A MARKET FOR VICE: THE FOUNDATIONS OF CORPORATE STRATEGIC IRRESPONSIBILITY

by

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ABSTRACT

OSCAR JEROME STEWART. A market for vice: The foundations of corporate strategic irresponsibility. (Under the direction of DR. DENIS G. ARNOLD)

Organizational scholarship has assumed that corporate irresponsibility (CI) is largely detrimental to firm financial performance. Alternatively, CI may sometimes work in firms' favor, though at the expense of stakeholders. Exploring this reality, many firms may engage in corporate *strategic* irresponsibility (CSI) because there are short-term financial benefits to doing so or at least no clear financial payoffs for behaving otherwise. CSI is conceptualized as a pervasive and persistent firm strategy employed toward competitive advantage. In this research, it is hypothesized first that firms engage in CSI to enhance short-term financial performance. It is then hypothesized that firms engaging in CSI will corporate social responsibility as a buffering mechanism against external control agents, as well as corporate political activity to reduce environmental uncertainty around their CSI. Using a random effects model of unbalanced panel data, the results provide mixed support for the hypotheses. The primary hypothesis is that CSI leads to competitive advantage. This hypothesis is supported. Next, there is partial support for the buffering hypotheses. In particular, CSI predicts corporate philanthropy, as the coefficient of CSI is significantly positive.

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CSR	corporate social responsibility
CSI	corporate strategic irresponsibility
CI	corporate irresponsibility
ROA	return on equity
NI	net income
CFP	corporate financial performance

CHAPTER 1: INTRODUCTION AND BACKGROUND

As capitalism has grown, corporations have been inextricably involved in the development of economies (Perrow, 2002). Academics have extensively studied the implications of this business-society relationship. Today, corporations lie squarely in the middle of large global issues, from economic development and recession, to wealth inequality, to financial scandal, to environmental degradation. Corporate social responsibility (CSR) describes a field of scholarship concerned with these issues and the implications of business-society relationships (Aguinis & Glavas, 2012). Corporate irresponsibility (CI) is a smaller literature also concerned with the business-society relationship. CI refers to illegitimate corporate action resulting in social, environmental, and economic misery (Margolis & Walsh, 2003).

The organizational literature has not strongly defined the domain of CI. CI scholarship has often included evaluations of organizational policy as well as actual corporate activity in its conceptualization of CI. Specifically, databases may include policy evaluations as well as corporate practices as indicators of CI. This neglects organizational traditions of understanding that policy is often decoupled from an organization's actual practices and as such, should not be conflated with actual firm practices (Kirby & Krone, 2002; Meyer & Rowan, 1977).

Similarly, scholars often use low CSR as the opposite of "doing good." For example, Barnett and Salomon (2012) conceptualize CSR on a continuum by aggregating responsible and irresponsible activity. Their results show that low CSR and high CSR are associated with higher firm financial performance than moderate CSR. Low firm-level CSR is not, however, a coherent conceptualization of CI. Low performance across typical CSR constructs may not always overlap with action that defies a society's understandings of legitimate behavior (Campbell, 2007).

In addition to its inclusion of formal policy and low CSR, CI has largely been researched as formally penalized organizational actions. Organizational misconduct is the largest organizational literature on formally penalized corporate actions. This dimension of CI is "behavior in or by an organization that a social-control agent judges to transgress a line separating right from wrong; where such a line can separate legal, ethical, and socially responsible behavior from their antitheses" (Greve, Palmer, & Pozner, 2010: 56). This construct is incomplete to capture the totality of CI because it omits corporate action that violates ethical or institutional standards but is not officially punished by a social control agent.

Understanding the shortcomings of the literature on CI, I frame CI as a broad concept of corporate wrongdoing that includes corporate action (not policy) ranging from formally penalized CI such as illegality (see Greve et al., 2010; Palmer, 2012) to violations of ethical standards (e.g. Donaldson & Dunfee, 1994), institutional standards (e.g. Campbell, 2007), and market standards (e.g. Heath, 2006, 2014). My conceptualization of CI is distinctive because it is broader than illegal behavior and is distinct from both formal policy and low CSR.

Scholarship has largely assumed (and hoped) that CI is anomalous and that firms generally attempt to avoid CI because it is detrimental to corporate financial performance

(CFP) (Frooman, 1997; Greve et al., 2010). Alternatively, CI may actually be routine among many firms (Palmer, 2012), sometimes because it can work in their favor by enhancing firm outcomes, though at the expense of stakeholders and broader society. Barnett and Salomon (2006) show one way in which there may be immediate returns to CI. In a longitudinal sample of socially responsible investment funds, the authors find that the market actually penalized funds that excluded poor performers on environmental employment norm metrics. That is, the market rewarded environmentally irresponsible firms. However, the authors do not explore the mechanisms of this relationship and there are few studies that explore mechanisms explicitly linking CI to positive firm outcomes. Indeed scholarship hinting at firms' use of CI to drive positive firm outcomes is largely peripheral to primary CSR work and does little to systematically explain CI or the mechanisms linking it to firm-level outcomes.

I argue that the notion that firms will avoid CI because it is detrimental to financial performance may not always hold true. Instead, some firms routinely engage in corporate *strategic* irresponsibility (CSI) because they find financial benefits of CI, or at least no clear payoffs for behaving otherwise. I frame the proliferation of CSI a result of firm incentives and managerial ideology that focuses narrowly on shareholder value creation at the expense of managerial and stakeholder accord and compromise (Fligstein & Shin, 2007; Khurana, 2010; Lazonick & O'Sullivan, 2000).

From this theoretical development, I create a model to conceptualize and explain the domain of CSI. In the model I examine the profit motive for CSI as well as its most salient defining features. First, I clarify and conceptualize CSI as a strategic decision. Like all strategies, CSI is aimed at competitive advantage and becomes either a cost-reduction or differentiation strategy to drive short-term value. I empirically explore CSI via its relationship to CFP and its buffering mechanisms to compensate for its illegitimacy.

As a starting point for a model of CSI, I integrate literature on shareholder primacy ideology to explain why CSI is even an option for forms. Amidst pressures stemming from shareholder primacy ideology, many managers may consider responsible alternatives to CI a poor use of firm resources. Instead, many elect to rely on the benefits of CSI to improve shareholder value (at least in the short-term). I argue that CSI can create competitive advantage and will be associated with greater financial performance. Additionally, greater persistence of CSI presumably means it is producing financial benefits. As such, I position the persistence of CSI as a moderator of the relationship between CSI and CFP.

I argue that CSI is a firm-level strategy and because it violates a host of stakeholder expectations, CSI will also be accompanied by a number of buffering tactics. Particularly, firms engaging in CSI will exhibit greater public-facing, peripheral CSR, a set of decoupling mechanisms meant to obscure their CI via public commitments to ideals of corporate responsibility. As such, I predict that CSI will lead to increased philanthropy and community involvement. Though firms engaging in these types of CSR are often genuinely attempting to improve the wellbeing of affected stakeholders, these CSR activities are peripheral to a firm's core activities and also confer positive firm recognition (Matten & Moon, 2008) and send signals of a firm's commitment to "doing good." These positive evaluations, in turn, engender increased corporate reputation and legitimacy as buffers against CSI (Barnett, 2007; Godfrey, 2005; Kotchen & Moon, 2012).

Finally, I describe another set of buffering tactics via the strategic deployment of corporate political activity. In addition to a firm's strategic use of peripheral CSR, firms may concurrently take other steps to manage their institutional environment via attempts to shape the regulatory conditions they face (Baysinger, 1984; Lord, 2003). Because CI is a violation of expectations (whether law, ethical, or otherwise), firms engaging in CSI will often also attempt to influence public policy to shift the boundaries of appropriate business behavior to legitimize their CSI (Mantere, Pajunen, & Lamberg, 2009).

CPA, often executed via lobbying and campaign contributions (e.g. Super PAC donations), has diffused profusely throughout most industries (Mizruchi, 1989; Walker & Rea, 2014). This diffusion has occurred despite CPA's tenuous association with favorable firm outcomes (Hadani & Schuler, 2013; Lux, Crook, & Woehr, 2010) and its questionable legitimacy (for a debate see Barley, 2007; Schuler, 2008). Yet, there is still variation in CPA among firms, as some firms go to great lengths to influence their institutional environment while others do not. Firms that engage in a great deal of CPA may do so to shift and reestablish the line between legitimate and illegitimate corporate behavior in ways that favor their own actions (Rajan & Zingales, 2004). As such, I argue that CSI will be associated with greater CPA.

CHAPTER 2: A THEORY OF CORPORATE STRATEGIC IRRESPONSIBILITY

2.1 CORPORATE IRRESPONSIBILITY

In a limited body of work, corporate irresponsibility is often addressed within the corporate social responsibility (CSR) literature. Though CSR is best described as a field of scholarship (Crane, Mcwilliams, Matten, Moon, & Siegel, 2008), it is also used across disciplines as a normative conception of how corporations should conduct business, and as an operationalization of actual corporate behavior that affects social welfare. This scholarship has created an umbrella construct that includes myriad previously distinct constructs such as corporate philanthropy, eco products and services, corporate volunteerism, employee relations, diversity, human rights, supply chain operations, and environmental sustainability, among others. Thus, I use CSR to refer to empirical work on discretionary organizational actions aimed at improving social welfare and that go beyond legal and financial requirements of the organization (Barnett, 2007; Mackey, Mackey, & Barney, 2007).

Conversely, corporate irresponsibility is negative corporate action (Kotchen & Moon, 2012; Lange & Washburn, 2012; Pearce & Manz, 2011). Whereas the literature on corporate contributions to social welfare is well documented as CSR, corporate irresponsibility is yet underdeveloped as a construct and as a field. Specific forms of corporate irresponsibility are studied as organizational misconduct (see Barnett, 2014; Greve et al., 2010), corruption (see Pinto, Leana, & Pil, 2008), moral and ethical failing (e.g. Fritzsche & Becker, 1984; Shadnam & Lawrence, 2011; Trevino, Weaver, & Reynolds, 2006) and other terms alluding to social, environmental, and economic misery as a result of activity of business organizations (Margolis & Walsh, 2003). Collectively I refer to this activity as corporate irresponsibility (CI). The domain of CI is underdeveloped in the organizational literature. In this chapter I rely on the term CI as the basis to introduce the construct corporate strategic irresponsibility. I provide construct clarity with CI specifically by challenging four separate assumptions that are prevalent in the literature I group together as CI. First, I critique conceptualizations of CI as evaluations of organizational policy, as the low end of a CSR spectrum, and solely as formally punished corporate activity. Finally, I critique the normative assumption that CI is harmful to individual corporate financial performance.

2.1.1 Corporate Irresponsibility Distinct From Formal Policy

Much literature on CI (and CSR as well) operationalizes the construct using databases that include the strength of organizational policies as CI measures. Just as the conceptualization of CSR should focus on firm *actions* (rather than policy), so too must the definition of CI. Firms committing CI exhibit particular *behaviors* that are either punished or in violation of some set of institutional logics or ethical standards. Policy, while often indicative of an organization's behavior, may be largely disconnected from an organization's actual practices and as such, should not be conflated with irresponsible firm action (Clark & Newell, 2013; Kirby & Krone, 2002; MacLean & Behnam, 2010). The assumption that responsible policies should be accounted for as responsible practice can lead to a disconnected understanding of an organization. For example, a firm may have a strong diversity policy and explicit diversity programs, earning the firm a high

CSR rating in this regard. This implies only that a firm has a strong diversity policy and does not fully capture how diversity and inclusion actually happen with a firm. While this firm may indeed have a diverse workforce with equitable employee outcomes across employee demographics, it may not. Instead, despite strong policy it may be mired in diversity-related issues, complaints, and legal matters that indicate irresponsible behavior with regard to diversity.

Thus it is clear that current CI scholarship (and CSR for that matter) has largely neglected organizational traditions of understanding that policy may be largely disconnected from an organization's actual practices and as such, should not be conflated with irresponsible firm action. Neo-institutional theory, in particular, informs such reasoning as it argues that formal organizational policy and structures frequently proliferate as ceremonial conformity to prevailing expectations. Such ceremony may perpetuate organizational myths that connect such formality to actual organizational practices (Meyer & Rowan, 1977). In reality, organizational conformity to institutionalized rules or logics functions primarily for organizations to gain legitimacy, resources, stability, and increase their chances of survival (DiMaggio & Powell, 1983).

In addition to the above benefits, the adoption of institutional policies and structures often leads to reduced coordination and control for managers (Meyer & Rowan, 1977; Scott, 1987). This lack of control gives rise to inconsistencies between these structures and the actual activities of organizational life, which necessitates that organizations deploy elements of decoupling, or the separation of those structures from the actual technical practices inside organizations. Such decoupling often prevails because legitimating bodies (e.g. social control agents) maintain confidence and faith in these structures that signal legitimacy. Thus organizations may maintain a reduced (perceived) need for inspection and evaluation of their actual practices (Meyer & Rowan, 1977). This neo-institutional background illuminates the lack of conceptual clarity of CI (and CSR) when it includes formal policy. Thus, scholars should tread carefully when equating corporate policy with practice.

2.1.2 Corporate Irresponsibility Distinct From "Low" CSR

Similarly, scholars often use low CSR as the opposite of "doing good." That is, a common proxy for CI is the low end of a CSR scale. For example, Barnett and Salomon (2012) find that low CSR and high CSR are more strongly associated with higher firm financial performance than is moderate CSR. "Low" firm-level CSR is not, however, a coherent conceptualization of CI. Low performance across typical CSR constructs may not always overlap with action that defies a society's understandings of legitimate behavior (Campbell, 2007).

Mattingly and Berman (2006) make a similar argument to mine using the KLD database, which is a socially responsible investment database. These authors conduct an exploratory factor analysis of KLD's strengths and concerns, finding that the two are indeed likely separate constructs. CSR strengths in the KLD database are areas of its business related to CSR that the KLD analysts have judged to indicative of a firm's responsibility. Conversely, its concerns are areas where a firm has not performed well and may be acting irresponsibly. Though KLD itself confounds corporate policy with firm activity and clusters categories of activity unrelated to CI in its concerns, it is still it is a general indicator of a similar distinction to the one I make between the low end of a CSR scale and CI. Yet, most organizational literature on CSR has generally overlooked such a conceptual distinction when using the KLD data (e.g. Barnett & Salomon, 2012; Doh, Howton, Howton, & Siegel, 2009; Sharfman, 1996).

Because CI and CSR are separate constructs, generalizations about issues of corporate responsibility can yield inappropriate conclusions. Primarily, such a distinction highlights the lack of theoretical significance of prevalent CSR dimensions such as corporate volunteerism, philanthropy, and charity as dimensions of CI. Low philanthropy is certainly not in the same category of corporate wrongdoing as human rights abuses, for example.

Additionally, further signifying the importance of separating CI from low CSR is the fact that CI and CSR as separate constructs may even have inverse relationships with an outcome of interest. For example, while many firms appear disinterested in or do not espouse proactive commitments toward environmental sustainability, such a stance is likely to have a far less substantial impact on the bottom line than a firm that is considerably punished by the state and targeted by social activists for its deliberate and egregious environmental degradation.

As a last argument in support of this distinction, CI and either low or high CSR can even coexist simultaneously with a firm, further evidence for their conceptual distinction (Strike, Gao, & Bansal, 2006). For example, Wal-Mart is ranked as a top 40 United States company for employee diversity, in terms of its sheer numbers (Black Enterprise, 2015). Simultaneously, Wal-Mart is also ranked as one of the worst places to work in the United States (McIntyre, Sauter, Hess, & Weigley, 2013). This means that firms may exhibit multiple signals of isomorphism to CSR standards, while also systematically violating business norms in other ways (Kotchen & Moon, 2012).

Combining distinctive constructs does not allow business and society scholarship to make meaningful progress on understanding corporate responsibility/irresponsibility, its antecedents, or its outcomes (Keig, Brouthers, & Marshall, 2015). My conceptualization of CI is not the low end of a CSR spectrum; it does not necessarily have an inverse relationship with CSR, and can coexist with any level of many dimensions of CSR.

2.1.3 Corporate Irresponsibility As More Than Formal Penalties

In addition to its inclusion of formal policy and low CSR, CI has largely been researched as penalized organizational actions. Organizational misconduct is the largest organizational literature on formally penalized corporate behavior. This dimension of CI is “behavior in or by an organization that a social-control agent judges to transgress a line separating right from wrong; where such a line can separate legal, ethical, and socially responsible behavior from their antitheses" (Greve et al., 2010: 56). This construct is incomplete to capture the totality of CI as it only includes formally punished action. That is, it ignores corporate action that violates ethical, institutional, or market standards but is not officially punished by a social control agent. This is a central contribution of CI and as such, I expand below.

With regard to CI as formally punished organizational behavior, organizational misconduct is the most frequently studied form of CI. Conceptualizations of organizational misconduct focus on corporate actions that generate stakeholder penalties. For example, Barnett conceptualizes organizational misconduct as “any publicly disclosed firm action that, under some set of conditions, a stakeholder would deem illegal, unethical, or socially irresponsible *and take action to punish*” (italics added for emphasis) (2014: 697). Barnett's work builds off of earlier conceptualizations of organizational misconduct. Greve, Palmer, and Pozner (2010) define organizational misconduct as "behavior in or by an organization *that a social-control agent judges* to transgress a line separating right from wrong; where such a line can separate legal, ethical, and socially responsible behavior from their antitheses" (italics again added for emphasis) (p. 56). Here, social-control agents represent collectives and impose sanctions on an organization. Social control agents are entities with punitive powers, particularly international governing bodies, the state, and inter-organizational bodies.

Ashforth, Gioia, Robinson, and Trevino (2008) discuss organizational corruption similarly to organizational misconduct. It is distinct from other constructs that describe negative corporate action because of the "*strong, provocative*" nature of the term that "*calls attention to undesirable behavior in a fashion that resonates immediately and viscerally"* (p. 671). A key difference between organizational corruption and misconduct is an assumption that corruption is enduring, tied to organizational culture and is systemic. Whereas a one-off instance of corporate illegality is organizational misconduct, corruption is more easily categorized as the corporate scandals of the early 2000's or the sub-prime mortgage schemes by financial institutions leading up to the recent U.S. recession. Organizational corruption is usually defined in terms of instances when organizational leaders uniformly violate the law for the organization's benefit (Pinto et al., 2008). Similarly and often categorized as corruption, fraud is when an employee intentionally conceals or misrepresents information that benefits him or her and that harms the organization (Rossouw, 2000). Fraud and related concepts such as managerial opportunism (see Conner & Prahalad, 1996; Jensen & Meckling, 1976) are both individual level instances of wrongdoing. Subsequently, these constructs are outside of the scope of this project, as corporate irresponsibility is a firm-level concept.

While the organizational literature on misconduct and its related literatures are well developed, they are rooted in behavior that social control agents, or stakeholders, punish, usually via legal enforcement. However, firms also act irresponsibility in ways that do *not* always elicit substantial punishment. CI conceptualized in this way is still irresponsible by certain standards and expectations (Stout, 2012; Strike et al., 2006). I frame CI as a broader understanding of corporate wrongdoing that ranges from penalized CI such as illegality (e.g. organizational misconduct, and corruption) to violations of ethical standards (e.g. Donaldson & Dunfee, 1994), institutional standards (e.g. Campbell, 2007), and/or market standards (e.g. Heath, 2006, 2014). This broader understanding of CI than the prevailing definitions of corporate misconduct allows for its conceptualization to include more than corporate activity that is officially punished.

Additionally, this understanding of CI considers the *harm* of corporate action rather than its *punishment* as a basis for CI. Campbell (2007) contributes to this discussion by arguing that firms have a minimum standard of responsibility, under which he argues a firm is engaging in CI. Campbell reasons that a corporation is no longer responsible when it knowingly harms stakeholders and does not immediately rectify the harms it does once discovered (ideally by the corporation itself). Kotchen and Moon (2012) Conceptualize CI similarly, defining it as corporate action that increases a corporation's externalities. Strike, Gao, and Bansal (2006) offer a complementary conception of CI, defining it as corporate action that negatively affects stakeholders' legitimate claims. Consequently, it is clear that formal, collective backlash need not be the only threshold by which we understand CI.

Without the stipulation of stakeholder punishment the focus of CI remains on firms' actions rather than a social control agents' ability to punish them, as many formal measures (such as legal punishment) are too blunt, cumbersome, and reactive to realistically capture the extent of CI (Heath, 2006). Scholars have considered the role of norms and ideologies within a wider context in numerous ways that are informative about CI. Specifically, conceptions of CI have strong foundations in the business ethics and the sociology literatures as violations of ethical standards (e.g. Donaldson & Dunfee, 1994), institutional standards (e.g. Campbell, 2007), or even market standards (e.g. Heath, 2006, 2014). I address these three bases for CI in turn.

