

RESEARCH ARTICLE

The strategic planning of corporate social responsibility: An endogenous perspective

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Abstract

This study addresses endogenous factors related to the strategic planning of corporate social responsibility (CSR). Our findings help explain the paradox: If better CSR always leads to better firm performance, why do so many companies either choose not to engage in CSR or act irresponsibly? Managers may make decisions regarding CSR based on the environment. Some companies may be better served through a proactive CSR strategy; however, others may be unable to achieve better performance through this strategy for a variety of endogenous causes. Our sample included 594 U.S. publicly traded companies with 2,019 firm-year observations. We empirically simulated scenarios where companies selected inappropriate CSR strategies and found that the companies were unable to achieve better firm performance if they did not select appropriate CSR strategies based on their internal and external environment. Practical and theoretical implications are discussed.

Keywords: corporate social responsibility; CSR; endogeneity; innovation capability; marketing capability; slack; firm performance

Introduction

Corporate social responsibility (CSR) has garnered significant attention and undergone continuous improvement during the last few decades, highlighting the prominence of addressing social and environmental responsibilities alongside business operations (Carroll, 2008; Carroll & Shabana, 2010). Business practices have continuously maintained the importance of CSR, and researchers have addressed the theoretical foundation for why companies should pay attention to their social involvement (Barnard, 1958; Cheit, 1964; Davis, 1960, 1973; Eells, 1958; Elbing, 1970; Frederick, 1960; Grether, 1969; Hillman & Keim, 2001; Keim, 1978a, 1978b; Petit, 1966). However, managers' decision to allocate resources to satisfy a broader range of stakeholder interests instead of maximizing shareholder profits may raise concerns (Friedman, 1970). Insight on this debate was provided through Carroll's (1979) paper, which lists for categories as a framework for a company's total social responsibilities: legal, economic, ethical, and discretionary. Profit maximization fulfills some of a organization's responsibility to society, and a firm should manage a variety of stakeholders in order to obtain legitimacy for conducting business (Freeman, 1984; Porter & Kramer, 2006).

The early studies exploring CSR used an outside-in perspective in the 1950s. This research focused on how a company responds to its external environment. For example, as a company grows, its influences on society become more significant, and as a result the general public has higher expectations

of it. A company then takes responsibility to better serve society as a whole beyond pursuing its economic value (Barnard, 1958; Davis, 1960). However, researchers later argued that not every company can afford to satisfy every stakeholder. A company should consider its internal conditions when deciding on its social involvement, which is a more inside-out approach to thinking about CSR issues (Frederick, 1994). By integrating these two perspectives of CSR, the corporate social performance model proposes a contingency approach to formulating a company's social initiatives (Wartick & Cochran, 1985; Wood, 1991). The framework of principle, process, and outcome for a firm's implementation of social involvement has initiated a new way for managers to think about how to conduct and evaluate socially responsible projects (Wood, 1991). More recently, the combination of an organization's strategy and responsible involvement has created a new agenda for managers to deliberate about the coordination of their strategies and CSR initiatives (Chen, Tsai, Hu, & Roeschmann, 2023; Galbreath, Lucianetti, Tisch, & Thomas, 2022; Jia, 2020; Murphy & Schlegelmilch, 2013; Porter & Kramer, 2006, 2011).

Although the research streams in the CSR literature have dramatically changed views of studying the phenomena between business and society, relatively few studies have attempted to determine ways companies can select appropriate CSR strategies to achieve better firm performance based on their internal and external environments. In other words, endogenous factors may potentially drive companies' decisions on selecting CSR strategies (Lu, Liu, & Osiyevskyy, 2023). Those endogenous factors may also help explain the paradox: If academic research generally suggests positive relationships between firm performance and CSR, why are so many companies not considered socially responsible and not proactively contributing to society? (Clark & Grantham, 2012; Price & Sun, 2017).

In addressing the research gap between strategic perspectives of CSR and internal company concerns, we explored three research questions: (1) What factors influence a company's CSR strategy planning? (2) Can a company benefit by implementing a more proactive CSR strategy? (3) Does a company usually choose an appropriate CSR strategy to achieve better financial performance based on the conditions it encounters? The CSR strategy planning was measured by the aggregative number of Kinder, Lydenberg, and Domini (KLD) ratings (Barnett & Salomon, 2012). Our final sample consisted of 594 individual corporations publicly traded in the U.S. with 2,019 firm-year observations, and Heckman two-stage approach was used to estimate the empirical results.

According to our models, we found that companies generally formulate their CSR strategy planning based on the circumstances they encounter. Managers should be aware of innovation and marketing capability as well as absorbed and unabsorbed slack embedded within their companies to decide which CSR strategy they should select. They should also pay attention to additional undetermined internal and external factors, which may potentially affect their decisions on selecting an appropriate CSR strategy. Managers should then make rational decisions of CSR strategy based on factors they encounter to optimize their firm performance. To account for CSR strategy planning and the contingency of relationships among determinants, we followed Shaver's (1998) procedures, which simulate 'what-if' scenarios to see if a company is or is not using the appropriate CSR strategy. These procedures aim to explore whether a company can achieve better firm performance if it selects an appropriate CSR strategy versus an inappropriate one. The empirical simulation suggested that companies are not better off if it is theoretically appropriate for them to select a reactive CSR strategy, but they alternatively select a proactive CSR strategy – which helps explain why some companies consistently do not focus on social issues and may even be considered socially irresponsible.

The theoretical implications of this study lies in providing novel perspectives on the impacts of CSR strategy on a company's financial performance, which is a topic yielding inconsistent findings in the literature (Chen, Guo, Hsiao, & Chen, 2018; Cochran & Wood, 1984; Margolis & Walsh, 2003; Van Beurden & Gössling, 2008). This research submits that the contingency of selecting an appropriate CSR strategy has been underdeveloped within the CSR literature. Companies may decide on an appropriate CSR strategy based on their internal and external conditions. In other words, not every company can obtain better firm performance by implementing more proactive CSR strategies. The self-selection processes are relatively hard to measure within organizations. Another contribution is

the statistical model, which predicts the likelihood of selecting an appropriate CSR strategy based on a company's innovation and marketing capability as well as its absorbed and unabsorbed slack.

