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DOES FINANCIAL RESOURCE SLACK DRIVE SUSTAINABILITY EXPENDITURE IN DEVELOPING ECONOMY SMALL AND MEDIUM-SIZED ENTERPRISES?

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ABSTRACT

While firms continue to commit slack financial resources to sustainability causes, knowledge is lacking on how financial resource slack drives sustainability expenditure under varying conditions of market pressure and political connectedness in a developing-economy market. Using primary data from exporting small and medium sized enterprises in Nigeria, this study shows that increases in financial resource slack are associated with decreases in sustainability expenditure. Additionally, results indicate that the negative effect of financial resource slack on sustainability expenditure becomes positive when levels of market pressure are higher. However, the negative effect relationship is strengthened (i.e. becomes more negative) when levels of political connectedness are greater. We discuss theoretical and managerial implications of these findings.

KEYWORDS: Financial resource slack; sustainability expenditure; market pressure; political connectedness; developing economy

1. INTRODUCTION

Improvement in sustainability practices of corporate entities continues to dominate the academic literature and the global media. Policy makers, and local and international activist groups continue to put pressure on businesses to balance their economic performance with social and environmental practices (Leonidou, Christodoulides, and Thwaites, 2016; Varadarajan, 2014). This development has prompted many business organizations to focus on non-economic (i.e., sustainability) activities to boost their societal standing (Melnyk, Sroufe, and Calantone, 2003). To this end, organizations are increasingly using sustainability metrics as a tool to demonstrate moral behaviors that attract customers and investors (Brown et al., 2006).

Although many organizations continue to designate significant amounts of financial capital to support sustainability causes (Hockerts and Wüstenhagen, 2010), a major unresolved issue is whether organizational leaders are justified in increasing or decreasing available monetary resources to such causes (Cheng, Ioannou, and Serafeim, 2014; Cohen, Smith, and Mitchell, 2008). While arguments have been made from an agency cost perspective that greater expenditure on sustainability causes is wasteful and amounts to misapplication of constrained organizational resources (McWilliams et al., 2006), stewardship theory proponents argue that greater resource commitment to sustainability programs is a social good that should be encouraged (Davis, Schoorman, and Donaldson, 1997; Schaltegger and Wagner, 2011). While stewardship theory has traditionally been studied within the context of large multinational enterprises in developed markets, this stewardship argument is taking strong root in small business firms from developing-economy markets. For example, Osei-Duro design and clothing producer in Ghana and Mikuti fair-trade jewellery label producer in Tanzania, have established robust, ethical supply chains in their Sub-Saharan African markets by committing significant per cent of their total annual sales to sustainable sourcing of materials at home and abroad (Ras and Vermeulen, 2009).

Despite the burgeoning managerial and academic interest in sustainability issues, scholarly research is yet to examine when financial resource slack drives sustainability expenditure (Cohen et

al., 2008; Hall et al., 2010). Previous research has focused mainly on understanding drivers of sustainability expenditure among multinational enterprises located in developed-economy markets, ignoring potential variations in the sustainability expenditure outcome of financial resource slack in firms located in less developed markets. Accordingly, this study contributes to the sustainability literature by examining the institutional conditions under which financial resource slack influences sustainability expenditure in developing-economy firms.

This study draws insight from institutional development logic (Cheng et al., 2014; Julian and Ofori-Dankwa, 2013) to posit that greater financial resource slack lowers sustainability expenditure in developing-economy firms due to inherent institutional weaknesses in enforcing compliance to sustainability causes. Our contention is that money is hard to come by in developing economies (and even harder for small and medium-sized businesses) due to weak capital market and harsh business environment conditions. As a result, firms tend to be understandably more prudent, focusing more on conserving capital than spending more on optional operations such as sustainability causes. However, because market conditions can potently shape the outcome of firm behavior, we draw on stakeholder theory to argue that when market pressure on firms to act sustainably increases, developing-economy firms are more likely to spend greater amount of available capital on sustainability causes. Furthermore, we argue that because political engagement is a major aspect of doing business in developing-economy markets, and because laws and regulations are informally (and poorly) enforced in such markets (Peng and Luo, 2000), firms with slack capital are able to reduce their operational expenses by being closely aligned with key political leaders. Therefore, we further argue from a social exchange perspective that the effect of financial resource slack on sustainability expenditure is weakened when firms in developing-economy markets build greater political connections with state authorities (Zhao and Lu, 2016). In examining these contingencies, therefore, this study enriches scholarly knowledge by showing how unique conditions in developing-economy marketsand idiosyncratic circumstances of small and

medium-sized enterprises (SMEs) help broaden understanding of determinants of sustainability expenditure.