First, business ethics scholars consider CI as firm violations of some set of ethical principles of business appropriateness, without which business would lose social and economic stability as well as moral legitimacy (Duska, 2000; Oosterhout, 2010; Preiss, 2014). The business ethics literature frames questions of corporate responsibility and irresponsibility in a number of theoretical frameworks, such as stakeholder theory (Freeman, 1994), social contracts theory (Donaldson & Dunfee, 1994), and various political philosophical ideologies (e.g. John Rawls). The business ethics literature views CI not as a barrier to profit or a violation of institutional expectations, but as a violation of the fundamental tenets of the purpose of business; to serve society's interests, not to generate private wealth in a zero sum economic game (Duska, 2000). The function and purpose of a corporation is not maximization of profits for individuals, but the creation of goods and services to make members of society more fulfilled, and not at the expense of those in need. States charter business to serve their needs, to help citizens to flourish. Business was not invented to allow some individuals to prosper at the expense of others (Khurana, 2010).

Scholars have also explored CI by examining the place of irresponsible behavior in healthy capitalist economies. Market institutions today are maintained largely through classic economic ideologies that assert responsible behavior in the market means a commitment to the long-term interests of the firm and its owners (Jensen, 2002). Such a commitment includes striving for value maximization via market competitions on price, quality, and innovation (Fama, 1970). As such, responsible firms contribute to an economy's economic prosperity, innovation, and social welfare (Rajan & Zingales, 2004). CI from this perspective occurs when managers fail to act as resource custodians and violate norms of appropriate market behavior (Gond, Palazzo, & Basu, 2009; Heath, 2004). Whether illegal misconduct or institutional in nature, CI is a hindrance to an efficient, healthy, and robust economy (Heath, 2006, 2014; Stout, 2012).

Separate from ethical conceptions of CI or its hindrance to a healthy economy, neo-institutional theorists have also dealt extensively with CI. Neo-institutional theorists focus not on specific ethical violations but rather on general violations of normative, cognitive, and/or cultural standards of appropriate business behavior (Campbell, 2007). These pillars of legitimacy emphasize the ways in which actions are legitimated when cloaked in institutional rhetoric. Legitimacy requires a firm's actions to be "desirable, proper, or appropriate within a socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574). Legitimacy underpins the entirety of neo-institutionalism and represents actor conformity to institutions that manifest themselves through rules, norms, and cultural expectations (Scott, 1995). Legitimacy asks whether an entity belongs to familiar groups, whether it is appropriate, and whether it does harm/good. Legitimacy is about whether an entity "fits in" with proper form.

Further, a neo-institutional perspective on legitimacy assumes that organizations are often judged not (just) on production-based measures of efficiency. Rather, what is more important often is conformity to customary institutions. When organizations violate social beliefs, they risk judgments of illegitimacy (Meyer & Rowan, 1977; Scott, 1987). Corporate responsibility literature has long relied on pillars of legitimacy as drivers of responsible corporate behavior (e.g. Doh, Howton, Howton, & Siegel, 2009; Guler, Guillén, & Macpherson, 2002; Weaver, Trevino, & Cochran, 1999).

Through a neo-institutional lens, CI is not black and white and will remain contentious. It is demarcated from corporate responsibility via pressure from fellow businesses, consumer preferences, social activism, rankings from media and other independent organizations, and even from investor preferences (Paruchuri & Misangyi, 2014; Waddock, 2008). These pressures create isomorphism, or similarity among organizations with regard to responsibility, though such conformity is often surface-level. Surface-level commitments to corporate responsibility may be accompanied by deeper practices of CI, or at least the omission of deep level responsibility (MacLean & Behnam, 2010; Weaver et al., 1999; Westphal & Zajac, 2001).

Neo-institutionalism's roots lie in what sociologists have retroactively named "old" institutional theory. Whereas neo-institutional theory asks questions of why organizations are similar, old institutional theory asks why they differ (Selznick, 1996). Old institutional theory has helped sociologists to deal with issues of corporate (ir)responsibility for several decades prior to neo-institutional theory's rise, though they differ in their utility. In the context of CI, neo-institutional theory explains why environmental conditions lead organizations to commit CI or to refrain from doing so (Campbell, 2007). Conversely, old-institutional theory posits the ability of internal organizational characteristics to lead to CI or its absence. Old-institutionalism argues that individual organizations can form distinctive identities through their organizational practices, formal policies, routines, and habits (Selznick, 1996), which form the basis of an organizational character, the violation of which leads to CI.

In summary, I interrogate three assumptions in the literature that I group together as CI scholarship. First, I distinguish CI as corporate behavior that is separate from irresponsible corporate policy. Second, I explain it as a separate construct from CSR. Third, I expand it as more than officially penalized organizational activity. I now turn to the fourth assumption in CI scholarship, which is that CI is harmful to a firm's bottom line. I argue that CI, re-considered without the aforementioned three assumptions, may often lead to improved short-term corporate financial performance.

2.2 TOWARD A THEORY OF CORPORATE STRATEGIC IRRESPONSIBILITY

While I argue that there may be strategic reasons that firms engage in CI, it is important to first acknowledge the well-established literature demonstrating that there are strategic reasons to engage in responsible corporate behavior. At a firm-level, responsible corporate behavior can lead to improved relationships with stakeholders and increased reputation (Barnett, 2007; Gardberg & Fombrun, 2006; Godfrey, 2005; Jones, Willness, & Madey, 2014). It can also lead to enhanced firm capabilities such as human capital, culture, innovation (Surroca, Tribó, & Waddock, 2010), and labor relations (Aguilera, Rupp, Williams, & Ganapathi, 2007).

Subsequently, a key assumption in the business and society literature is the notion that while CSR "earns chits" (Godfrey, 2005), CI is generally detrimental to firms' wellbeing (e.g. Frooman, 1997; Lange & Washburn, 2012). One argument is that legitimating bodies may harshly punish CI because it is a violation of institutional expectations (e.g. Flammer, 2013) or simply because it is unethical (Muller & Kräussl, 2011). Another argument is that CI may trigger signals of poor stakeholder relations to investors, decreasing firm value (e.g. Ramchander, Schwebach, & Staking, 2012). These are compelling reasons that firms may avoid certain types of CI. Curiously, CI remains ubiquitous across the globe. Thus, as with CSR, there are likely strategic mechanisms driving CI (Mcwilliams & Siegel, 2001; Siegel, 2009).

Organizational scholarship offers a glimpse of CSI. Both CSR and corporate social irresponsibility (CSiR or CSI, a broader and less refined construct than CI) are associated with corporate diversification, albeit through distinct strategic mechanisms (Strike et al., 2006). CSI is also positively associated with higher levels of general CSR (Kotchen & Moon, 2012). Testing a longitudinal panel of SRI funds, Barnett and Salomon (2006) found that the stock market actually *penalized* funds that excluded firms with poor environmental performance and with violations of employment norms. These results show that regrettably there may be immediate returns to CI, when used strategically.

I argue that the pressures for firms to engage in CSI are rooted in the growth of managerial ideology that has re-shaped the "intellectual and normative order within which all day-to-day decisions" are made in business (Ghoshal, 2005: 75). This ideology is a reliance and an often obsessive focus on unrealistic, invalid, and perverted assumptions about shareholder primacy ideology that produce little regard for constituencies other than shareholders and their short-term wealth (Ghoshal, 2005; Khurana, 2010; Stout, 2012). I turn to this dominant market ideology to explain why CSI is an option for firms.

2.2.1 Shareholder Primacy Ideology

The persistence of CI suggests that firms are not stumbling onto or accidentally committing irresponsible acts. Rather, CI is deliberate. It is important to understand why firms are willing to deliberately violate institutional, ethical, and/or market expectations. Performance pressures often induce excessive risk-taking (Bromiley, 1991; Singh, 1986) as well as unethical and illegal firm behavior (Mishina, Dykes, Block, & Pollock, 2010). A great number of scholars argue that these performance pressures stem largely from the fact that managers are largely at the mercy of short-term shareholder value, a phenomenon that began to proliferate across capitalist economies beginning in the 1980's (Fligstein & Shin, 2007; Khurana, 2010; Krippner, 2011).

After World War 2 the United States enjoyed tremendous economic prosperity across a number of metrics. The nation's income and wealth inequality was low, its labor markets were healthy and robust (Fligstein & Shin, 2007; Kalleberg, 2011), its corporations were hailed for their innovativeness, and product and service competition was healthy (Lazonick & O'Sullivan, 2000). Unfortunately perceptions of corporations changed in the 1970's as their financial performance suffered and they were largely blamed as the cause of U.S. economic recessions in the mid 1970's and early 1980's

(Lazonick & O'Sullivan, 2000). Whether due to managerial complacency, ineffectiveness, and opportunism or to largely external forces such as globalization, technological advancements, and a shift away from industrial production, large segments of U.S. firms were facing stagnant and falling stock prices during this time (Khurana, 2010; Lazonick & O'Sullivan, 2000). Under the subsequent threat of shareholders selling their shares to corporate "raiders" and/or forcing managers out (Fourcade & Khurana, 2013), managers have increasingly turned to short-term advantage where possible, including questionable economic and ethical decisions regarding layoffs, wage and benefit cuts, supplier squeezes, environmental externalities (Fligstein & Shin, 2007; Ho, 2009; Khurana, 2010), and even deception (Simpson, 2002; Stout, 2012). Thus, shareholder capitalism emerged as a model of corporate control governed by shareholders' immediate interests in share price performance, often in lieu of real economic growth or concern for constituent wellbeing.

Such a transformation was not confined to the United States, as capitalist economies worldwide also began to adopt such a shareholder-focused ideology. Liberal market economies similar to the U.S. (e.g. hierarchical relationships & strong market competition) more strongly adopted this focus, particularly with regard to corporate activity such as forms of corporate governance, industrial and employee relations, employee training and education, and inter-firm relations (Hall & Soskice, 2001). Thus, across capitalist economies, actors ranging from the government to institutional investors have largely constructed a reality in which corporate managers have a fiduciary obligation to eschew broader concerns of the array of populations they affect in favor of maximizing short-term shareholder value for owners who are largely investment firms

(Ho, 2009; Khurana, 2010; Margolis & Walsh, 2003). Often associated with broader trends toward shareholder capitalism, I refer to such corporate strategy and governance ideology hereafter as the *shareholder primacy ideology*, one that relies on the dominance of firms' contracts with investors (largely investment management firms) and one that primarily manufactures wealth for said investors through a focus on short-term firm value creation (Davis, 2005; Khurana, 2010; Krippner, 2011).

The shareholder primacy ideology relies on neoliberal interpretations of neoclassical economics assumptions about corporations maximizing social welfare by maximizing their own firm value (Davis, 2005; Jensen, 2002). Such a theoretical framework is guided by the argument that the use of organizational resources to address concerns other than shareholder value is a clear misappropriation or misallocation of resources by managers whose expertise lies strictly in corporate management (Margolis & Walsh, 2003). This short-term focus largely on firm value incentivizes many managers to actively engage in irresponsible and illegitimate behavior (Dobbin & Jung, 2010; Mishina et al., 2010). This is because while legitimacy violations may trigger negative reactions from *some* stakeholders, it is often powerful investors, who control the immediate rise and fall of firm value, who reward or decline to punish CSI (Lamin & Zaheer, 2012). Further, even if firms do face financial punishment for their CSI, such punishment may often be largely inconsequential in scope and hardly a deterrent to future CSI (Dobbin & Jung, 2010; Hallock, 1998). Thus, for firms facing weak regulation and that are entrenched in shareholder-primacy ideology, CSI is a plausible strategy (Gond et al., 2009).

I conceptualize CSI in four parts. Described in detail below, CSI is first deliberate firm-level corporate action. CSI as deliberate strategic action differentiates it from accidental corporate misconduct and individual-level corporate corruption. Next, CSI is harmful, or potentially harmful, to a firm's stakeholders. The type of harm stakeholders face may vary, including economic, environmental, social, and even political harm and disruption of other actors in an organizational field. Finally, CSI, as a deliberate strategy that (potentially) harms stakeholders, is similar to all robust firm-level strategy. That is, CSI is both pervasive and persistent, to varying degrees. CSI is pervasive in that it is unlikely to occur narrowly inside an organization. If it is indeed a strategic action designed ultimately for competitive advantage, it must influence a firm's strategy and governance in robust ways that result in conferring competitive advantage upon a firm. Persistence is relevant because, again, CSI is a firm strategy and is thus unlikely to occur sporadically or at a single point in time.

2.2.2 CSI And The Intent of Harm

Within the context of a market-based economy, firms can and should pursue legitimate strategy. For example, strategies of cost-advantage and of differentiation are, in general, legitimate methods to pursue competitive advantage. CSI, conversely, is the deliberate violation of legitimate means of corporate competition. CSI is illegitimate particularly because it is benefits individual firms while potentially harming individuals, communities, organizations, and economies more broadly (Heath, 2006; Lazonick & O'Sullivan, 2000).

Firm leaders know quite well that activity that toes the line of legality and activity that is largely admonished will be perceived poorly among the public and its stakeholders and will also potentially harm the public. Yet, many firms, I argue, still engage in CSI consistently. Often, firms make such decisions rationally, that is, the calculated payoff of CSI may be likely to exceed its costs. Rational choice theory argues that this is indeed the case where imperfect markets govern firm choice. In the absence of boundaries and powerful social control agents, firms will take liberties, such as engaging in CSI, as a rational choice amidst such strong pressures from shareholders to produce immediate returns (Greve et al., 2010). As such, I argue CSI involves firm intent to violate either the law, stakeholder expectations, or ethical principles to make a profit, with a clear understanding of the potential harm it may cause the public.

2.2.3 Strategy And CSI

Organizations almost always develop a sense of direction based on an understanding among members of organizational objectives and their attentiveness to positions of advantage relative to those objectives. That is, organizations develop strategies. For business organizations, strategies exist to gain competitive advantage. Specifically, the goal of a given strategy is to attain a superior competitive position relative to rivals (Porter, 1991). My main argument is that firms engaging in CSI assume that the benefits of irresponsible behavior show up in the form of better financial performance than rivals. I now explore this possibility.

Several research findings sow the seeds of an understanding of CSI via explorations of supply and demand models for CSR and the incentives for CI. McWilliams and Siegel (2001) model the “optimum” levels of investment in or neglect of CSR (operationalized to confound both CSR & CI) as a function of cost-benefit analysis. Managers determine the demands and costs for CSR and make decisions based on optimal levels of responsibility that align with the corporation's strategy. Mackey, Mackey, and Barney (Mackey et al., 2007) argue that CSR is simply a "product" for many investors. Some investors are willing to pay a premium to invest in firms engaging in CSR. In other words, other investors are not willing to pay such a premium. The absence of CSR (including the inclusion of some dimensions of CI) may increase a firm's present value cash flows and is the dominant strategy to fulfill fiduciary duties to maximize shareholder value. Siegel and Vitaliano (2007) empirically find similar results. They find that firms selling "search goods" are less likely to strategically deploy CSR (A measure that again confounds both low CSR and CI) than those selling experience or credence goods (goods that are highly differentiated between firms). Search goods are largely identical to consumers and are subject to stronger market competition. Consequently, firms are more likely to compete aggressively on price when producing and selling such goods. The implication is shareholder primacy ideology at its best; corporations can (or should) determine their levels of responsibility largely based on market demand and supply conditions. In fact, mainstream economics often explicitly argues as much with such rhetoric as "green management matters only if it yields more green" (Siegel, 2009: 5).

Not only have mainstream business and economics scholars often implied that decisions of corporate responsibility should be made with regard to shareholder wealth maximization; firms also face strong performance pressures from various sources that push them toward CI. Particularly with regard to formally penalized CI, there is a strong body of research that shows that high performance pressures, intense and ubiquitous self-interest, power inequities, and goal-focused cultures (regardless of the means) all stimulate irresponsible activity with hopes of positively influencing shareholder value (Greve et al., 2010; Mishina et al., 2010). It is clear then that firms strongly guided by shareholder primacy ideology may pursue firm strategies to gain advantage however possible. This most certainly means distorting principles of strategic management, particularly business-level strategy. Corporate strategy, however, is relevant for this discussion of CSI as it describes the set of decisions large firms make about the businesses in which the organization should compete as well as how to manage those businesses (Porter, 1996a). Business strategy is about a firm's ability to create competitive advantage in its business(es). This is where I focus my theoretical conception of CSI.

Competitive advantage is a foundation of strategy scholarship. At the heart of competitive advantage are "the hundreds of activities required to create, produce, sell, and deliver" a corporation's products and services (Porter, 1996b: 62). Business strategy is aimed at conducting these activities better and differently than rivals to preserve distinct advantage over them, rather than at the maintenance of generic, imitable strategies of operational effectiveness.

To achieve sustained competitive advantage, firms strive to achieve positions in the market such that the resources used to deploy their products, services, and/or processes are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney, 1991). This understanding of resources includes both tangible and intangible stocks of available factors controlled by a firm, including financial, physical, human, technological, and reputational resources (Amit & Schoemaker, 1993; Grant, 1991). When firms have resources with VRIN qualities it creates causal ambiguity that rivals are unable to replicate without great difficulty. This creates complex heterogeneity and immobility of resources as well as limits to competition (Peteraf, 1993).

Theory on sustained competitive advantage has long relied upon the VRIN framework (Barney, 1991). Resources and capabilities can be considered valuable to the extent that they reduce costs or increase revenues of a corporation relative to what would occur without them. Next, a resource can be considered rare "as long as the number of firms that possess a particular valuable resource is less than the number of firms needed to generate perfect competition dynamics in an industry" (Barney, p. 107, 1991). A resource can be considered inimitable through firm acquisition of the resource via unique historical contingencies, causal ambiguity of the process, and/or social complexity of the resources. Lastly, Barney asserts that a resource becomes non-substitutable when there are not easily acquired equivalent resource bundles that are also rare or inimitable. Firm deployment of VRIN resources toward competitive advantage takes the form of three strategic orientations: cost-advantage, differentiation, and market focus (Porter, 1985).

2.3.1 Cost-Advantage. Corporations chase cost-advantage strategies to perform particular activities more efficiently than their rivals. In fact, Porter argues that "[c]ost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on" (1998: 35). A "low-cost position" confers advantage upon a corporation because low costs allow corporations to earn similar or higher returns than competitors *without* addressing revenues, which is addressed through differentiation (Porter, 1991, 1998).

Firms address cost-advantage largely through seven particular cost drivers. These cost drivers are economies of scale, economies of learning, production techniques, product design, inputs, capacity utilization, and residual efficiency (Grant, 2013; Porter, 1998). Though the relative important of each driver to a particular firm or an industry varies, I describe below those that are relevant to understand CSI.

Economies of scale refer a firm's ability to lower its unit costs of output with proportionate increases in inputs. The sources of economies of scale are the input-output relationship (when increases in output do not require the same increase in inputs), large quantities that are indivisible (e.g. costs that simply are not available in small quantities), and specialization (e.g. specialized assembly line workers) (McAfee & McMillan, 1995). Related, economies of learning are simply the cost reductions gained with individual skill attainment and established organizational practices and routines (Argote, Beckman, & Epple, 1990). As workers become more skilled and as routines and practices improve, output efficiencies improve as well.

Product and process technology help firms gain cost efficiencies by reducing costs associated with technology and operations. Process innovations may lead to, for example, a reduction in time it takes to produce products or a reduction in costs associated with manufacturing a product. This includes "lean" technologies that focus on eliminating parts of production that do not add value (Womack & Jones, 1994).

Product design is an important area of cost saving for firms. Much of product design efficiencies that result in cost savings come from continual improvements in firm attempts to design products and services largely based on their ease of production, rather than maximum functionality, for example (Gomory, 1989). This may include standardization, simplified designs, and other cost saving measures.

The cost of inputs can vary for a firm based on a number of factors. Location is big source of lowering cost inputs, such as with sending jobs to developing countries or purchasing products in developing countries (De Pelsmacker, Driesen, & Rayp, 2005; Powell & Zwolinski, 2012). Labor power is also an important source of input costs, such as with a firm's ability to minimize union presence and collective bargaining rights (Fligstein & Shin, 2007). Firm market power is a third important source of cost savings as it allows some firms to bargain down costs or likely to squeeze suppliers for lower costs (Carter & Rogers, 2008).

Capacity utilization addresses cost savings to the extent that a firm utilizes its fixed costs to their fullest capacity. For example, property, plant, and equipment are fixed costs that remain regardless of how well and how often they are used in a firm's operation. Thus, firms that achieve greater capacity utilization achieve considerable cost economy by producing output that is as close as possible to the greatest possible output a firm could produce, given fixed equipment and resources (Corrado & Mattey, 1997; Hulten, 1986).

Residual efficiencies, or technical efficiencies, come when a firm has similar costs as rivals (similar technology, processes, labor, suppliers, etc.) yet still achieves more efficient costs per unit. These savings likely come in the form of intangible organizational routines, workplace culture, and other human factors that increase a firm's productive efficiency (Leibenstein, 1966).

2.3.2 Differentiation. In a strategy of differentiation firms find unique attributes they believe consumers value and implement ways to meet that specific need in ways their competitors do not. Product and service differentiation allows firms to charge a premium and/or induce brand loyalty (Hill, 1988) because a firm's products or services provide value to consumers beyond low price. Nike, for example, has achieved distinct product differentiation (via its brand) to obtain high loyalty among consumers, allowing them to charge a premium for their products. However, differentiation may not only be about product attributes. It can occur at any point in the interaction between a consumer and a firm. For example, Amazon differentiates itself in many ways, product attributes are not one of them. You can find most of its products elsewhere, and often for similar prices. Yet Amazon often offers greater convenience, detail, and review of its products than its rivals and a greater variety of shipping options than its rivals.