This research has two practical contributions. In contrast to numerous CSR studies that predominantly highlight a positive relationship between a firm's social performance and financial performance, this research emphasizes the significance of considering the contingency factors associated with the environmental conditions that managers face. Not every company is better off by applying a more proactive CSR strategy. Managers should make rational decisions based on the circumstances they encounter. A company should not be faulted if it makes a rational decision to not implement a proactive CSR strategy that is not beneficial for the firm due to the implicit and explicit costs resulting from social initiatives (Chen et al., 2018; Mackey, Mackey, & Barney, 2007). The second implication is that absorbed and unabsorbed slack provide different resources for a company. Managers should distinguish the types of slack embedded within the organization in order to make appropriate decisions on CSR strategy planning.

The structure of the paper is organized as follows: The subsequent section presents the research background and hypotheses. Following that, the methodology employed in this study is described. Next, the empirical study results are presented. Finally, the last section discusses the managerial implications of these findings and provides suggestions for further research.

Research background and hypotheses

Trends in strategic CSR

As noted above, in the last few decades CSR research has evolved from an outside-in to an inside-out and contingency perspective. Newer research has discussed strategic implications of CSR issues. In the 1950s, scholars first discussed the influences of the external environment on how companies respond to society (Davis, 1960; Frederick, 1960). However, because not every company is able to afford the costs associated with social involvement, the inside-out perspective stepped in to explain that a company should consider its internal capacity when deciding on levels of social involvement (Frederick, 1994). Building on prior studies, Wood (1991) proposed a widely adopted corporate social performance model. With emphases on internal CSR principles and processes as well as external social outcomes, there has been an evolution into the contingency perspective. Companies not only take into account the external environment but also factor in their internal capabilities to effectively manage their social involvement.

More recently, the linkage between strategic planning and CSR has drawn researchers' attention. Porter and Kramer (2006) integrated the value chain model into social issues to maintain the importance of the strategic linkage between social involvement and value chain activities. Kang (2013), however, argued that diversification strategies may vary companies' social performance due to the risk-aversion behaviors within the top management team of highly diversified companies. Managers in highly diversified companies tend to minimize organizational risks, which results in the tendency to better respond to stakeholders' expectations and demands. Moreover, researchers have also found that companies may get involved in some salient social issues to lessen the impact of their irresponsible activities (Muller & Kräussl, 2011). The new trend of strategic perspective in the CSR literature provides another lens for investigating more interesting relationships in the interactions between business and society (Lu et al., 2023).

Although several articles have explored the relationships among strategic factors and companies' social and financial performance (e.g., Chen et al., 2018), few researchers have delved into why companies decide to be involved in CSR (Wong, Ormiston, & Tetlock, 2011). Following previous research, we have categorized companies' CSR strategies into two groups: proactive and reactive¹ (Carroll, 1979; Clarkson, 1995; Wilson, 1975). Due to the evolution of the literature, we redefined proactive CSR

¹Clarkson (1995: 109) suggested that reactive CSR refers to companies doing less than required. Therefore, it does not imply that negative impacts may be caused by the companies.

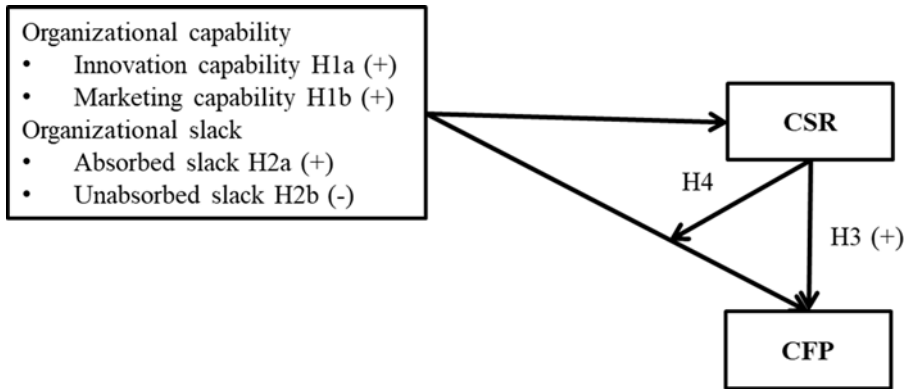


Figure 1. Conceptual model of this research.

strategy as the active pursuit of social involvement, which may offset the company's negative impacts, if any, on society. Reactive CSR strategy states that a company reactively pays attention to social benefit, and sometimes even jeopardizes society without considering compensation for social betterment (Wartick & Cochran, 1985). More importantly, our research focuses on addressing the contingency issues associated with the selection of CSR strategy and its impact on a company's financial performance. This study aimed to explore whether companies' organizational capability and slack may be subject to the planning of CSR strategy and unobserved endogenous factors in order to influence firm performance (Hamilton & Nickerson, 2003). Such endogeneity needs further scrutiny to obtain unbiased results on the relationships among companies' CSR determinants, planning of CSR strategy, and firm performance. Figure 1 portrays our conceptual framework and proposed hypotheses.

Organizational capability and CSR strategy planning

Building on the resource-based view of the firm (Wernerfelt, 1984), Barney (1991) proposed the characteristics of VRIN – valuable, rare, inimitable and non-substitutable – associated with firm resources to earn competitive advantage. To generate resources with these characteristics, two types of organizational capability have been widely discussed in the literature: innovation and marketing capability (Chen & Lin, 2016; Hull & Rothenberg, 2008; Kotabe, Srinivasan, & Aulakh, 2002; McWilliams & Siegel, 2000; Morgan, Vorhies, & Mason, 2009; Surroca, Tribó, & Waddock, 2010; Wu, Lin, & Chen, 2007; Zaheer & Bell, 2005).