2. LITERATURE REVIEW

2.1 Organizational resources and sustainability expenditure

Discretionary organizational resources provide firms with slack (Seifert, Morris, and Bartkus, 2004), constituting uncommitted resources beyond those needed to convert a given level of input into output (Nohria and Gulati, 1996). While an organization may possess multiple slack resources (e.g., extra raw materials, excess labor, additional work-in-process inventory, surplus production or machinery capacity), the most discretionary of all slack resources is excess or slack financial capital (Austin, Kresge, and Cohn, 1996). Financial resource slack is defined in this study as utilizable financial capital that can be diverted or deployed by an organization to achieve its goals (George, 2005). Financial capital is often captured by capital at hand (i.e., net profit after all discretionary expenses and taxes are deducted), and is considered a firm's major monetary resource (Austin et al., 1996). The literature on social engagement argues that profitability is the strongest indicator of "availability of resources to potentially fund social [and environment] investments" (Julian and Ofori-Dankwa, 2013, p. 1321). Drawing on the sustainability literature, sustainability expenditure is, therefore, defined as the amount of money (e.g., percentage of sales and/or profit) an organization commits to social and environmental causes.

While academic work has indeed been conducted on the relationship between financial resource slack and corporate expenditure on sustainability (i.e., corporate social and environmental responsibility) (e.g., Cheng et al., 2014; Gibbert et al., 2007), the literature is fragmented and lacking in consensus on the direction of causality between resource slack and sustainability expenditure. In addition, empirical findings remain inconclusive about sustainability expenditure as an outcome of financial resource slack. Stakeholder and slack resource theories have been the dominant theoretical perspectives used to explain how slack impacts on sustainability.

2.2 Theoretical rationales for firm expenses on sustainability causes

Stakeholder theory holds that greater sustainability expenditure helps firms boost accumulation of financial resources (e.g., Cheng et al., 2014). Several perspectives are presented to support this position, one being that greater expenses on sustainability help lower negative regulatory, legislative, and fiscal actions against a firm, enable a firm to attract greater financial capital from the market. When socially and environmentally conscious market players believe a firm spends more on sustainability causes, investment tends to flow to the firm from non-traditional sources, such as non-governmental organizations and state-owned institutions (Kapstein, 2001). For example, McGuire, Sundgren, and Schneeweis (1988) find that greater expenses on social causes drive a firm's stock market performance. Additionally, research shows that greater sustainability expenses provide a firm with greater access to valuable resources (e.g., recruitment and retention of high-quality employees) and help lower a firm's advertising budget (Cheng et al., 2014). Stakeholder theory further supports the contention that, greater sustainability expenses help a firm creates social legitimacy, thus boosting a firm's reputation assets (Fombrun et al., 2000).

From a slack resource theory standpoint, firms with greater financial resource slack have an increased flexibility to invest in greater sustainability causes (Cheng et al., 2014; Orlitzky Schmidt, and Rynes, 2003). Evidence shows that greater retained profit is positively related to social performance (Waddock and Graves, 1997). Additionally, Orlitzky et al.'s (2003) meta-analysis shows that average annual percentage returns to investors, market return on security, monthly stock returns, changes in stockholder dividends, and shares are all positively related to corporate social performance.

2.3 Understanding sustainability expenditure in a developing-economy setting

The pressure on developing economy businesses to publish their sustainability footprints is growing steadily given the increasing cases of social and environmental disasters, including the Bhopal gas explosion in India and environmental degradation in the Niger Delta. This growing

importance of sustainability issues in corporate boardrooms in developing- economy markets has compelled many African countries to sign up to the requisite United Nations Global Impact requirement for holding businesses accountable for their commitments to social and environmental causes.

However, researchers have drawn on institutional development arguments to speculate that, while greater financial slack may cause developing-economy firms to commit greater financial capital to sustainability causes, this relationship may be weakened when sustainability regulations in these societies are less functional (Khavul and Bruton, 2013). Additionally, because sustainability issues receive low priority from key market actors (e.g., customers, suppliers, distributors, and competitors) and non-market actors (e.g., policy makers and the general public) (Julian and Ofori-Dankwa, 2013), and given low knowledge of developing-economy market consumers about the benefits of sustainability (Scott and Vigar- Ellis, 2014), the incentives for firms to commit greater financial capital to sustainability causes may be limited. Furthermore, it is contended that firms operating in institutionally less-developed markets face severe and unpredictable market conditions that can threaten their survival (Bruton et al., 2013; Shevchenko, Lévesque, and Pagell, 2016), providing a disincentive for such firms to channel their slack financial capital to non-essential business practices. It is further argued that, when market-supporting institutions are poorly developed and when money is hard to come by, capital fund accumulation, conservative spending, and risk-aversion serve as safeguards against unexpected market upheavals (Quartey, 2003). In view of these unique features of less developed institutional environments, it is reasoned that greater access to slack financial resources is unlikely to result in greater expenditure on sustainability causes. A major gap exposed in the existing literature, therefore, is that limited studies have theoretically argued and empirically tested the relationship between financial resource slack and sustainability expenditure in developing-economy firms, and the contingencies of this relationship. The purpose of this study is, therefore, to explore when financial resource slack is more or less related to sustainability expenditure of developing-economy firms.

