditions is only beginning to be addressed (Porter & Kramer, 2011). Value can be created by shifting from the current focus on short term financial gain through cost management to processes that maximize benefit to society and business (Porter & Kramer, 2011).

The third of the three shared value opportunities is through establishing clusters of supportive business associations surrounding business locations (Porter & Kramer, 2011). These clusters would be local networks that contribute to the organization, and are likewise enhanced by the organization (Porter & Kramer, 2011). In addition to local suppliers, clusters should include related businesses, schools and academic institutions, and other service providers (Porter & Kramer, 2011). By supporting and developing a local cluster both society and the firm receive benefit. Society benefits through improved employment opportunities, reduced poverty, and an expanding tax base. Businesses have access to reduced transportation costs through local suppliers, an educated populace, and

improved collaboration (Porter & Kramer, 2011). Through addressing social needs in a locality through cluster development businesses can improve their financial performance (Porter & Kramer, 2011).

Porter and Kramer (2011) specifically link self-interest and shared value. Sustainability can refer to managing resources on an intergenerational basis or to managing a firm for long-term financial performance. The greatest opportunities lie in addressing those areas which the organization can most cost effectively influence (Porter & Kramer, 2011). Not all opportunities for social betterment are equal; organizations need to focus their social activities in line with their business activities and where they can achieve maximum return on a long-term basis (Porter & Kramer, 2011).

Creating shared value differs from corporate social responsibility in several ways (Porter & Kramer, 2011). Shared value is two way, frequently requiring collaboration to achieve mutual benefit (Porter & Kramer, 2011). Shared value is integral to an organizations activities, CSR may or may not be integral (Porter & Kramer, 2011). Shared value is driven by and specific to the company's business, is specifically oriented to profit maximization, and serves the organization's self-interest (Porter & Kramer, 2011). CSR is frequently reactionary, driven by external pressures (Porter & Kramer, 2011). Porter and Kramer (2011) differentiate shared value from philanthropic activity "It is not philanthropy but self-interested behavior to create economic value by creating social value" (p. 77). Although CSR is not shared value, shared value implies CSR.

Shared value is voluntary and exceeds minimum requirements imposed on organizations to achieve benefits for society. An organization can certainly be socially

responsible without engaging in shared value, an organization operating with shared value embedded into the structure of the organization will be socially responsible. Shared value provides a mechanism and methodology to be socially responsible in a strategic way. But even strategic CSR can fall short of achieving shared value.

Ludescher, Mahsud, and Prussia (2012) proposed a very different view of CSR. The general views of CSR, based in one of several theories of the firm, fail to capture the entire context of CSR (Ludescher et al., 2012). CSR should not be viewed as strictly the domain of for-profit corporations, but should include all types of institutions including governments and their agencies (Ludescher et al., 2012). Organizations are parts of systems and for-profits cannot be logically isolated to have a responsibility not incumbent on other actors in the system (Ludescher et al., 2012). The paradigmic shift is from viewing CSR through a theory of the firm lens to viewing CSR in the context of systems theory (Ludescher et al., 2012). In changing to a systems theory view responsibility is not limited to a specific category of actor but is instead a distributed responsibility, shared by actors involved in the system (Ludescher et al., 2012). This includes individuals who are involved with organizations, in any capacity, as they are influencers in the system and thus have a share of responsibility for the functioning of the system (Ludescher et al., 2012).

The present system results in an asymmetry of responsibility, with actors in the system being held to different standards (Ludescher et al., 2012). Ludescher et al. (2012) used an example of lobbying, where for-profits are blamed for undue influence on politicians, while the politicians are not held equally accountable for their being

influenced or for creating the system that allows the influence. The standards for corporations' responsibilities are similarly skewed; corporations are held responsible for producing goods in sweat shops, while consumers who purchase low-cost sweatshop-produced goods are not considered responsible (Ludescher et al., 2012). Ludescher et al. (2012) argued that present views of CSR should either be expanded to include all of those involved in the system or be simply abandoned.

The fairness of placing the onus of responsibility on for-profit organizations may be a moot point. CSR has been largely driven by demands of society; frequently as response to irresponsible behavior by organizations. Corporations do, however, have both the right and ability to exert influence on the system, steering society in a direction of improved social justice. Change can best be led from the front, as corporations become more responsible they can gain the legitimacy to further influence change.

### **Summary and Conclusions**

Despite numerous empirical studies of the relationship between CSR and corporate financial performance no clear linkage has been established. CSR is frequently grounded in stakeholder theory in the literature. Due to the recent financial crisis and ethical failures of business organizations there has been a renewed interest in ethical and moral leadership theories. Both ethical climate theory and servant leadership theory are ethical and moral leadership theories which are consistent with stakeholder theory with regard to CSR but extend beyond stakeholder theory.

Ethical climate theory, servant leadership theory, and stakeholder theory are all consistent with and require a level of social responsibility from corporations. The highest

level of ethical climate theory, the caring ethical work climate, is associated with employee satisfaction and productivity. The caring ethical work climate is implicit in servant leadership theory. While all three theories serve to ground CSR, servant leadership extends furthest into the social arena, requiring consideration of the most marginalized in society.

Social media and other social technologies have been increasingly used in CSR communication. Nearly all Fortune 500 companies communicate their CSR activities on their websites. Consumers expect companies to conduct CSR activities in line with the companies' core business activities; an expectation of self-interest in CSR. Sometimes self-interest in CSR, where CSR activities promote business activities, is referred to as fit in the literature. The relationship between self-interest or fit of CSR activities and financial performance is underresearched in the literature.

CSR models have evolved from early models where CSR was an optional component. The concentric circles model of CSR has CSR explicit in every business activity. The evolution of the models has brought the models in line with the notion of strategic CSR. In strategic CSR implementation of CSR is from the board level, embedding CSR into all aspects of the organization.

CSR should be fully integrated into an organization to achieve maximum benefit. CSR can be used for competitive advantage, differentiation of product, brand, or firm, or for synergistic value creation. Shared value extends CSR to be a driver of business activity and financial performance, finding business opportunity through meeting society's needs.



Studies examining the link between CSR and corporate financial performance have produced mixed results. These studies have frequently used the KLD index or other ratings as a proxy for CSR. Actual corporate social performance has been shown to be different than CSR as indicated by ratings. CSR ratings such as the frequently used KLD index of CSR aggregate strengths and weaknesses. CSR strengths have been shown to have a greater magnitude of impact than CSR weaknesses; aggregating strengths and weaknesses may distort results. Additional studies have shown short-term stock price changes due to CSR related news and competitive advantage due to CSR on a country-wide level. Conducting additional parallel studies using an index as a proxy for CSR would not alleviate the confusion, unless the study were able to thoroughly address the discrepancies between the plethora of prior results.

Several factors have consistently emerged from the studies. Size of a firm matters, with larger firms being perceived as more socially responsible. Financial health matters, where more financially successful firms are viewed as being more socially responsible. Industry matters, with firms in polluting industries such as chemical, and firms engaged in financial services are viewed as relatively lower in social responsibility.

There remains a great deal that is not known with regard to CSR. The benefits and consequences of communicating CSR through interactive social media is an underresearched area of CSR. There is a paucity of research examining CSR fit or self-interest and financial performance—or any other aspect of CSR. This gap exists in spite of numerous citing of consumers' expectation that CSR activities and business activities be in alignment. The latter model of CSR, the concentric circles model, would indicate a

fit as CSR would be integrated into all business decisions. Shared value would likewise predict self-interest, as business opportunities would arise and be met by meeting society's needs. This represents a major gap in the literature; this study helps provide a valuable piece of the missing knowledge.

Through this study I contribute to the knowledge base by examining the underresearched empirical relationship between self-interest in CSR activities and corporate financial performance. Self-interest in CSR activities, the independent variable, was obtained from the reporting of CSR activities on the websites of a sample of Fortune 500 companies. The dependent variables were the financial performance metrics of return on assets, return on equity, and change in market value added as a percentage of assets. The following chapter will detail the methodology of this study, including specifics of data collection, size and effect calculations, and statistical examination of the data.

### Chapter 3: Research Method

The purpose of this study was to address a significant gap in the literature by examining the relationship between Fortune 500 companies' self-interest in CSR activities and their corresponding financial performance. Self-interest in CSR activities was the independent variable. The degree of self-interest in CSR activities was determined from CSR reporting by Fortune 500 companies on their websites. The dependent variables were the financial performance metrics of return on assets, return on equity, and change in market value added as a percentage of total assets.

In this chapter I detail the methodology used in conducting the study. Research design and rationale are discussed, including choice of mediating variables and time and resource constraints. Sampling and sampling procedures for the target population, including power analysis, are addressed. Procedures for obtaining data and the handling of the data are provided. The instrumentation and operationalization of constructs is discussed. The data analysis plan is reviewed in detail. Both internal and external threats to validity are addressed. Finally, ethical procedures are addressed as appropriate for the study, including data retention plans.

#### **Research Design and Rationale**

The primary independent variable for the study was self-interest in CSR activities as reported on Fortune 500 companies' websites. The dependent variables were measures of corporate financial performance. Two accounting measures were used as dependent variables: return on assets and return on equity. The third dependent variable was market based: change in market value added as a percentage of total assets.

Several variables have been found to influence the relationship between CSR and corporate financial performance. As these have been shown to be factors in prior research it was appropriate to control for these variables in this study. Firm size has been positively associated with CSR (Liston-Heyes & Ceton, 2009). Firm size, as measured by revenue, was controlled for in the study. Different industries have been shown to report different types of CSR activities on their websites (Smith & Alexander, 2013). Industry was controlled for in the study using the three general classification provided by Smith and Alexander (2013) of manufacturing, retail, and service. Additionally, firms have been shown to have a positive or negative CSR association based upon specific industries. There has not, however, been shown any association between this perception and financial performance. There existed, however, the possibility that this perception does influence performance. Known industry factors were controlled for in the study as a categorical variable, with known positive impact on CSR perception, such as information technologies, as a category, no known impact as a category, and known negative impact on CSR perception, such as energy, chemicals, and financial services, as a category.

For each research question there existed a single dependent variable, which was a financial performance metric related to the research question. Each of the three dependent variables were a continuous variable. Each research question had four independent variables. The primary variable of interest was self-interest in CSR activities. Additionally, three variables served as control variables, firm size, industry, and CSR perception factor. The variable of firm size is a continuous variable; the variables of industry and CSR perception factor are categorical variables. Both of the categorical

variables had three mutually exclusive and exhaustive categories. For the variable industry there were the categories of manufacturing, service, and retail. For the variable of CSR perception factor there were the categories of positive perception factor, negative perception factor, and no-known perception factor.

Multiple regression can be used to control for the effect of multiple variables (Field, 2009). Multiple regression is an appropriate statistical technique to use for a design with a single continuous outcome variable, two or more predictor variables, and both continuous and categorical predictor variables (Field, 2009).