Hart (1995) bridged the CSR and resource-based view literature, arguing that CSR in general can provide specific resources to strengthen companies' competitive advantage by implementing strategies of sustainable development, pollution prevention, and product stewardship. However, the dialogue between resource-based view and the CSR literature is relatively underdeveloped (Flammer, 2013; Surroca et al., 2010). In this research, we integrated the CSR and resource-based view literature to discuss how organizational capability and slack influence CSR strategy planning and explored the contingency of interactions among slack, organizational capability, planning of CSR strategy, and firm performance (Jia, 2020).

Innovation capability and CSR strategy planning

An innovative company can influence its social involvement in two ways: by redesigning or improving existing products and services as well as by applying new materials or developing new products in a more responsible manner. By investing in R&D, a company can develop more efficient processes or designs to reduce waste, pollution, and unfriendly working environments (Chakrabarty & Wang, 2012). For example, Hart (1997) highlighted that by redesigning its products, Aeroquip, a brand name

of Eaton Co., developed new business opportunities of \$250 million, which focused on reducing emissions.

However, higher levels of innovation capability may also help companies apply new materials and develop more creative and sustainable products and services. Nidumolu, Prahalad and Rangaswami (2009) provided an interesting observation in business practices. Procter & Gamble Co. found that more than 3% of customers' annual electricity budget was spent on heating water to wash clothes. As a result, the company developed a new detergent capable of washing clothes in cold water. This new product dramatically changed customers' behavior, and the company reported that in 2008, 21% of households in the United Kingdom were using cold water for laundry compared to 2% in 2002.

As a result, innovation capability is a key driver and resource for companies to implement proactive CSR strategies (Brammer & Millington, 2008; Fu, Boehe, & Orlitzky, 2020; Hart, 1995; Jia, 2020; McWilliams & Siegel, 2000; Mithani, 2017; Ranabahu, 2020). These capabilities empower companies to pursue more advanced materials or develop new products in more responsible ways (Hojnik, Prokop, & Stejskal, 2022). Accordingly, the first hypothesis of this study is proposed.

Hypothesis 1a: Companies are more likely to adopt a proactive than reactive CSR strategy when they have higher levels of innovation capability.

Marketing capability and CSR strategy planning

Two reasons why companies with stronger marketing capability may be more likely to participate in social involvement have been discussed in the literature, namely better reputations to form specific resources and education that makes customers aware of their products provided for social betterment (McWilliams, Siegel, & Wright, 2006; Lev, Petrovits, & Radhakrishnan, 2009; Miller, Eden, & Li, 2020; Swaen, Demoulin, & Pauwels-Delassus, 2021). Reputation plays an important role for companies pursuing social involvement. By actively promoting their social involvement, companies may differentiate their brand and reputation to form specific resources, which allow those companies to charge higher premiums (Barnett, 2007; Lev, et al., 2009; Zyglidopoulos, Georgiadis, Carroll, & Siegel, 2013). Furthermore, this research suggests that the reputation built by companies' social involvement provides a unique venue for companies to communicate with their stakeholders by forming stronger and more emotional attachments (Boehe & Cruz, 2010). Therefore, companies with higher levels of marketing capability are better able to build their reputation by investing in CSR issues. Ben & Jerry's long-term social commitment, for example, has distinguished it from its competitors. Du, Bhattacharya, and Sen (2010) remarked that because of Ben & Jerry's social reputation, its customers enthusiastically spread a positive brand image through word-of-mouth; as a result of this customer feedback, company messages are perceived as more trustworthy (Porter & Kramer, 2006).

Another key factor that inspires companies with higher levels of marketing capability to engage in more social involvement is their ability to make customers aware of their contribution to society (Bartikowski & Berens, 2021; McWilliams et al., 2006). We maintain that being green or responsible is not sufficient to be competitive in the market. Although some customers care about whether products are socially responsible or eco-friendly, most customers passively receive information delivered by producers. Therefore, to ensure the success of Green Works, a nonsynthetic and eco-friendly detergent launched by the Clorox Company in 2008, the company began by collaborating with Sierra Club, a leading interest group focusing on environmental issues in the U.S., to reinforce the product's credibility. Moreover, Clorox worked with several retail channels to ensure that customers could easily find and buy Green Works in stores. By doing so, Clorox tried to enhance the probability that its customers were aware of their commitment to society. A few months after this series of marketing activities, Green Works earned 40% share of this market segment (Nidumolu et al., 2009).

In summary, companies having better marketing capability tend to implementing a proactive CSR strategy because they are more likely to utilize the reputation built by their social contribution, which potentially creates specific resources for earning competitive advantages (Barnett,

2007; Bhattacharya, Smith, & Vogel, 2004; Hart, 1995; Porter & Kramer, 2006). In addition, companies with higher levels of marketing capability possess a greater ability to effectively communicate their socially responsible products or involvement to customers, thereby increasing awareness and understanding among their target audience (Bartikowski & Berens, 2021; Brammer & Millington, 2008; Glozer & Morsing, 2020). Because of customers' awareness of social involvement, those companies can further strengthen the resources resulting from their social performance (Jia, 2020).

Hypothesis 1b: Firms are more likely to adopt proactive rather than reactive CSR strategies when they have higher levels of marketing capability.

Organizational slack and CSR strategy planning

Organizational slack is 'the cushion of actual or potential resources allowing organizations to adapt to internal or external pressures for change (Bourgeois, 1981: p. 30)'. Organizational slack may play a central part in enabling strategy execution by providing firms with the freedom to experiment with strategies that might not receive enough support under resource-constrained conditions (Sharfman, Wolf, Chase, & Tansik, 1988). The availability of excess resources allows companies to take calculated risks and explore innovative approaches that can potentially lead to strategic success. Slack can be absorbed and unabsorbed, with each type working differently to manage change and reduce internal or external pressures (Chen & Huang, 2010).