3. HYPOTHESES DEVELOPMENT

3.1 Financial resource slack and sustainability expenditure

From a slack resource theory perspective, greater financial slack is expected to drive greater financial support for social and environmental sustainability causes (Adams and Hardwick, 1998; Brammer and Millington, 2004). For example, studies of developed-economy firms show that net profit (an indicator of financial slack) is positively related to corporate social performance (e.g., Brammer and Millington, 2004; Seifert et al., 2004), although other cross-national studies fail to find support for such a relationship (e.g., Surroca et al., 2010).

From a developing-economy market perspective, evidence shows that, while greater financial slack can make firms more powerful, it also causes firms to become more inclined to protecting their business interests than spend more on social and environmental causes (Julian and Ofori-Dankwa, 2013). A firm with substantial financial slack is able to engage in aggressive public relations efforts, and afford better and therefore more expensive legal support to defend itself against lawsuits aimed at managing a potential crisis that might emerge as a result of social and/or environmental lapses. Furthermore, having more financial resources implies that a firm is able to shape public opinion and blunt any negative consequence related to its social and environmental lapses. In the peculiar case of SMEs located in developing economies, it is noted that these firms lack financial slack and are therefore more focused on their core operational activities than on sustainability causes.

Importantly, when slack increases, SMEs in developing-economy markets might not spend more on sustainability for a number of reasons. First, from a consumer behavioral perspective, studies show that consumers tend to rank their economic concerns above their sustainability concerns (Sudarmadi et al., 2001). This propensity to rank economic concerns above sustainability issues is driven largely by lack of knowledge of sustainability benefits, low disposable income levels and subsistence consumption patterns of consumers in developing-economy markets (Khavul

and Bruton, 2013; Loayza, Schmidt-Hebbel, and Servén, 2000; Viswanathan et al., 2012). For example, a recent study of South African consumers' knowledge and perception of environmentally friendly packaging show that these consumers "exhibit limited knowledge of what environmentally friendly packaging is, how to differentiate it from normal packaging, as well as its benefits" (Scott and Vigar- Ellis, 2014, page, 642). Second, from the perspective of SME firms, money is hard to come by in developing economies as stock markets in these economies are severely under-developed, limiting access to external capital, especially for SMEs often lacking strong financial history to back their credit worthiness. When linked to low priority for sustainability issues among consumers and consumers' relative lack of knowledge about the benefits of sustainability, firms in developing economies are therefore better served saving internally-generated capital for core business operations than spending on sustainability causes (Julian and Ofori-Dankwa, 2013). Third, from a policy-making standpoint, developing-economy policy makers tend to encourage small businesses to create more jobs first and foremost, hence social (e.g., labour safety) and environmental (e.g., waste disposal) regulations hardly take centre stage in public policy discussions, and where such issues are raised policy initiatives to address them are plagued with corruption and poor enforcement (Gerdes, 2012), giving firms an incentive to ignore the sustainability implications of their business operations (Tang, Kacmar, and Busenitz, 2012). Thus, we argue that:

H1: In a developing-economy market, financial resource slack is negatively related to sustainability expenditure.

3.2 Moderating role of market pressure

One way to extend extant knowledge on the financial slack–sustainability expenditure relationship is to examine how the relationship is shaped by degrees of pressure from a firm's target market. To this end, we integrated the resource slack and stakeholder theories to contend that, as market pressure increases, the proposed negative effect of financial resource slack on sustainability expenditure in developing-economy firms will be neutralized and become increasingly positive as

levels of market pressure increase in magnitude. According to the stakeholder theory, a firm's stakeholders are any group whose actions and interests affect or are affected, directly or indirectly, by the behavior of the firm (Freeman, 1984). Two categories of market participants are often discussed: primary stakeholders including employees, customers, suppliers, distributors, competitors, stockholders and state regulators; and secondary stakeholders such as community activists, advocacy groups, political and religious leaders, and non-governmental organizations (Eesley and Lenox, 2006). A key distinction between these two groups is that primary stakeholders tend to have contractual bonds with a firm; secondary stakeholders do not have direct legal authority over a firm, but their actions and requests carry viable weight that can affect a firm's operational costs, reputation, ability to attract and retain primary stakeholders, and relationship with regulators (Mitchell, Agle and Wood, 1997). We argue that, as both stakeholder groups put greater pressure on firms to improve their sustainability expenditure, the incentive to increase sustainability expenditure becomes amplified (Clarkson, 1995).