Additionally, we see both tangible and intangible differentiation. Tangible differentiation is about observable characteristics of a product and/or service; from product safety features to product color and design to sales service to delivery speed. Intangible differentiation is about value that consumers perceive, based on qualities such as prestige, morality, individuality, exclusivity, etc. (Grant, 2013).

Consequently, the sources of uniqueness are vast. In fact, Porter (1998) identifies nine drivers of uniqueness: Product features, complementary services, marketing intensity, technology as a part of product design, quality of product inputs, customer experience, employee KSAOs (knowledge, skills, abilities, and other attributes), locations, and extent of vertical integration. It is through these nine drivers of uniqueness that firms are able to find ways to differentiate themselves from rivals.

2.3.3 CSI As Strategy. Under tremendous market pressures to create immediate shareholder value, firms will rely on a range of available actions to achieve greater returns. This includes both the proliferation of decisions with regard to corporate governance and strategy narrowly focused on immediate firm value as well as firms intentional distortions of legitimate competitive strategies (Balch & Armstrong, 2010).

Though governance and corporate strategy drive firm value, the primary and most proximal mechanism of firm value is usually business strategy (Porter, 1985). Though cost-advantage is certainly firm and industry specific, the drivers of cost-advantage are more uniform than are the drivers of differentiation. Consequently, a firm exploiting principles of cost-advantage to engage in CSI may do so in ways that are generally identifiable (generically). A practical example of this in action is the development of Tim Horton's since its acquisition by private equity firm 3G Capital. 3G Capital is a strict adherent to shareholder primacy ideology, as seen by its acquisitions which are often characterized by layoffs, budget cuts, and cost-cutting across the board (Roberts, 2015).

Tim Hortons has long strived to be a market leader in "sustainability and responsibility." In fact, in 2014 Tim Hortons' (at the time) President and CEO Marc Caira remarked that "sustainability and responsibility are embedded in our strategies and corporate priorities" (Tim Hortons, 2013). Since its acquisition by 3G Capital (the parent firm of Burger King), Tim Hortons has begun to abandon its commitments to environmental sustainability and corporate responsibility, most notably by ending the formal team dedicated to environmental sustainability and responsibility (Crane & Matten, 2015). Though it certainly is an empirical question, at first glance 3G Capital's approach certainly seems to be one of CSI via cost advantage. In particular, 3G Capital's cost reductions may lead to unethical, irresponsible, and perhaps even illegal changes in production processes and technology, changes in product design, capacity utilization methods, reductions of input costs, and/or increased worker productivity demands.

More common anecdotal examples of CSI as cost advantage abound (often called cost leadership in strategy, though given the topic of irresponsibility I refrain from the use of "leadership" here). From the exploitation of weak market and legal institutions in developing economies (Strike et al., 2006) to the exploitation of workers (Kalleberg, 2011) to environmental degradation (Russo & Harrison, 2005), this distortion of cost advantage strategies is not difficult to imagine. Table 1 describes CSI via cost advantage. It first lists and explains the seven primary drivers of cost advantage and then highlights potential ways in which firms find cost advantage through CSI. Just as I explain the general mechanisms of achieving a cost advantage for each driver, I similarly describe a general CSI orientation with regard to each driver of cost advantage.

TABLE 1: CSI's distortion of the drivers of cost advantage

Main Sources of Cost-Advantage	**Definition**	**An example in the context of CSI**
Economies of scale	Decreased costs of output that occur with increasing scale as costs (increasingly fixed) are spread out across increased output.	Economies of scale achieved via unethical industry monopolization and through bulk purchases or production made with little regard to their ethical origins or ramifications.
Economies of learning	Cost reductions and efficiencies gained with individual skill attainment and established organizational practices	Experience and learning at a firm level and among individual leaders that lead to a better understanding of how to engage in CSI.
Product & process design	Improved product & service design that lead to cost reductions	Cutbacks in product and service design that lead to an irresponsible, unethical, or illegal deterioration in the end product or service.
Process & production technology	Technology & operation enhancements that lead to cost reductions	Innovation for more efficient production technology that violates some set of institutional, ethical, or legal expectations

Costs of inputs	These costs vary based on firm location, the power of labor, and on a firm's market power	The use of child, slave, or otherwise exploitative labor, the elimination of non-essential employee costs, squeezing suppliers harshly to lower costs, the use of irresponsible or unethical suppliers, and other methods of lowering input costs that violate important stakeholder expectations.
Capacity utilization	The extent to which a firm utlilizes its fixed costs to the fullest capacity	Placing extreme job demands on workers to increase capacity utilization, such as through mandates of longer work hours.
Residual efficiency	Having similar costs as rivals, yet achieving more efficient costs per unit of product/service production	Placing extreme job demands and sanctions on workers to increase their work efficiency and to minimize shirking and non-optimal output.

The drivers of uniqueness are such that each firm is constantly searching for new ways to differentiate. By nature, that does not lend itself to easy categorization. Firms exploiting principles of uniqueness may do so in distinctive ways (Porter, 1985). Of the drivers of uniqueness, a firm may differentiate itself "based on the product [or service] itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors" (Porter, 1985: 14). The nature of differentiation demands such constant innovation. Similarly, there is a plethora of ways that firms may imaginatively engage in CSI via a distortion of product or service differentiation.

Table 2 explains CSI via differentiation. It elucidates the typical drivers of uniqueness and then an understanding of how firms might distort such tactics for CSI. Just as with cost-advantage, I describe general orientations toward CSI with regard to the drivers of uniqueness.

TABLE 2: CSI's distortion of the drivers of uniqueness

Typical Sources of Differentiation	**Definition**	**An example in the context of CSI**
Product design & features	Differentiation in products in terms of how the end consumer uses the product	Product or service technology and features that uniquely satisfy consumers or that lower consumer costs but that come via unethical, irresponsible, or even illegal business practice.

Services provided	Such as credit, deliver, repair, maintenance, pick-up, personalized experiences, etc.	Firm service offerings that differentiate the firm yet are themselves unethical, irresponsible, or legal or are achieved via unethical, irresponsible, or illegal means.
Marketing intensity	The amount of money and resources a firm puts into publicizing their uniqueness.	Misleading, deceptive, or ambiguous marketing that leads to an unethical, irresponsible, or even illegal differentiation.
Quality of inputs	Variation in the standards or grade of inputs involved in products or service delivery	The quality of firm inputs and their resulting products and services that uniquely satisfy customers but that come via unethical, irresponsible, or legally tenuous methods of business operation.
Location	Physical location, even amidst globalization and online commerce, is important for some firms to differentiate.	Firm location that yields significant consumer dependencies on the firm, which then gives way to unethical, irresponsible, or legally tenuous business practice.
Vertical Integration	Vertical integration, as opposed to horizontal integration, may give firms more control of all parts of their operations to be unique.	Vertical integration gives firms more control, coordination, and (importantly) autonomy over more activities of their business, which can lead to greater discretion over and easier execution of CSI via the other drivers of uniqueness.
Superior human capital (via enhanced KSAOs)	A firm's advantage associated with unique employee knowledge, skills, abilities and other attributes that allow employees to contribute to the operations at a higher level.	More managerial experience and entrenchment can lead to a greater culture of irresponsibility where pressure from peers and superiors as well as increased managerial knowledge with regard to CSI further spreads CI throughout any of the other drivers of uniqueness.

An example of CSI as differentiation may be off-label marketing and other illegal marketing in the pharmaceutical industry. Such behavior allows firms to deceptively and/or illegally differentiate themselves through, in this case, product features and marketing intensity. Some pharmaceutical firms illegally and deceptively market their products' features to reap increased profits from such differentiation (Abraham, 2010). They do so by marketing to doctors, to pharmacies, and directly to patients in ways that are legally (and morally) questionable (Arnold & Oakley, 2013; Feldman, Gauthier, & Schuler, 2013). These firms find it a worthwhile endeavor, however, as there are tremendous financial benefits from doing so. For example, such firms avoid the cumbersome and extensive process of developing a new drug that includes vast amounts of R&D followed by clinical trials and regulatory body approval. While rivals engage in such development processes, others engage in these questionable marketing practices instead. Clearly such illegal and unethical marketing can have dangerous side effects for patients, yet the industry is rife with such practice, presumably because the benefits of such focus on (misleading) differentiation outweighs the costs of regulatory penalties (Almashat, Preston, Waterman, & Wolfe, 2010).

The process off illegal marketing in the pharmaceutical industry also lends itself to an example of CSI as cost advantage. Through such behavior, firms avoid portions of the costly and bureaucratic process of drug development and marketing. The process is so costly that not only corporations but researchers, doctors, and government agencies attempt to circumvent portions of the process for cost savings (Feldman et al., 2013; Gagnon & Lexchin, 2008).

It is this dogged pursuit of a low-cost position or of product or service differentiation to enhance returns that typifies the most extreme interpretations of a shareholder primacy ideology. Paine (2000) laments this ideology of instrumental corporate irresponsibility / responsibility espoused via such rhetoric as “ethics pays.” Scholars concerned with CI have long argued that commoditizing corporate ethics and responsibility in this way makes it useful so long as it is profitable. That is, firms strategically engage in corporate responsibility when it makes financial sense and refrain from doing so when it does not make financial sense. Likewise, many firms engage in CI when it makes financial sense to do.

2.2.4 The Pervasiveness CSI

I have painted a picture of CSI as a managerial tool for competitive advantage via cost advantage, differentiation, or an integration of such activities. To achieve competitive advantage via these strategic mechanisms firms create traditional strategic barriers to imitation as well as barriers to imitation centered on rivals' (lack of) willingness to engage in CI because it is, as I defined earlier, activity defined by its violation of relevant institutions, its illegality, its unethicality, or its irresponsibility. Still, if CI is strategic, is must be, like all strategy, pervasive.

Both business strategy and corporate strategy are about firm-level decision-making. Corporate strategy is a firm's industry-level decisions. Corporate strategy is largely about deciding what industry or industries to compete in, which then includes decisions about mergers and acquisitions, vertical and horizontal integration, and diversification. Business strategy, on the other hand, is the plan that guides an organization's leaders and the decisions they make every day. Organizational leaders make strategic decisions considering where and how they are competing, what they hope to achieve long-term, and how they hope to do so. Key to both of these concepts is a focus on decisions that affect the entirety of a firm. The presence of related tactics on multiple organizational fronts represents strong strategic patterns amenable to competitive advantage (Finkelstein & Hambrick, 1990; Mintzberg, 1978). Particularly considering the role of cost-advantage and product/service differentiation strategies in creating competitive advantage, firms reap the benefits from these strategies precisely because they are robust (Porter, 1985).

Consequently, CSI will often run across domains of a business. As such, uncovering an array of CI tactics across an organization is indicative of a strong, consistent strategy of CI. The pervasiveness of CSI further engrains such action into a firm and helps strengthen the strategic mechanisms of cost-advantage and/or differentiation while also obscuring both the presence of CSI and more importantly, its relationship to financial performance (Barney, 1986). CSI across many dimensions of a business operation makes is an essential component of its strategic nature.

2.2.5 The Persistence Of CSI

In addition to being pervasive, strategy is also persistent, or enduring. Strategy horizons are not monthly or even yearly. Indeed, strategies can last decades or more and strategic planning is often at least three years. This is partly because of practical considerations for how long it takes to learn and properly implement strategies. Particularly with large firms, their operations span cities, states, regions, and countries, making patience a virtue (to a point). Additionally, when strategies work, that is, when firms derive value from their strategies by yielding enhanced profits, they stay the course. Though, this is not to say firms become complacent and rest on their laurels. Successful strategies are constantly updated, modified, and shaken up even with successful firms.

If CSI can strengthen a corporation's cost-advantage or differentiation strategies, it is unlikely to do so intermittently. That is, if firms find strategic benefit in CSI, they are likely to engage in such activity persistently. Persistent strategy will yield the greatest competitive advantage for a firm because while tactics may remain evolving and fluid, commitment to a strategy allows firms to reap the benefits of sustained competitive advantage (Mintzberg & Waters, 1985). Presumably, the longer a firm persists with a strategy, the more profitable it is for the firm (Oliver, 1997; Reed & DeFillippi, 1990).

2.2.6 Barriers To The Imitation Of CSI

If CI is indeed a strategic choice, firms execute CI in firm-specific ways so as to maintain a competitive advantage. An important component of competitive advantage is its sustainability, or longevity, and firms are only able to sustain competitive advantage if rivals are unable to out-innovate or imitate their competitive advantage. While firms would always prefer to innovate their way to eliminating rivals' competitive advantage (e.g. new industries & consumer segments), imitation is the most common method to do so. Thus, firms with competitive advantages engrain isolating mechanisms into their operations so as to stave off imitation, at least for a considerable period of time (Jacobsen, 1988).

CSI operates no differently in many instances. In the case of differentiation, CSI might include questionable forms of differentiation with regard to products or processes that rivals are unable to easily replicate. This allow the firm to charge above-market prices for their goods or services (Hambrick, 1983). In the case of cost advantage, CSI may simply include irresponsible sources of cost efficiency and asset parsimony, two main sources of cost advantage (Hambrick, 1983). In such a case, the firm relies on rivals' inability to replicate such methods of attaining cost efficiency or asset parsimony. Either way, firms employing CSI often do so in ways that create barriers to imitation for competitors.

Most barriers to imitation arise from some degree of causal ambiguity with regard to a firm's advantage, a situation that occurs when the source of a firm's advantage is uncertain (Reed & DeFillippi, 1990). Traditional attainment of causal ambiguity obscures a firm's bundles of resources and capabilities such that rivals cannot easily diagnose its path to advantage and thus are unable to easily replicate such actions. I argue that CSI will operate similarly.

However, CSI may also uniquely stave off imitation without causal ambiguity. While it may create barriers to imitation in ways common to typical strategies (e.g. VRIN resources), firms engaging in CSI may also rely on rivals' lack of willingness to engage in CSI, whether because of those rivals' commitment to values of responsibility (Chin, Hambrick, & Trevino, 2013; Doh & Quigley, 2014; Selznick, 1957) or simply because of institutional pressures via regulatory, normative, and cultural-cognitive institutional logics (Brammer, Jackson, & Matten, 2012; Campbell, 2007; Waddock, 2008).

This is an important component of CSI. While CSI is often veiled and deftly executed in difficult ways to imitate, it is also simply irresponsible activity at its core, the idea of which fortunately deters a great many firms that live their enacted values of responsibility (Selznick, 1957, 1994; Simons, 2002) or that are not comfortable risking their legitimacy among important social control agents (Bansal & Clelland, 2004; Lamin & Zaheer, 2012). Other firms, however, intentionally engage in CI as a calculated firm-level decision. Specifically, CSI is intentional, persistent, and pervasive firm action across an organization that a stakeholder would deem to be in violation of relevant institutions, illegal, unethical, or irresponsible.

2.3 BUFFERING MECHANISMS OF CSI

If, as I argue, CSI is a deliberate violation of law, ethics, or institutional norms, how then, do firms evade punishment and continue doing business as usual in the face of CSI? I argue that buffering is a primary tactic that firms deploy to obscure their CSI and to protect themselves from potential sanctions and losses of legitimacy. Firms deploy a number of mechanisms to buffer, or protect themselves from environmental uncertainty (Meznar & Nigh, 1995).

I discuss and test two forms of buffering as a result of CSI. First, I argue that firms high in CSI will engage in decoupling with regard to CSR and CI as a way of buffering the firm from uncertainty in the environment via signaling firm conformity to expectations (Meyer & Rowan, 1977; Westphal & Zajac, 2001). This decoupling will come in multiple forms of peripheral CSR and ultimately serves as a legitimacy mechanism in the face of CSI. Second, I argue that firms may protect themselves from uncertainty in the external environment by reducing and shaping that uncertainty via strategies of corporate political activity (Meznar & Nigh, 1995).

2.3.1 Peripheral CSR As A Legitimacy Signal

My argument that firms will decouple their public-facing CSR from firm practices of CSI to gain legitimacy is based in neo-institutionalism. Neo-institutional theory is about how and why organizational structures proliferate in similar ways. The theory focuses primary on the existence of institutions, their formation, and effects. Institutions are conventional and routine states of being (Meyer & Rowan, 1977; Zucker, 1987). Institutional logics, or multiple, differing principles of institutions, guide the behavior of actors in social situations (Scott, 1987; Thornton & Ocasio, 2008). In other words, they are "rules of the game" and are external to any particular actor or unit (Jepperson, 1991). The logics most deeply ingrained become ontological in the sense that they prescribe what "is" and "is not" reality. Neo-institutionalism argues that organizations act according to habitual routines that ingrain or reinforce institutional logics in rule-like fashion producing similar structures throughout organizational fields.

Another key argument in neo-institutional theory is that organizational structures, processes, and routines are not based always on inherently rational action but are instead functions of institutional constraints on actors in the environment. Institutional logics may become inconsistent with technical activity in corporations (Meyer & Rowan, 1977). Organizations are under pressure to conform to prevailing institutional myths for legitimacy, resources, and uncertainty reduction. Legitimacy allows firms to avoid public scrutiny, accountability, and even regulation of their actual organizational practices.

Subsequently, to avoid the loss of legitimacy that may result from fighting institutional (including legal and ethical) logics of corporate responsibility, firms deploying CSI will decouple their organizational structures such that they at least *communicate* their adherence to rationalized and impersonal prescriptions of how business should responsibly operate (Ruef & Scott, 1998; Westphal & Zajac, 2001). When firms decouple their operations, they separate formal structures, policies, or specific public-facing activity from the actual technical practices and routines inside the organization. Decoupling increases the chances that external legitimating bodies will deploy logics of confidence and faith in the firm, as judged from the formal structures or symbolic activity that conforms to expectations. Such confidence in a firm reduces the (perceived) need for inspection and evaluation of actual practices by legitimating bodies (Meyer & Rowan, 1977).

Irresponsible firms such as Enron have been previously admired for their CSR before their acts of misconduct were uncovered (Chatterji, Levine, & Toffel, 2009). Thus, it may be that some good deeds may work for some firms to overshadow and to mitigate possible negative effects of their CSI. Godfrey (2005) presents a theory of moral capital to explain how this might work. In this model, Godfrey conceptualizes corporate philanthropy as a contributor to moral capital, greater stocks of which firms can use to more easily recover from negative events that stakeholders may normally attribute to maliciousness without other information to build positive impressions from.

Importantly, Godfrey and colleagues (2009) show that CSR in the form of "moral capital" is likely to take the form of *peripheral* CSR, or activity that is not ingrained in organizational logics of strategy and routine. In other words, this is discretionary, volitional corporate activity that is public facing and generic; generic in the sense that other firms can easily execute similar CSR. This includes explicit CSR activities such as volunteering, philanthropy, workplace eco-initiatives (separate from environmental sustainability), and other more overt attempts on the part of a firm to champion their CSR (Aguinis & Glavas, 2013).

Similar to its role as a buffer against stakeholder backlash when they uncover malicious corporate events, peripheral CSR may have a similar effect in the case of routine, enduring CI, or CSI (Barnett, 2007; Godfrey, 2005; Kotchen & Moon, 2012). I identify two types of peripheral, or explicit CSR that, while often aimed at improving stakeholder wellbeing, are also very public proclamations of corporate responsibility that may be simultaneously addressing stakeholder wellbeing while obscuring attempts at CSI: corporate philanthropy and corporate community involvement.

Importantly, to explore the domain of CSI, my focus is on the role of peripheral CSR in particular, as opposed to other common CSR measures. Corporate activity that is clear peripheral CSR is a separate construct from CI. For example, low levels of corporate philanthropy and community involvement may indicate poor stakeholder relations but are distinct from CI. Embedded CSR, on the other hand, is difficult to separate methodologically from CI, particularly in Sustainalytics, the database I use (or in KLD, for that matter). Embedded CSR is when a firm relies on its core competencies and capabilities to integrate CSR into its strategies, routines, and operations. For example, General Electric's heavy investments in renewable energy sources is embedded CSR (Aguinis & Glavas, 2013). Because of GE's unique stock of resources and capabilities they can create a profitable enterprise that is (to some degree, however large or small in this case) contingent on the sale and expansion of renewable energy across the globe. Thus embedded CSR is context and firm specific.

To explore the mechanisms by which peripheral CSR acts as a buffer for firms engaging in CSI, I explore two prominent dimensions of Peripheral CSR: corporate philanthropy and community involvement. Corporate philanthropy is a primary measure of CSR in academia and a lauded component of corporate responsibility more generally. I use corporate philanthropy to refer to a firm's financial contributions in the form of institutional philanthropy (e.g. financial contributions to public education) and charitable giving (e.g. Hurricane Katrina relief efforts). Whether through employee giving campaigns, corporate foundations, or direct firm donations, corporate philanthropy is a transfer of wealth from corporations often to local causes (e.g. local education, the arts, and poverty) or visible national social causes (e.g. Hurricane Katrina).