The relationship between organizational slack and CSR is underdeveloped (Lu et al., 2023). CSR is costly (McWilliams & Siegel, 2000), because it can distract from a firm's daily operations, and sometimes places implicit and explicit burdens on a company's shoulders. As a result, researchers have proposed that having higher levels of slack available within an organization may lead to better social performance (Bansal, 2005). However, this study suggest that the different types of slack may lead to different mechanisms for planning a CSR strategy.

Absorbed slack and CSR strategy planning

Absorbed slack is the resources embedded within a company as excess costs, which are difficult to redeploy for another usage or place (Bourgeois, 1981; Chen & Huang, 2010). Absorbed slack is generally considered an internal buffer that offers firms flexibility in resource allocation and relieves internal confrontation. As a result, this type of slack is helpful for managers to manage and maintain daily operations within a company (Chen & Huang, 2010).

Implementing a proactive CSR strategy involves implicit and explicit costs. Implicit costs are related to managing, planning, and evaluating social involvement, which is relatively hard to measure in companies' financial statements. Explicit costs, however, are expenses that can be estimated, such as costs conducting social projects and installing greener facilities. Accordingly, greater absorbed slack gives managers additional spaces and allowances to tackle the implicit and explicit costs associated with adopting a proactive CSR strategy. By offering sufficient resources and a buffer for handling extra work beyond daily operations, a company can be more efficient in managing its social involvement, which minimizes the associated implicit costs. Additionally, having more absorbed slack available within an organization may reduce managers' reluctance to support more active social involvement due to the potential erosion of short-term performance resulting from the explicit costs associated with social initiatives. Based on these effects, it is expected that greater absorbed slack may lead to a greater likelihood of adopting a proactive CSR strategy.

Hypothesis 2a: Firms are more likely to adopt a proactive over reactive CSR strategy when they have higher levels of absorbed slack.

Unabsorbed slack and CSR strategy planning

Unabsorbed slack refers to currently unallocated or unassigned liquid resources. Compared with absorbed slack, it is much easier to reallocate these resources for other assignments, which offers more freedom for top management teams (Tan & Peng, 2003). Therefore, a higher amount of unabsorbed slack embedded within an organization provides more unique resources for organizational change (Bourgeois, 1981).

Although unabsorbed slack bears positive effects for organizational changes, we suggest that the positive impacts of unabsorbed slack are diluted when uncertainty and short-term profit-driven strategies dominate within an organization (Chen & Huang, 2010). When the uncertainty of an environment is high and short-term profit maximization prevails, managers are more likely to allocate unabsorbed slack to areas that may generate immediate and achievable performance instead of devoting it to a long-term investment such as social involvement. As a result, because of its looser managerial control and vague usages, a company with more unabsorbed slack may be less likely to implement strategies for long-term social investment when the company focuses on short-term profit and faces a more dynamic internal and external environment.

Therefore, we expect that unabsorbed slack is a key resource for long-term organizational changes; however, because of its mobility and accessibility, the competition for resource allocation is higher when uncertainty is higher and short-term profits are emphasized. Managers are more likely to apply unabsorbed slack to fields that instantly generate profit to secure their performance, and a proactive CSR strategy may not be their strategic planning under this scenario.

Hypothesis 2b: Firms are less likely to adopt a proactive versus reactive CSR strategy when they have higher levels of unabsorbed slack.

Organizational capability, slack resources, planning of CSR strategy, and firm performance

Because CSR requires more resources due to the distraction from daily operations and the extra burdens on organizations, managers should select a CSR strategy that provides better opportunities to improve firm performance (Barnett & Salomon, 2012; McWilliams & Siegel, 2000). A proactive CSR strategy is one that a company actively participates in to address social issues (Wartick & Cochran, 1985). As a result, from the perspective of the external environment, society may view the company as having a better reputation and more legitimacy to conduct business, which may allow the company to charge higher prices than its competitors (Barnett, 2007). From the perspective of the internal environment, a company may develop new business opportunities by adding or creating new value for its customers (Chen et al., 2023; McWilliams & Siegel, 2001). The company may provide products with social attachments that offer customers additional value. In addition, by integrating a product or service design with social or environmental betterment, the company may further develop new market segments to expand business, such as the green restaurant and hybrid car industries. Therefore, a company adopting a proactive CSR strategy may enjoy better firm performance due to the improvement of reputation as well as the addition and creation of value for customers.

A reactive CSR strategy reflects an organization's neglect of society and stakeholder influences, which may cause external and internal punishment (Wartick & Cochran, 1985). Customers may downgrade the firm's reputation and even boycott the organization's operations (Bansal, 2005; Grimmer & Bingham, 2013). Also, employees may not totally agree with the company's approach, which may lead to higher turnover rates or a dissatisfaction with working conditions. As a result of external and internal effects, a reactive CSR strategy may jeopardize a company's financial performance.

In comparison to an organization that adopts a reactive CSR strategy, a firm embracing a proactive CSR strategy typically demonstrates a greater ability to serve its stakeholders effectively. By integrating social considerations into its core business practices, a firm can provide unique products or services that have additional social attachments with a proactive CSR strategy. This approach ultimately

contributes to enhanced firm performance, as it addresses the evolving expectations of stakeholders and aligns business goals with broader societal needs (Barnett & Salomon, 2012; Cochran & Wood, 1984; Guo, Wang, Hwang, Jin, & Zhou, 2022; Margolis & Walsh, 2003; Miller et al., 2020; Ullmann, 1985; Van Beurden & Gössling, 2008).

Hypothesis 3: Mean firm performance is higher in companies adopting a proactive CSR strategy than in companies adopting a reactive CSR strategy, *ceteris paribus*.