For example, when competitors are spending more on sustainability causes, a firm may be forced by societal norms to do the same. Additionally, when customers increasingly demand sustainable products and services as a condition for consumption, a firm has a good economic incentive to commit more financial resources to sustainability causes. Similarly, when supply chain members require clean sustainability records as a condition for transaction exchange, it may become necessary for a firm to increase its financial commitment to sustainability causes. When responsible community-based (e.g., donations, sponsorships, community outreach), employee-based (e.g., low employee turnover, training hours, health and safety), and supply-based (e.g., sourcing, vendor standards, partner selection) behaviors are increasingly viewed as a minimum standard in a society, firms may increase their expenditure on sustainability causes.

Additionally, it is likely that firms will invest more on sustainability causes when sustainability activists engage in punishing or rewarding sustainability expenditure (Baron, 2003). The literature on environmental and social activism highlights strategies and tactics that activists

use to change the behavior of targeted firms, including public strategies (e.g., lobbying of legislatures to toughen sanctions against poor environmental and social behaviors) and private campaigns (e.g., protests, boycotts and civil suits). Research shows that activists motivated by environmental and social concerns are increasingly employing these strategies (particularly private politics) and campaigns to influence firm behaviors and industry standards (Baron and Diermeier, 2007). However, it must be acknowledged that the probability of a targeted firm to comply with activist demands depends on the perceived operational losses versus gains (King and Lenox, 2002; Lenox and Eesley, 2009). This study argues that a firm with greater financial slack would comply with activist demands by spending more on environmental and social issues because non-compliance may risk loss of profits, reputation, and customers. Accordingly, we posit that:

H2: In a developing-economy market, the negative effect of financial resource slack on sustainability expenditure becomes positive when levels of host market pressure are higher.

3.3 Moderating role of political connectedness

The effect of financial resource slack on sustainability expenses may also depend on degree of political connectedness. Political connectedness refers to the extent to which an organization's senior management actively invests time in engaging and influencing government policies and regulations (Luo and Junkunc, 2008). It is argued that profitable firms with slack financial capital spend more money lobbying political office-holders to promulgate laws and regulations that are favorable to the firms' strategic business objectives (Baron, 2003). While evidence of political connectedness and firm value and performance has been documented in countries with strong as well as weak institutions (Niessen and Ruenzi, 2009; Zhao and Lu, 2016), empirical research is lacking on how political connectedness moderates the effect of financial resource slack on sustainability expenditure in weak institutional environments.

Social exchange theory suggests that the relationships firms develop with political authorities (including ties with governmental officials and regulators) have an effect on the favorability of regulatory resources and opportunities connected firms enjoy (Hillman, Zardkoohi,

and Bierman, 1999; Li and Zhang, 2007). While some scholars argue that many firms remain politically disengaged and tend to pursue arms-length relationships with political leaders and government regulators to avoid accusations of political patronage (Baron, 1995), recent observations indicate that firms' political actions are pervasive in developing-economy markets(and even in developed-economy markets). Several arguments have been advanced to support this development. First, it is contended that political engagement may help a firm influence public policy and regulations (Oliver and Holzinger, 2008; Hillman, Keim, and Schuler, 2004). Second, it is suggested that political ties enable a firm to have lower operational costs (Niessen and Ruenzi, 2009; Zhao and Lu, 2016). Third, political connections provide favorable access to resources under the control of state officials (Sheng, Zhou, and Li, 2011). Fourth, political backing can help a firm obtain target-market legitimacy (Li et al., 2008).

On the backdrop of these arguments, research shows that Standard & Poor's 500 companies spent nearly US$1 Billion on political contributions in 2010, with 87 per cent committed to the United States federal lobbying expenditure on social and environmental policies (Welsh and Young, 2011). In developing-economy markets, political connection is seen as a major strategic asset for firms seeking favorable treatment from industry regulators and governmental agencies (Sheng et al., 2011; Zhao and Lu, 2016). Given that business conditions in developing-economy markets tend to experience rampant political shifts, business executives tend to bankroll political leaders as a way of staying closer to the corridors of power (Burgis, Sevastopulo, and O'Murchu, 2014). For example, financial backing provided by business organizations has allowed some Sub-Saharan African leaders to hold on to political office and even attempt to change constitutional provisions to favor the business community (Burgis et al., 2014). Bankrolling political leaders is one way firms influence public policy and regulations to obtain preferential access to state-controlled resources (Saffu, 2003). As a result, it has been contended that firms with surplus financial capital are able to influence regulations to reduce operational costs on sustainability (Schuler, Rehbein, and Cramer, 2002).

Based on the assumption that firms leverage opportunities to their economic advantage (Baron, 1995), and taking into account the operational costs associated with sustainability-related expenditures (Sheng et al., 2011), we assert that the effect of financial resource slack on sustainability expenditure is weakened further when political connectedness is high in developing-economy markets (Ozgen and Baron, 2007). Our contention is that firms in developing-economy markets turn to political leaders to protect their investments and use social networks to substitute for insufficient formal institutions.