Categorical variables in multiple regression can only have two categories for each variable (Field, 2009). The two categories for each variable are represented by coding the variables as either 0 or 1 to represent the appropriate category (Field, 2009). Using a categorical variable with more than two categories in a multiple regression requires the use of dummy coding (Field, 2009). Each categorical variable can be defined by dummy variables using one less dummy variable than the number of categories in the categorical variable (Field, 2009). For each of the categorical variables in the study there are three categories for the variable; each of the categorical variables can be expressed in multiple regression by two dummy variables.

Several time and resource constraints effected the design choice. The primary impact was a time constraint, where the independent variable of self-interest in CSR is measured subsequent to the time period of analysis for the dependent variable of financial performance. In an idealized form of the study self-interest in CSR would be monitored by examining the websites of the sample companies across the period for which financial

performance would be measured. This researcher lacked the time and resources to conduct the analysis in that fashion. This constraint is not likely to have had a significant impact on the study.

Company websites were defined by de Bakker and Hellsten (2013) as “relatively stable” (p. 808). Major CSR activities cross significant time periods; while efforts do change, they do not change continuously. Additionally, two steps were taken in the study to mitigate any potential impact of this constraint. For any organization which identified a major CSR activity as new or beginning the organization was to be excluded from the study. This prevents bias from being introduced from calculating self-interest which may have occurred after the measurement of financial performance. Secondly, the financial performance metrics were calculated in two ways. The study used financial performance for the year 2014 as the dependent variable. Additionally, the results were compared to the analysis utilizing the most recent quarter as the period for financial performance measurement to determine potential bias due to time and resource constraints.

Additionally, time and resource constraints partially dictated the choice of population for the study. Using a larger, international population would have possibly increased the generalizability of the results. The constraints on time and financial resources precluded this researcher from undertaking a significantly larger study in spite of the potential benefits of doing so.

The purpose of this study was to address a gap in the knowledge base by determining the relationship between self-interest in CSR activities and financial performance; the use of multiple regression provided an appropriate mechanism to

examine this potential relationship. Determining the relationship between self-interest in CSR activities and financial performance addresses a gap in the knowledge base. In doing so, knowledge of an additional CSR factor effecting financial performance is further established as a contributor to financial performance, therefore expanding the knowledge base in the field of corporate social responsibility.

## **Methodology**

### **Population**

The population for this study was the Fortune 500 for 2014. This complete population is available as published information and constitutes a population of exactly 500 corporations. These are the 500 largest firms in the United States as ranked by revenue (How We Pick the 500, 2014). Revenue for the purpose of the 2014 Fortune 500 is for the companies' last fiscal year, ending not later than January 31, 2014 (How We Pick the 500, 2014).

### **Sampling and Sampling Procedures**

The sample was drawn from the population using a systematic form of simple random selection. In simple random sampling each member of the population has equal chance of selection (Trochim, 2001). A systematic random sample is drawn by selecting every  $k^{\text{th}}$  unit, where  $k$  is the population size divided by the sample size (Trochim, 2001). The first unit of the sample is selected by random number between 1 and  $k$ ; then each  $k^{\text{th}}$  unit is added to the sample until the sample size is reached.

The sampling frame in this study was the population of the 2014 Fortune 500. There was no reason to exclude any organization prior to drawing the sample.

This probabilistic random sampling method provided equal chance for any organization in the population to be selected. Random sampling allows for generalization of the results from the sample back to the overall population (Trochim, 2001).

The significance level for this study was  $\alpha = .05$ . The alpha level represents the probability of committing a Type I error of rejecting a true null hypothesis (Moore, McCabe, & Craig, 2012). This provides a 95% confidence level that a rejected  $H_0$  is, in fact, false.

The power selected for the study was 95%. The power of a test is one minus the  $\beta$ , where  $\beta$  is the probability of a Type II error. A Type II error is the error of accepting a false null hypothesis (Moore et al., 2012).  $\beta$  is a function of  $\alpha$  and sample size (Moore et al., 2012). The consequence of selecting a relatively low  $\alpha$  of .05 and a relatively low  $\beta$  of .05 was reflected in a larger sample size.

Type I and Type II errors are exclusive, only one can occur in a specific case (Moore et al., 2012). A Type I error of rejecting a true null hypothesis only occurs when rejecting the null hypothesis, a Type II error of accepting a false null hypothesis only occurs when accepting the null hypothesis; the two types of errors cannot occur together (Moore et al., 2012).

Having selected  $\alpha$  and  $\beta$  to reasonably minimize the probability of either a Type I or Type II error an effect size was needed to finalize calculation of the minimum sample size. There is minimal research examining self-interest in CSR which resulted in a lack of prior studies on which to base effect size. Field (2009) described a medium effect size of



.3. Using G\*Power 3.1.9.2 with an effect size of .30,  $\alpha$  error probability of .05, and power of .95 yielded a sample size of 77.

From Smith and Alexander (2013) we know that 98% of Fortune 500 companies report their CSR activities on their websites. Increasing the sample size to accommodate for 2% non-reporting companies increased the sample size from 77 to 79. Additionally, allowance needed to be provided for excluding companies engaged in a merger or acquisition during the measuring period for the financial performance metrics as well as any organization which indicated significant changes to CSR activities, either of which could have biased the results. Without a clear indication of how large this allowance should be but knowing CSR websites to be relatively stable and mergers and acquisitions to be common but not involving a large percentage of organizations in any given year I elected to provide this allowance at twice the size of the non-reporting allowance, or four additional companies for a total sample size of 83. The intent was to retain at least 77 companies in the sample after exclusions.

### **Procedures for Data Collection**

In the study I used publicly available data. The sample of companies was drawn from the published 2014 Fortune 500 listing. Data for the independent variable of self-interest in CSR activities was obtained from the corporate websites of the sample companies. These are public access websites and no permissions were required to obtain this publicly available information. Data for the independent variable of firm size was also obtained from the publicly available Fortune 500 listing.

Data for the dependent variable of financial performance was obtained from existing data such as Standard & Poor's reports for the year 2014 or other fiscal year as appropriate. This is published information and no permissions were necessary to gain access to the data. Data for the independent variables of industry and perception factor were also be obtained from such reports. All data used in the study was publicly available for use without any permissions required to obtain or use the data.

### **Instrumentation and Operationalization of Constructs**

The basis for operationalization of the construct for self-interest in CSR activities is grounded in the literature. Self-interest in CSR was obtained from the sample companies' websites. As previously stated the content of company websites was defined by de Bakker and Hellsten (2013) to be "relatively stable" (p. 808). These websites also represent the official voice of the organization "Although the layout and style of Web sites vary enormously, they offer a functionally uniform unit of analysis in that all represent an official presentation of companies' policies and practices" (Chapple & Moon, 2005, p. 424). Company websites are part of the group of Web 1.0 applications which de Bakker and Hellsten (2013) recommended for further analysis. Content analysis of corporate websites lends itself to quantitative analysis (Schmeltz, 2014).

Chapple and Moon (2005) provided a basis for the analysis of companies' CSR activities as reported on their websites. Three categories of "community involvement, socially responsible production processes, and socially responsible employee relations" were defined as a set of exhaustive domains (Chapple & Moon, 2005, p. 425). The category of "community involvement refers to the traditional assumption about CSR that

it is removed from the main business activity and is outside the firm” (Chapple & Moon, 2005, p. 425). As activities of community involvement are outside of the main business activity of the firm these activities do not represent self-interest in CSR activities; these activities do not directly contribute to improving the financial condition or financial performance of the organization. Two further aspects are important with regard to community involvement.

While community involvement is generally philanthropic it is not restricted to philanthropic activities (Chapple & Moon, 2005). Non-philanthropic activities such as volunteering can be a community involvement activity (Chapple & Moon, 2005). The distinction falls into the outcome; community involvement has no direct relationship to the core business activity of the organization. If such a relationship were to exist, the activity would be in one of the other two domains and not in the category of community involvement.

The final aspect of community involvement which bears further mention is that it does not directly contribute to financial performance. This does not exclude an indirect linkage, philanthropic activities and other community involvement activities can be beneficial in enhancing an organization’s brand or image. Presumably this would have positive financial effect over time. There is not likely, however, any significant current period positive financial performance effect of activities geared toward brand or image enhancement.

The domains of socially responsible production processes and socially responsible employee relations differ conceptually from community involvement (Chapple & Moon,

2005). Where community involvement relates to use of corporate funds or resources, the other two domains relate to how the company conducts business activities (Chapple & Moon, 2005). Socially responsible production processes include both internal processes and supply chain activities (Chapple & Moon, 2005). This includes CSR issues relating to the environment and sustainability as well as ethical sourcing.

Socially responsible employee relations is an internal aspects of CSR including treating employees as stakeholders in CSR discussions and practices (Chapple & Moon, 2005). While Chapple and Moon (2005) indicated that there is no order to the three domains, the literature indicates philanthropic activities as the earliest form of CSR and integrated CSR business activities as the evolved higher-level form of CSR. Socially responsible production processes and socially responsible employee relations are integral aspects of conducting business and should have a direct relationship with corporate financial performance. These two domains are indicative of self-interest in CSR activities; the activities are socially responsible and provide benefit to society, yet are directly related to the business activities of the organization, serving the organizations' self-interest.

### **Operationalization of Variables**

There are three dependent variables. All of the dependent variables are financial performance metrics. Three separate multiple regressions were performed to determine the potential relationship between the independent variables and each of the dependent variables. The dependent variable of return on assets was measured as the ratio of earnings before interest but after taxes to average total assets in accordance with

Islahuzzaman (2014). The dependent variable of return on equity was measured as the ratio of net income to average equity, where net income is the earnings available for the common shareholders in accordance with Mainul Ahsan (2012). The dependent variable of change in market value as a percentage of assets was measured as the change in the value of debt and equity minus the book value of the employed capital divided by average assets.

There were four other variables. These were the primary variable of interest, the independent variable of self-interest in CSR activities, and three control variables. Two of the control variables were categorical variables, each with three categories. These categorical variables were each represented by two dummy variables, yielding six total independent variables in each of the multiple regressions to represent the four actual independent variables.

The variable of self-interest in CSR activities was calculated from information on the websites of the Fortune 500 companies in the sample. The calculation indicated the ranking of the number of self-interest in CSR activities which appeared before any CSR activity which is not self-interest, divided by the total number of CSR activities. For example, if there were eight total CSR activities and all of these were self-interest in CSR activities the score was calculated as eight divided by eight or 1.0. If there were eight total CSR activities and the seventh activity was the first that was not self-interest the score was calculated as six divided by eight or .75. If there were eight total CSR activities and the first activity was not self-interest in CSR then the score was calculated as zero divided by eight or 0. Whether or not the activity is self-interest in CSR was determined

using Chapple and Moon's (2005) three categories as discussed earlier. Self-interest in CSR activities can range from a score of 0, where the first or primary activity does not indicate self-interest in CSR, to a score of 1, where all activities represent self-interest in CSR. The score serves as an index of self-interest.