Clearly, many firms engage in corporate philanthropy with a genuine hope of advancing social welfare (Muller, Pfarrer, & Little, 2014). Other firms execute corporate philanthropy strictly out of pressures toward mimetic isomorphism (DiMaggio & Powell, 1983) or attempts to gain or maintain legitimacy (Tilcsik & Marquis, 2013; Wang &

Qian, 2011). Still, corporate philanthropy is ultimately strategic (Gardberg & Fombrun, 2006; Porter & Kramer, 2006). That is, firms rely upon their philanthropic work to build and maintain trust and their reputation among both internal and external stakeholders (Clarkson, 1995; Gardberg & Fombrun, 2006; Godfrey, 2005). In fact, by creating positive evaluations among stakeholders, corporate philanthropy can lead to improved financial performance (Lev, Petrovits, & Radhakrishnan, 2010; Orlitzky, Schmidt, & Rynes, 2003). Such benefits are relatively low hanging fruit for most firms as they give, on average, less than 1% of their revenue to philanthropy (CECP, 2014). It is not only cost-effective for firms to strategically use philanthropy, it also takes little effort when compared to other costly and burdensome firm interactions with stakeholders (Fombrun, Gardberg, & Barnett, 2000; Gardberg & Fombrun, 2006).

Not only is corporate philanthropy an easy and cost-effective method of enhancing a firm’s reputation and moral capital, it can also build firms’ influence on stakeholders. Particularly, firms build influence capacity with stakeholders through norms of reciprocity or reputational enhancements garnered via activity such as philanthropy (Barnett, 2007). Enhanced corporate influence among firms’ stakeholders allows them expanded reach and control over more aspects than simply organizational functioning. It gives them the ability to control and reduce environmental uncertainty and to gain legitimacy, imperatives for powerful and potentially irresponsible firms (Banerjee, 2008; Gond et al., 2009; Shamir, 2004).

The ability to control environmental uncertainty via legitimacy maintenance is paramount for firms engaging in CSI, as they are violating any number of legal, institutional, or ethical expectations. Corporate philanthropy is important in this regard, as it builds the goodwill necessary for firms to manage potential backlash against CI (Godfrey, 2005). The CSR literature supports such an argument. First, Godfrey's (2005) theory on risk management posits corporate philanthropy as an insurance-like protection against a firm's discovered bad deeds. As an extension of Clarkson's (1995) establishment of the concept of relational wealth with regard to stakeholder management, Godfrey's work explains how philanthropy positively effects employee commitment, legitimacy perceptions, supplier and contractor trust, customer loyalty, etc. So much so, that when stakeholders discover corporate misdeeds, a firm's attainment of high moral capital via investments in philanthropy "will result in fewer or less severe remedial, compensatory, or punitive sanctions against a firm" (2005: 789). Empirically borne out, Godfrey, Merrill, and Hanson (2009) find that in the face of the financial market's discovery of corporate illegality and misdeeds, firms high in CSR, including philanthropy and community involvement, took a smaller financial hit from the market than those low in such CSR and presumably, without such stocks of moral capital. Related, in addition to buffering against financial market performance, corporate philanthropy may also buffer against a firm's reputational damage after corporate misdeeds (Williams & Barrett, 2000). Indeed, Muller and Kräussl (2011) find that after Hurricane Katrina, firms with poor reputations for corporate responsibility subsequently engaged in greater philanthropy than those with strong reputations, presumably to repair those reputations in light of poor financial performance. In all, philanthropy is a reasonable buffering mechanism firms use to attempt to build or to maintain legitimacy in the face of CSI.

In addition to corporate philanthropy, another public-facing CSR action is community involvement. It ranges from employee volunteerism to local community decision-making involvement to pro-bono community development work to nonprofit board membership among firm leaders. Difficult to separate from corporate philanthropy, community involvement allows firms to personify corporate responsibility to the public by deploying employees' time, skills, experience, resources, and networks to local and global communities (Peloza, Hudson, & Hassay, 2008). I employ similar logic as with corporate philanthropy to argue that community involvement will be used to garner and maintain legitimacy in the face of potential stakeholder backlash against CSI. There are important distinctions between the two, however.

Whereas corporate philanthropy requires financial resources (even if relatively insubstantial amounts), forms of community involvement such as firm sponsored employee volunteerism involve few firm resources other than discretionary employee time (Rodell, 2013). Despite the lack of resources deployed in corporate community involvement, it pays dividends in similar ways to corporate philanthropy in the face of CSI. Community involvement also differs from corporate financial contributions in that it typically involves organizational member representation within a community (while philanthropy often involves several clicks of a computer mouse). Organizational community involvement sends strong signals of a firm's commitment to community development in ways that financial donations do not (Grant, 2012; Peloza et al., 2008). Additionally, it may create a sense of reciprocity amongst community populations, as the personal effect of direct corporate attempts to improve or develop a community can create a strong sense of indebtedness (Gond et al., 2009). As such, though community involvement takes manpower and time that is not usually necessary with corporate philanthropy, such investments are a small price to pay for a strong CSI buffer via the goodwill it creates among stakeholders (Godfrey et al., 2009; Peloza et al., 2008).

Like corporate philanthropy, corporate community involvement positively influences financial performance (Barnett & Salomon, 2006; Godfrey et al., 2009). This is because community involvement is also a calculated tactic to send important signals to firm stakeholders and social control agents about the nature of the firm (Gond et al., 2009; Porter & Kramer, 2006). Specifically, community involvement signals a firm's commitment to mitigating its impacts on communities as well as to the development of community populations. Such a signal has a positive influence on firms' reputation and goodwill (Jones et al., 2014; Peloza, 2009; Sen & Bhattacharya, 2001) and creates a buffer specifically against CSI via its effects on upholding a firm's legitimacy (Gardberg & Fombrun, 2006; Godfrey et al., 2009). Consequently, firms high in CSI will commit themselves to more robust community involvement.

Though firms may use other forms of CSR as buffers against their CSI, corporate philanthropy and community involvement represent the strongest cases for such activity via their effects on firm legitimacy. Additionally, firms may also deploy other buffering mechanisms to guard against backlash toward their CSI that are not rooted in neo-institutional theory's decoupling process. As such, I explore buffering as firm attempts to shape the institutional environment in the face of CSI.

2.3.2 Corporate Political Activity As A Buffer Against CSI

One way firms buffer themselves from uncertainty in the external environment is to decouple their organizational routines from their formal structures with the goal of signaling legitimacy to prevailing social convention (Meyer & Rowan, 1977; Westphal &

Zajac, 2001). Another way to buffer the firm from environmental uncertainty is to attempt to reduce the environmental uncertainty or even to shield the firm from uncertainty via political protection (Meznar & Nigh, 1995). A primary way for firms to engage in such buffering, or protection, is through the deployment of corporate political activity (CPA).

Porter's pioneering strategy scholarship has long argued that public policy and government regulation act as barriers against firms' competitive advantage via their unpredictability and often financially burdensome nature. Licensing requirements, limited access to resources, environmental requirements, and product safety requirements, among other state regulation, all exert pressures on firms that many of them actively oppose (Porter, 1998). As such, a growing point of contention in national discourse over the past 40 years is the fact that firms regularly engage in CPA with the hope of encouraging business-friendly policy and (further) de-regulation of markets (Alzola, 2013).

Firms enact a range of CPA strategies including campaign contributions, PAC contributions, lobbying, political stances, formally committing themselves to policy agenda, endorsing candidates, partnering with partisan organizations, placing organizational members on government committees, and conducting a host of other political activities that disseminate information on political issues, build political constituencies, and influence politicians (Baysinger, 1984; Hillman, Keim, & Schuler, 2004). More than simply spending money on political issues, many firms formally adopt a range of these proactive political tactics aimed at competitive advantage (Oliver & Holzinger, 2008).

Much work has been done across disciplines in documenting business organizations' roles in public policy, mainly through their political contributions and lobbying (Getz, 1997; Hillman et al., 2004; Lawton, McGuire, & Rajwani, 2013). In management scholarship there is widespread support for the argument that CPA can be good for business. In fact, Lux, Crook, and Woehr (2010), in a meta-analysis, found a significant ($r=.17$) positive relationship between CPA (political spending) and firm performance.

Missing from this literature is a critical exploration of the private sector's disproportionate ability to influence the political process. Much organizational literature, however, is critical of CPA as a disruption of democratic values (Alzola, 2013; Dahan, Hadani, & Schuler, 2013; Mantere et al., 2009; Néron & Norman, 2008). This criticism stems from systematic effects of CPA that disproportionately influence political outcomes in a number of ways. First, firms may essentially "purchase" influence. This perspective argues that powerful firms directly influence public policy. Conversely, the relationship may also be reversed. That is, that incumbency and prevailing policy preference may drive corporate dollars (Hart, 2001; Lord, 2000a). A third perspective focuses on CPA's ability to affect constituency preferences that in turn shape legislator decisions (Lord, 2000b). Last, CPA may lead to an influx of business executives into politics that creates a political system where politicians are sympathetic to the interests of the privileged elite rather than of the general polity (Useem, 1984).

Regardless of its methods of influence and its effectiveness, it is clear that firms use CPA as a buffering mechanism. CPA is a tool to shape institutions to firms' advantage, particularly by influencing public policy in ways that reduce uncertainty and that are constructive to corporate goals (Blumentritt, 2003; Meznar & Nigh, 1995). Firms engaging in CSI face extra environmental uncertainty, as shifting conditions can trigger social control agent backlash (Barnett, 2014) and legitimacy crises (MacLean & Behnam, 2010). Thus, these firms are already precariously close to illegitimacy judgments and have much to gain from CPA as a mechanism to construct discourse on legitimacy and to shape dominant institutions (Baysinger, 1984).

However, despite its proliferation in practice and its legitimacy within business scholarship, CPA is still contentious among firm constituents. As such, a firm's formal proclamation of an aggressive and extensive CPA strategy via the range of activity described above is likely to cause varying levels of stakeholder objection. Thus, firms will find it in their best interest to shift institutional attention and discourse away from actions related to their CPA (Oliver, 1991), and indirectly, away from their CI (Ählström, 2010; Marens, 2010). As an attempt to do so, firms adopting strong CPA practices, particularly those firms attempting to buffer their CSI, may shield themselves from scrutiny by ambiguously communicating their formal CPA approach.

Such strategic ambiguity is common, as firms deploy formal rhetoric that simultaneously speaks to external environmental demands while preserving managerial discretion and firm interests with regard to technical organizational practice (Davenport & Leitch, 2005; Edelman, 1992). Strategic ambiguity refers to the degree to which different interpretations of a message may be achieved. In the case of CSI, ambiguous language serves as a protective mechanism to shield firms from specific expectations based on formal CPA policy.

So while CPA financial expenditures are regulated and difficult to obscure, firms have more discretion to employ strategic ambiguity in their formal rhetoric with regard to their approach to public policy. This allows irresponsible firms the flexibility to enact vague CPA policy to minimize stakeholder scrutiny over the range of political activity they are likely to use to buffer against their CSI (Oliver, 1991). Thus I argue that firms engaging in high CSI will have increasingly vague and obscure CPA policy as a way of insulating themselves from interference and inspection (Meznar & Nigh, 1995; Oliver, 1991), greater levels of which may lead to greater scrutiny of their CSI.

CHAPTER 3: THEORY AND HYPOTHESES

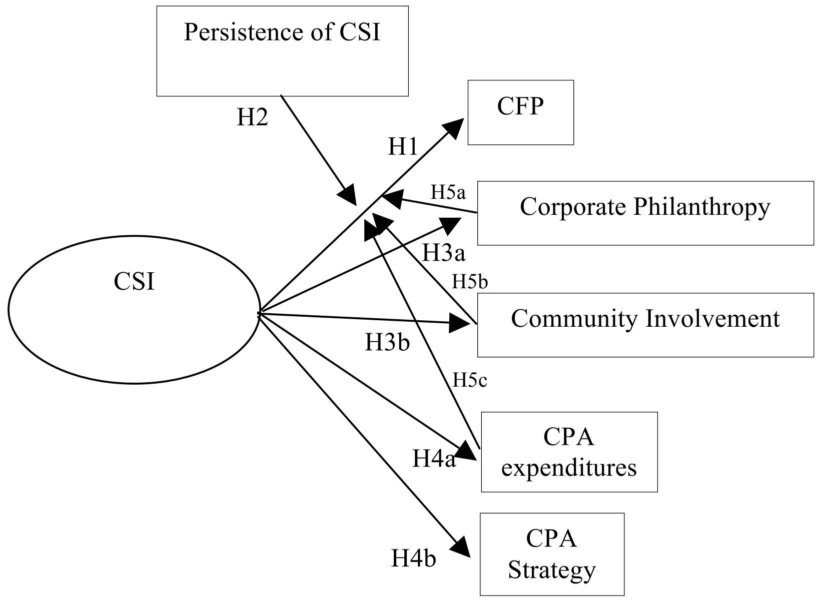
Organizational scholarship has largely assumed that CI is anomalous and that firms generally avoid CI because it is detrimental to corporate financial performance (CFP) (Frooman, 1997; Greve et al., 2010). Alternatively, CI is quite routine among some firms (Palmer, 2012), conceivably because it can work in their favor by enhancing CFP, though at the expense of stakeholders and broader society. As such, I argue that the notion that firms will avoid CI because it is detrimental to financial performance may not always hold true. Instead, some firms routinely engage in *CSI* because they find financial benefits of CI. I frame the proliferation of CSI a result of firm incentives and managerial ideology that focuses narrowly on shareholder value creation at the expense of managerial and constituent accord and compromise (Fligstein & Shin, 2007; Khurana, 2010; Lazonick & O'Sullivan, 2000).

CSI is when a firm deliberately (strategically), persistently and pervasively engages in activity that harms or has the potential to harm stakeholders (*violating institutional, legal, and/or ethical standards*), to achieve a competitive advantage. As with all strategy, firms pursue CSI primarily through cost advantage or differentiation (or both). In this chapter I first hypothesize that CSI will be positively associated with financial performance. Next, I hypothesize that persistence will moderate this relationship such that persistent CSI will yield the greatest competitive advantage for a firm. While firm tactics may remain evolving and fluid, commitment to a successful strategy allows firms to reap the benefits of sustained competitive advantage.

CSI will also be accompanied by a number of buffering tactics, two of which I hypothesize. First, firms engaging in CSI will decouple such activity from public signals of responsibility. They do this by exhibiting greater public-facing, peripheral CSR, a decoupling mechanism meant to obscure CSI by making strong public commitments to ideals of corporate responsibility. As such, I predict that CSI will lead to increased philanthropy and community involvement. These CSR activities, however genuine and impactful, are peripheral to a firm's core activities and send signals of a firm's commitment to "doing good," an ideal which engenders increased corporate reputation and legitimacy maintenance as a buffer against CI (Barnett, 2007; Godfrey, 2005; Kotchen & Moon, 2012).

Second, I describe another set of buffering tactics via the strategic deployment of corporate political activity. In addition to a firm's strategic use of peripheral CSR as a decoupling mechanism to manage uncertainty, firms may also manage their institutional environment via attempts to shape the regulatory conditions they face (Hadani & Coombes, 2015). CPA as a buffering technique is a set of firm tactics aimed at shaping the socio-political environment so that a firm's CSI is less likely to draw attention.

FIGURE 1: Model of CSI



3.1 CSI AND CORPORATE FINANCIAL PERFORMANCE

Firms find financial benefits to CI via its effects on the main drivers of competitive advantage. Namely, as with all strategy, firms pursue CSI primarily through cost advantage or differentiation (or both). It is extreme misrepresentations of shareholder primacy ideology that fuel such a dogged pursuit of low-cost positions or of product or service differentiation (Paine, 2000). Scholars concerned with CI have long argued that commoditizing corporate ethics and responsibility in this way makes it useful so long as it is profitable. That is, firms strategically act responsibility when it makes financial sense and refrain from doing so when it does not make financial sense.

My main empirical argument then is that many firms engage in CSI because it can be profitable to do so, either through means of differentiation (e.g. pharmaceutical firms' "off-label marketing"), cost-advantage (e.g. squeezing suppliers), or both. CSI is a firm-level strategy that both improves a firm's ability to exploit competitive advantage by creating traditional barriers to imitation with regard to their CSI as well as willingness barriers to imitation, that is, barriers to imitation of CSI that arise when rival firms actively choose not to engage in CSI and thus concede market position. Consequently, I argue that CSI will lead to superior CFP relative to industry peers in the subsequent year.

Hypothesis 1: CSI will have a positive effect on corporate financial performance (CFP).

3.1.1 The Persistence Of CSI

If CSI can strengthen a corporation's cost-advantage or differentiation strategies, it is unlikely to do so intermittently. That is, if corporations find strategic benefit in CSI, they are likely to engage in such activity persistently. Persistent strategy will yield the greatest competitive advantage for a firm because while tactics may remain evolving and fluid, commitment to a strategy allows firms to reap the benefits of sustained competitive advantage (Mintzberg & Waters, 1985). Thus, persistent, or enduring CSI will enhance the relationship between CSI and firm performance.

Hypothesis 2: The persistence of CSI positively moderates the relationship between CI and CFP such that CFP will be highest when CSI is persistent over time.

3.2 BUFFERING MECHANISMS OF CSI

If, as I argue, CSI is a deliberate violation of law, ethics, or institutional norms, how then, do firms evade punishment and continue doing business as usual in the face of CSI? I argue that buffering is a primary tactic that firms deploy to obscure their CSI and to protect themselves from potential sanctions and losses of legitimacy. Firms deploy a number of mechanisms to buffer, or protect themselves from environmental uncertainty (Meznar & Nigh, 1995). I discuss and test two forms of buffering as a result of CSI. First, I argue that firms high in CSI will engage in decoupling CSR from CSI to signal firm conformity to social expectations (Meyer & Rowan, 1977; Westphal & Zajac, 2001). Second, I argue that firms may protect themselves from uncertainty in the external environment by reducing and shaping that uncertainty via strategies of corporate political activity (Meznar & Nigh, 1995).

3.2.1 Peripheral CSR As A Legitimacy Signal

My argument that firms will decouple their public-facing CSR from firm practices of CSI is based in neo-institutionalism. Neo-institutional theory is about how and why organizational structures proliferate in similar ways. The theory focuses primary on the existence of institutions, their formation, and effects. Institutions are conventional and routine states of being (Meyer & Rowan, 1977; Zucker, 1987). Institutional logics, or multiple, differing principles of institutions, guide the behavior of actors in social situations (Scott, 1987; Thornton & Ocasio, 2008). In other words, they are the "rules of the game" and are distinctly external to any particular actor or unit (Jepperson, 1991). The logics most deeply ingrained become ontological in the sense that they prescribe what “is” and “is not” reality. Neo-institutionalism argues that organizations act according to habitual routines that ingrain or reinforce institutional logics in rule-like fashion producing similar structures throughout organizational fields.

Another key argument in neo-institutional theory is that organizational structures, processes, and routines are not based always on inherently rational action but are instead functions of institutional constraints on actors in the environment. Institutional logics may become inconsistent with technical activity in corporations (Meyer & Rowan, 1977). Organizations are under pressure to conform to prevailing institutional myths for legitimacy, resources, and uncertainty reduction. Legitimacy allows firms to avoid public scrutiny, accountability, and even regulation of their actual organizational practices.

Subsequently, to avoid the loss of legitimacy that may result from fighting institutional (including legal and ethical) logics of corporate responsibility, firms deploying CSI will decouple their organizational structures such that they at least *communicate* their adherence to rationalized and impersonal prescriptions of how business should responsibly operate (Ruef & Scott, 1998; Westphal & Zajac, 2001). When firms decouple their operations, they separate formal structures, policies, or specific public-facing activity from the actual technical practices and routines inside the organization. Decoupling increases the chances that external legitimating bodies will deploy logics of confidence and faith in the firm, as judged from the formal structures or symbolic activity that conforms to expectations. Such confidence in a firm reduces the (perceived) need for inspection and evaluation of actual practices by legitimating bodies (Meyer & Rowan, 1977).

Irresponsible firms such as Enron have been previously admired for their CSR before their acts of misconduct were uncovered (Chatterji et al., 2009). Thus, it may be that some good deeds may work to overshadow and to mitigate possible negative effects of CSI. Godfrey (2005) presents a theory of moral capital to explain a related idea. In this model, Godfrey conceptualizes corporate philanthropy as a contributor to moral capital, greater stocks of which firms can use to more easily recover from negative events that stakeholders may normally attribute to maliciousness without other information to build positive impressions from.

Importantly, Godfrey and colleagues (2009) show that CSR in the form of "moral capital" is likely to take the form of *peripheral* CSR, or activity that is not ingrained in organizational logics of strategy and routine. In other words, this is discretionary, volitional corporate activity that is public-facing and generic; generic in the sense that other firms can easily execute similar CSR. This includes explicit CSR activities such as volunteering, philanthropy, workplace eco-initiatives (separate from environmental sustainability), and other more overt attempts on the part of a firm to champion their CSR (Aguinis & Glavas, 2013).