Li and Zhang (2007) maintain that, in developing-economy markets where formal institutions of state are absent or are still forming, business success is predicated on the idea of 'who you know' to the extent that social networks and connections help substitute for the insufficient formal institutions (Acquaah, 2012; Sheng et al., 2011). In institutionally less-developed markets such as that in Nigeria, political ties provide firms with flexible access to resource allocation because factor mobility (i.e. the ability to move factors of production such as labour and capital from one production process into another) is severely limited by market inefficiencies and governmental bureaucracies (Luo and Junkunc, 2008; Peng and Luo, 2000). Acquaah (2012) suggests that, because risk and uncertainty are high in less-developed institutional environments, connection to political leadership helps maximize a firm's access to valuable industry information on impending regulatory changes. Additionally, an increased institutional uncertainty gives rise to suspicion and lack of trust in the system, and the richness and usefulness of information is evaluated not on the basis of acquired knowledge and competence but on the basis of social networks (Acquaah, 2007; Li and Zhang, 2007).

Furthermore, the scholarly literature has characterized sub-Saharan Africa as a highly collectivistic society in which political authority is assigned to local chiefs, kings, religious leaders, and extended family heads, all of whom wield substantial influence on firms' behaviors through their control of access to local resources and information (Acquaah, 2007). In Nigeria, for example, although there is an elected national federal government, family heads, chiefs, and kings are better

recognized as custodians and allocators of local resources (particularly lands) than the federal government. Thus, ties to kinships, villages of origin, religion, and political party are important aspects of conducting business in sub-Saharan Africa (Khayesi, George, and Antonakis, 2014). In sub-Saharan African societies such as Nigeria, therefore, a firm with financial slack that also possesses strong ties to local political power brokers may be expected to spend even less money on sustainability causes (Daspit and Long, 2014; Grimm et al., 2013). Accordingly, we hypothesize that:

H3: In a developing-economy market, the negative effect of financial resource slack on sustainability expenditure becomes more negative when levels of political connectedness are greater.

4. RESEARCH METHODS

4.1 Study Context

We tested our conceptual model on multi-source empirical studies in Nigeria. Our aim is to predict the sustainability expenditure of developing-economy firms doing business in a foreign market environment that is institutionally weak in monitoring, rewarding and punishing corporate behavior. To test the model, we studied exporting firms in Nigeria doing business in regional sub-Saharan African markets. Two factors informed our choice of Nigeria. First, Nigeria is one of the largest economies in sub-Saharan Africa with an estimated 173.60 million people and a projected gross domestic product (GDP) of US$1.109 trillion and 6.2 per cent annual growth rate in 2014; and estimated growth rate of 7.1 per cent in 2015 (Barungi, 2014). In addition to Nigeria's estimated US$1.1 trillion foreign direct investment (FDI) stock, this economy is also experiencing a rapid growth in key non-oil sectors including agro-processing, information and communication technology, and financial services. This growing diversity in Nigeria's economic activities has generated significant interest in the sustainability footprints of business enterprises operating in, and out of, this part of sub-Saharan Africa (Ras and Vermeulen, 2009). Additionally, like many sub-Saharan African economies, Nigeria operates an open-market economy that has led to an increased

presence of privately-owned small and medium-sized businesses. With this socio-economic background, Nigeria provides an economic, social, and environmental context in which to examine how Western theories, which are assumed to be 'universal,' operate in a sub-Saharan African setting.

4.2 Sampling and Data Collection

Given the difficulty in identifying a single database on exporting firms in developing countries, including Nigeria (Khavul et al. 2010), we relied on multiple data sources to build our sampling frame. One source was a directory of small businesses provided by Nigeria's Small Business Bureau. This directory was supplemented by a Nigerian business directory that provided additional information on exporting firms. These directories provided names, addresses, and telephone numbers of senior company executives or chief executive officers, including lead entrepreneurs. We screened the firms to ensure that the following criteria were met: (1) the firms were independent private business entities and not part of any company group or chain (Wiklund and Shepherd, 2011); (2) the firms had been operating an international business in a Sub-Saharan African country for at least five years (Oviatt and McDougall, 1994); (3) the firms employed at least 10 full-time staff (Goedhys and Sleuwaegen, 2010; Wiklund and Shepherd, 2011); and (4) there was complete contact information for a senior executive as well as a financial manager or chief accountant in the firm (Khavul et al., 2010), which enabled us to obtain data from multiple informants in each firm.

A total of 450 firms matched our criteria and agreed to be interviewed on-site. In early 2012, the finance directors or chief accountants of those firms were approached to obtain information on the firms' financial resource slack, and 268 out of the 450 firms provided objective and perceptual information on their firms' discretionary financial capital. In early 2013, we returned to the chief executive officers to obtain information on the firms' sustainability expenses, market pressures, and political connectedness in sub-Saharan African markets. We obtained valid responses from 248 firms (a 93% response rate) in 2013; these became the data used for our analyses.