However, are companies more profitable when they select a proactive CSR strategy, or should the strategy be based on the environmental circumstances in order to obtain better firm performance? If a company, on average, achieves better firm performance when it adopts a proactive CSR strategy, why is it that not all companies select a proactive CSR strategy? We maintain that a company may make a more profitable CSR strategy planning based on the prediction of theory. A company may select an appropriate CSR strategy to tackle the conditions that it is encountering, such as the company's innovation and marketing capability as well as absorbed and unabsorbed slack. Although companies adopting a reactive CSR strategy may, on average, earn lower firm performance, a reactive CSR strategy may be optimal under certain conditions. Companies select a reactive CSR strategy because they may be unable to afford the costs associated with a proactive CSR strategy and unable to extract benefits from actively participating in social issues. In other words, those companies may be rational in selecting a reactive CSR strategy by avoiding extra burdens on their daily operations and financial conditions. Their innovative capability, marketing capability, absorbed slack, and unabsorbed slack may be unable to support implementation of a proactive CSR strategy in order to earn better firm performance. As a result, if they are forced to pursue a proactive CSR strategy, they may be unable to achieve better firm performance. Similarly, companies select a proactive CSR strategy in anticipation of the benefits they are able to receive and access via the support of their organizational capability and slack. We, therefore, propose that fit to environmental conditions may potentially drive companies' decisions on CSR strategy.

Hypothesis 4: Selecting a proactive or reactive CSR strategy in theoretically appropriate conditions increases firm performance. That is, companies that choose a proactive (reactive) CSR strategy under conditions that fit environmental conditions perform better than if they had adopted the opposite CSR strategy.

Model and methodology

Data collection

We drew our sample by merging information from two databases, KLD and COMPUSTAT. The KLD database based on a variety of rating criteria is a popular source for empirical research on CSR issues (Barnett & Salomon, 2012; Kang, 2013; Waddock & Graves, 1997). Because the database significantly revised its rating criteria after 2010 due to the acquisition by Morgan Stanley Capital International, we focused on data from 2003 to 2009 in order to ensure the consistency of rating criteria. On average, we found that a company's panel year listing in our sample was 3.58 years (standard deviation, 1.97). Compared with previous studies (e.g., Kang, 2013), our panel year was a little smaller, since one of our focal interests was innovation capability, which may have resulted in more high-tech companies being included in our sample. Unfortunately, however, the lifecycle of high-tech companies is probably much shorter than companies in other industries due to dynamic product trends (Rosen, Schroeder, & Purinton, 1998) and higher frequencies of mergers and acquisitions (Hagedoorn & Duysters, 2002). This issue turned out to be a limitation of our sample.

We obtained financial data from COMPUSTAT. COMPUSTAT provides fruitful information on accounting-based firm performance and has been a key source of data for empirical research on CSR issues (Barnett & Salomon, 2012; Chatterji & Toffel, 2010).

In merging the two databases, we found that financial service industries generally had missing information on R&D expenditures. We, therefore, excluded all financial service sectors. This exclusion was the key reason that our sample included a relatively smaller number of companies compared to the full dataset for KLD and COMPUSTAT. Furthermore, because many companies in the KLD database had not received any scores during the sampling window, we excluded those companies, which again reduced our sample size. The remaining dataset represented the time from 2003 to 2009 and included 594 individual corporations and 2,019 firm-year observations.

Measures

Dependent variable: Firm performance

We utilized net income from the COMPUSTAT database, with log transformation as our dependent variable, and operationalized it by considering revenue and adjusting taxes, interest, and depreciation in a given year t . The advantage of employing net income was to avoid exaggerating results for focal relationships (Wiseman, 2009), and it is a commonly applied measurement for firm performance in the CSR literature (Barnett & Salomon, 2012).

Independent variable of the corporate financial performance model

A binary variable was employed for CSR strategy planning, with 1 indicating a proactive CSR strategy and 0 representing a reactive CSR strategy. A CSR score greater than 0 was calculated by the differences between the total amount of CSR strength and CSR concerns rated by the KLD database (Barnett & Salomon, 2006, 2012; Jayachandran, Kalaigannam, & Eilert, 2013; Strike, Gao, & Bansal, 2006; Waddock & Graves, 1997; Zyglidopoulos et al., 2013). The KLD database has seven stakeholder attributes – corporate governance, community, employee relationships, diversity, human rights, environment, and product – and six controversial business involvements, including gambling, alcohol, military, firearms, tobacco, and nuclear power. For the seven stakeholder attributes, dichotomous variables measured CSR strength and concerns associated with focal companies. If a company met the definition of rating criteria, the rating agency rated it as 1 for this item; otherwise, 0 was used (Tang, Hull, & Rothenberg, 2012). However, for the six controversial business involvements, only concerns were rated. Because the six controversial business involvements might not capture the essentials of our primary interests, we only included the seven stakeholder attributes in the variable of CSR strategy (Zyglidopoulos et al., 2013).

By our definition, proactive CSR strategy refers to a company actively pursuing social involvement, which may offset its negative impacts, if any, on society. Reactive CSR strategy, in contrast, involves a company reactively paying attention to social benefit, and sometimes even jeopardizing society without considering compensation for social betterment. As a result, the measurement of proactive CSR strategy represents that a firm's score of CSR strength is higher than its concern. A reactive CSR strategy represents that the score for CSR concerns is equal to or higher than its strengths, which indicates that the company has done less than stakeholders' expectation or been involved in more gray issues than it has contributed to society.

Independent variables of the CSR strategy planning model

Four independent variables were used in this model: innovation capability and marketing capability as well as unabsorbed slack and absorbed slack. *Innovation capability* was measured by total R&D expenses divided by total sales (R&D/SALES) (Barnett & Salomon, 2012; Chen, Chen, Hsieh, & Lin, 2022; Kotabe et al., 2002; McWilliams & Siegel, 2000). *Marketing capability* was the ratio of total advertising expenditure over total sales (XAD/SALE) (Chen et al., 2022; Kotabe et al., 2002). We used the COMPUSTAT database to construct these variables. *Absorbed slack* was calculated as the sum of selling, general and administrative (SG&A) expense divided by revenue (Chen, Huang, & Lin, 2012; Lee & Wu, 2016; Singh, 1986). Absorbed slack captured the resources that are less likely to redeploy to other usages, which may form an internal cushion for managers to smoothly conduct

daily operations. *Unabsorbed slack* was the function of the current ratio: current assets divided by current liabilities (Bansal, 2005; Lee & Wu, 2016; Singh, 1986). Unabsorbed slack is the slack more likely to be redeployed to other uses and places. It offers a greater degree of managerial freedom for organizational changes. While it may have a positive effect on a company's performance, it also has the potential to jeopardize performance due to emphases on short-term profit and a greater level of environmental uncertainty (Chen & Huang, 2010).