The variable of firm size was revenue. Revenue was taken from the Fortune 500 listing for 2014, from which the sample was drawn.

The variable of industry consisted of the three categories of manufacturing, service, and retail used by Smith and Alexander (2013). Two dummy variables were used to code industry. The dummy variable of service was coded as 1 if the organization is primarily a service organization and coded as 0 if the organization is not primarily a service organization. The dummy variable of retail was coded as 1 if the organization was primarily a retail organization and coded as 0 if the organization was not primarily a retail organization. As all organizations in the sample were in one of the three categories of manufacturing, retail, or service, then manufacturing organizations were those that have a code of 0 for both the variable service and the variable retail. This coding methodology follows the recommendation of Field (2009).

The variable of CSR perception factor was likewise a categorical variable with three possible categories. The categories were positive perception factor, negative perception factor, and no-known perception factor. Firms in industries with a positive perception factor, such as information technology, were coded as 1 in a variable of positive perception factor. Firms without a positive perception factor were coded as 0 for this variable. Firms in industries with a negative perception factor, such as chemicals,

energy, and financial services, were coded as 1 in a variable of negative perception factor. Firms without a negative perception factor were coded as 0 for this variable. This then placed firms with no-known perception factor with codes of 0 in both of the dummy variables of positive perception factor and negative perception factor. As with the variable of industry this coding followed the recommendation of Field (2009).

### **Data Analysis Plan**

Data analysis was performed as multiple regression using SPSS software. For variables which required calculation, the three dependent variables and the independent variable of self-interest in CSR activities, the calculations were performed in an Excel spreadsheet.

The sample size allowed for the exclusion of some companies from the sample while retaining the minimum sample size to achieve the desired power as previously detailed. After the sample was drawn, those organizations without CSR activities detailed on their websites, and those which described the activities as new or changed, were removed from the sample.

The following research questions were examined in this study:

RQ1: What is the relationship between Fortune 500 companies' return on assets (ROA) and their self-interest in corporate social responsibility?

RQ2: What is the relationship between Fortune 500 companies' return on equity (ROE) and their self-interest in corporate social responsibility?

RQ3: What is the relationship between Fortune 500 companies' change in market value added (MVA) as a percentage of total assets and their self-interest in corporate

social responsibility?

In this study I tested the following hypotheses developed from the three research questions:

**Hypothesis 1:**

*H<sub>01</sub>*: Fortune 500 companies' return on assets does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

*H<sub>11</sub>*: Fortune 500 companies' return on assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

For Hypothesis 1 the self-interest of Fortune 500 companies' CSR activities was the primary independent variable, and was measured from the companies' websites. The variable of firm size was measured as revenue, industry using a three classification system discussed earlier, and CSR perception factor using a three classification system also discussed earlier. The dependent variable was return on assets measured as net income divided by total assets.

Hypothesis 1 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the significance of the regression coefficients.

$$ROA = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (4)$$

where, ROA is return on assets,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\varepsilon$  is the error term.



### **Hypothesis 2:**

*H<sub>02</sub>*: Fortune 500 companies' return on equity does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

*H<sub>12</sub>*: Fortune 500 companies' return on equity does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

For Hypothesis 2 the self-interest of Fortune 500 companies' CSR activities was the primary independent variable, and was measured from the companies' websites. The variable of firm size was measured as revenue, industry using a three classification system discussed earlier, and CSR perception factor using a three classification system also discussed earlier. The dependent variable was return on equity measured as net income divided by shareholder's equity.

Hypothesis 2 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the significance of the regression coefficients.

$$ROE = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \quad (5)$$

where, ROE is return on equity,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\epsilon$  is the error term.

### **Hypothesis 3:**

*H<sub>03</sub>*: Fortune 500 companies' change in market value added as a percentage of total assets does not have a significant relationship with their self-interest in CSR

activities, when controlling for the effects of firm size, industry, and CSR perception factor.

*H<sub>13</sub>*: Fortune 500 companies' change in market value added as a percentage of total assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

For Hypothesis 3 the self-interest of Fortune 500 companies' CSR activities was the primary independent variable, and was measured from the companies' websites. The variable of firm size was measured as revenue, industry using a three classification system discussed in Chapter Three, and CSR perception factor using a three classification system also discussed in Chapter Three. The dependent variable was market value added as a percentage of total assets measured as the change in market value added, company market value minus invested capital, divided by total assets and expressed as a percentage.

Hypothesis 3 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the significance of the regression coefficients.

$$\text{MVA} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (6)$$

where, MVA is change in market value added as a percentage of assets,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\varepsilon$  is the error term.

Three separate multiple regressions were performed, one for each research question. Each of the three multiple regressions had the same independent variables of

self-interest in CSR activities, firm size, two dummy variables representing industry, and two dummy variables representing CSR perception factor. The difference in the three multiple regressions was the dependent variable. Each dependent variable was a financial performance metric related to one of the research questions.

Predictors should be determined for inclusion based on the results of prior research (Field, 2009). Predictors should only be included if they are theoretically grounded (Field, 2009). The control variables of firm size, industry, and perception factor are grounded in the literature as previously discussed. The independent variable of self-interest in CSR activities was the primary variable of interest in this study. Multiple regression can provide a model which explains more of the total variation than simple regression (Field, 2009). Appropriately selected predictor variables can improve the overall results of the regression (Field, 2009).

Interpretation of the results of the multiple regressions is a function of the selected alpha. For the purpose of this study, an alpha level of .05 or less was basis for rejection of the null hypothesis. An alpha level of greater than .05 failed to provide evidence for rejection of the null hypothesis.

### **Threats to Validity**

Data for the financial performance metrics exists in the public domain and is supported by audited financial statements and was assumed to be valid. Interaction effects, particularly multicollinearity, were unknown and were checked for in the study. Time variance between variable measurements is a threat to internal validity. To address

this threat results were checked for consistency with most-current quarter data as previously discussed.

### **External Validity**

External validity consists of factors associated with the population and with the setting. The population for this study was the 2014 Fortune 500. The sample was randomly selected from the population. Due to the relatively large sample size as related to the size of the population random sampling should produce a representative sample. Setting is established by the population, the 2014 Fortune 500. As CSR is not static the results may not be applicable to prior or future time periods.

Due to the post hoc design of the study there are no interaction effects of testing nor selection bias issues. The subject organizations operate in the public sphere and were presumed cognizant of outside scrutiny yet are specifically unaware of this particular study; hence reactive effects due to knowledge of participation on the part of the subjects could be eliminated as a concern. Likewise there was no experimental treatment involved, eliminating multiple treatment interference issues.

External validity is an issue of generalization to other populations. While the study design itself did not create issues restricting generalization, generalization to other populations may be limited as organizations of different size behave differently with regard to CSR and organizations located outside the U.S. behave differently with regard to CSR.

**Internal Validity**

Internal validity establishes the level of confidence that the relationship, if any, between the dependent and independent variables does, in fact, exist. Of primary concern for this study was the possible impact of history.

History is a threat to internal validity when an unanticipated and not-controlled-for event or factor influences or effects the dependent variable. In an ideal situation, a control group can be utilized to reduce or eliminate history as a threat to internal validity. This would not have been realistically possible in this study.

To control for history as a threat to internal validity the results of the study were compared to results from a second time period. The study used annual financial results, the study results were then compared to results obtained using financial data from the most recent quarter. Using two separate time periods reduces the threat of history to internal validity as it is unlikely two external events in different time periods would produce the same effect on the dependent variable.

**Construct Validity**

Construct validity has been foundationally established through face and content validity. Additionally, predictive validity, concurrent validity, and discriminant validity were tested as detailed earlier. This supplements concurrent validity findings as indicated by Chapple and Moon (2005) where the basis of the construct was found to differentiate between CSR in seven Asian countries in their study.

Chapple and Moon (2005) established reliability of the three constructs for type of CSR activity through internal consistency. The study covered 50 companies in each of

seven countries for a total of 350 companies (Chapple & Moon, 2005). Each CSR activity on the company websites of each of these companies was coded (Chapple & Moon, 2005). Two researchers did the coding with two other researchers moderating and Chapple and Moon found “general agreement between the researchers” (p. 426).

The construct of self-interest in CSR for this study used the established process and domains of Chapple and Moon (2005) but extended past by numerating the process. Chapple and Moon (2005) used the construct to report what CSR activities were being done in each of the seven countries in their study and how that varied by country. In this study I numerated the construct for use in multiple regression analysis.

Construct validity is the extent to which the operationalization of the construct reflects the actual construct (Trochim, 2001). Construct validity can be broken down into two major categories of translation validity and criterion-related validity (Trochim, 2001). Translation validity refers to whether or not the operationalization of the construct remains true to the actual construct (Trochim, 2001). Translation validity can be established by face validity and content validity (Trochim, 2001). Criterion-related validity refers to the behavior of the operationalization, whether or not it performs as would be expected based upon the underlying theory (Trochim, 2001). Criterion-related validity can be established by predictive validity, concurrent validity, convergent validity, and discriminant validity (Trochim, 2001). Construct validity can be viewed as a spectrum; not all of the components must be established but the greater the components are established the higher confidence we can have in the validity of the construct. This is supported by Singleton and Straits (2010) that “the more evidence that supports the

hypothetical relationships, the greater one's confidence that a particular operational definition is a valid measure of the concept" (p. 141).

Face validity is a subjective assessment by the researcher that the operationalization appears to be a valid measure (Trochim, 2001). This is a weak measure of validity, due to the subjective nature of the assessment (Trochim, 2001). Trochim (2001) noted that the weakness is in face validity's ability to convince others who may be skeptical due to their knowledge that the measure is subjective.

For the measure of self-interest in CSR activities there was evidence of face validity. Each CSR activity on an organization's website can be coded into one of Chapple and Moon's (2005) three domains. Two of the three categories are indicative of self-interest in CSR, one of the three categories is not indicative of self-interest in CSR.

Content validity is established by comparing the operationalization with the construct's domain (Trochim, 2001). For the construct of self-interest in CSR activities the content domain was CSR activities as reported on websites of Fortune 500 companies. The three categories of Chapple and Moon (2005) are mutually exclusive and exhaustive; each CSR activity can be coded into one of the three categories with no CSR activities not able to be coded into one of the three categories.

In addition to translation validity aspects of face validity and content validity, measures of criterion-related validity are needed to establish construct validity. Several of these measures were employed in this study.