To check for reverse causality concerns, in 2014 we contacted the finance directors or chief accountants for information on the financial resource indicators to test whether the firms' sustainability expenses indicators in 2013 predicted their 2014 financial resource indicators. We found no relationship between the 2013 sustainability expenditure and 2014 financial resource indicators ($\beta = 0.03$; $t = 0.98$; $p > 0.10$).

The firms in our sample operated in multiple industries across Africa, including cookware, textiles and garments, food and beverages, crafts, agro-processing, security, and financial services, which are representative of developing-economy industries. The firms employed an average of 67 full-time employees. On average, the firms had been in business for nine years and exporting for eight years at the time of this study. Exports to ECOWAS[1] nations accounted for more than 60 per cent of the firms' total annual exports. The average amount of total annual sales was US$2.14 million.

4.3 Measures

4.3.1 Financial resource slack: We measured financial resource slack as an average of previous year return on sales and return on equity and net profit, obtained directly from the finance directors (Julian and Ofori-Dankwa, 2013). These objective measures were validated with perceptual financial resource slack data, measured on a multi-item scale adapted from Wiklund and Shepherd (2005). Perceptual comments included "There has been easy access to financial capital to support our African market operations"; "There have been substantial financial resources at the discretion of our managers for funding our African market operations"; and "If we needed more financial capital for our African operations, we could easily get it" ($\alpha = 0.89$). We then correlated the objective financial resource slack data with the perceptual data and observed a strong relationship ($r = 0.81$; $p < 0.01$).

[1] Economic Community of West African States: 15 sovereign West African nations.

4.3.2 Sustainability expenditure: We followed McGuire et al. (1988) and Julian and Ofori-Dankwa (2013) to assess sustainability expenditure by asking the finance managers or chief accountants to state: 1) the percentage of total dollar income their firms spent on social and environmental responsibility activities in their Sub-Saharan African market operations, 2) the percentage of total annual profits spent on social responsibility activities in their African market operations, and 3) the percentage of annual sales spent on social responsibility activities in their African market operations.

4.3.3 Political connectedness: We followed Luo and Junkunc (2008) to measure political connectedness with percentage scores on the total amount of time the entrepreneurs (and/or their senior managers) spent cultivating relationships with government officials, regulators, and local community leaders in their African markets. We then followed Li and Zhang (2007) and Acquaah (2007) to validate this objective measure by asking the entrepreneurs to indicate the extent to which their firms cultivated and nurtured relationships with governmental and regulatory agency officials, and local community leaders in their African markets over the previous year (1 = not at all; 7 = to an extreme extent): $\alpha = 0.97$. We then correlated the percentage scores with the perceptual scores, and a significant correlation was obtained ($r = 0.65$; $p < 0.01$).

4.3.4 Market pressure: We followed Luo and Junkunc's (2008) model to measure market pressure with percentage scores on the total amount of time the entrepreneurs (and/or their senior managers) spent dealing with sustainability issues in their African markets. Following Li and Calantone (1998), we validated the percentage scores with perceptual measures by asking the entrepreneurs to indicate the degree to which their firms, over the previous year, had to deal with considerable demands (or pressure) from their foreign market stakeholders (employees, customers, competitors, supply chain partners, and sustainability activists) regarding the firms' sustainability practices (1 = not at all; 7 = to an extreme extent). We found a modest correlation between the perceptual market pressure measures and the percentage measures ($r = 0.55$; $p < 0.01$).

4.3.5 Control variables: We controlled for the possible influence of several variables: industry type (dummy for manufactured products = 0; services provider = 1), firm size (i.e., logarithm transformation of the total full-time employees), number of African markets served, firm age (logarithm transformation of the number of years a firm had been in business), African market experience (logarithm transformation of the number of years a firm had been doing business in Africa), and the number of products/services exported to African markets. Because the extant sustainability literature associates sustainability expenditure with financial performance (e.g., Orlitzky et al., 2003; Tang et al., 2012), we also controlled for that possibility by objectively measuring the firms' financial performance using the following indicators: return on assets, return on investment, and return on sales for the financial year 2014.

4.4 Model specifications and results

To test our hypotheses, several multiplicative interactions were created (Aiken, West, and Pitts, 2003). To attenuate for potential multicollinearity problems due to interactive terms in the structural model, all variables involved in multiplicative interactions were orthogonalized following the procedure recommended by Little, Bovaird, and Widaman (2006). Subsequently, we used hierarchical moderated regression analyses and ordinary least square estimator to test the hypotheses by specifying three nested models for each sample. This technique enabled us to assess the impacts of additional variables over and above the effects of variables in previous regression models. Typically, the importance of additional variables in a regression model is determined by observing the statistical significance of changes in R-square (R^2) values. Accordingly, we examined the effect of the control variables on sustainability expenditure in Model 1, and assessed the direct effects of market pressure and political connectedness on sustainability expenditure in Model 2. In Model 3, we estimated the moderating effect of market pressure and political connectedness on the linkage between financial resource slack and sustainability expenditure. Descriptive statistics and correlations between the study's constructs provided in Table 1 and Table 2 summarize the findings

of the six regression models. The findings indicate that the F-values for the full regression models are significant at the one per cent level. None of the regression equations have multicollinearity problems: the largest variance inflation factor (VIF) is 2.04, which is well within the recommended limit of 5.00.