Control variables

The study had six control variables: book-to-market ratio, intangible assets, prior CSR score, firm size, industrial effects, and year effects. To control for influences of intangible assets, we included intangible and book-to-market ratios (Kang, 2013; McWilliams & Siegel, 2000; Surroca et al., 2010). Prior CSR score was the net difference between the CSR strength and concern in the $t - 1$ year to control for the endogeneity of previous social activities (Wagner, 2010). Firm size was a log transformation of number of employees (Jayachandran et al., 2013). Industrial effects were captured by the three-digit SIC code (Kang, 2013; Surroca et al., 2010). Finally, because our sample covered 7 years, we employed a year effects dummy to control for the influences (Mishina, Dykes, Block, & Pollock, 2010).

Model specification

It is important to understand why companies make decisions related to their CSR strategy. Our model of a company's selection of a CSR strategy was a function of levels of innovation and marketing capability. Specifically, a probit model was utilized to predict the likelihood of CSR strategy planning interacting with innovation and marketing capability within a company (Lee, Hsiao, Chen, & Guo, 2020). The dependent variable was a binary variable: 1 when the given company ended up with a positive difference between CSR strength and concern representing the proactive CSR strategy, and 0 otherwise, which indicated a reactive CSR strategy.

In addition, we corrected endogeneity biases by utilizing Heckman's (1979) two-step estimation processes (Chen & Hsiao, 2013; Hamilton & Nickerson, 2003; Lee et al., 2020; Shaver, 1998). First, we predicted the CSR strategy planning (i.e., the company's planning of either a proactive or reactive CSR strategy). Second, we estimated firm performance, using the Lambda bias control variable (the inverse of Mills ratio) estimated by the CSR strategy planning model. At this stage, the coefficient of Lambda characterized how unmeasured differences between the two types of strategic planning on CSR activities affected firm performance. The estimation of Lambda empowered us to evaluate the effects of endogeneity biases and, therefore, allowed us to obtain unbiased results associated with CSR strategy planning effects on firm performance.

The firm performance model aimed to test the effects of CSR strategy planning on firm performance. The model was specified as firm performance = $\beta_0 + \beta_1$ (CSR strategy planning) + β_2 (book-to-market ratio) + β_3 (intangible) + β_4 (prior CSR) + B_5 (firm size) + β_6 (year effects) + β_7 (industrial effects) + β_8 (innovation capability) + β_9 (marketing capability) + β_{10} (absorbed slack) + β_{11} (unabsorbed slack) + ε .

More importantly, the contingency of relationship between decisions of CSR strategy and firm performance was estimated by Shaver's (1998) procedures to test the influences of selecting a strategy inconsistent with the real case. We first separated our sample into two subgroups: companies with proactive and reactive CSR strategies. We were then able to estimate and simulate the parameters of the firm performance model for the two subgroups. Next, by simulating the actual numbers of proactive CSR strategy with the parameters of the reactive CSR group, and applying the same procedures for the group of reactive CSR, we came up with the estimated numbers of firm performance if the companies had selected the opposite strategy. These processes enabled us to provide what-if scenarios. Finally, a t -test was performed to determine if there were significant differences in performance among the real cases and simulated cases.

Results

This research examined the relationships between companies' innovation and marketing capability, strategic planning of CSR strategy, as well as their financial performance. Table 1 reports correlations of key variables, and Table 2 shows the estimations of CSR strategy planning and firm performance models.²

In Model 1a, the value of Wald Chi-Square is 305.7, and the numbers of *F*-value in Model 1b and 2 are 11.41 and 11.45, respectively. The value enhances the suitability of selected variables and their model fit.

CSR strategic planning between proactive and reactive CSR strategies

In Model 1a, we first checked the influences of innovation and marketing capability as well as absorbed and unabsorbed slack on the firms' propensity to determine their social involvement between proactive and reactive CSR strategies in the probit model. The coefficient for innovation capability was positive and significant ($\beta = 0.15, p < .001$). Companies were more likely to adopt a proactive CSR strategy when their levels of innovation capability were higher. In addition, the coefficient for marketing capability was also positive ($\beta = 0.09$) and significant at $p < .001$. These findings suggest that firms also tend to implement proactive CSR strategy when they have higher levels of marketing capability. Accordingly, the first two hypotheses were supported – Hypothesis 1a, which stated that firms are more likely to adopt the proactive CSR strategy than the reactive CSR strategy when they possess higher levels of innovation capability, and Hypothesis 1b, which hypothesized that firms are more likely to adopt the proactive CSR strategy than the reactive CSR strategy when they possess higher levels of marketing capability.

In addition, we hypothesized that firms with higher levels of absorbed slack would implement a proactive CSR strategy (Hypothesis 2a), while firms with higher levels of unabsorbed slack would not (Hypothesis 2b). Our empirical results showed that the coefficient for absorbed slack was positive and significant ($\beta = 0.19, p < .05$). However, for unabsorbed slack, the directionality was consistent with our hypothesis, but the test was insignificant to support the relationship. As a result, Hypothesis 2a was supported and Hypothesis 2a was only partially consistent with our expectation.