Predictive validity for self-interest in CSR activities could potentially be established through the multiple regression. Predictive validity is indicated by the

construct behaving as theorized (Trochim, 2001). For this study financial performance was theorized to be a function of self-interest in CSR activities. The extent that the study shows correlation between self-interest in CSR activities and financial performance is an indicator of predictive validity.

Concurrent validity is determined by “the operationalization’s ability to distinguish between groups that it should theoretically be able to distinguish between” (Trochim, 2001, p. 68). For the construct of self-interest in CSR activities in this study the construct should be able to distinguish between the three industry categories in the study. The self-interest in CSR activities should be different for each of the three categories, providing indication of concurrent validity.

Discriminant validity is determined by “the degree to which the operationalization is not similar to (diverges from) other operationalizations that it theoretically should not be similar to” (Trochim, 2001, p. 68). Erhemjamts et al. (2013) found a “U-shaped relation between firm size and CSR, indicating that either very small or very large firms exhibit high levels of CSR” (p. 395). The population for this study was Fortune 500 companies; all large firms. Nearly all of those firms should be high in CSR. There is no indication that the activities of these firms should vary significantly based on relative size. There should be a low correlation between firm size in the sample and self-interest in CSR activities. If this were found to be true then it would evidence of discriminant validity.

Face validity and content validity combine to indicate translation validity (Trochim, 2001). This is indicated in the prior discussion for self-interest in CSR.



Predictive validity, concurrent validity, and discriminant validity are three of the four types of criterion-related validity detailed by Trochim (2001). The fourth type of criterion-related validity detailed by Trochim (2001) was convergent validity. Convergent validity is established by examining “the degree to which the operationalization is similar to (converges on) other operationalizations to which it theoretically should be similar” (Trochim, 2001, p. 68). For the purpose of establishing validity of the construct of self-interest in CSR activities in this study there was not a sufficiently similar construct to use for comparison. Theoretically, self-interest in CSR activities should not necessarily relate to CSR ratings, the most common measure of CSR. The efforts to establish validity of the construct are not significantly diminished by not attempting to establish convergent validity. Of the six forms of establishing construct validity detailed by Trochim (2001) five were used in this study. The extent to which each indicated, or did not indicate, validity of the construct together indicate where along the validity continuum the construct lies.

### **Ethical Procedures**

Data for this study exists in the public domain and no permissions were required to access the data. The data consists of published financial information and publicly accessible company websites. The study did not use human or animal subjects in any fashion. IRB approval was sought from Walden University’s Institutional Review Board and obtained under approval number 03-03-15-0047305.

There were no ethical issues involved in the collection of data for the study. All data was available in the public domain and could be accessed without human interaction.

There was no confidential data used in the study. I am not aware of any other ethical issues related to this study or the preparation of this dissertation.

### **Summary**

In this study I used multiple regression analysis to determine the effect, if any, on Fortune 500 companies' self-interest in CSR activities and corporate financial performance. In addition to the primary independent variable of interest, self-interest in CSR activities, three additional variables of firm size, industry, and CSR perception factor were used as control variables.

Three separate multiple regressions were performed and analyzed. The independent variables remained the same in each of the three multiple regressions. The dependent variables for the multiple regressions were return on assets, return on equity, and change in market value added as a percentage of assets. This provided two accounting financial performance metrics and one market-based financial performance metric to determine the relationship between self-interest in CSR activities and corporate financial performance.

## Chapter 4: Results

The purpose of this quantitative study was to determine the correlation between organizations' self-interest in CSR activities and measures of financial performance. The population from which the sample was drawn was the 2014 Fortune 500. The primary independent variable was organizations' self-interest in CSR activities as reported on their websites. Additionally, variables of firm size, industry, and CSR perception factor served as control variables. Three separate dependent variables of return on assets, return on equity, and change in market value added as a percentage of assets were each regressed with the independent variables.

The following research questions were examined in this study:

RQ1: What is the relationship between Fortune 500 companies' return on assets and their self-interest in corporate social responsibility?

RQ2: What is the relationship between Fortune 500 companies' return on equity and their self-interest in corporate social responsibility?

RQ3: What is the relationship between Fortune 500 companies' change in market value added as a percentage of total assets and their self-interest in corporate social responsibility?

The following hypotheses were derived from the research questions and tested in this study:

### **Hypothesis 1:**

$H_{01}$ : Fortune 500 companies' return on assets does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of

firm size, industry, and CSR perception factor.

*H<sub>11</sub>*: Fortune 500 companies' return on assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

**Hypothesis 2:**

*H<sub>02</sub>*: Fortune 500 companies' return on equity does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

*H<sub>12</sub>*: Fortune 500 companies' return on equity does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

**Hypothesis 3:**

*H<sub>03</sub>*: Fortune 500 companies' change in market value added as a percentage of total assets does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

*H<sub>13</sub>*: Fortune 500 companies' change in market value added as a percentage of total assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

Each hypothesis was tested through the development of a multiple regression equation, testing for the significance of multiple correlation, and testing for significance of the regression coefficients.

In this chapter I detail the procedures used for the recruitment of data and present general descriptive statistics. Following the discussion of the data I present the results of the study, organized in alignment with the three hypotheses and followed by additional tests as detailed in Chapter Three. I conclude the chapter with a summary of the findings.

### **Data Collection**

Data was collected between March 10, 2015 and April 7, 2015. There were no discrepancies between the actual data collection and the data collection plan detailed in Chapter Three. To draw the initial sample of 83 companies from the 2014 Fortune 500 I needed 16.6% of the companies on the list. This corresponds to one out of six companies included in the Fortune 500 listing. I selected each sixth company from an alphabetic listing of the 2014 Fortune 500. I used a table of random numbers to select a starting number between one and six for the first company to be selected from the list, then selected each sixth company thereafter. The initial random sample was distributed across the population, with each decile having from 7 to eleven companies in the sample. A total of 40 companies were from the top half of the 2014 Fortune 500 and 43 companies from the second half.

The CSR index was calculated from each company's website as the ratio of the number of self-interest CSR activities appearing before a non-self-interest activity to the total number of CSR activities. The CSR indexes ranged from 0 to 1 with a mean of .5015. Two companies did not report any CSR activities on their websites and were excluded from the study. No companies reported any of their CSR activities as new or indicated significant changes.

Financial data to calculate ROA, ROE, and change in MVA as a percentage of assets was obtained from a combination of Standard & Poor's Reports, Morningstar, and the Hoover's Company Profiles Database. The Hoover's Company Profiles Database was used to determine if the company was in a category which should be coded with a positive or negative perception factor. A total of six companies were coded with a positive perception factor. These companies were all technology, software, or computer companies. A total of 28 companies were coded with a negative perception factor. These companies were in banking or investments, chemicals, defense, energy, mining, or pharmaceuticals. Four companies had incomplete financial data, including one which was acquired, and these were eliminated from the study.

The elimination of four companies with incomplete financial data and two companies with no reported CSR information reduced the total sample from 83 to 77. As detailed in Chapter Three a sample size of 77 was necessary to provide a significance of  $\alpha = .05$  and power of 95%. The final sample of 77 companies provided the necessary significance and power to conduct the study as proposed. A net sample size of 77 equates to 15.4% of the population being used in the study. These 77 companies had a mean annual revenue of \$24,555.1 million, mean CSR index of 5.02, mean ROA of 4.07, mean ROE of 14.08, and mean change in market value added as a percentage of assets of 7.90.

A total of 23 financial data points were collected for each of the 77 companies included in the study. This data was entered into an Excel spreadsheet which I used to calculate ROA, ROE, and change in MVA as a percentage of assets for the most recent full year reported. In most cases this corresponded to the year ended December 31, 2014.

Additionally I calculated ROA, ROE, and change in MVA as a percentage of assets for the most recent quarter reported.

The categorical variables of industry and CSR perception factor were also coded into the Excel spreadsheet. For industry I coded companies in service industries with a 1 in a variable labeled service. Thirty companies were coded as service. I coded companies in retail with a 1 in a variable labeled retail. Twelve companies were coded as retail. Manufacturing companies, of which there were thirty five in the sample, have a code of 0 in both the variable of service and retail. Manufacturing served as the base category, with differences as manufacturing vs. service or manufacturing vs. retail. The frequency counts are depicted in Table 1.

Table 1

*Frequency Counts for Industry (n = 77)*

Industry	<i>n</i>	%
Manufacturing	35	45.5
Retail	12	15.6
Service	30	38.9

For the categorical variable of CSR perception factor I coded companies in industries with a positive CSR perception factor with a 1 in a variable labeled positive perception factor. All other companies were coded 0 in this variable. For companies in industries with a negative CSR perception factor I coded a 1 into a variable labeled negative perception factor. All other companies were coded 0 in this variable. Companies

with no known CSR perception factor had 0 coded into both the positive and negative perception variables. No known perception factor served as the base category.

The process and procedures used for selecting the sample from the population created a random sample representative of the population. Additionally, the process and procedures resulted in a sample of sufficient size for the desired significance level and power to conduct the regression analysis as originally proposed.

### Study Results

Analysis of the data and multiple regression were performed in SPSS. Descriptive statistics for select variables characterizing the sample are reported in Table 2.

Assumptions were evaluated for each research question. Additionally, several tests as discussed in Chapter 3 were performed prior to data analysis.

Table 2

*Descriptive Statistics for Select Variables (n = 77)*

Variable	<i>M</i>	<i>SD</i>	Low	High
CSR Index	5.02	0.38	.00	1.00
Revenue (millions of dollars)	24555.11	35105.22	3778.31	199941.00
Return on Assets (ROA)	4.07	13.32	-101.95	22.98
Return on Equity (ROE)	14.08	44.83	-311.51	126.38
Change in Market Value Added (MVA) as a Percentage of Assets	7.90	26.82	-54.74	106.79

Self-interest in CSR should not be correlated between the three industry categories, as an indication of concurrent validity as detailed in Chapter 3. Spearman's



rho measuring correlation for the CSR scores by industry was not significant at the .05 level. This means we would fail to reject the null hypothesis that there is no relationship between the variables of industry and CSR scores.

Low correlation should exist between firm size and CSR scores, as the 2014 Fortune consists of large firms. This is an indication of discriminant validity as detailed in Chapter 3. Firm size should not be a predictor of CSR in this study. Performing a regression of firm size as the independent variable with CSR index as the dependent variable indicated that CSR index is not a significant predictor of firm size,  $R^2 = .000$ ,  $F(1,75) = .024$ ,  $\rho = .878$ . Further assumptions were evaluated for each research question.

### **Research Question 1**

The first research question was:

RQ1: What is the relationship between Fortune 500 companies' return on assets (ROA) and their self-interest in corporate social responsibility?