The study contends in Hypothesis 1 that the relationship between financial resource slack and sustainability expenditure is negative. As Model 3 shows, the negative coefficient ($\beta = -0.12$; $t = -1.99$; $p < .05$) provides support for this hypothesis. Thus, the direct effect of financial slack on sustainability expenditure is negative, without taking into consideration the contingency factors.

Table 1 here

To test the moderation hypotheses, we followed Hayes' (2013) process approach and the Johnson-Neyman technique to determine the direct effect of financial resource slack on sustainability expenditure at varying levels of the two moderators. The Johnson-Neyman technique also enabled us to determine the p-values of the conditional effects of resource slack on sustainability expenditure. In Hypothesis 2, we propose that, in a developing-economy market, the negative effect of financial resource slack on sustainability expenditure becomes positive when the values of host market pressure are higher. The results in Model 3 show that market pressure strengthens the effect of financial resource slack on sustainability expenditure when market pressure is high ($\beta = 0.17$; $t = 3.04$; $p < .01$), supporting our Hypothesis 2.

In Hypothesis 3, we argue that, in a developing-economy market, political connectedness strengthens the negative effect of financial resource slack on sustainability expenditure. Findings in Model 3 show that the interaction term between resource slack and political connectedness is significant and negative ($\beta = -0.25$; $t = -4.30$; $p < 0.01$), indicating that, as levels of political

connectedness increase, the negative effect of financial resource slack on sustainability expenditure becomes more negative, suggesting support for Hypothesis 3.

Table 2 Here

4.5 Additional analyses and robustness checks

To further illustrate the moderating-effect relationships, we plotted the interaction graphs following the Aiken et al. (2003) approach. Figure 1 and Figure 2 graphically support the hypotheses. Specifically, findings show that the relationship between financial resource slack and sustainability expenditure is positive with higher values of market pressure (Fig. 1) and negative with higher values of political connectedness (Fig. 2).

We further analyzed the relationships between financial resource slack and sustainability expenditure by decomposing the sustainability expenditure variable into social and environmental expenses components. We subsequently estimated two additional and distinct hierarchical moderated regression models. Findings reveal the same pattern of results when the independent variables are regressed separately on the social and environmental sustainability expenditure components[2]. Thus, findings remain consistent irrespective of the method used to capture sustainability expenditure (i.e., global versus independent component measurement).

Figure 1 and Figure 2 here
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5. DISCUSSION AND IMPLICATIONS

Evidence of firms' commitments to sustainability causes is gathering increasing attention from scholars, policy makers, and the general public, such that it has become increasingly important for

[2] Details of results of these additional analyses are readily available from the corresponding author.

small businesses to demonstrate that their financial success is balanced with their success on non-financial fronts (Bruton et al., 2013; Leonidou et al., 2016). While studies have attempted to establish an empirical connection between financial resource slack and sustainability expenditure, findings so far remain conflicting. Our empirical study of exporting SMEs in Nigeria reveals that, while greater financial slack decreases sustainability expenditure, the negative effect of slack on sustainability expenditure is attenuated when market pressure is higher and the effect is accentuated when political connectedness increases. These findings have several theoretical and managerial implications, which are discussed next.

5.1 Theoretical implications

The finding that the effect of financial resource slack on sustainability expenditure is negative contradicts conventional stakeholder theory but extends the existing agency argument of a negative association between financial resource slack and sustainability expenses (e.g., Julian and Ofori-Dankwa, 2013). From an agency standpoint, results suggest that SMEs in Nigeria treat sustainability expenses as non-essential operational cost, which needs minimizing (Shevchenko, Lévesque, and Pagell, 2016). This is contrary to the conventional stakeholder view that sustainability expense should be an essential outlay for firms when financial capital is bountiful. A key theoretical implication, therefore, is that, the financial resource slack -sustainability expenditure relationship is more complex than previously thought (Khavul and Bruton, 2013). Within the context of the SME firms studied in Nigeria the results suggest that business leaders in Nigerian SMEs have little interest in sustainability issues, and may rely on their ties to political leaders at national and local levels to limit their sustainability expenses. This low interests in sustainability causes among SMEs may be driven by the high subsistence consumption in Sub-Saharan Africa and the high consumption of unbranded products. Under these circumstances, less attention is given to evaluating whether products are sustainably produced and delivered (Sheth, 2011), giving SME firms that are already financially hard pressed, to spend less of their excess capital on sustainability causes. This is contrary to SMEs in developed economies facing strong consumer consciousness

about sustainable consumption and institutions' effectiveness in monitoring and rewarding compliance and penalizing violation of sustainability regulations; to the extent that firms in developed economies (unlike their counterparts in developing economies) are more likely to spend more on sustainability causes when financial capital is in excess. Thus, this finding provides an initial empirical evidence to support the argument that the causal link between financial resource slack and sustainability expenditure may be dependent upon market and institutional environment conditions under which sustainability is practiced.