Similar to its role as a buffer against stakeholder backlash when they uncover malicious corporate events, peripheral CSR may have a similar effect in the case of routine, enduring CI, or CSI (Barnett, 2007; Godfrey, 2005; Kotchen & Moon, 2012). I identify two types of peripheral, or explicit CSR that, while often aimed at improving stakeholder wellbeing, are also very public proclamations of corporate responsibility that may be simultaneously addressing stakeholder wellbeing while obscuring attempts at CSI: corporate philanthropy and corporate community involvement.

Importantly, to explore the domain of CSI, my focus is on the role of peripheral CSR in particular, as opposed to other common CSR measures. Corporate activity that is clear peripheral CSR is a separate construct from CI. For example, low levels of corporate philanthropy and community involvement may indicate poor stakeholder relations but are distinct from CI. Embedded CSR, on the other hand, is difficult to separate methodologically from CI, particularly in Sustainalytics, the database I use (or in

KLD, for that matter). Embedded CSR is when a firm relies on its core competencies and capabilities to integrate CSR into its strategies, routines, and operations. For example, General Electric's heavy investments in renewable energy sources is embedded CSR (Aguinis & Glavas, 2013). Because of GE's unique stock of resources and capabilities they can create a profitable enterprise that is (to some degree, however large or small in this case) contingent on the sale and expansion of renewable energy across the globe. Thus embedded CSR is context and firm specific.

3.2.2.1 Corporate Philanthropy. Corporate philanthropy is a primary measure of CSR in academia and a lauded component of corporate responsibility. I use corporate philanthropy to refer to a firm's financial contributions in the form of institutional philanthropy (e.g. financial contributions to public education) and charitable giving (e.g. Hurricane Katrina relief efforts). Whether through employee giving campaigns, corporate foundations, or direct firm donations, corporate philanthropy is a transfer of wealth from corporations often to local causes (e.g. local education, the arts, and poverty) or visible national social causes (e.g. Hurricane Katrina).

Clearly, many firms engage in corporate philanthropy with a genuine hope of advancing social welfare (Muller et al., 2014). Other firms execute corporate philanthropy strictly out of pressures toward mimetic isomorphism (DiMaggio & Powell, 1983) or attempts to gain or maintain legitimacy (Tilcsik & Marquis, 2013; Wang & Qian, 2011). Still, corporate philanthropy is ultimately strategic (Gardberg & Fombrun, 2006; Porter & Kramer, 2006). That is, firms rely upon their philanthropic work to build and maintain trust and their reputation among both internal and external stakeholders (Clarkson, 1995; Gardberg & Fombrun, 2006; Godfrey, 2005). In fact, by creating positive evaluations among stakeholders, corporate philanthropy can lead to improved financial performance (Lev et al., 2010; Orlitzky et al., 2003). Such benefits are relatively low hanging fruit for most firms as they give, on average, less than 1% of their revenue to philanthropy (CECP, 2014). It is not only cost-effective for firms to strategically use philanthropy, it also takes little effort when compared to other costly and burdensome firm interactions with stakeholders (Fombrun et al., 2000; Gardberg & Fombrun, 2006).

Not only is corporate philanthropy an easy and cost-effective method of enhancing a firm's reputation and moral capital, it can also build firms' influence on constituents. Particularly, firms build influence capacity with stakeholders through norms of reciprocity or reputational enhancements garnered via activity such as philanthropy (Barnett, 2007). Enhanced influence among firms' constituents allows them expanded reach and control over more aspects than simply organizational functioning. It gives them the ability to control and reduce environmental uncertainty, an imperative for powerful and potentially irresponsible firms (Banerjee, 2008; Gond et al., 2009; Shamir, 2004).

The ability to control environmental uncertainty becomes paramount for firms engaging in CSI, as they are deliberately violating any number of legal, institutional, or ethical expectations. Corporate philanthropy is important in this regard, as it builds the goodwill necessary for firms to manage potential stakeholder backlash against CI (Godfrey, 2005). The CSR literature supports such an argument. First, Godfrey's (2005) theory on risk management posits corporate philanthropy as an insurance-like protection specifically against a firm's discovered bad deeds. As an extension of Clarkson's (1995) establishment of the concept of relational wealth with regard to stakeholder management, Godfrey's work explains how philanthropy positively contributes to employee commitment, external legitimacy perceptions, supplier and contractor trust, customer loyalty, etc. So much so, that when stakeholders discover corporate misdeeds, a firm's attainment of high moral capital via investments in philanthropy "will result in fewer or less severe remedial, compensatory, or punitive sanctions against a firm by stakeholders" (2005: 789). Empirically borne out, Godfrey, Merrill, and Hanson (2009) find that in the face of the financial market's discovery of corporate misdeeds, firms high in CSR directed at secondary stakeholders, including philanthropy and community involvement, took a smaller financial hit from the market than those low in such CSR and presumably, without such stocks of moral capital. Related, in addition to buffering against financial market performance, corporate philanthropy may also buffer against a firm's reputational damage after corporate misdeeds (Williams & Barrett, 2000). Further, Muller and Kräussl (2011) find that after Hurricane Katrina, a disaster in which many firms suffered financially, firms with poor reputations for corporate responsibility subsequently engaged in greater philanthropy than those with strong CSR reputations, presumably to repair poor CSR reputations in light of poor financial performance. In all, corporate philanthropy is a clear mechanism by which firms buffer their corporate irresponsibility.

Hypothesis 3a: Firms with a higher level of CSI will engage in greater levels of corporate philanthropy.

3.2.2.2 Corporate Community Involvement. Another of the most public-facing CSR actions is corporate community involvement. It ranges from employee volunteerism to local community decision-making involvement to pro-bono community development work to nonprofit board membership among firm leaders. Difficult to separate from corporate philanthropy (i.e. financial contributions), corporations' community involvement allows corporations to personify corporate responsibility to the public by deploying their time, skills, experience, resources, and networks to local and global communities (Peloza et al., 2008). I employ similar logic as with corporate philanthropy to argue that corporate community involvement will be used as a buffer against stakeholder backlash in the face of CSI. There are important distinctions between the two, however.

Whereas corporate philanthropy requires financial resources (even if relatively insubstantial amounts), forms of community involvement such as firm sponsored employee volunteerism involve few firm resources other than discretionary employee time (Rodell, 2013). Despite the lack of resources deployed in corporate community involvement, it pays dividends in similar ways to corporate philanthropy in the face of CSI. Community involvement also differs from corporate financial contributions in that it typically involves organizational member representation within a community (while philanthropy often involves several clicks of a computer mouse). Organizational community involvement sends strong signals of a firm’s commitment to community development in ways that financial donations do not (Grant, 2012; Peloza et al., 2008). Additionally, it may create a sense of reciprocity amongst community populations, as the personal effect of direct corporate attempts to improve or develop a community can create a strong sense of indebtedness (Gond et al., 2009). As such, though community involvement takes manpower and time that is not usually necessary with corporate philanthropy, such investments are a small price to pay for a strong CSI buffer via the goodwill it creates among stakeholders (Godfrey et al., 2009; Peloza et al., 2008).

Like corporate philanthropy, corporate community involvement positively influences financial performance (Barnett & Salomon, 2006; Godfrey et al., 2009). This is because community involvement is also a calculated tactic to send important signals to firm stakeholders and social control agents about the nature of the firm (Gond et al., 2009; Porter & Kramer, 2006). Specifically, corporate community involvement signals a firm's commitment to mitigating its impacts on communities as well as to the development of community populations. Such a signal has a positive influence on firms' reputation and goodwill (Jones et al., 2014; Peloza, 2009; Sen & Bhattacharya, 2001) and creates a buffer specifically against CSI via its effects on upholding a firm's legitimacy (Gardberg & Fombrun, 2006; Godfrey et al., 2009). Consequently, firms high in CSI will commit themselves to more robust community involvement.

Hypothesis 3b: Firms with a higher level of CSI will engage in stronger community involvement.

3.2.2 Corporate Political Activity As A Buffer

Decoupling is a way of buffering the firm from uncertainty in the external environment via signaling a firm's conformity to expectations (Meyer & Rowan, 1977; Westphal & Zajac, 2001). Another way to buffer the firm from uncertainty in the external environment is to attempt to reduce the uncertainty or to shield the firm from uncertainty (Meznar & Nigh, 1995). A primary way for firms to reduce environmental uncertainty is through corporate political activity (CPA).

Porter's pioneering work in strategic management has long studied CPA and has argued that public policy and government regulation act as barriers against firms' competitive advantage via their unpredictability and often financially burdensome nature.

Licensing requirements, limited access to resources, environmental requirements, and product safety requirements, among other state regulation, all exert pressures on firms that many of them actively fight against (Porter, 1998). As such, a growing point of contention in national discourse over the past 40 years is the fact that firms regularly engage in CPA with the hope of encouraging business-friendly policy and (further) de-regulation of market commerce (Alzola, 2013). Much work has been done across disciplines in documenting business organizations' roles in public policy, mainly through their political contributions and lobbying (Getz, 1997; Hillman et al., 2004; Lawton et al., 2013). In management scholarship there is widespread support for the argument that CPA can be good for business. In fact, Lux, Crook, and Woehr (2010), in a meta-analysis, found a significant (r=.17) positive relationship between CPA (as financial expenditures) and firm performance.

Missing from this literature is a critical exploration of the private sector's disproportionate ability to influence the political process. Much organizational literature, however, is critical of CPA as a disruption of democratic values (Alzola, 2013; Dahan et al., 2013; Mantere et al., 2009; Néron & Norman, 2008). This criticism stems from systematic effects of CPA that disproportionately influence political outcomes in a number of ways. First, firms may essentially "purchase" influence. This perspective argues that the most powerful firms directly influence public policy. Conversely, the relationship may also be reversed. That is, that incumbency and prevailing policy preference may drive corporate dollars (Hart, 2001; Lord, 2000a). A third perspective focuses on CPA's ability to affect constituency preferences that in turn shape legislator decisions (Lord, 2000b). Last, CPA may lead to an influx of business executives into politics that creates a political system where corporate managers are sympathetic to the interests of the privileged elite rather than of the general polity (Useem, 1984).

Regardless of CPA's methods of influence and its effectiveness, it is clear that firms participate in the political process as a buffering mechanism. CPA is a tool to shape institutions to firms' advantage, particularly by influencing public policy in ways that reduce uncertainty and that are constructive to corporate goals (Blumentritt, 2003; Meznar & Nigh, 1995). Firms engaging in CSI face additional environmental uncertainty, as shifting conditions can trigger stakeholder backlash against CI (Barnett, 2014). Thus, these firms are precariously close to judgments of illegitimacy and have much to gain from CPA as a mechanism to construct discourse on legitimacy and to shape dominant institutions (Baysinger, 1984).

A primary indicator of a firm's CPA strategy is its political expenditures. This includes lobbying expenses, campaign contributions, and political action committee (PAC) contributions. Firm political spending has a certain level of transparency to it, as regulatory requirements necessitate disclosure of many details of corporate political expenditures and nonprofit organizations such as the Center for Responsive Politics go to great lengths to investigate and record corporate political spending. As such, corporate political spending is often used as a consistent proxy for a firm's CPA strategy (Hadani & Schuler, 2013; Hillman et al., 2004; Lux et al., 2010). Firms vary in the amount of their political spending, in the type of political spending (e.g. PAC contributions and trade association contributions), and in the targets of their political spending (e.g. Republicans vs. Democrats or state vs. national elections). In this study, I focus on the amount of CPA spending as a key buffer against CSI. As I have argued firms high in CSI will engage in greater CPA, political spending is a key dimension of CPA and a strong indicator of a firm's CPA strategy. Consequently, I argue that firms high in CSI will exhibit greater CPA expenditures as an attempt to control and to shape environmental uncertainty that could hamper their competitive advantage with regard to CSI.

Hypothesis 4a: Firms with a higher level of CSI will engage in greater corporate political expenditures.

In addition to corporate political spending, firms enact CPA strategies by taking political stances, formally committing themselves to policy agenda, endorsing candidates, partnering with partisan organizations, placing organizational members on government committees, and conducting a host of other non-monetary political activities that disseminate information on political issues, build political constituencies, and influence politicians (Baysinger, 1984; Hillman et al., 2004). Rather than simply spending money, many firms formally adopt a range of these proactive political tactics aimed at competitive advantage (Oliver & Holzinger, 2008). One group of firms likely to adopt aggressive and robust CPA tactics is those engaging in CSI. Firms high in CSI are likely to use such tactics because they offer even greater opportunity to shape the institutional environment around their CSI than does political spending alone (Lord, 2000b).

Accordingly, in line with my argument about CPA spending, I argue that firms high in CSI will deploy more robust and aggressive CPA policy. Capturing formal CPA policy's relationship with CSI buffering is not this straightforward, however. Despite its proliferation in practice and its legitimacy within business scholarship, CPA is still contentious among firm constituents. As such, a firm's formal proclamation of an aggressive and extensive CPA strategy via the range of activity described above is likely to cause varying levels of stakeholder objection. Thus, firms will find it in their best interest to shift institutional attention and discourse away from actions related to their CPA (Oliver, 1991), and indirectly, away from their CI (Ählström, 2010; Marens, 2010). As an attempt to do so, firms adopting strong CPA practices, particularly those firms attempting to buffer their CSI, may shield themselves from scrutiny by ambiguously communicating their formal CPA approach.

Such strategic ambiguity is common, as firms strategically deploy formal organizational rhetoric that simultaneously speaks to external environmental demands while preserving managerial discretion and organizational interests with regard to actual organizational practice (Davenport & Leitch, 2005; Edelman, 1992). Strategic ambiguity refers to the degree to which different interpretations of a message may be achieved. In the case of CSI, ambiguous language serves as a protective mechanism to shield organizations from specific expectations based on their formal CPA policy. Irresponsible firms may be silent on their CPA, or they may have no clear policy regarding CPA but make only vague, general statements regarding CPA as a buffer (Oliver, 1991), or they may make statements about their CPA activities, for example in order to placate stakeholders, that are inconsistent with firm practices. Thus I argue that firms engaging in high CSI will have weak, non-existent, or ineffectual CPA policy as a way of insulating themselves from interference and inspection (Meznar & Nigh, 1995; Oliver, 1991).

Hypothesis 4b: Firms with a higher level of CSI will have weak, non-existent, or ineffectual CPA policies.

3.2.3 Buffering Mechanisms And Corporate Financial Performance

I argue that CPA and peripheral CSR act as buffering mechanisms for firms engaging in CSI and corporate financial performance. If indeed firms use these buffering mechanisms when distorting cost-advantage or differentiation strategies, their presence strengthens the relationship between CSI and CFP. That is, an increase in each of the buffering mechanisms (corporate philanthropy, community involvement, and CPA) indicates that a firm is spending more resources to increase or maintain legitimacy or to provide political protection against increasingly effective CSI (effective in terms of its positive effect on CFP).

Firms buffering their CSI via peripheral CSR, in the form of corporate philanthropy and corporate community involvement, will strengthen the positive effect their CSI has on CFP. Similarly, firms buffering their CSI via CPA will also strengthen the positive effect of CSI on CFP.

Hypothesis 5a: Corporate philanthropy positively moderates the relationship between CSI and CFP such that corporate philanthropy will strengthen the positive effect of CSI on subsequent year CFP.

Hypothesis 5b: Corporate community involvement positively moderates the relationship between CSI and CFP such that community involvement will strengthen the positive effect of CSI on subsequent year CFP.

Hypothesis 5c: Corporate political spending positively moderates the relationship between CSI and CFP such that corporate political spending will strengthen the positive effect of CSI on subsequent year CFP.

CHAPTER 4: METHODS

4.1 Sample

To test my model of CSI I primarily use Sustainalytics, a socially responsible investment service database. Sustainalytics measures organization-level variables across industries and countries. The firm gathers information from public financial sources, company documentation, independent databases, media, and interviews and surveys with constituents and firms. Using roughly 200 indicators, Sustainalytics measures 11 dimensions across environmental, social and governance categories. The environmental category includes operations, supply chain, and products/services. The social category includes community, employees, customers, and supply chain. The governance category includes business ethics, corporate governance, and public policy. The last dimension captures firms in the “sin” industries of alcohol, gambling, weapons, fur & specialty leather, GMOs, military contracting, adult entertainment, nuclear power, pesticides, and tobacco.

Measurement for each of the indicators is on a Likert scale and although some companies have more indicators than others, there is a core set of indicators common to all firms. Further refining measurement, each of these indicators can be weighted according the importance of the item in the firm’s industry. For example, "environmental" items are weighted more heavily for energy firms than for banking firms. Previous work in Sustainalytics has relied on these weights to assess the importance of a particular indicators (Surroca et al., 2010; Surroca & Tribo, 2008).

Importantly, the analysts at Sustainalytics calculate all the measures I use (CI, CSR, and CPA) on roughly a monthly basis. So for a given year in my sample from 2009-2015, I have 10-12 updated values of each item. I subsequently average all items in a year to form more accurate yearly values for each measure. See Appendix A for each measure and its items.

4.2 Measures

4.2.1 Corporate Irresponsibility. I measure CI with Sustainalytics' "Controversies & Incidents" items. Sustainalytics analysts create each of these ten items from an assessment of incidents and controversies (See Appendix A for an explanation of these measures). These items capture the severity and remarkability of contentious issues divulged, discussed, and debated publicly (e.g. via the media). For example, federal settlements are likely captured in the "business ethics" controversies measure while employee discrimination suits are described in "employee" controversies. Importantly, Sustainalytics assigns these scores on a five-point Likert score from low to severe impact. This measure allows for a nuanced understanding of firms' disputable activity and its effects on both stakeholders and the corporation.

Sustainalytics creates the controversies and incidents items in multiple stages. First, its analysts process public news daily from sources around the global. The analysts then sift through a firm's news for relevant incidents, stories, etc. They rate each incident on its impact (on both the firm & other constituents) and the risk the incident poses (again, to the firm and constituents). Sustainalytics then sources each incident and verifies it before classifying it under one of their event types and assigning it a score on the five-point likert scale. Incidents are continually grouped by similarity to exhaust all of a firm's issues and controversies.

Because I argue that CSI is pervasive within a firm, I operationalize CI as a composite, summary measure of firm dimensions of CI. Mirroring much of the CSR literature, there are many dimensions to a firm-level measure of CI. The small literature on CI has focused on CI particularly as either an aggregate firm measure (e.g. "concerns" in KLD data as seen in Barnett and Salomon, 2006, 2012) or as a one-dimensional measure, such as poor environmental performance (e.g. Russo & Harrison, 2005). While it is clear that CI is more than just one dimension of irresponsible behavior, the former of these measures (KLD Concerns) is insufficient to capture CI because it is an overly general assessment of CI. Considering my conceptualization of CI as more then corporate illegality and distinct from both corporate policy and low CSR, Sustainalytics provides a reasonable measure of firm-level CI.

Next, it is important to connect Sustainalytics' 10 dimensions of CI to the theoretical constructs of CI and CSI. Here I will discuss the Sustainalytics items first in terms of corporate irresponsibility and then by drawing connections between the database measures of CI and strategy (i.e. turning CI into CSI) via alignment with my CSI typology (Tables 1 & 2). Below, I discuss each of the ten measures in the database in terms of their potential role in firms' manipulation of the drivers of competitive advantage.

First, Sustainalytics captures corporate environmental irresponsibility in three dimensions. They measure these dimensions of CI across firm supply chain, operations, as well as products and services. Sustainalytics captures environmental CI with regard to both a firm's supply chain and its operations by considering issues such as supply chain and contractor emissions, effluents and waste, conservation and land use, energy use, as well as water use. CI with regard to a firm's product and service environmental issues include CI such as product effects on eco-systems, materials used in products, waste from production, etc. In my typology I include this dimension of CI (environmental issues) as a form of firm manipulation of the drivers of competitive advantage. For example, firms may exploit their ability to reduce input costs via emissions above either legal or institutionally acceptable (e.g. industry association agreements) levels. Firms could engage in such CSI either via their own operations or the use of irresponsible suppliers. Firms may also use environmentally irresponsible practices to differentiate their products, such as was the case with Volkswagen's scandal in which they hid their vehicles' true emissions from regulators and the public.

In a fourth dimension of CSI, Sustainalytics captures employee-related CI across firm issues related to labor relations, worker health and safety, basic labor standards, forced labor, as well as child labor. In my typology I include this dimension of CI as another direct form of firm manipulation of the drivers of competitive advantage. For example, a firm may exploit their ability to reduce input costs by bypassing worker health and safety or via the use of illegal or unethical labor practices. Such labor practices may also allow firms cost advantage via residual efficiencies as illegal and unethical labor practices may also place extreme job demands on workers to increase their efficiency.

A fifth dimension of CSI in the Sustainalytics measure is customer-related CI. Sustainalytics measures this dimension of CI by capturing firm issues related to marketing practices, product/service quality and safety, and anti-competitive maneuvers.

This is contributes to firm manipulation of competitive advantage mechanisms, for example, when firms engage in misleading, deceptive, or ambiguous marketing that leads to unethical, irresponsible, or even illegal differentiation.