The hypothesis associated with the first research question was:

Hypothesis 1:

$H_01$ : Fortune 500 companies' return on assets does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

$H_11$ : Fortune 500 companies' return on assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

Hypothesis 1 was tested through developing the following multiple regression

equation, testing for the significance of multiple correlation, and testing for the significance of the regression coefficients.

$$ROA = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \quad (7)$$

where, ROA is return on assets,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\epsilon$  is the error term. Data was entered into SPSS in 4 blocks. Categorical variables need to be entered in separate blocks for each category (Field, 2009). The categorical variable for CSR perception factor was entered in block 1 and the categorical variable of industry was entered in block 2. Revenue has been associated in the literature with CSR and with financial performance metrics and was entered in block 3. Entering revenue in a block separate from CSR index isolated the effect of CSR index from the other factors. Known factors should be entered separately from the variable of interest (Field, 2009). CSR index was found to be a significant predictor of ROA when controlling for CSR perception factor, industry, and revenue,  $R^2$  change = .06,  $F(1,70) = 4.721$ ,  $p = .033$ . Therefore there is evidence to reject the null hypothesis. The results of this regression are depicted in Table 3.

Tests were performed to ascertain whether or not the appropriate assumptions were met for testing the first hypothesis. The largest VIF was 1.414 and the average VIF was 1.224. The lowest tolerance was .707. Variance proportions from the collinearity diagnostics showed the largest loadings on different dimensions. All of these indicate no issue with multicollinearity.

Table 3

*Regression Coefficients for Test of Hypothesis 1*

	B	SE B	B	95% CI	
				LB	UB
<b>Step 1</b>					
Constant	6.59	1.98		2.64	10.53
No Factor vs Negative	-7.29	3.15	-0.27	-13.57	-1.01
No Factor vs Positive	1.67	5.66	0.03	-9.61	12.94
<b>Step 2</b>					
Constant	4.60	2.59		-0.56	9.76
No Factor vs Negative	-7.31	3.57	-0.27 *	-14.43	-0.20
No Factor vs Positive	2.61	5.81	0.05	-8.97	14.20
Manu vs Service	3.12	3.42	0.12	-3.69	9.94
Manu vs Retail	4.51	4.57	0.12	-4.59	13.61
<b>Step 3</b>					
Constant	3.81	2.69		-1.55	9.17
No Factor vs Negative	-8.23	3.67	-0.30 *	-15.54	-0.92
No Factor vs Positive	2.10	5.82	0.04	-9.51	13.72
Manu vs Service	3.26	3.42	0.12	-3.55	10.08
Manu vs Retail	4.24	4.57	0.12	-4.86	13.35
Revenue	0.00	0.00	0.12	0.00	0.00
<b>Step 4</b>					
Constant	-1.32	3.53		-8.35	5.71
No Factor vs Negative	-8.12	3.57	-0.30 *	-15.24	-0.99
No Factor vs Positive	-0.11	5.77	0.00	-11.61	11.40
Manu vs Service	4.66	3.39	0.17	-2.10	11.42
Manu vs Retail	6.27	4.54	0.17	-2.84	15.29
Revenue	0.00	0.00	0.13	0.00	0.00
CSR Index	8.71	4.01	0.25 *	0.71	16.70

Note. CI = confidence interval; LB = lower bound, UB = upper bound.  $R^2 = .08$  for Step 1,  $\Delta R^2 = .02$  for Step 2,  $\Delta R^2 = .01$  for Step 3,  $\Delta R^2 = .06$  for Step 4.

\*  $p < .05$ .

The Durbin – Watson statistic was 1.872. Values between 1.5 and 2.5 indicate that the residuals are independent (Field, 2009). Scatterplots of regression standardized

residuals and regression standardized predicted values indicated that the assumptions of homoscedasticity and linearity were met. The histogram of the dependent variable ROA, depicting frequency of regression standardized residuals, appears as a normal distribution with a single outlier. The normal P – P plot of the regressions standardized residuals for the dependent variable indicated some deviation from normality.

Due to the appearance of possible deviation from normality on the P – P plot the Kolmogorov – Smirnov test was performed. The Kolmogorov – Smirnov test for ROA,  $D(77) = .302$ ,  $\rho < .001$ , was significantly non-normal. The normal Q – Q plot of ROA indicates skewness. Partial scatter plots of residuals of the dependent variable for each non-categorical variable appeared linear with no indication of homoscedasticity. Non-normality of the dependent variable ROA limits generalizability of the results.

## **Research Question 2**

The second research question was:

RQ2: What is the relationship between Fortune 500 companies' return on equity (ROE) and their self-interest in corporate social responsibility?

The hypothesis associated with the second research question was:

$H_02$ : Fortune 500 companies' return on equity does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

$H_12$ : Fortune 500 companies' return on equity does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

Hypothesis 2 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the significance of the regression coefficients.

$$\text{ROE} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (8)$$

where, ROE is return on equity,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\varepsilon$  is the error term. Data was entered into SPSS in 4 blocks. Categorical variables need to be entered in separate blocks for each category (Field, 2009). The categorical variable for CSR perception factor was entered in block 1 and the categorical variable of industry was entered in block 2. Revenue has been associated in the literature with CSR and with financial performance metrics and was entered in block 3. CSR index was found to be a significant predictor of ROE when controlling for CSR perception factor, industry, and revenue,  $R^2$  change = .06,  $F(1,70) = 5.152$ ,  $\rho = .026$ . Therefore there is evidence to reject the null hypothesis. The results of this regression are depicted in Table 4.

Tests were performed to ascertain whether or not the appropriate assumptions were met for testing the second hypothesis. The largest VIF was 1.414 and the average VIF was 1.224. The lowest tolerance was .707. Variance proportions from the collinearity diagnostics showed the largest loadings on different dimensions. All of these indicate no issue with multicollinearity.

Table 4

*Regression Coefficients for Test of Hypothesis 2*

	B	SE B	$\beta$	95% CI	
				LB	UB
<b>Step 1</b>					
Constant	21.19	6.70		7.84	34.52
No Factor vs Negative	-21.65	10.67	-0.23 *	-42.92	-0.39
No Factor vs Positive	9.80	19.15	0.06	-28.37	47.95
<b>Step 2</b>					
Constant	15.84	8.77		-1.63	33.32
No Factor vs Negative	-24.59	12.09	-0.26 *	-48.70	-0.48
No Factor vs Positive	10.85	19.69	0.07	-28.41	50.10
Manu vs Service	12.89	11.58	0.14	-10.20	35.97
Manu vs Retail	8.42	15.47	0.07	-22.42	39.26
<b>Step 3</b>					
Constant	12.80	9.09		-5.32	30.92
No Factor vs Negative	-28.10	12.40	-0.30 *	-52.82	-3.39
No Factor vs Positive	8.90	19.69	0.05	-30.36	48.16
Manu vs Service	13.43	11.55	0.15	-9.61	36.46
Manu vs Retail	7.40	15.44	0.06	-23.39	38.19
Revenue	0.00	0.00	0.00	0.00	0.00
<b>Step 4</b>					
Constant	-5.24	11.88		-28.94	18.46
No Factor vs Negative	-27.69	12.05	-0.30 *	-51.73	-3.66
No Factor vs Positive	1.12	19.45	0.01	-37.67	39.90
Manu vs Service	18.34	11.34	0.20	-4.46	41.15
Manu vs Retail	14.38	15.32	0.12	-16.17	44.94
Revenue	0.00	0.00	0.00	0.00	0.00
CSR Index	30.66	13.51	0.26 *	3.72	57.60

Note. CI = confidence interval; LB = lower bound, UB = upper bound.  $R^2 = .06$  for Step 1,  $\Delta R^2 = .02$  for Step 2,  $\Delta R^2 = .02$  for Step 3,  $\Delta R^2 = .06$  for Step 4.

\*  $p < .05$ .

The Durbin – Watson statistic was 1.764. Values between 1.5 and 2.5 indicate that the residuals are independent (Field, 2009). Scatterplots of regression standardized

residuals and regression standardized predicted values indicated that the assumptions of homoscedasticity and linearity were met. The histogram of the dependent variable ROA, depicting frequency of regression standardized residuals, appears as a normal distribution with a single outlier. The normal P – P plot of the regressions standardized residuals for the dependent variable indicated some deviation from normality.

Due to the appearance of possible deviation from normality on the P – P plot the Kolmogorov – Smirnov test was performed. The Kolmogorov – Smirnov test for ROE,  $D(77) = .295$ ,  $\rho < .001$ , was significantly non-normal. The normal Q – Q plot of ROE indicates skewness. Partial scatter plots of residuals of the dependent variable for each non-categorical variable appeared linear with no indication of homoscedasticity. Non-normality of the dependent variable ROA limits generalizability of the results.

### **Research Question 3**

The third research question was:

RQ3: What is the relationship between Fortune 500 companies' market value added (MVA) as a percentage of total assets and their self-interest in corporate social responsibility?

The hypothesis associated with the third research question was:

$H_03$ : Fortune 500 companies' change in market value added as a percentage of total assets does not have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

$H_13$ : Fortune 500 companies' change in market value added as a percentage of

total assets does have a significant relationship with their self-interest in CSR activities, when controlling for the effects of firm size, industry, and CSR perception factor.

Hypothesis 3 was tested through developing the following multiple regression equation, testing for the significance of multiple correlation, and testing for the significance of the regression coefficients.

$$MVA = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \quad (9)$$

where, MVA is change in market value added as a percentage of assets,  $X_1$  is firm size,  $X_2$  is industry,  $X_3$  is perception factor,  $X_4$  is self-interest in CSR activities, and  $\varepsilon$  is the error term. Data was entered into SPSS in 4 blocks. Categorical variables need to be entered in separate blocks for each category (Field, 2009). The categorical variable for CSR perception factor was entered in block 1 and the categorical variable of industry was entered in block 2. Revenue has been associated in the literature with CSR and with financial performance metrics and was entered in block 3. CSR index was not found to be a significant predictor of change in market value as a percentage of assets when controlling for CSR perception factor, industry, and revenue,  $R^2$  change = .001,  $F(1,70) = 0.057$ ,  $\rho = .812$ . This does not provide evidence to reject the null hypothesis. The results of this regression are depicted in Table 5.

Tests were performed to ascertain whether or not the appropriate assumptions were met for testing the third hypothesis. The largest VIF was 1.414 and the average VIF was 1.224. The lowest tolerance was .707. Variance proportions from the collinearity diagnostics showed the largest loadings on different dimensions. All of these indicate no issue with multicollinearity.