Firm performance with a proactive versus reactive CSR strategy

The endogenous effects of CSR strategy planning on firm performance were examined in Model 1b. This model utilized the residuals of the probit model to calculate Heckman's Lambda to control for endogeneity bias and unobserved factors on the strategic planning between proactive and reactive CSR strategies. As a result, the parameters in Model 1b were unbiased after the correction of Heckman's Lambda. The results showed that the relationship between CSR strategy planning and firm performance was positive and significant ($\beta = 0.02, p < .05$) after controlling for endogenous bias. As a result, Hypothesis 3 was supported, which indicates that the mean of performance for firms adopting the proactive CSR strategy was higher than the mean of performance for those executing the reactive CSR strategy, *ceteris paribus*.

Model 2, however, was the regression model without considering the endogeneity bias, i.e., without Heckman's Lambda. Interestingly, the predictor of CSR strategy planning in Model 2 was different from that of Model 1b. According to Heckman's procedures, we found that in Model 1b, the coefficient of the Lambda variable was positive and significant ($\beta = 0.32, p < .01$). The significant coefficient signifies that there are unobserved endogenous factors potentially involved in the strategic planning of social involvement. This empirical evidence suggests the presence of endogenous factors that may need our scrutiny when drawing conclusions from our findings. In summary, Hypothesis 3 was consistent with our expectation after controlling for endogeneity bias. These procedures obtained

²Due to the inherent characteristics of the data structure within the KLD database, studies often forego conducting reliability and validity tests in their empirical analyses (e.g., Barnett & Salomon, 2012; Waddock & Graves, 1997; Zhao & Murrell, 2016).

Table 1. Means, standard deviations, and correlations^a

	Mean	SD	1	2	3	4	5	6	7	8	9	10
1. Net income (Ln)	2.850	.222	1									
2. Firm size	.962	1.650	.159	1								
3. Prior CSR	1.920	1.873	.092	.515	1							
4. Intangible	1.982	9.607	.217	.396	.410	1						
5. Book-to-market ratio	.400	.663	-.028	-.078	-.027	.016	1					
6. Proactive CSR strategy	.310	4.630	.100	.273	-.067	.087	-.026	1				
7. Innovation capability	-2.950	1.405	.043	-.372	-.165	-.112	-.030	.013	1			
8. Marketing capability	-4.638	1.510	.084	.129	.092	.113	-.010	.122	-.070	1		
9. Absorbed slack	2.928	2.146	-.032	-.440	-.202	-.146	.040	-.122	.290	-.109	1	
10. Unabsorbed slack	.875	.612	-.037	-.496	-.244	-.223	.076	-.141	.330	-.139	.913	1

^aN = 2128 (two-tailed test). Correlations with absolute value > 0.037 are significant at $p < .05$, and those > 0.067 are significant at $p < .001$. SD indicates standard deviation.

Table 2. The effects of CSR strategy planning on firm performance

Parameter	Model 1a: Heckman first-step CSR strategy planning		Model 1b: Heckman second-step Firm performance Net income		Model 2: Regression Firm performance Net income	
	Estimate	SE	Estimate	SE	Estimate	SE
Proactive CSR strategy			0.02*	0.01	0.02	0.01
Control variables						
Industrial effects	Included		Included		Included	
Year effects	Included		Included		Included	
Firm size	0.44***	0.03	-0.08*	0.03	0.02***	0.00
Prior CSR	-0.29***	0.02	0.07**	0.02	-0.00	0.00
Intangible	0.01	0.00	0.00***	0.00	0.00***	0.00
Book/market ratio	0.02	0.05	-0.01	0.01	-0.00	0.01
Correction for endogeneity of CSR strategy planning, λ			0.32**			
Innovation capability	0.15***	0.04	-0.03*	0.01	0.01	0.01
Marketing capability	0.09***	0.02	-0.02*	0.01	0.00	0.00
Absorbed slack	0.19*	0.09	-0.01	0.02	0.04**	0.00
Unabsorbed slack	-0.05	0.06	0.03**	0.01	0.02*	0.01
Constant	0.91***	0.22	2.95***	0.04	2.88***	0.03
N	2,019		2,019		2,019	
Log likelihood	-1061.6					
R square	0.15		0.08		0.07	

SE indicates standard error.

Note: ***Statistically significant at $p < .001$. **Statistically significant at $p < .01$. *Statistically significant at $p < .05$.

Table 3. Practical implications of CSR strategy planning on firm performance

Real situation	'What if' analysis	Mean difference
Firm performance for Proactive CSR strategy when adopting Proactive CSR strategy	Firm performance for Proactive CSR strategy had the firms adopted a Reactive CSR strategy instead of Proactive CSR strategy	
1.00	0.44	6.13***
Firm performance for Reactive CSR strategy when adopting Reactive CSR strategy	Firm performance for Reactive CSR strategy had the firms adopted a Proactive CSR strategy instead of Reactive CSR strategy	
0.29	0.33	-0.74

Note: ***Statistically significant at $p < .001$.

unbiased results that firms selecting a proactive CSR strategy are more likely to outperform firms conducting a reactive CSR strategy after considering endogenous factors.

The contingency of the relationship between CSR strategy and firm performance

Table 3 shows the dynamics between the decisions of CSR strategy and a firm's financial performance. The predicted mean of firm performance for companies selecting a proactive CSR strategy was 1.00. However, when we computed the corresponding data of these firms with the equation of a reactive CSR strategy, the mean of firm performance dropped to 0.44 ($t = 6.13, p < .001$). Using similar

procedures, the predicted mean of firm performance for companies conducting a reactive CSR strategy was 0.29. When inputting their data to the equation of a proactive CSR strategy, the mean of firm performance slightly increased to 0.33, but the difference was insignificant ($t = -0.74$). This result indicates that although companies with a reactive CSR strategy may end up with lower levels of firm performance than companies with a proactive CSR strategy, they were unable to be better off by the simulation procedures of what-if they chose a proactive CSR strategy. Consequently, Hypothesis 4 was partially supported, but more interesting insights can be extracted from the empirical findings. For companies selecting a proactive CSR strategy, the simulation procedures suggest that if they alternatively chose a reactive CSR strategy, their firm performance was predicted to significantly drop. However, for companies conducting a reactive CSR strategy, the simulation procedures indicated that if they changed to a proactive CSR strategy, they would not be able to improve firm performance and may even decrease their performance. The simulation procedures provide new insights that companies choose to be involved in social initiatives based on their best responses to their environmental conditions.