A sixth dimension of my CSI variable is Sustainalytics' society and community-related CI measure. Sustainalytics measures this dimension of CI by capturing firm issues such as the social impact of a firm's products and services, its community relations, its complicity in human rights abuses, and its non-compliance with stakeholder requests that contribute to community health and wellbeing. I return to the pharmaceutical industry example I used in chapter 2 (p. 34). Some pharmaceutical firms may sidestep the costly development process of bringing new drugs to market. Such processes ensure the safety of the public, yet many firms find ways to shorten and bypass the full R&D and regulatory body approval processes that other firms abide by when developing drugs.

The seventh dimension of CSI is Sustainalytics' measure of Contractor and supply chain CI. This includes the "social" supply chain issues not covered in supplier environmental CI such as exploitative labor conditions as well as product and service quality concerns. An example of CSI with regard to a firm's contractor and supply chain may be its use of substandard inputs in its products to uniquely satisfy customers but that come via unethical, irresponsible, or legally tenuous supply chain practices.

The eighth, ninth, and tenth dimensions of the CSI variable using Sustainalytics measures are less distinct conceptually (Remember, these are not compiled by academics). The eighth dimension is Sustainalytics' public policy CI measure. Separate from CPA spending and a firm's formal CPA policy, this captures firm actions in a given year with regard to political issues, such as transparency of a firm's interaction with foreign governments. The ninth Sustainalytics measure is business ethics-related CI, which captures issues such as bribery and corruption, questionable accounting and taxation circumstance, intellectual property concerns, and other related issues. The last dimension of CI that Sustainalytics captures is corporate governance-related CI. Sustainalytics captures common corporate governance issues (in an academic sense) such as CEO and board compensation concerns as well as CI with regard to board of directors composition, structures, and committees. However, this measure is much broader than academic definitions of corporate governance, it overlaps with the business ethics and public policy dimensions, and it includes issues that directly deal with the mechanisms of competitive advantage. For example, this measure deals with a firm's adherence to CSR-related targets, whether set internally, industry-wide, transnationally, or otherwise. As another example, the corporate governance CI measure may include controversial firm divestitures (sale of existing businesses) done largely for immediate profit rather than long-term business purposes and that negatively harm employees or communities (Personal communication with Sustainalytics, May 19th, 2015). So these measures may be less precise and proximal measures of CSI or they may directly contribute to a firm's competitive advantage. As such, they are still appropriate to include.

As a final note on the CSI variable, the composite measure of CSI using the 10 Sustainalytics' measures of controversies and incidents does not include constructs inconsistent with CI such as (low) philanthropy. Additionally, it resolves the inconsistency in CSR work that conflates formal policy with CSR or CI because it includes only firm action.

4.2.2 Persistence Of CSI. Next, to measure sustained CI, I draw on a method used by Wang and Choi (2010). These authors created a measure for CSR temporal consistency. The authors note the inadequacy of using simple variance as an estimate of temporal trends. Instead, they base their measure on the standard errors produced when regressing CSR against time. I first captured regressed each yearly CSI score against time (captured numerically as 1-6 as identified by the six years in the sample). I used the resulting standard errors of the regression coefficients to capture the temporal trend of CI by averaging year-over-year standard errors, giving me up to 5 average standard errors per firm. For each "persistence" score, the lower the standard error of CI is, the greater its temporal persistence. That is, the lower the standard error of a firm's CI, the more persistent a firm's performance with regard to CSI.

4.2.3 Peripheral CSR And CPA. For hypotheses three, four, five, and six, I use Sustainalytics to measure dimensions of peripheral CSR as well as CPA. Corporate philanthropy, CPA spending, and CPA policy are 1-item likert scale measures while community involvement is a two-item measure. See Appendix A for details of these measures. I briefly explain the two community involvement measures below to differentiate between the two.

First, Sustainalytics has a measure called "Community engagement programs." This is a measure that captures the extent of a firm's attempt to include local communities in matters that affect them. For example, firms may formally provide community assistance for populations in which they have displaced community business. This measure captures firm involvement of local populations in mitigating negative impacts of their business on these populations. Conversely, community development programs focuses on the extent to which a firm enacts policies and programs aimed at benefiting local communities. This includes, for example, access to healthcare services, clean water, education, and housing. This measure is not exclusively focused on local communities, as is the 'community engagement programs' measure.

4.2.4 Corporate Financial Performance. Using data from Compustat, I measured CFP in three ways. I do so for two main reasons. First, each measure helps to overcome deficiencies of the other as all three measure different aspects of firm performance. Second, because each measure captures CFP differently, my results may differ slightly across each measure of CFP, informing different interpretations (Barnett & Salomon, 2012). First, my main measure of CFP and competitive advantage is net income relative to the industry average. I use a logarithm transformation to normalize the distribution of the residuals as the variable is negatively skewed. Second, to complement this CFP measure relative to the industry, I also capture CFP as returns on assets (ROA) relative to the industry average. I calculate ROA simply as the ratio of net income over total assets (Barnett & Salomon, 2012). These are both accounting measures of performance, as accounting measures (vs. market measures) of performance are arguably more reflective of a firm's short-term position (Fisher & McGowan, 1983). Barnett and Salomon (2012) argue that although ROA is a common firm performance standard in strategy research, net income, as an un-scaled measure of firm performance, can provide different information. These differences, I argue, make net income a more appropriate dependent variable in this study for two reasons. First, ROA is a ratio measure (net income / total assets), and the denominator in the equation is subject to a host of factors that may be unrelated to a firm's operating performance in a given year (Barber & Strack, 2005).

Given that CSI will be most visible in a given year's operating performance, this measure may underestimate CSI's effects. Second, net income is simply the conventional benchmark for managers when considering strategic decisions. It is the simplest, most straightforward way for organizational leaders to pinpoint performance, and most incentives for managers (other than the very top leaders) are tied to revenues and expenses (Bromiley & Harris, 2014). Thus, when executing CSI, it is net income that leaders will likely look to improve with such strategies. In similar work on CSR (not CI), net sales and net income have had stronger relationships with CSR while in some cases ROA has been unrelated (Kotchen & Moon, 2012).

CSR and CI scholarship also uses market-based measures of CFP, as market performance is often of utmost performance to shareholders, particularly in markets governed by shareholder primacy ideology (Stout, 2012). Though accounting-based measures of performance are good short-term indicators of financial position and demonstrate a firm's use of its assets and resources to generate profit, market measures convey the investors' assessment of a firm's performance. In theory, the market considers a firm's present position and its future value given its performance to date. As such, Tobin's Q, market based measure, is another complementary measure of CFP. Tobin's Q is a common measure of market performance in business scholarship and generally defined as the ratio of the market value of firm to the replacement cost of the firm's total assets (Chung & Pruitt, 1994). In economic and financial theory, a firm's market value should equal the replacement cost of its assets. Thus, the higher this ratio, the more highly a firm's investors value the firm compared to its book value. I approximated Tobin's Q by dividing the sum of firm equity value, long-term debt, and net current liabilities by inventories and property, plant, and equipment (Surroca et al., 2010). This measure is highly positively skewed. As is convention in strategy literature, I use a log transformation (natural log) to better approximate a normal distribution for all three measures of firm financial performance. Transforming the dependent variables is appropriate convention in the organizational literature because of the assumptions of normality in generalized linear models. The lack of normality in the distribution of the dependent variables can cause analyses to be unreliable (Dezső & Ross, 2012; Hart & Sharfman, 2012; Osborne, 2002).

4.2.5 Controls. I controlled for firm size, R&D intensity, organizational slack, and industry. First, I control for firm size because it is a common source of variation in strategic relationships. Firm size, as a proxy for firm visibility, is important for CSR and likely also for CI (Chiu & Sharfman, 2009). Greater visibility leads to greater institutional pressures and scrutiny (Campbell, 2007), affecting a firm's engagement in CSR and CPA. Firm size is also a proxy for resources, as larger firms have greater amounts of both, which influence strategic decisions. I measured firm size via number of employees.

R&D and marketing are two key strategic variables that influence CFP, CSR, and CPA. R&D in particular is important for financial performance and a key driver of CSR decisions (Mcwilliams & Siegel, 2000). I calculated R&D intensity as the ratio of R&D expenditures over total yearly sales. I calculated marketing intensity as SG&A expenses over total yearly sales.

I controlled for resource constraints, or the lack of slack, as another predictor of responsible behavior (Baucus & Near, 1991; Hong, Kubik, & Scheinkman, 2012). Slack resources are an organization's accumulation of financial cushion in the form of spare resources (Bourgeois III, 1981; Cyert & March, 1963). Scholarship has consistently found a positive relationship between organizational slack and financial performance (Daniel, Lohrke, Fornaciari, & Turner Jr., 2004). That is, firms use slack as a strategic resource to "*counter threats and exploit opportunities*" (Daniel et al., 2004: 566). Without it, firms are more constrained in their discretionary behavior. In an economic system that privileges short-term shareholder orientation, firms with low discretionary resources face stiff strategic pressures. As such, firms with weak financial performance and resource constraints may refrain from discretionary activity such as CSR (Campbell, 2007; Waddock & Graves, 1997). I measured slack resources with a conventional measure designed to capture a firm's amount of immediate resource availability. Specifically I used current assets over current liabilities (Bansal, 2004; Schuler, 1996).

Last, I controlled for industry via the four-digit SIC code as industry influences strategic issues of responsibility (Hillman & Klein, 2001; Waddock & Graves, 1997). I condense the firm SIC codes into ten industry codes for parsimony (Keig et al., 2015; Waddock & Graves, 1997). Industry is important for corporate financial performance (Hansen & Wernerfelt, 1989). Also, industries differentially execute firm-level strategies and can be expected to differ in their commitments to CI, CSR, and CPA (Kotchen & Moon, 2012). Industries with high stronger institutional norms around responsibility and/or strong regulation (relative to others) will exhibit a weaker relationship between CSI and firm financial performance. In industries with high normative expectations, stakeholder pressure from consumers, media, activists, etc. may help to dissuade firms from engaging in excessive CI. Additionally, highly regulated industries face greater scrutiny from regulatory bodies if they engage in excessive CI.

4.3 Analysis

To analyze the data I conducted random effects panel analysis for each hypothesis. A panel analysis allowed me to utilize the longitudinal nature of the data as panel analysis considers the dynamic properties of time-series data. Namely, this analysis considers the fact that a firm's scores throughout the six years of the sample are not independent from one another. Instead, previous year scores on a given variable are related to subsequent year scores. This assumption is contrasted with cross-sectional OLS regression for which analyses assume individual scores are unrelated.

According to the results of a Hausman test, the use of a random effects analysis is appropriate over a fixed effects model. The choice of random or fixed effects models in panel analysis helps to mitigate the problem of omitted variables, variables absent from the analysis that may influence the hypothesized relationships. Random effects models allows for broader inference than a fixed effects model, as they assume the data is more normally distributed and that the data are a representative sample from a broader population. Conversely, a fixed effects model is a more conservative approach and is useful to draw inferences specifically about the study's subject pool. The main difference between the two models is the assumption about the relationship between the firms in my study. A fixed effects model would be designed to study the changes within each firm (not across). Time-invariant variables are omitted from this model. The dummies created for each firm absorb the effects of time-invariant variables, leaving only the effects of a model's predictors to affect the DV. Thus it is a more conservative approach.

With regard to these two models (fixed and random effects), the Hausman test assesses whether the unique errors of a firm are correlated with the predictor variables in the model. The null hypothesis in this test is that they are not correlated (i.e. random effects is appropriate). In my test, the null hypothesis is supported (statistic < .05), thus random effects are appropriate because the estimates are not strongly correlated. Essentially the goal of the test is to explore the consistency of each model to see the relative gains of using one over the other. As a random effects model is no less consistent, it is an appropriate model as it allows broader inference.

For hypotheses with competitive advantage as the outcome variable (H1, 2, 5a, 5b, 5c), I estimated six separate models: one for the control variables and one for each hypothesis. Next, I estimated hypotheses 3a, 3b, 4a, and 4b with 8 models: one for each of the four outcome variables regressed onto the control variables and one for each of the hypotheses. The base equation for my random effects estimations is the following equation: $Y_{it} = \beta_1 X_{it} + \alpha_i + u_{it} + \varepsilon_{it}$.

In this equation Y_{it} is the dependent variable (DV) where i = entity and t = time. X_{it} represents one independent variable (IV), β1 is the coefficient for that IV. Each model has a βX for each predictor variable. α_i (i=1….n) is the unknown intercept for each entity (n entity-specific intercepts). Then u_{it} is the between-firm error term while ε_{it} is the error term for the within-firm error.

Finally, the software "R" has developed and oft-used packages for scholars to run various types of panel analyses as well as diagnostics tests such as the Hausman test. I use the "plm" package within R (panel linear models) for all the analyses. As an example of the R commands for each separate model, the following command is the random effects estimate to test hypothesis 1 (CSI leads to subsequent year competitive advantage):

NIM1 <- plm (CompAdvNI1YR ~ emp + RDIntensity + SGAIntensity + Slack + SIC.Control + CSI, data = CSIPanel, model = "random")).

In this set of commands, NIMI represents simply the name of the model, the net income based model test of hypothesis 1. Next, the net income based measure of competitive advantage is “led” one year and regressed onto the standardized predictors: Employees (firm size), R&D Intensity, Marketing intensity, Slack, SIC codes (10 of them), and CSI. The command “CSIPanel” is my specification of panel data, which I have organized in standard panel fashion according to each firm’s ID number and the year (2009-2015).

CHAPTER 5: RESULTS AND DISCUSSION

5.1 Results

Table 3 presents the descriptive statistics and correlations for each measure. The results of Table 3 show that multicollinearity is unlikely to be an issue in the study. Of note is the fact that models including the community involvement composite measure are missing much more data than models excluding this variable. Models with this variable (Hypotheses 3b and 5b) have fewer than 15% of the firms compared to the other models. In the Sustainalytics database this variable has about 40% of the firm year observations as the other three buffering mechanisms (Philanthropy, CPA spending, and CPA Policy). Yet, when this variable is matched with financial data from Compustat in models testing hypotheses 3b and 5b, more than twice the amount of data is lost as compared to other variables. As I am not confident that the community involvement data are missing at random, I only tentatively interpret results using that data.

Table 4 presents the results of hypotheses 1, 2, 5a, 5b, and 5c. Table 5 presents the results of hypotheses related to CSI's buffering mechanisms: hypotheses 3a, 3b, 4a, and 4b. The analyses produce mixed results, showing strong support for the study's primary hypothesis, little support for each moderation hypothesis, and mixed support for the hypotheses concerning the buffering mechanisms of CSI. In this section, I detail the results of each hypothesis, in turn.

TABLE 3: Descriptives and correlations for dataset 1

	Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1	Firm Size (Employees[a])	31.95	93.67	1											
2	R&D Intensity	0.07	0.15	-.11**	1										
3	Marketing intensity	0.24	0.25	-.06**	.84**	1									
4	Slack	2.11	1.85	-.11**	.24**	.15**	1								
5	Tobins Q[b]	2.35	0.83	-.10**	.35**	.40**	.21**	1							
6	Comp Adv. (ROA)[b]	0.05	0.11	-.06*	.004	.02	0.03	-.02	1						
7	Comp Adv. (NI)[b]	.23	.35	.30**	-0.03	-0.02	-.02	.10**	-.22**	1					
8	Philanthropy	26.40	25.06	.15**	-.07**	-0.01	-.13**	-.17**	-10.0*	.15**	1				
9	Community Involvement	22.24	37.69	-0.02	-0.02	-.22**	-.07*	-.18**	-.28**	.19**	.43**	1			
10	CPA Spending	51.35	41.41	.18**	-.05*	-.11**	-.19**	-.14**	-0.05**	.21**	.28**	.30**	1		
11	CPA Policy	31.22	26.48	.13**	-.07**	-.04*	-.12**	-.13**	-0.07**	.19**	.26**	.29**	.19**	1	
12	CSI	37.89	50.19	.41**	-0.02	-.12**	-.12**	-.16**	-0.03**	.32**	.26**	.38**	.30**	.21**	1
13	CSI Persistence	0.09	0.02	.03+	0.00	0.00	-0.02	-0.01	-0.07**	0.03	-.05**	.08**	-.10**	-0.01	.04**

** $p < 0.01$ level, * $p < 0.05$ level, + $p < 0.10$ level.

[a] In thousands, [b] Natural Logarithm

Hypothesis 1 is that CSI will have a positive effect on firm competitive advantage. Results show that CSI positively predicted competitive advantage in the following year (.08, $p < .01$). Interpreted, this means that for every one standard deviation increase in CSI (all predictors are standardized), industry adjusted net income increases 8% in the following year. This direct effect remained similarly positive when predictors of CSI persistence, corporate philanthropy, and corporate political spending and their moderating effects were introduced.

Before discussing hypotheses 3a, 3b, 4a, and 4b, I move to Hypotheses 2 and then 5a, 5b, and 5c as they are moderation hypotheses of the primary relationship of interest between CSI and competitive advantage, as described in Table 4. Hypothesis 2 is that the persistence of CSI across years will strengthen its positive relationship to competitive advantage. This hypothesis was unsupported in both datasets and across all three dependent variables. Hypothesis 5a predicts that corporate philanthropy would positively moderate the relationship between CSI and competitive advantage such that corporate philanthropy would strengthen the positive effect of CSI on subsequent year financial performance. Hypothesis 5b predicts that corporate community involvement would positively moderate the relationship between CSI and competitive advantage such that corporate community involvement would strengthen the positive effect of CSI on subsequent year financial performance. Finally, for hypothesis 5c I predicted that corporate political spending would positively moderate the relationship between CSI and competitive advantage such that corporate political spending would strengthen the positive effect of CSI on subsequent year financial performance. None of the interactions are statistically significant.

TABLE 4: Random effects panel regression (dataset 1 – unweighted data) [ab]

CSI's effects on Competitive Advantage (Industry adjusted Net Income)

	Controls	Model 1 (H1)	Model 2 (H2)	Model 3 (H5a)	Model 4 (H5b)	Model 5 (H5c)
Intercept	.43**	.31**	.32**	.35**	.48**	.32**
	(.08)	(.08)	(.08)	(.08)	(.18)	(.08)
FirmSize	.11**	.08*	.07*	.08**	.05**	.08*
	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)
R&D Intensity	-.001	-.000	.03	.04	-.02	.03
	(.01)	(.02)	(.02)	(.03)	(.29)	(.02)
Marketing	-.02	-.02	-.04*	-.07*	-.04	-.07*
intensity	(.01)	(.01)	(.02)	(.02)	(.07)	(.02)
Slack	.01	.01	.02	.02	-.06	.02
	(.01)	(.01)	(.01)	(.01)	(.06)	(.01)
CSI		.08**	.09**	.08**	.05	.07**
		(.01)	(.01)	(.01)	(.03)	(.01)
CSI x Persistence			-.003			
			(.002)			
CSI x Philanthropy				-.03		
				(.01)		
CSI x Community Involvement					.01	
					(.02)	
CSI x CPA Spending						.000
						(.009)
Adj R Squared	0.07	0.11	0.10	0.12	0.26	0.12
Δ in R Squared		0.04	-0.01	0.02	0.14	-0.14
F Statistic	13.45	18.87	14.50	13.27	6.50	12.77
n	556	556	491	375	60	375
N	2268	2268	1957	1549	238	1549

** p < 0.01 level, * p < 0.05 level, + p < 0.10 level.

[a] Standard errors are shown in parentheses.

[b] Industry controls are omitted for parsimony.

In hypotheses 3a and 3b I argue that CSI will be accompanied by buffering mechanisms of corporate philanthropy (hypothesis 3a) and community involvement (hypothesis 3b). I find support for hypothesis 3a, as CSI is a statistically significant, positive predictor of corporate philanthropy (b = 2.78, p < .01). I find support for hypothesis 3b as well. CSI does predict community involvement (b=5.37, p < .05).

However, per the reliability issues of the data for testing hypothesis 3b, the model was limited to 60 firms and 241 firm year observations.

I find some support for CPA as a buffering mechanism for firms engaging in CSI. In hypothesis 4a I predicted that firms with higher levels of CSI would engage in greater corporate political spending. This hypothesis is marginally supported (b=2.54, p < .10). In hypothesis 4b I predicted that firms with higher levels of CSI would engage in increasingly vague firm policy regarding political activity. This hypothesis is unsupported. In fact, there are statistically significant effects of CSI on CPA policy strength, though in the opposite direction. That is, CSI positively predicts more robust CPA policy (b = 1.93, p < .05).