Table 5

*Regression Coefficients for Test of Hypothesis 3*

	B	SE B	B	95% CI	
				LB	UB
<b>Step 1</b>					
Constant	9.89	4.11		1.71	18.07
No Factor vs Negative	-6.55	6.54	-0.12	-19.57	6.48
No Factor vs Positive	4.97	11.73	0.05	-18.41	28.35
<b>Step 2</b>					
Constant	4.09	5.04		-5.96	14.14
No Factor vs Negative	3.14	6.96	0.06	-10.73	17.01
No Factor vs Positive	12.79	11.33	0.13	-9.80	35.36
Manu vs Service	-6.05	6.67	-0.11	-19.33	7.23
Manu vs Retail	25.82	8.90	0.35 **	8.08	43.55
<b>Step 3</b>					
Constant	4.96	5.27		-5.50	15.46
No Factor vs Negative	4.14	7.19	0.08	-10.19	18.46
No Factor vs Positive	13.34	11.42	0.13	-9.42	36.10
Manu vs Service	-6.20	6.70	-0.11	-19.56	7.15
Manu vs Retail	26.11	8.95	0.36 **	8.26	43.95
Revenue	0.00	0.00	-0.07	0.00	0.00
<b>Step 4</b>					
Constant	3.82	7.13		-10.41	18.04
No Factor vs Negative	4.16	7.23	0.08	-10.27	18.59
No Factor vs Positive	12.85	11.68	0.13	-10.44	36.13
Manu vs Service	-5.89	6.87	-0.11	-19.59	7.80
Manu vs Retail	26.55	9.20	0.36 **	8.20	44.89
Revenue	0.00	0.00	-0.07	0.00	0.00
CSR Index	1.94	8.11	0.03	-14.24	18.11

Note. CI = confidence interval; LB = lower bound, UB = upper bound.  $R^2 = .02$  for Step 1,  $\Delta R^2 = .13$  for Step 2,  $\Delta R^2 = .04$  for Step 3,  $\Delta R^2 = .01$  for Step 4.

\*\*  $p < .01$ .

The Durbin – Watson statistic was 1.749. Values between 1.5 and 2.5 indicate that the residuals are independent (Field, 2009). Scatterplots of regression standardized

residuals and regression standardized predicted values indicated that the assumptions of homoscedasticity and linearity were met. The histogram of the dependent variable change in market value added as a percentage of assets, depicting frequency of regression standardized residuals, appears as a normal distribution. The normal P – P plot of the regressions standardized residuals for the dependent variable indicated some deviation from normality.

Due to the appearance of possible deviation from normality on the P – P plot the Kolmogorov – Smirnov test was performed. The Kolmogorov – Smirnov test for change in market value added as a percentage of assets,  $D(77) = .175$ ,  $\rho < .001$ , was significantly non-normal. The normal Q – Q plot of change in market value added as a percentage of assets indicates skewness. Partial scatter plots of residuals of the dependent variable for each non-categorical variable appeared linear with no indication of homoscedasticity.

### **Additional Tests**

Each multiple regression was also performed with data for the most recent quarter. Using a second time period addresses potential effects of history and improves validity. Procedures mirrored those of analysis of the three hypotheses. Using quarterly data for Hypothesis 1, CSR Index was found to be a significant predictor of ROA when controlling for CSR perception factor, industry, and firm size,  $R^2$  change = .05,  $F(1,70) = 4.348$ ,  $\rho = .041$ . The results of this regression are depicted in Table 6.

Tests were performed to ascertain whether or not the appropriate assumptions were met for testing the first hypothesis using quarterly data. The largest VIF was 1.414, and the average VIF was 1.224. The lowest tolerance was .707. Variance

proportions from the collinearity diagnostics showed the largest loadings on different dimensions. All of these indicate no issue with multicollinearity.

Table 6

*Regression Coefficients for Test of Hypothesis 1 with Quarterly Data*

	B	SE B	B	95% CI	
				LB	UB
<b>Step1</b>					
Constant	2.18	0.64		0.91	3.45
No Factor vs Negative	-2.76	1.01	-0.30 **	-4.77	-0.74
No Factor vs Positive	2.18	1.82	0.13	-1.45	5.79
<b>Step2</b>					
Constant	1.24	0.82		-0.40	2.87
No Factor vs Negative	-2.75	1.13	-0.30 *	-5.01	-0.50
No Factor vs Positive	2.63	1.84	0.16	-1.04	6.31
Manu vs Service	1.46	1.08	0.16	-0.70	3.62
Manu vs Retail	2.16	1.45	0.18	-0.72	5.50
<b>Step 3</b>					
Constant	0.89	0.85		-0.80	2.58
No Factor vs Negative	-3.15	1.16	-0.35 **	-5.45	-0.85
No Factor vs Positive	2.41	1.84	0.15	-1.25	6.07
Manu vs Service	1.52	1.08	0.17	-0.63	3.67
Manu vs Retail	2.05	1.44	0.17	-0.82	4.92
Revenue	0.00	0.00	0.16	0.00	0.00
<b>Step 4</b>					
Constant	-0.66	1.11		-2.88	1.56
No Factor vs Negative	-3.11	1.13	-0.34 **	-5.36	-0.86
No Factor vs Positive	1.74	1.82	0.11	-1.89	5.38
Manu vs Service	1.94	1.07	0.22	-0.19	4.08
Manu vs Retail	2.65	1.44	0.22	-0.21	5.51
Revenue	0.00	0.00	0.17	0.00	0.00
CSR Index	2.64	1.27	0.23 *	0.12	5.16

Note. CI = confidence interval; LB = lower bound, UB = upper bound.  $R^2 = .13$  for Step 1,  $\Delta R^2 = .04$  for Step 2,  $\Delta R^2 = .03$  for Step 3,  $\Delta R^2 = .05$  for Step 4.

\*  $p < .05$ . \*\*  $p < .01$ .

The Durbin – Watson statistic was 1.952. Values between 1.5 and 2.5 indicate that the residuals are independent (Field, 2009). Scatterplots of regression standardized residuals and regression standardized predicted values indicated that the assumptions of homoscedasticity and linearity were met. The histogram of the dependent variable quarterly ROA, depicting frequency of regression standardized residuals, appears as a normal distribution with a single outlier. The normal P – P plot of the regressions standardized residuals for the dependent variable indicated some deviation from normality.

Due to the appearance of possible deviation from normality on the P – P plot the Kolmogorov – Smirnov test was performed. The Kolmogorov – Smirnov test for quarterly ROA,  $D(77) = .256$ ,  $\rho < .001$ , was significantly non-normal. The normal Q – Q plot of quarterly ROA indicates skewness. Partial scatter plots of residuals of the dependent variable for each non-categorical variable appeared linear with no indication of homoscedasticity. The results of this test reinforce the results of the test of Hypothesis 1 and provide support to the external validity.

Using quarterly data for Hypothesis 2, CSR Index was not found to be a significant predictor of ROE when controlling for CSR perception factor, industry, and firm size,  $R^2 \text{ change} = .002$ ,  $F(1,70) = 0.165$ ,  $\rho = .686$ . The results of this regression are depicted in Table 7.

Tests were performed to ascertain whether or not the appropriate assumptions were met for testing the second hypothesis using quarterly data. The largest VIF was 1.414, and the average VIF was 1.224. The lowest tolerance was .707. Variance

proportions from the collinearity diagnostics showed the largest loadings on different dimensions. All of these indicate no issue with multicollinearity.

Table 7

*Regression Coefficients for Test of Hypothesis 2 with Quarterly Data*

	B	SE B	$\beta$	95% CI	
				LB	UB
<b>Step1</b>					
Constant	3.76	3.67		-3.55	11.07
No Factor vs Negative	3.75	5.84	0.08	-7.90	15.39
No Factor vs Positive	12.73	10.49	0.14	-8.17	33.63
<b>Step2</b>					
Constant	4.39	4.81		-5.19	13.98
No Factor vs Negative	6.72	6.64	0.14	-6.51	19.94
No Factor vs Positive	13.97	10.80	0.16	-7.57	35.50
Manu vs Service	-5.61	6.35	-0.12	-18.27	7.06
Manu vs Retail	2.40	8.49	0.04	-14.52	19.32
<b>Step 3</b>					
Constant	4.34	5.04		-5.70	14.39
No Factor vs Negative	6.66	6.87	0.13	-7.04	20.36
No Factor vs Positive	13.93	10.92	0.16	-7.83	35.70
Manu vs Service	-5.60	6.40	-0.11	-18.37	7.17
Manu vs Retail	2.38	8.56	0.04	-14.68	19.45
Revenue	0.00	0.00	0.00	0.00	0.00
<b>Step 4</b>					
Constant	6.20	6.82		-7.40	19.79
No Factor vs Negative	6.62	6.91	0.13	-7.17	20.40
No Factor vs Positive	14.73	11.16	0.16	-7.52	36.98
Manu vs Service	-6.10	6.56	-0.13	-19.19	6.98
Manu vs Retail	1.67	8.79	0.03	-15.86	19.20
Revenue	0.00	0.00	0.00	0.00	0.00
CSR Index	-3.15	7.75	-0.05	-18.61	12.31

Note. CI = confidence interval; LB = lower bound, UB = upper bound.  $R^2 = .02$  for Step 1,  $\Delta R^2 = .01$  for Step 2,  $\Delta R^2 = .00$  for Step 3,  $\Delta R^2 = .00$  for Step 4.

The Durbin – Watson statistic was 2.049. Values between 1.5 and 2.5 indicate that the residuals are independent (Field, 2009). Scatterplots of regression standardized residuals and regression standardized predicted values indicated that the assumptions of homoscedasticity and linearity were met. The histogram of the dependent variable quarterly ROE, depicting frequency of regression standardized residuals, appears as a normal distribution with a single outlier. The normal P – P plot of the regressions standardized residuals for the dependent variable indicated some deviation from normality.

Due to the appearance of possible deviation from normality on the P – P plot the Kolmogorov – Smirnov test was performed. The Kolmogorov – Smirnov test for quarterly ROE,  $D(77) = .349$ ,  $\rho < .001$ , was significantly non-normal. The normal Q – Q plot of quarterly ROE indicates skewness. Partial scatter plots of residuals of the dependent variable for each non-categorical variable appeared linear with no indication of homoscedasticity. The results of this test do not provide additional support to external validity of the Hypothesis 2.

Using quarterly data for Hypothesis 3, CSR Index was not found to be a significant predictor of change in market value added as a percentage of assets when controlling for CSR perception factor, industry, and firm size,  $R^2$  change = .00,  $F(1,70) = 0.001$ ,  $\rho = .982$ . The results of this regression are depicted in Table 8.

Tests were performed to ascertain whether or not the appropriate assumptions were met for testing Hypothesis 3. The largest VIF was 1.414 and the average VIF was 1.224. The lowest tolerance was .707. Variance proportions from the collinearity

diagnostics showed the largest loadings on different dimensions. All of these indicate no issue with multicollinearity.