Discussion of empirical findings

Several key findings may be extracted from our empirical analysis. First, the empirical findings in Model 1a reveal that for companies with specific capabilities, i.e., innovation and marketing capability, our results may encourage the pursuit of better social performance. Higher levels of innovation capability lend the companies better skills and knowledge on redesigning or improving existing products and services as well as applying new materials or developing new products in a more responsible manner. In other words, because they are more capable of innovative assignments, the managers may feel more confident allocating resources to find new solutions for social betterment (Chakrabarty & Wang, 2012; Hart, 1995, 1997). As a result, a proactive CSR strategy may be pursued to achieve better firm performance.

Furthermore, if companies have greater marketing capability, they are more likely to articulate specific resources by building their reputation and making customers aware of their provision of products in more responsible ways (Barnett, 2007; Porter & Kramer, 2006). Companies should be able to communicate to their customers what they have done and what should be done for society in their business fields to build their reputation and increase awareness of their products (Bansal & Clelland, 2004; Schuler & Cording, 2006; Zyglidopoulos et al., 2013).

Also based on our empirical results, different types of organizational slack may potentially affect companies' decisions on CSR strategy planning. More absorbed slack available within an organization provides managers additional spaces and allowances to manage the implicit and explicit costs associated with adopting a proactive CSR strategy (Bansal, 2005; Waddock & Graves, 1997). However, companies with unabsorbed slack may not invest in CSR due to the constraints of high uncertainty and the drive for short-term profits. Managers may try to use those resources to generate immediate profit or more achievable performance. Although our empirical results were not significant, the directionality was consistent with our hypothesis. As a result, it appears that managers hesitate to utilize unabsorbed slack for the investment of social betterment.

In Models 1b and 2, the results show that after considering the endogenous issues, companies adopting a proactive CSR strategy generally outperform those with a reactive CSR strategy. This finding aligns with and supports the existing literature, that better social performance may lead to better firm performance (Chen et al., 2023; Flammer, 2013).

Finally, the simulation results in Table 3 suggest that if those companies that select a proactive CSR strategy after considering their environment were to instead select a reactive CSR strategy, lower performance may result. However, for companies that select a reactive CSR strategy, if they were to select a proactive strategy, they would be unlikely to fully enjoy the benefits of social involvement (Mackey et al., 2007).

Conclusion

We examined how innovation capability and marketing capability as well as absorbed and unabsorbed slack influence companies' decisions to have a proactive or reactive CSR strategy and how such a strategy planning affects firm performance (Chen et al., 2018). Based on the findings, there are five insights that may generate new points of view for investigating CSR issues.

Managerial implication

Our findings shed light on endogenous issues related to CSR strategy planning for companies to pursue better financial performance. One of the most important practical implications is that managers should consider their innovation and marketing capability as well as absorbed and unabsorbed slack when they make their CSR strategy decision (Bansal, 2005; Surroca et al., 2010). Accordingly, managers should match their conditions and their CSR strategy planning, proactive or reactive, in order to achieve better firm performance. Managers should be aware of whether their companies are able to innovatively develop more eco-friendly or socially responsible solutions, or better market or educate their customers regarding the social issues they are trying to address. Furthermore, the implicit and explicit costs should be better controlled by applying different types of slack available within the organizations (Chen et al., 2018). By considering innovation and marketing capability, as well as the availability of different types of slack within their companies, managers may be able to rationally choose a proactive or reactive CSR strategy by considering their internal conditions to optimize firm performance.

Theoretical implication

This study may suggest two perspectives to the literature. Rather than assuming that all companies should implement CSR and that all would benefit by doing so, this study highlights constraints or unobserved factors that may be associated with the strategic planning that may need further investigation (Mackey et al., 2007). More sophisticated investigations exploring the drivers of CSR strategy planning may offer new insights of dynamics within the business and society. The second contribution cautions that types of slack may provide managers unique tools for managing their social involvement. Resources are heterogeneous within organizations (Chen & Huang, 2010; Hart, 1995; Mackey et al., 2007). Therefore, managers should be aware of the differences among resources to better manage their business to achieve better social performance and outperform their competitors.

Limitation and future research

Although this study offers several practical and theoretical implications, it faced some limitations. Our focal interest was whether firm capability and resources, including innovation and marketing capability as well as absorbed and unabsorbed slack, influence the strategic planning of CSR strategy and its consequences of firm performance. Although this study was unable to address all firm characteristics, it is a pioneering study of issues regarding the formulation of CSR strategy. More extensive examinations may be required to enhance this stream of literature. Furthermore, the KLD database has been considered a major resource for measuring social performance (Barnett & Salomon, 2012; Waddock & Graves, 1997). However, the structure of the database raises concerns of measuring validity and the ambiguity of constructs. Other empirical methodology may further guarantee the robustness of our findings. As a result, future research may apply more explanatory variables, which are theoretically and practically correlated with firms' decisions on CSR strategy, to better resolve the proposed endogenous issues. The study results also help to explain why so many companies are still doing nothing in the area of CSR even when it has been assumed that stronger social performance leads to stronger firm performance (Orlitzky, Schmidt & Rynes, 2003).

Interviews with managers to examine how they make their CSR strategy planning may offer other considerations for decision-making and expand our understanding of business practices. Finally, as both business and academic communities increasingly emphasize the importance of CSR, companies face diminishing autonomy in implementing CSR strategies. Consequently, there is a growing need for meticulous analysis and strategic planning to delineate how and what actions can foster mutual benefit between businesses and society. This phenomenon underscores the heightened significance of such investigations in future studies.

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