TABLE 5: Buffering mechanisms (dataset 1)

	Controls				Model 1 (H3a&b / H4a&B)			
	Corp. Giving	Comm. Inv.	CPA $	CPA Policy	Corp. Giving	Comm. Inv.	CPA $	CPA Policy
Constant	26.84**	61.76+	43.55**	42.21**	22.34**	26.04	39.45**	39.07**
	(6.79)	(34.65)	(10.45)	(7.41)	(6.72)	(18.06)	(10.30)	(7.41)
Firm Size	2.42**	-1.67	7.19**	2.82**	1.56+	-2.79+	6.32**	2.19*
	(.80)	1.62	(1.24)	(.88)	(.82)	(1.62)	(1.26)	(.92)
R&D	-.43	24.38	6.80*	-.80	-.66	11.95	6.69*	-.93
Intensity	(1.90)	(31.98)	(3.02)	(2.11)	(1.90)	(30.45)	(2.95)	(2.09)
Marketing	.20	-14.53+	-10.12**	.34	.54	-10.92	-9.93**	.55
intensity	(2.13)	(7.51)	(3.32)	(2.34)	(2.03)	(7.26)	(3.32)	(2.31)
Slack	-2.41*	-8.84+	-6.05**	-2.07*	-2.26*	-8.11*	-5.88**	-1.96+
	(.99)	(4.55)	(1.53)	(1.05)	(.98)	(4.55)	(1.52)	(1.05)
CSI (Sum)					2.78**	5.37*	2.54+	1.93*
					(.84)	(2.4)	(1.22)	(.91)
R Squared	.03	0.11	.09	0.04	.04	.13	.10	.04
Δ in R Squared					0.01	0.02	0.01	0.00
F Statistic	3.75	2.91	11.97	4.61	4.37	3.44	11.99	4.68
n	375	60	375	351	375	60	375	375
N	1554	241	1554	1447	1554	241	1554	1554

** p < 0.01 level, * p < 0.05 level, + p < 0.10 level.
[a] Standard errors are shown in parentheses.
[b] Industry controls are omitted for parsimony.

I conducted a number of robustness checks by testing the hypotheses with a complementary dataset and by testing hypotheses 1, 2, 5a, 5b, and 5c with two alternative measures of firm financial performance. Dataset 2 (the weighted dataset) provides a complementary dataset to test the hypotheses because this dataset weights each Sustainalytics item in a measure according to its specific sector, or industry. This weight takes into account the potentiation influence of each measure (e.g. environmental effects of business operations) on firm constituents. For example, Sustainalytics will assign greater weight to environmental CI in the energy sector because the potential harm for constituents is typically much greater when firms in the energy sector commit environmental irresponsibility than when financial services firms commit acts of environmental irresponsibility. Conversely, Sustainalytics assigns greater weight to customer related CI in financial services than it will in the energy sector (Surroca et al., 2010). Such a weighting scheme is practical for CSR/CSI work exploring the effects of such variables on intangible resources such as firm reputation. Environmental harm caused by firms in certain industries may harm a firm's reputation more than environmental harms in other industries. To test the hypotheses of this study, the weighted measures may be somewhat less relevant than the raw scores. The relationships that I hypothesize between CSI and competitive advantage, philanthropy, community involvement, and corporate political activity have less to do with the potential harm of CSI to the various stakeholders in each industry and more to do with CSI's ability to influence firm processes and strategic decision-making (cost advantage and differentiation). That is, the weights are not as relevant for this study's hypotheses on CSI's effects on internal firm variables. Still, testing the data in this database should support the results from database 1 and should certainly not produce contradictory results. Table 6 presents descriptive statistics and correlations for dataset 2.

Table 7 presents results of hypotheses 1, 2, 5a, 5b, and 5c for dataset 2, using the primary net income DV. The results of hypothesis 1 support the strong results from the primary dataset. The results of hypothesis 1 show that CSI again positively predicted competitive advantage in the following year (.37, $p < .01$). Just as in the first dataset, the direct effect remained similarly positive across the other models. Specifically, CSI's positive effects on competitive advantage in the following year remained statistically significant when predictors of CSI persistence, corporate philanthropy, community involvement, and corporate political spending, as well as their moderating effects, were introduced.

Next, I also test CSI's effect on subsequent year competitive advantage by supplementing the primary dependent variable (net income relative to the industry) with two other dependent variables, industry adjusted ROA and Tobin's Q. As I outlined in the methods section, ROA is a less proximal measure to the mechanisms of CSI, though still useful to study. Similarly, Tobin's Q is a market measure of firm performance and as such, is less directly tied to a firm's expenses and revenues, where CSI can reasonably be expected to influence firm performance. Thus I would expect weaker relationships between CSI and market performance.

Within both datasets 1 and 2, there are no statistically significant results using ROA for subsequent year competitive advantage. That is, there are no statistically significant results for hypotheses 1, 2, 5a, 5b, and 5c in dataset 2. Further, the results do not hold in either database with Tobin's Q as the measure of subsequent year financial performance. In dataset 1 (the unweighted data), CSI does not predict Tobin's Q alone nor does it predict Tobin's Q when paired with its different buffering mechanisms (See Table 8). In dataset 2, I similarly find that neither CSI alone nor with its moderators predicts competitive advantage in the form of industry adjusted ROA or Tobin's Q. Contrary to my hypotheses, however, there is significance for CSI as a negative predictor of Tobin's Q, though only philanthropy or CPA spending are included as moderators. Specifically, with CSI as a predictor and corporate philanthropy as a moderator, CSI is negatively associated with subsequent year Tobin's Q ($b = -.06$, $p = .04$). Similarly, with CSI as a predictor and corporate political spending as a moderator, CSI negatively predicts subsequent year Tobin's Q ($b = -.06$, $p = .03$). See Table 9 for these results.

Last, returning to the buffering effects, I also test hypotheses 3a, 3b, 4a, and 4b in dataset 2. Hypotheses 3a and 3b confirm the statistically significant results of the main dataset. CSI positively predicts both philanthropy and community involvement ($b = .04$, $p < .01$; $b = .22$, $p < .01$, respectively). Results were not supported for hypotheses 4a and 4b. CSI did not predict either form of CPA. See Table 10 for results.

TABLE 6: Descriptive statistics and correlations for dataset 2

	Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1	Employees (Firm Size)^{a}	32.07	89.71	1											
2	R&D Intensity	0.17	4.84	-0.01	1										
3	Marketing intensity	0.24	0.24	-.05**	.85**	1									
4	Slack	2.09	1.79	-.11**	.05**	.16**	1								
5	Tobins Q^{b}	2.34	.82	-.10**	.12**	.22**	.22**	1							
6	Comp Adv. (ROA)^{b}	0.01	0.09	-.10**	.04*	.02	0.03	-.01	1						
7	Comp Adv. (NI)^{b}	.12	.25	.32**	-0.01	-0.01	-.02	.09**	-.19**	1					
8	Philanthropy	0.40	0.38	.15**	-.05*	-.14**	-.14**	-.17**	-.10**	.12**	1				
9	Comm. Involvement	0.40	0.79	-0.02	.15**	-0.01	-0.01	-.13**	.27**	.17**	.38**	1			
10	CPA Spending	1.20	0.35	0.18	-.06**	-.20**	-0.20**	-.17**	-.04*	.21**	.26**	.28**	1		
11	CPA Policy	0.25	0.23	0.14	-0.02	-.11**	-.11**	-.06**	-.08**	.20**	.22**	.09**	.09**	1	
12	CSI	74.52	3.99	.26**	-.05**	-.05**	-.05**	-.16**	-.20**	.29**	.20**	.32**	.18**	.10**	1
13	CSI Persistence	0.05	0.01	.03**	0.01	-0.03	-0.03	-0.01	-.08**	0.03*	-.05**	0.04	-.11**	-0.02	.08**

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

+ Correlation is significant at the 0.10 level (2-tailed).

^{a} In thousands, ^{b} Natural Logarithm

TABLE 7: Random effects panel regression results (weighted) [ab]

CSI's effects on Competitive Advantage (Industry adjusted Net Income)

	Controls	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	.15**	.15**	.15**	.20**	.08	.20**
	(.03)	(.03)	(.03)	(.03)	(.24)	(.04)
FirmSize	.03*	.03+	.01	.03	-.02	.01
	(.01)	(.01)	(.02)	(.02)	(.05)	(.02)
R&D Intensity	.70	.71	.98	1.91*	.58	1.60+
	(.57)	(.57)	(.68)	(.95)	(2.95)	(.93)
Marketing	-.03	-.02	-.02	-.02	-.01	-.01
intensity	(.01)	(.01)	(.02)	(.02)	(.04)	(.02)
Slack	.01	.01	.01	.01	.01	.02
	(.01)	(.01)	(.01)	(.01)	(.05)	(.01)
CSI (Sum)		.02**	.04**	.02	.02	.01
		(.01)	(.01)	(.01)	(.03)	(.02)
CSI x Persistence			-.01			
			(.01)			
CSI x Philanthropy				-.01		
				(.01)		
CSI x Community Involvement					.01	
					(.02)	
CSI x CPA Spending						.003
						(.01)
Adj R Squared	0.005	0.01	0.01	0.01	0.02	0.03
Δ in R Squared		0.005	0.00	0.00	0.01	0.01
F Statistic	.85	1.24	1.48	1.19	2.58	2.58
n	499	499	437	341	54	342
N	2021	2021	1599	1460	205	1461

** $p < 0.01$ level, * $p < 0.05$ level, + $p < 0.10$ level.

[a]: Standard errors are shown in parentheses.

[b]: Industry controls are omitted for parsimony.

TABLE 8: Random effects panel regression results with alternative DVs (dataset 1) [ab]

CSI's effects on Industry adjusted ROA | Tobin's Q

Regression	Controls		Model 1 (H1)		Model 2 (H2)		Model 3 (H5a)		Model 4 (H5b)		Model 5 (H5c)	
	ROA	TQ	ROA	TQ	ROA	TQ	ROA	TQ	ROA	TQ	ROA	TQ
Intercept	-.07**	1.92**	-.06**	1.97**	-.07**	1.92**	-.07**	1.92**	-.09+	2.92**	-.07**	1.92**
	(.02)	(.19)	(.02)	(.19)	(.02)	(.20)	(.02)	(.17)	(.04)	(.30)	(.02)	(.19)
FirmSize	.004*	-.05*	.003	-.03	-.004	-.03	-.004*	-.03	.002	-.01	.003	-.03*
	(.002)	(.02)	(.002)	(.02)	(.002)	(.02)	(.002)	(.02)	(.002)	(.01)	(.002)	(.02)
R&D	-.004	.22	-.003	.21	-.004	-4.89**	-.002	-6.02**	.04	30.09**	.001	-6.26**
Intensity	(.004)	(.93)	(.004)	(.93)	(.01)	(1.34)	(.01)	(1.34)	(.07)	(9.04)	(.01)	(1.60)
Marketing	.002	.03	.001	.03	.003	.20**	.002	.27**	-.02	.10	.002	.27**
intensity	(.004)	(.02)	(.004)	(.02)	(.01)	(.04)	(.01)	(.04)	(.02)	(.06)	(.01)	(.05)
Slack	.003	.05**	.003	.05**	-.001	.05**	-.001	.07**	.03	.11*	-.001	.08**
	(.002)	(.02)	(.002)	(.02)	(.002)	(.02)	(.002)	(.02)	(.03)	(.04)	(.04)	(.02)
CSI (Sum)			-.004	-.03	-.01	-.03	-.001	-.03	-.01	-.01	-.001	-.03
			(.002)	(.02)	(.003)	(.02)	(.003)	(.02)	(.01)	(.02)	(.004)	(.02)
CSI x Persistence					-.003	.004						
					(.002)	(.01)						
CSI x Philanthropy							.004	.01				
							(.002)	(.01)				
CSI x Community Involvement									.01	-.01		
									(.01)	(.01)		
CSI x CPA Spending											.003	.003
											(.003)	(.01)
Adj. R Squared	.01	.21	.01	.22	.01	.29	.02	.32	.06	.42	.02	.33
Δ in R Sq			0.00	0.01	0.00	0.07	0.01	0.03	0.04	0.10	-0.04	-0.09
F Statistic	1.73	37.71	1.75	35.26	1.52	38.74	1.48	36.56	1.25	11.65	1.50	37.74
n	556	488	556	488	491	454	375	336	60	52	375	336
N	2268	1791	2268	1791	1957	1543	1549	1219	238	195	1549	1219

** $p < 0.01$ level, * $p < 0.05$ level, + $p < 0.10$ level.

[a] Standard errors are shown in parentheses.

[b] Industry controls are omitted for parsimony.

TABLE 9: Random effects panel regression results (weighted) [a,b]

CSI's effects on Industry adjusted ROA | Tobin's Q

	Controls		Model 1		Model 2		Model 3		Model 4		Model 5	
	ROA	TQ	ROA	TQ	ROA	TQ	ROA	TQ	ROA	TQ	ROA	TQ
Constant	-.06**	2.39**	-.06**	2.4**	-.07**	2.19**	-.10**	2.20**	-.21**	2.69	-.10**	2.19**
	(.01)	(.13)	(.01)	(.12)	(.02)	(.12)	(.02)	(.12)	(.08)	(.40)	(.02)	(.15)
FirmSize	.01	-.08**	.01+	-.07**	.01	-.07**	.01	-.06**	.02	-.01	.01	-.07**
(Employees)	(.01)	(.02)	(.01)	(.02)	(.01)	(.02)	(.01)	(.02)	(.01)	(.01)	(.01)	(.02)
R&D Intensity	.15	.28	.15	.26	-.01	-5.77**	-.91*	-5.07**	-4.33+	24.74*	-.91*	-5.25**
	(.30)	(.87)	(.30)	(.87)	(.35)	(1.45)	(.42)	(1.37)	(2.25)	(10.37)	(.42)	(1.37)
Marketing intensity	-.01	.06**	-.01	.06**	-.01	.32**	-.01	.27**	.000	-.03	-.01	.28**
	(.01)	(.02)	(.01)	(.02)	(.01)	(.05)	(.01)	(.05)	(.01)	(.05)	(.01)	(.05)
Slack	-.01	.05*	-.01	.05*	-.01+	.07*	-.01*	.03	-.02	.05	-.01*	.03
	(.004)	(.02)	(.004)	(.02)	(.004)	(.02)	(.01)	(.02)	(.01)	(.05)	(.01)	(.05)
CSI			-.004	-.03	-.005	.01	(.002)	-.06*	.01	-.04	.002	-.06*
			(.002)	(.03)	(.005)	(.03)	(.006)	(.03)	(.01)	(.04)	(.01)	(.03)
CSI x Persistence					.002	.004						
					(.003)	(.01)						
CSI x Philanthropy							.001	.02				
							(.004)	(.02)				
CSI x Community Involvement									.004	.002		
									(.01)	(.02)		
CSI x CPA Spending											.004	.01
											(.004)	(.02)
R Squared	.01	.16	.01	.16	.01	.19	.03	.20	.13	.34	.03	.20
Δ in R Squared			0.00	0.00	0.00	0.03	0.02	0.01	0.10	0.14	-0.10	-0.14
F statistic	1.82	29.69	1.73	27.69	1.03	23.26	2.45	21.73	1.89	6.62	2.46	21.86
n	499	499	499	341	437	342	341	304	54	42	342	305
N	2021	2021	2021	1460	1599	1461	1460	1426	205	193	1461	1427

** p < 0.01 level, * p < 0.05 level, + p < 0.10 level.

[a] Standard errors are shown in parentheses.

[b] Industry controls are omitted for parsimony.

TABLE 10: Buffering mechanisms (dataset 2)

	Controls				Model 1			
	Corp. Giving	Comm. Involve	CPA $	CPA Policy	Corp. Giving	Comm. Involve	CPA $	CPA Policy
Constant	.33*	.84	1.26**	.27**	-.30**	.84	1.25**	.26**
	(.08)	(.69)	(.07)	(.06)	(.08)	(.69)	(.07)	(.06)
Firm Size	.03**	-.06*	.06**	.02**	.03*	-.06*	.04**	.02*
(Employees)	(.01)	(.02)	(.01)	(.01)	(.01)	(.02)	(.01)	(.01)
R&D	.01	14.13	1.45*	.32	.00	14.13	1.39*	.29
Intensity	(.80)	(17.96)	(.71)	(.52)	(.79)	(17.96)	(.70)	(.52)
Marketing	-.01	-.18*	-.08**	-.01	-.01	-.18*	-.07**	-.01
intensity	(.03)	(.08)	(.04)	(.02)	(.03)	(.08)	(.02)	(.02)
Slack	-.04**	-.04	-.06**	-.01	-.04**	-.04	-.06**	-.01
	(.01)	(.07)	(.01)	(.01)	(.02)	(.09)	(.01)	(.01)
CSI					.04**	.22**	.01	.01
					(.02)	(.06)	(.01)	(.01)
R Squared	.02	.09	.14	.03	.03	.19	.15	.03
Δ in R Squared					0.01	0.10	0.01	0.00
F statistic	2.82	1.55	18.94	3.03	3.18	3.22	17.82	2.94
n	305	42	306	306	305	42	306	306
N	1453	193	1454	1454	1453	193	1454	1454

** $p < 0.01$ level, * $p < 0.05$ level, + $p < 0.10$ level.

[a] Standard errors are shown in parentheses.

[b] Industry controls are omitted for parsimony.

5.2 Discussion

Shareholder primacy ideologies are often narrowly focused and detrimental to long-term organizational functioning (Stout, 2007, 2012), not to mention economic development (Heath, 2006). This project explores the pressures such ideologies put on corporations to engage in corporate strategic irresponsibility. I develop a model of CSI whereby firms intentionally manipulate mechanisms of cost advantage and/or differentiation via unethical, illegal, or institutionally illegitimate means to gain a competitive advantage. Results in both databases support the existence of CSI as a boost to firms' competitive advantage in the following year, measured as a firm's net income relative to the industry average. Confirming much of critical organizational scholars' worst fears, the existence of CSI may signal the outcome of the most extreme and worst interpretations of dominant shareholder value primacy ideologies.

Also notable from the study's results for its implications for shareholder value primacy ideology is that CSI positively influenced *accounting* measures of firm performance and not *market* measures of performance. Upon reflection, the lack of a statistically significant relationship in either direction between CSI and market performance (Tobin's Q in this study) is not surprising and confirms the shareholder value ideological perspective that the market is largely unconcerned with corporate irresponsibility (Barnett & Salomon, 2006). Though the market may punish highly public instances of irresponsibility (Rao & Hamilton, 1996), it prioritizes firm financial performance over other concerns such as public welfare (Lamin & Zaheer, 2012).

Management scholars have argued that business scholarship influences this prioritization. Specifically, the ideological lens of business scholarship plays a role in perpetuating the rules of the game that specify the firm's purpose as a purveyor of the private good with no obligation to consider the public good (Ghoshal, 2005; Khurana, 2010). Indeed, the academic business community develops theories and ideologies that shape the actual functioning of institutions (Marti & Scherer, 2016). And while much economic and business scholarship explores the role of business in the world's economic development, little is said about its contributions to or detractions from social welfare (Jones et al., 2016). As such, this dissertation heeds the call to critically explore the mechanisms by which corporations detract from social welfare (Marti & Scherer, 2016).

As I frame one such mechanism by which corporations detract from social welfare in terms of strategic decision-making, the results of my dissertation provide further support for the impracticality of traditionally narrowly defined conceptions of agency theory if the goal is to encourage efficiency and innovation while uploading business norms of fairness and reciprocity (Bosse & Phillips, 2016). For example, as long as scholars and practitioners promote the agency theory backed ideas of executive compensation based on narrow self-interested performance goals, CSI remains a plausible and predictable strategy for firms.

Another important implication of this dissertation is that the existence of CSI provides another pillar for critical organizational scholars to rely upon to argue for greater focus on corporate oversight. Critics of the expansion of neoliberalism argue for greater corporate oversight largely via more stringent government regulation, though also via increased emphasis on principles of corporate legitimacy and via greater third-party regulation (e.g. United Nations).

The role of the state in regulating corporations has been contentious since their modern inception in Europe before the United States was established (Perrow, 2002). Even then, the argument existed that without strong ties to public purposes and the public interest, corporations will consolidate wealth and power and that the benefits of their operations would accrue disproportionately to those corporations and the economic elite that had accumulated such wealth and power (Perrow, 2002). Today, many scholars still argue that it is the decline of state regulation of corporations that has helped to foster their ability to eschew concerns of the public good (Krippner, 2011). Without a strong, coherent social contract with which to govern business activity, it is indeed the state's responsibility to ensure that corporations are furthering the public good, or at the least not causing harm to it. Thus, in a global society where norms, expectations, and values are less uniform and agreed upon among increasingly heterogeneous citizens, strong state regulation becomes important to govern corporate behavior (Fligstein & Shin, 2007).

Particularly in a capitalist society such as the United States, government regulation is the mechanism designed to prevent such market failures as the harm CSI does to general social welfare. In an ideal market, government regulation can prevent corporations' ability to harm the public good and would bring about the ideal conditions to generate the greatest social welfare gains. However, law is a "*somewhat blunt instrument*" (Heath, 2006: 550) in this regard. Governments simply lack the information and resources to effectively eliminate all corporate harm to the public good. Even if a government could monitor all corporate activity, such transaction and regulatory costs would produce significant deadweight that would outweigh the benefits. Thus, it is impractical to rely solely on a set of state regulations that are sufficiently extensive, malleable, and fluid to prevent *all* corporate irresponsibility (Heath, 2004, 2006).

It is precisely because the law is unable to completely prevent corporate irresponsibility that normative arguments about the moral expectations of corporate managers becomes important. Just as it is a medical doctor's responsibility to focus on a patient's best interests and an attorney's responsibility to focus on a client's best interests, it is a corporate manager's responsibility to ensure that his or her corporation's costs of production equal its social costs (Heath, 2004). Eschewing this responsibility is an explicitly illegitimate corporate strategy (Sethi & Sama, 1998). Unfortunately, the existence of CSI (and much scholarship before that, of course) has proven that firms routinely decline to attend to the protection of social welfare, heightening the importance of the moral foundations of corporate legitimacy (Deetz, 1992; Matten & Crane, 2005; Palazzo & Scherer, 2006; Scherer & Palazzo, 2007).