Table 8

*Regression Coefficients for Test of Hypothesis 3 with Quarterly Data*

	B	SE B	$\beta$	95% CI	
				LB	UB
<b>Step1</b>					
Constant	10.36	3.11		4.33	16.74
No Factor vs Negative	-11.73	4.96	-0.27 *	-21.60	-1.85
No Factor vs Positive	-10.97	8.89	-0.14	-28.69	6.75
<b>Step2</b>					
Constant	3.43	3.73		-4.00	10.86
No Factor vs Negative	-4.80	5.14	-0.11	-15.05	5.45
No Factor vs Positive	-3.96	8.37	-0.05	-20.64	12.73
Manu vs Service	0.28	4.92	0.01	-9.53	10.09
Manu vs Retail	25.23	6.57	0.44 **	12.12	38.33
<b>Step 3</b>					
Constant	4.03	3.89		-3.73	11.80
No Factor vs Negative	-4.10	5.31	-0.10	-14.69	6.49
No Factor vs Positive	-3.57	8.44	-0.05	-20.40	13.25
Manu vs Service	0.17	4.95	0.00	-9.70	10.04
Manu vs Retail	25.43	6.62	0.44 **	12.34	38.62
Revenue	0.00	0.00	-0.06	0.00	0.00
<b>Step 4</b>					
Constant	4.11	5.28		-6.41	14.63
No Factor vs Negative	-4.10	5.35	-0.10	-14.77	6.56
No Factor vs Positive	-3.54	8.63	-0.05	-20.76	13.68
Manu vs Service	0.15	5.08	0.00	-9.97	10.28
Manu vs Retail	25.40	6.80	0.44 **	11.83	38.96
Revenue	0.00	0.00	-0.06	0.00	0.00
CSR Index	-0.14	6.00	0.00	-12.10	11.83

Note. CI = confidence interval; LB = lower bound, UB = upper bound.  $R^2 = .08$  for Step 1,  $\Delta R^2 = .16$  for Step 2,  $\Delta R^2 = .00$  for Step 3,  $\Delta R^2 = .00$  for Step 4.

\*  $p < .05$ . \*\*  $p < .01$ .

The Durbin – Watson statistic was 2.334. Values between 1.5 and 2.5 indicate that the residuals are independent (Field, 2009). Scatterplots of regression standardized residuals and regression standardized predicted values indicated that the assumptions of homoscedasticity and linearity were met. The histogram of the dependent variable quarterly change in market value added as a percentage of assets, depicting frequency of regression standardized residuals, appears as a normal distribution. The normal P – P plot of the regressions standardized residuals for the dependent variable indicated some deviation from normality.

Due to the appearance of possible deviation from normality on the P – P plot the Kolmogorov – Smirnov test was performed. The Kolmogorov – Smirnov test for quarterly change in market value added as a percentage of assets,  $D(77) = .156$ ,  $\rho < .001$ , was significantly non-normal. The normal Q – Q plot of quarterly change in market value added as a percentage of assets indicates skewness. Partial scatter plots of residuals of the dependent variable for each non-categorical variable appeared linear with no indication of homoscedasticity.

### **Summary**

In this quantitative study I used multiple regression to expand upon existing knowledge of the relationship between CSR and financial performance. This is a unique contribution to the literature extending beyond the relationship of various CSR indexes through using a measure of the nature of an organization's self-interest in CSR activities instead of indices such as the KLD which already has significant support in the literature.



Self-interest in CSR activities was measured as the number of self-interest CSR activities appearing before any non-self-interest CSR activities on an organization's website divided by the total number of CSR activities. This index ranges from 0, where an organization's primary CSR activity is a non-self-interest activity, to 1, where all of an organization's reported CSR activities are self-interest activities. This is a measure of CSR fit, the alignment between an organization's CSR activities and business interests.

Self-interest in CSR activities was found to be a significant predictor of two financial performance metrics, ROA and ROE, when controlling for CSR perception factor, industry, and firm size. Self-interest in CSR activities was not found to be a significant predictor of a market based financial performance metric, change in market value added as a percentage of assets. ROA and ROE data were found through the Kolmogorov – Smirnov test to be non-normally distributed, which limits the generalizability of the results.

For all three research questions the  $R^2$  change for step 3, revenue, was less than .02. As all three financial performance metrics account for size, based on assets, equity, and assets respectively, additional variance accounted for by revenue may have been mitigated.

In the next and final chapter, Chapter 5, I compare the findings of this study to the existing literature, showing how this study expands the existing knowledge base. In Chapter 5 I also discuss limitations of the study, make recommendations for further research, and discuss the social change implications of this study.

## Chapter 5: Discussion, Conclusions, and Recommendations

In this quantitative research study I used multiple regression to correlate the nature of the relationship between organizations' self-interest in CSR activities, as reported on their websites, and measures of financial performance. The sample was drawn from the population of the 2014 Fortune 500. Financial performance measures of return on assets, return on equity, and change in market value added as a percentage of assets were each regressed against self-interest in CSR activities while controlling for CSR perception factor, industry, and size. This unique study adds to the body of knowledge by examining an aspect of the relationship between CSR and financial performance which has been underresearched in the literature. The results of this study can aid leaders in determining how to best align and implement CSR activities, providing significant benefit to society.

Self-interest in CSR activities was found to be a significant predictor of the financial performance metrics of ROA and ROE when controlling for CSR perception factor, industry, and size. Deviation from normality in the dependent variables limit generalizability of the results. Self-interest in CSR activities was not found to be a significant predictor of a market based financial performance metric, change in market value added as a percentage of assets, when controlling for CSR perception factor, industry, and size.

### **Interpretation of Findings**

The findings of this study, that self-interest in CSR activities is a statistically significant predictor of the financial performance metrics of ROA and ROE when

controlling for CSR perception factor, industry, and size, expands the extant body of knowledge. The results of the study contribute to the body of knowledge in providing further support for existing knowledge and by expanding knowledge in the underresearched area of the relationship between what an organization does for CSR and the organization's financial performance. The results of this study contribute to the knowledge base of corporate social responsibility as well as the related theoretical framework.

Carroll and Shabana (2010) indicated that it is in organizations' self-interest to engage in socially responsible activities. The researchers postulated that financial reward would come from engaging in CSR—when CSR was conducted in line with business activities. The results of this study provide support that self-interest CSR activities do have a positive relationship with the financial performance metrics of ROA and ROE.

Smith and Alexander (2013) found that nearly all Fortune 500 companies report their CSR activities on their websites. This researcher found only two of 83 organizations in the initial sample did not report CSR activities on their website, consistent with the findings of Smith and Alexander (2013). Smith and Alexander (2013) also found variation in the nature of reported CSR by industry. Although this study created data from which this could be further tested it was not done at this point as it is outside of the scope of the current study. An extension of this study examining the performance implications of self-interest in CSR activities by industry would further knowledge in this area.

The study provides additional support for the extent of communication of CSR activities on the internet. This is in line with Whelan et al.'s (2013) distinction between old and new media and de Bakker and Hellsten's call for additional research using web 1.0 applications.

The results of this study extend the findings of Nelling and Webb (2009) and Erhemjamts et al. (2013). While Nelling and Webb (2009) concluded there was not a relationship between CSR and financial performance, they attributed positive results from studies using the KLD Socrates database to unobservable variables. The positive relationship found in this study could be indicative of one of those unobserved variables, self-interest in CSR activities. Erhemjamts et al. (2013) found a positive relationship between the strengths component of the KLD database and financial performance. KLD strengths are aligned with self-interest in CSR activities, where activities that fit in with societal expectations of a business have greater perceived value.

Sabbaghi and Xu (2013) found no significant difference in market performance between socially responsible organizations and a broad portfolio of organizations. In finding no significant relationship between self-interest in CSR activities and market performance measured as a change in market value added as a percentage of assets I further the knowledge of a lack of relationship between CSR and market performance. The results of this study are consistent with the results of Sabbaghi and Xu (2013), that CSR is not a predictor of market performance.

Numerous journal articles have espoused the importance of alignment between CSR activities and business activities (Du et al., 2010; Munro, 2013; Porter & Kramer,

2011; Vallester et al. 2012; Verboven, 2011). Alignment or fit of CSR activities and business activities is analogous to self-interest in CSR activities; the more that CSR activities are self-interest CSR activities the greater the alignment or fit between those activities and business activities. In spite of a plethora of commentary on this importance there has been a dearth of quantitative research correlating this important relationship.

Du et al. (2010) indicated that consumers expect firm's CSR activities to align with their core business activities. In this study I have shown a significant positive relationship between this alignment and measures of financial performance ROA and ROE. Munro (2013) indicated that the alignment between CSR activities and business activities was one of the organizations' most significant challenges. Having support for a significant positive relationship between alignment of CSR activities, through self-interest, and business activities, can provide additional incentive for organizations to address this challenge.

Porter and Kramer (2011) indicated that not all opportunities for social betterment are equal and that organizations need to focus on CSR activities aligned with their business activities and where they can achieve their best returns on a long-term basis. The results of this study support part of Porter and Kramer's (2011) position, that business can benefit financially through aligning their CSR and business activities. The results of this study cannot provide support for the remainder of their statement as that exceeds the scope of this study. Similarly, Pelozo et al. (2012) highlighted the importance of a strategic perspective of CSR as well as the importance of factors effecting CSR perception. While strategic CSR should produce an alignment between CSR and business

activities, any specific relationship between strategic CSR and self-interest in CSR is beyond the scope of this study.

Whelan (2013) found a significant positive relationship between ROA and an index of CSR, and a positive but not significant relationship between ROE and an index of CSR. Whelan's (2013) study was limited in only using data from organizations with high CSR index scores. The results of this study support and expand upon Whelan's findings in finding a positive significant relationship between self-interest in CSR activities and both ROA and ROE using a much broader sample of companies.

The results of the study support the theory of Geva's (2008) concentric-circles model of CSR. In Geva's (2008) model the outermost circle is CSR and CSR is inherent in all business decisions. Non-self-interest CSR activities would fall within the CSR circle but outside of the inner circle of economics; non-self-interest CSR would not directly impact business performance, self-interest CSR would.

In addition to contributing to the existing knowledge base regarding the relationship between CSR and financial performance the results of this study also contribute with relation to the theoretical foundations of the study. The results of the study tie back to servant leadership theory, ethical climate theory, and stakeholder theory.

Support is also given for Reed et al.'s (2011) work on servant leadership theory. Reed et al. (2011) indicated the necessity of proactive improvement of building community external to the organization. While I did not specifically address this in the self-interest construct there is at least an appearance of a relationship between proactivity and self-interest, where proactive opportunities should align with self-interest activities to

a greater degree than passive activities, such as philanthropy, would. Servant leadership theory requires inclusion of the most marginalized in society, particularly those lacking in voice. Self-interest CSR activities frequently encompass those lacking in voice, both inanimate actors such as the environment as well as other actors such as poor populations in areas where organizations conduct business.