This routine declination by corporate managers to focus on their roles as stewards of the public good raises a distressing concern about this project's practical implications – if they can get away with it, why should managers NOT see this work as an invitation to commit CSI in the name of shareholder value? Very simply, this is not meant to be prescriptive work for practitioners consumed by the dominant shareholder value imperatives. Instead, I draw on the normative foundations of business ethics and critical management scholarship with the goal of exploring and exposing a primary liability in the shareholder wealth maximization assumptions and ideologies that guide both management scholarship and corporate behavior. It is the foundation I mention above with which I am concerned: our ability as scholars to combine ideas of corporate moral legitimacy, legal obligations, and the institutional expectations of business to shift decision-makers in both academia and business toward an ideal of corporate managers as resources custodians of the public good (Heath, 2004).

Management scholarship has maintained an “eerie silence” with regard to business’ impact on social welfare (Walsh, Weber, & Margolis, 2003), in favor of a largely obsessive focus instead on business’ ability to maximize shareholder wealth at all costs (Jones et al., 2016; Marti & Scherer, 2016). Remarkably, this focus remains despite the fact that agency theory - one of its most robust literatures arguing for greater focus on shareholder wealth maximization, has offered little in the way of improving either firm performance or social welfare and may even contribute to the deterioration of both (Bosse & Phillips, 2016; Ferraro, Pfeffer, & Sutton, 2005; Fontrodona & Sison, 2006; Ghoshal, 2005). As such, I hope that simply revealing the existence of CSI adds to the momentum of business ethicists and critical management scholars toward a greater emphasis on the role of corporations and their managers in contributing to or detracting from more than shareholder wealth. The momentum is evident from efforts such as the Academy of Management Review’s 2016 Special Topic Forum on Management Theory and Social Welfare.

Though I have discussed at length the implications of the study’s empirical support for the existence of CSI, I would be remiss to not discuss the fact that none of the study’s moderation hypotheses were significant. That is, I found no statistical support for the arguments that the relationship between CSI and firm performance in the following year is strengthened by the persistence of CSI (hypothesis 2), by the buffering mechanisms of corporate philanthropy and corporate community involvement (hypotheses 5a and 5b, respectively), or by the uncertainty reduction techniques of corporate political spending (hypothesis 5c).

A number of explanations may account for such results. First, in terms of the lack of significance of hypothesis 2 (the *persistence* of CSI strengthens CSI's positive relationship with financial performance), it is possible that the measure is not robust. The CSI persistence measure I created is a novel one in organizational research (Wang & Choi, 2010). Though it certainly captures year-over-year variability in CSI, it is a bit of an experimental measure. As such, I may consider alternative operationalization and/or refinement of this construct as I continue to develop the project. Particularly, through future conferences and discussion with scholars I may consider further ways to develop this measure of the persistence of CSI over time.

Further considering the lack of support for hypothesis 2, it is important to consider that CSI in a given a year is simply a snapshot of a firm's general orientation toward its corporate responsibility. That means, the six years of data I have does not represent either the beginning or the end of CSI strategies. In retrospect, capturing a year-over-year persistence measure beginning in 2010 is rather arbitrary. While the relationship between CSI and subsequent year financial performance is robust, my conceptual reasoning behind the persistence measure was to capture longer-term commitments to CSI. The CSR literature has long recognized the reality that most of its measures represent a point in time rather than any real start or end of corporate responsibility strategies (Barnett, 2007). So the unsystematic measurement of the consistency of CSI across two years is not likely a robust way to capture CSI persistence. Instead, for example, I may find a better test of this hypothesis if I measure the consistency of CSI across the entire 6 years as one variable. That limits the test of the hypothesis in terms of the data and it would reduce the number of firms in the analysis. Still it may be a worthwhile thought going forward. Similarly, I could test the same hypothesis in the data from 2004-2008 with one persistence measure of the consistency of CSI across all five years of that data as well (remember, this data is not comparable to the 2009-2015 data but is still similar).

The lack of support for hypotheses 5a and 5b may similarly be partially related to measurement issues. In general, the effects of corporate philanthropy in this study may be underestimated by the restricted range of the variable. The Sustainalytics database captures corporate philanthropy from low to high via a four-point scale. Much organizational research on corporate philanthropy uses some form of a count variable with a much greater range of values for the variable to take. As I stated at the onset of the results, the effects of corporate community involvement are most certainly less valid than the others, due to the constrained sample size.

Upon further reflection, the lack of support for hypothesis 5c is not particularly surprising or counterintuitive. The hypothesis was that corporate political spending positively moderates the relationship between CSI and CFP such that corporate political spending will strengthen the positive effect of CSI on subsequent year CFP. The theoretical argument is sound that CPA acts to reduce environmental uncertainty around firms' CSI. Still, CPA works in ways that are complex, dynamic, and that may not be easily distinguishable over the long-run, let alone over the course of a year (Hillman & Hitt, 1999). CPA includes a range of firm activities that may be transactional and specific or they may be relational and oriented toward long-term firm benefits (Hillman & Hitt, 1999; Oliver & Holzinger, 2008). Also, much like Sustainalytics' measure of corporate philanthropy, the measure of corporate political spending range is restricted to a small three-point scale. Such range restriction may underestimate the influence of CPA in the study.

Taking a step back from discussion of the existence of CSI, it is clear from the organizational literature that firms face reputation and legitimacy concerns when they engage in corporate irresponsibility, much less corporate *strategic* irresponsibility. As such, in this study I do more than simply explore the existence of CSI. I extend the model to show that firms engaging in CSI accompany the strategy with buffering techniques and uncertainty reduction mechanisms so as to distract and obscure their questionable business practices from the public. I find support for these ideas by testing hypotheses 3a, 3b, 4a, and 4b. I explain the implications of the results from these hypotheses now.

This project supports my argument that firms simultaneously display a commitment to responsibility while strategically committing to CSI. Though such a strategy may prove successful for firms to boost short term competitive advantage, firms face long-term legitimacy crises when they routinely decouple rhetoric of corporate responsibility from practices of CSI (Ählström, 2010; Westphal & Zajac, 2001). The use of corporate philanthropy in the face of CSI creates a "legitimacy façade", which if deeply engrained enough in an organization will certainly come to light and create significant backlash against the organization by its constituents (MacLean & Behnam, 2010).

The introduction of CSI also raises interesting parallels to Clark and Newell's (2013) idea of "complicit" decoupling. Complicit decoupling is a type of decoupling that emerges to help maintain an institution and involves an organization's actual adoption of a practice and then, over time, decoupling the practice from the organization's formal structure in plain view of (or at least not completely hidden from) external actors who overlook (or even collude in) such decoupling. This work may inform CSI in three ways. First, complicit decoupling does not undermine organizational (or field) legitimacy when "uncovered", as decoupling is theorized to do. Similarly, routine corporate irresponsibility is not particularly difficult to uncover (hence large, longitudinal databases capturing this information), yet social control agents continue to allow degrees of corporate irresponsibility. What are the consequences of allowing such unfettered corporate irresponsibility? It is surrounding communities, economies, and broader populations that face the consequences of CSI, yet the very tools that guard against CSI (e.g. regulation, comprehensive worker contracts, firm collaboration with governments and the general polity) are in many respects dwindling (Khurana, 2010; Krippner, 2011; Tomaskovic-Devey, Lin, & Meyers, 2015).

Second, Clark and Newell (2013) characterize complicit decoupling at the field-level because it is for the benefit of the entire field of legitimating units (ratings agencies in this case) and organizations alike. Though I frame the pressures for CSI at the institutional level (e.g. institutional shareholders), what other powerful actors benefit from CSI? CSI may also benefit individual firm actors. The management literature has a large body of scholarship that has investigated determinants of CEO pay. Firm leaders are often rewarded based on direct contributions to lowering expenses and increasing revenues. As such, if CSI does positively influence net income, then unfortunately the "wages of unrecognized sin may be quite handsome" for individual firm leaders (Margolis, Elfenbein, & Walsh, 2007: 19).

Third, most literature on decoupling implies organizations do so to comply (symbolically) with a practice whereas complicit decoupling involves a firm's actual adoption of a practice to institutionalize it, or at least to maintain a cursory commitment to a practice. The results show that CSI can paradoxically be accompanied by significant effort and elaboration on the part of firms to buffer against and to obscure such behavior. Specifically, firms make significant expenditures on peripheral CSR to create an insurance-like effect for their CSI. Not only does peripheral CSR persist, it is aimed at improving social welfare and, in fact, can often do just that. Such a decoupling of corporate responsibility window-dressing from actual practice extends our knowledge of decoupling mechanisms as peripheral CSR is a complex and contradictory decoupling mechanism that simultaneously obscures CSI yet contributes to a firm's corporate responsibility.

These results showing that peripheral CSR is indeed a buffer for firms committed to CSI also give good reason to re-examine many of the assumptions of the literature on strategic corporate philanthropy. Clearly, many firms engage in corporate philanthropy with a genuine hope of advancing social welfare (Muller et al., 2014). Other firms execute corporate philanthropy strictly out of pressures toward mimetic isomorphism (DiMaggio & Powell, 1983) or attempts to gain or maintain legitimacy (Tilcsik & Marquis, 2013; Wang & Qian, 2011). Still, corporate philanthropy is ultimately strategic in some form or another (Gardberg & Fombrun, 2006; Porter & Kramer, 2006). As the organizational literature understands strategic corporate philanthropy today, firms rely upon their philanthropic work to build and maintain trust and their reputation among both stakeholders (Clarkson, 1995; Gardberg & Fombrun, 2006; Godfrey, 2005). In fact, organizational scholars argue that by creating positive evaluations among stakeholders, corporate philanthropy can lead to improved financial performance (Lev et al., 2010; Orlitzky et al., 2003).

While this work on strategic corporate philanthropy is certainly a robust literature, I would argue that the results of hypothesis 3a (that CSI is positively associated with philanthropy) may signal two other important implications for this literature that should cause scholars to re-examine some of its foundations: (1) CSI may be an omitted variable in the relationship between corporate philanthropy and firm performance and (2) for firms committed to CSI, strategic corporate philanthropy is less about relationship-building and more about the expansion of firms' control over external environments.

First, and most importantly, the dissertation results suggest that unless explicitly measured, it may be hasty to assume that the goal of strategic corporate philanthropy is simply to improve stakeholder relations. Instead, philanthropy may be a tool to divert attention away from a firm's CSI. This means that in studies showing a relationship between corporate philanthropy and firm performance, it is likely prudent to re-examine whether CSI is an omitted variable such that it explains some of the variance in firm performance previously attributed to corporate philanthropy. Such investigations may show that corporate philanthropy is even more "strategic" than scholars have imagined. A normative implication follows for the scholarly and business communities: Is corporate philanthropy and the benefits it brings to communities simply a sophisticated, legal bribe cloaked in benevolence?

Such an idea leads specifically to the possibility that firms may also use strategic corporate philanthropy to build influence over constituents in the case of the sociopolitical uncertainty that may arise with CSI (Barnett, 2007). Enhanced influence among firms' constituents allows them expanded reach and control over more aspects than simply organizational functioning. It gives them the ability to control and reduce external uncertainty, an imperative for powerful and potentially irresponsible firms (Banerjee, 2008; Gond et al., 2009; Shamir, 2004).

In addition to the interesting results regarding a firm's commitment to peripheral CSR to obscure its CSI, my two hypotheses about corporate political activity as a buffering mechanism were revealing, though not entirely supportive of my hypotheses. First, the effect of CSI on the strength of a firm's corporate political policy was opposite of hypothesis 4b. CSI significantly predicts *more* robust and transparent CPA policy. In retrospect, this makes sense. Similar to the role of peripheral CSR for firms committed to CSI, CPA policy may act as a signal of legitimacy, protecting firms by signaling their commitment to democratic ideals and prevailing political norms.

This opposite effect of CSI on CPA policy is reasonable if I set aside the possibility of CPA policy as a tool for strategic ambiguity and instead consider its role as a decoupling tool for firms engaging in CSI. CSI necessarily creates sociopolitical uncertainty for firms, a clear threat to their legitimacy and survival (Meznar & Nigh, 1995). Unable to always predict how constituents will react to (what's visible of) CSI, firms will seek to control such sociopolitical uncertainty via greater CPA efforts (Arnold & Oakley, 2013), whether in the form of political spending, strong formal CPA communication and policies or otherwise.

In line with study hypothesis, there is support for the hypothesis that CSI significantly predicts corporate political spending. Though not particularly robust, the positive effect of CSI on corporate political spending is important for future research because campaign contributions and lobbying expenditures (the measure of political spending) only capture some portion of a corporation's political activity (Hillman et al., 2004; Milyo, Primo, & Groseclose, 2000). While there is certainly research showing that campaign contributions and lobbying expenditures can allow firms to essentially "purchase" state influence (e.g. Rehbein & Lenway, 1994; Schuler, Schnietz, & Baggett, 2002) and future favor with legislators (Burris, 2001; Hart, 2001), these forms of corporate political spending are likely only a portion of CPA's complex, indirect, temporal, and often intangible effects on policy and on society. The effectiveness of CPA lies in its ability to influence government appropriations (e.g. tax breaks, subsidies, and grants) and more broadly, to influence changes in, development of, and preservation of public policy in ways favorable to the firm over other constituents (Hillman et al., 2004; Keim & Baysinger, 1988; Shaffer & Hillman, 2000).

In addition to campaign contributions and lobbying, firms may conduct a number of other types of CPA that can act as buffers against their CSI. Constituency building, or CPA activity targeted at changing individual preferences, is one such effective corporate strategy of influencing both legislation passage and the content of legislation (Baysinger, 1984; Lord, 2000b, 2003). Another CPA strategy that may act as a buffer of CSI is the perpetuation of a privileged relationship between business and government (Burris, 2005; Hadani & Schuler, 2013; Hillman et al., 2004). Often the influx of business executives into politics and the broader network connections between leaders in business and politics simply creates a political system where those in power are particularly sympathetic to the interests of business leaders, even if the means to reach them involve CSI (Useem, 1984). Such a system suggests that the influence of businesses' representatives over politicians can advance legislation in support of their interests due to intimate and sympathetic network connections between the two parties. The extent of the relationship between business and politics is not well known in the literature and could be a large source of uncertainty reduction for firms that rely on CSI to boost their competitive advantage.

Limitations

Reviewers may interpret the use of Sustainalytics as a limitation of the study because of its relative novelty in academic research. One way to overcome this for publication is to run similar analyses with the KLD database, the CSR research gold standard in organizational research. Though, as I discuss in the theory section, the KLD database is a main culprit for confounding ideas of corporate irresponsibility with other constructs. Thus, to do this I would need to work on parsing the data differently than other authors and possibly narrowing the operationalization of CSI in such a study, which could dampen its effects empirically.

Sustainalytics also poses some limitations with their variable structures, as I explained in the discussion section. Going forward for publication, I may consider the use of other databases to merge raw corporate philanthropic spending and corporate political spending into the current database. Databases with dollar amounts of corporate philanthropic giving are available, though not easy to acquire. The Taft Corporate Giving Directory is one such source. This directory is a publication that aggregates corporate giving from corporate financial documents and from IRS filings. This is a common source of corporate philanthropic giving in organizational research (e.g. Hadani & Coombes, 2015; Lev et al., 2010; Seifert, Morris, & Bartkus, 2004). Going forward with this research, I may consider supplementing the current philanthropy data with more detailed philanthropy data.

CPA is difficult to measure. Corporate political spending in particular is not straightforward to acquire and it is a very manual process to do so. Still, authors routinely collect strong proxies for various forms of CPA, including political spending, from sources such as the Center for Responsive Politics, the Federal Election Commission, and the Senate's Office of Public Records (Hadani & Schuler, 2013; Schuler, Rehbein, & Cramer, 2002). Moving forward with this study, I may consider supplementing the current data with the inclusion of more nuanced corporate political spending data.

This study was limited by its sample size. The Sustainalytics database merged with Compustat provides more than 1,300 firms and 6,700 firm year observations. Yet, with missing data from both databases (though mostly from Compustat) the power of the sample is greatly reduced. I may develop the study further by merging the data with other databases of firm financial information such as Mergent Online to create a more robust database. Also, a laborious manual process of verifying firm ID numbers and locating missing IDs may help fill in some of the missing Compustat information.

Further, the reduction in sample size for the models testing hypotheses 3b (using corporate community involvement as a predictor) and 5b (using the variable as an outcome) makes it untenable to draw conclusions about those hypotheses. Though I may find sufficient power in such a sample, it is difficult to draw conclusions beyond the specific sample as I have no guidance regarding the nature of the missing data, and thus, the nature of the variable. For the other variables, assumptions of the general linear model allow me to assume that small amounts of data are missing at random. Where the majority of a variable is missing, however, I can draw few inferences outside of the specific sample.

5.3 Conclusion

This study introduces the term corporate strategic irresponsibility (CSI) and provides insight into its relationship with firm financial performance, as well as the decoupling and buffering mechanisms firms use to distract from and obscure their CSI. In the case of CSI, the ends certainly do not justify the means. The results of this dissertation put forth an uncomfortable reality for academics and the business community alike. The existence of CSI may mean that distorted and exaggerated neo-liberal economic and agency theorist principles are indeed dominant ideologies guiding firms such that they straddle the line between legal and illegal, violating both the law and social norms to make money. This may include, for example, the systematic neglect of diversity or environmental externalities in favor of the continued prioritization of hegemonic business interests.

Though this project suggests that CSI can certainly increase a firm's bottom line, and by association investors' wealth as well, CSI may indeed be exacerbating wealth inequalities, harming social and economic development, and degrading the natural environment. As such, the existence of CSI signals a substantial failing of the institutions that check such corporate behavior. In fact, I build on other scholars that argue it is the institutions themselves, such as financial markets, which have created the pressures for CSI. As long as corporations yield to intense market pressure for immediate shareholder value over other priorities such as fulfillment of the public good, business leaders will continue to look for any way to boost competitive advantage, or risk losing confidence of investors and clients. In the words of former CitiGroup CEO Charles Prince, “as long as the music is playing, we’ve got to get up and dance” (DealBook, 2007).

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APPENDIX A: SUSTAINALYTICS MEASURES

Construct	Measure	Description
Corporate Irresponsibility	Environmental - supply chain	Supply chain issues such as: Emissions, effluents and waste; Conservation and land use; Energy Use and GHG Emissions; Water Use
	Environmental - Products & Services	Products & Services issues such product effects on eco-systems, product materials, waste, etc.
	Environmental - Operations	Operations issues such as: Emissions, effluents and waste; Conservation and land use; Energy Use and GHG Emissions; Water Use
	Environmental - Operations	Environmental fines or non-monetary penalties in the last 3 years
	Contractors & Supply chain	"Social" Supply chain issues such as exploitative labor and product or service quality.
	Employees	Issues related to: 1) Labour Relations 2) Health and Safety 3) Basic Labour Standards 4) Forced labour 5) Child Labour
	Customers	Issues related to: 1) Marketing Practices 2) Quality and Safety Anti-Competitive Practices 3) Privacy
	Society & Community	Issues related to: 1) Social Impact of Products 2) Community Relations 3) Complicity in Human Rights 4) Sanctions Non-Compliance 5) Weapons
	Business Ethics	Issues related to: 1) Bribery and Corruption 2) Accounting and Taxation 3) Intellectual Property 4) Business Ethics
	Corporate Governance	Issues related to: 1) Corporate Governance 2) Governance - Supply Chain

Appendix A: SUSTAINALYTICS MEASURES (continued)

Construct	Measure	Likert Item Descriptions (High to Low)
Philanthropy	Cash Donations	• Cash donations (in a year) are equal to or greater than 1% of Net Income Before Tax • Cash donations are equal to or between .5 & 1% of NEBT • Cash donations are equal to or between 0 and .5% of NEBT. • The company makes no cash donations
Community Involvement	Community Engagement Programs	• The firm has detailed and extensive programs to systematically engage local communities in helping to mitigate negative impacts of its business activity • The firm has strong programs to engage local communities • The firm has weak or few community engagement programs • The firm may have community engagement programs but there is no evidence that there are formal programs • The firm has no programs for community engagement
	Community Development Programs	• The firm has widespread community development programs with clear development goals. • The firm has community development programs but there are no clear targets or benchmarks • The firm has a very limited scope of formal community development programs • The firm has no formal programs to develop communities, though it does some work in this regard • The firm has no community programs at all, or does not disclose them in any public way
CPA Expenditures	Political Expenditures Assessment	• The company states that it does not make political expenditures and has not done so in the last three years. • In the last three years, the company made less than $500,000 million in political expenditures • In the last three years, the company made more than $500,000 in political expenditures
CPA Policy	Political Involvement Policy	• The company has a robust policy on its political involvement including a commitment to no political expenditures • The company has a strong policy on its political involvement • The company has a weak policy on its political involvement

- The company has a general, vague, or even contradictory statement on political involvement
- The company either does not have or does not disclose any position on political involvement