As with servant leadership theory, ethical climate theory requires proactive inclusion of those marginalized or lacking in voice. The ethical climate theory of caring is most closely aligned with CSR and is likewise the ethical climate most preferred by employees. Self-interest activities include those activities which promote benefit for the work force, including improvements in working conditions, benefits, and opportunities. In particular, education programs designed to develop local populations for inclusion in job opportunities are an example of the type of self-interest activity which falls clearly into both the domains of a caring ethical work climate and self-interest CSR.

There is also a close relationship between self-interest in CSR as utilized in this study and stakeholder theory. Self-interest CSR activities will naturally involve stakeholders, those who impact or can be impacted by the activities of the business. Non-self-interest activities are primarily limited to non-stakeholders or to stakeholders less associated with business activities. Implementation of stakeholder-based CSR is done at the strategic level. Organizations prioritize and include stakeholders based on strategic, top-level management decisions. Decisions at this level should lead to both self-interest CSR activities as well as inclusion of all relevant populations.

The results of this study are significant in their contribution to the knowledge base. While the results provide support for results of prior studies indicating a link between CSR and financial performance, the results extend beyond that support. This study is a unique contribution to the literature in addressing the underresearched area of the nature of organizations' self-interest in CSR and measures of financial performance.

### **Limitations of the Study**

Numerous factors have been associated with CSR including debt load, research and development, and size. Analysis of the plethora of factors associated with CSR was beyond the scope of this study. For Research Question 1, testing for the significance of multiple correlation produced an  $R^2$  for step 4 of .165 with  $R^2$  change of .057. Despite the model showing self-interest in CSR to be a significant predictor of ROA when controlling for CSR perception factor, industry, and size, there remains a lot of unexplained variance. There are other predictors, perhaps better predictors, which were not included in this model. Further, the dependent variable tested significantly non-normal which limits generalizability of the results beyond the sample.

For Research Question 2, testing for the significance of multiple correlation produced an  $R^2$  for step 4 of .162 with  $R^2$  change of .062. Despite the model showing self-interest in CSR to be a significant predictor of ROE when controlling for CSR perception factor, industry, and size, there remains a lot of unexplained variance. As for Research Question 1, there may be better predictors which were not included in the model. The same issue with non-normality of the dependent variable also applies, limiting generalizability of the results beyond the sample.



This study is limited by the chosen population, the 2014 Fortune 500. The Fortune 500 consists of large U.S. corporations and U.S. subsidiaries of foreign corporations. Geographic differences in CSR were not considered. Inclusion of small or mid-size organizations would likely influence the results. Their inclusion was beyond the scope of this study. While generalizability was limited by the design and population of this study, the results are further limited as to generalizability due to significant non-normality of the dependent variables.

### **Recommendations**

Both the strengths of this study and the limitations of this study lead to avenues for further research. This additional research could in turn lead to expansion of the knowledge base as it relates to CSR, practitioner research to help guide leaders, and corresponding social change due to increased socially responsible corporate behavior and investment.

This study is foundational in that the performance implications of self-interest in CSR activities has been underresearched. As indicated by Carroll and Shebana (2010) it is in an organization's self-interest to engage in CSR activities aligned with business activities. The results of this study provide support for that notion, however, additional research is needed to determine if a generalizable relationship exists. This could be done through examining other populations or samples, or by using other financial performance metrics. This research could also be further validated by examining the relationship between self-interest in CSR activities and measures of financial performance using non-

parametric tests, providing additional validity without the problems associated with non-normality in the dependent variables used in this study.

In this study I used CSR data at a point in time to calculate self-interest in CSR activities. Collecting data for self-interest in CSR activities across time and examining the relationship between self-interest in CSR activities and financial performance across time would further validate the potential relationship. The work of Smith and Alexander (2013) in differentiating CSR reporting by industry could be extended by further analyzing self-interest in CSR activities by industry. This could likewise be extended by breaking industry into additional classifications, incorporating CSR perception factor into the analysis, and by correlating this with financial performance. Additionally, the relationship between self-interest in CSR activities and market performance should be examined through longitudinal studies, as there may be a time lag between CSR activities and market performance effects.

Longitudinal studies examining the relationship, if any, between self-interest in CSR activities and financial performance could address additional gaps in the literature. Porter and Kramer (2011) indicated that organizations need to focus on alignment of their CSR and business activities and where they can achieve their best returns on a long-term basis. As indicated earlier, the results of this study provide support for part of Porter and Kramer's (2011) assertion. Longitudinal study of the relationship of alignment of CSR and business activities, as indicated by self-interest in CSR activities, could provide support for the remainder of Porter and Kramer's (2011) statement. If a positive relationship between self-interest in CSR activities and financial performance exists on a

long-term basis that would add significantly to the financial impetus for increased CSR activity.

Existing CSR indexes, Such as the KLD Socrates database used by Erhemjamts et al. (2013) and others, also provide an interesting and potentially fruitful avenue for further research. Existing indices tend to focus on CSR activities as positives or negative actions or news events as negatives and there is a paucity of research relating this to self-interest in CSR activities or other measures of the nature of the CSR activities.

Examination of the relationship, if any, between CSR indexes and self-interest in CSR activities could help rectify the disparity in the results of the numerous studies examining the relationship between CSR indexes and financial performance.

Peloza et al. (2012) and others have highlighted the importance of strategic CSR. Strategic CSR is an important avenue for further research, as strategic CSR implementation may be a confounding variable. It is not known if there is a relationship between strategic CSR and self-interest in CSR activities, although such a relationship is certainly plausible. Strategic CSR is a potentially causal for self-interest in CSR activities. Self-interest in CSR activities is a measure of the relationship between CSR activities and business activities; strategic CSR instead deals with how CSR activities are embedded into the strategic leadership of an organization.

Additional management related relationships also bear further scrutiny. Self-interest in CSR activities is grounded in ethical climate theory, servant leadership theory, and stakeholder theory. While grounded in these theories no empirical relationship has been clearly established between leadership theories and self-interest in CSR activities.

Knowledge of such a relationship may indicate leader characteristics or leadership styles which lead to increased self-interest in CSR activities and potentially to improved financial performance. This area may be particularly suited for practitioner research.

Additional research related to the construct of self-interest in CSR activities could further improve the validity of the construct. The construct is well grounded in the literature but has scant empirical verification; there remains little knowledge of the relationship between reporting of CSR activities and actual social performance.

There are several opportunities for additional study addressing the limitations of this study. Generalizability is the major limitation; studies producing generalizable results would address this major limitation. Additionally, there are opportunities to further examine the social change aspects of self-interest in CSR activities. While social change and self-interest are clearly related through the theoretical foundation, further empirical validation of this aspect of the construct could lead to improved opportunity for positive social change through self-interest CSR activities.

The significant volume of research on the relationship between CSR and financial performance has produced mixed results. This study adds a unique contribution to the knowledge base. Mixed results have been obtained utilizing a variety of CSR index databases, there is little research utilizing self-interest in CSR activities or other measures of the nature of the CSR activities conducted. The nature of CSR activities conducted could be a significant cause of the discrepancies in prior research where it was an unknown factor; the nature of CSR activities and the relationship with financial performance has many avenues for valuable research.

## **Implications**

This study is unique in addressing an under researched area of CSR. The results of this study help address a gap in the knowledge base, the relationship between self-interest in CSR activities and financial performance. In doing so this study contributes in the advancement of theory, practice, and social change.

### **Significance to Theory**

There has been a paucity of research relating an organization's alignment of CSR activities and financial performance. This study is grounded in ethical climate theory, servant leadership theory, and stakeholder theory. In synthesizing these three foundational theories together with CSR the study contributes to the knowledge of how CSR is grounded in these leadership theories. Prior studies addressing the potential linkage between CSR and financial performance tend in the literature to be based on CSR ratings. This study provides a unique contribution in examining the potential relationship between self-interest in CSR activities and financial performance. The nature of the type of CSR activities conducted and the associated financial performance implications has been underresearched in the literature. Generalizability of the results of this study are limited; the study contributes to the literature in large part by providing an avenue for further research.

### **Significance to Practice**

Despite voluminous literature examining the relationship between CSR ratings and financial performance there has not emerged a clear relationship. CSR ratings do not provide clear practical direction for leadership in terms of how to structure or focus their

CSR activities. Leaders face competing demands for CSR resources as well as shareholder demands for maximum returns. Being able to associate CSR investment with improved financial performance, through self-interest in CSR activities, can aid leaders in determining the appropriate actions. The results of this study by no means unambiguously suggest that increased self-interest in CSR will lead to financial performance, but rather serve as a starting point for further research. Practitioner focused research could help to provide leadership direction for increased CSR investment leading to further positive social change.

### **Significance to Positive Social Change**

A positive significant association between self-interest in CSR activities and financial performance improves the business case for CSR. A clear business case for CSR could in turn lead to an increase in both the quantity and quality of CSR efforts. Lack of a clear business case may be influencing corporate boards and leadership to limit the scope of their CSR activities as they cannot demonstrate that increased CSR is a sound business practice. A business case for CSR should lead to increased quantity of CSR activities.

Business leaders also lack direction in how to approach CSR activities, as not all such activities are equal. Establishment of a significant positive relationship between the nature of CSR activities and financial performance could help provide direction for how to best allocate CSR resources. Focused allocation of resources would be an improvement in the quality of CSR activities.

In addition to providing direction and aiding in development of the business case for CSR a clear linkage between the nature of CSR activities and financial performance

moves CSR from its present role as primarily an add-on activity to a long-term strategic activity. As a long-term strategic activity the scope and potential impact of CSR expands, as organizations may allocate additional resources or undertake additional CSR activities. This could result in increased socially responsible behaviors. CSR activities are, by nature, good for society. CSR stands alone as a business strategy with embedded social betterment. Further, generalizable research into the relationship between self-interest in CSR activities and financial performance is needed to firmly establish this potential relationship. Increase in socially responsible engagement by business organizations improves conditions for individuals, communities, and the planet.

### **Conclusions**

Focused academic research can lead to positive social change. The results of this quantitative correlational research study suggest a significant positive relationship between self-interest in CSR activities as reported on companies' websites and the financial performance measures of return on assets and return on equity. Generalizability of the results is limited due to non-normality of the dependent variables of ROA and ROE. No significant relationship was found between self-interest in CSR activities as reported on companies' websites and the market based financial performance metric of change in market value added as a percentage of assets. The positive findings of this research study of a relationship between self-interest in CSR activities as reported on companies' websites and the financial performance metrics of ROA and ROE serves as a foundation for further research. This study contributes significantly to the literature by examining an underresearched area of corporate social responsibility; whether or not the

nature of organizations' CSR activities is related to the financial performance of the organization. Substantiation of these initial results through additional research could provide knowledge and information enabling increased socially responsible actions by organizations, with improvement in social conditions a direct outcome of that activity.



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