In addition, one key contingency factor that has been under-researched is the pressure that comes from a firm's targeted market. We show that firms with excess financial resource will increase spending on sustainability causes when competition intensifies between firms to demonstrate greater care for the society and the environment, when market stakeholders demand greater sustainable operations from firms, when supply chain partners demand that firms demonstrate an acceptable level of sustainable business practices, and when sustainability activists mount pressure on firms to boost their expenses on sustainable causes. This moderating effect finding sheds new light on the positive (e.g., Orlitzky et al. 2003), negative (e.g., Julian and Ofori-Dankwa, 2013), and non-significant (e.g., Morris and Bartkus, 2004; Seifert et al., 2004) relationships that has thus far characterized the existing literature.

Furthermore, while the contingency role of political connectedness has been studied in some previous research (e.g., Zhao and Lu, 2016), this study further extends sustainability literature by showing that the negative effect of financial resource slack on sustainability expenditure is strengthened when firms' political connectedness is higher. This finding helps provide an empirical grounding for the assumption that greater connectedness between corporate and political leaders helps weaken the propensity of firms to commit more resources to sustainability causes (Levy, Reinecke, and Manning, 2015). Our results show that greater available financial capital provides incentives for SMEs in Nigeria to strengthen their ability to influence social and environmental laws and regulations to their favor (Baron, 2003). The social exchange theory suggests that the presence

of stronger ties with government officials who control regulatory resources (e.g., policy concessions and tax rebates) enables firms to legitimize their behavior in an increasingly complex and heterogeneous market environment (Peng and Luo, 2000; Scherer, Palazzo, and Seidl, 2013). The Nigeria sample studied supports this argument: as the SME firms studied accumulated more wealth their ability to exploit regulatory and governmental network resources becomes strengthened, providing the firms a reason to decreased spending on sustainability causes.

This finding of the negative moderating effect of political connectedness provide further empirical support for the assumption that Sub-Saharan African governments have little political will to compel SMEs (largest job providers) to increase spending on social and environmental practices (Blowfield and Frynas, 2005). Local chiefs and kings in Sub-Saharan African societies see investment by SMEs as a social good in itself because such investment helps grow the local economies by providing employment and subsidies to build local infrastructure. Accordingly, whether or not a business, operating in a local economy, increases its expenses on sustainable causes becomes less of a major issue. This is particularly true for SME firms that cultivate strong relationships with local leaders. Furthermore, this finding may also feed into the impression that business leaders in Sub-Saharan Africa have little interest in sustainability issues and may rely on their political connections at national and local levels to limit sustainability expenses (Quartey, 2003).

5.2 Managerial implications

From a managerial perspective, it can be said that many SME firms operating in Sub-Saharan African markets face hostile market conditions (e.g., less-developed institutional and physical infrastructure). These firms may be inclined to adopt a business culture that emboldens prudent financial management policies that include judicious amassing of capital in preparation for unexpected market turmoil. Our results suggest that this conservative financial management inclination has compelled Nigerian SMEs to direct their financial resources to essential business expenses and spend less on sustainability causes. The tendency of the firms to commit less financial

capital to sustainability causes is not a prudent behavior in the long-run, especially when market pressure in targeted markets increases and when political connections dry up: under these two conditions firms are required to commit a greater proportion of their financial slack to sustainability causes to remain competitive.

6. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Although this study expands knowledge on the effect of financial resource slack on sustainability expenditure, the results should be taken as tentative for a variety of reasons. First, exporting may be the most popular mode of international expansion among SME firms in Sub-Saharan Africa due to the perceived risks associated with conducting business on that continent and the inherent lack of core resources (e.g. financial and human capital). However, future research should examine SMEs that use more sophisticated and riskier modes of international operation (e.g., foreign direct investment), as firms using these other entry modes could form unique groups of firms and contexts. Compared to the exporting business, other modes of international expansion may require firms to take on greater risks and establish distinct social and environmental footprints

Second, the context of this study is Sub-Saharan Africa, a region that is undergoing significant political, economic, social, and technological transformations. The transitions that are sweeping across Africa are fertile ground for additional research, but, although the pace of transformation in Africa may be similar to conditions in other emerging markets (e.g., China and India), the sustainability challenges and opportunities firms face in other emerging markets may be different from those in Africa. A fruitful avenue for future research, therefore, is to extend the findings reported in this study by looking at the extent to which the baseline financial slack–sustainability expenditure relationship as well as the moderators examined can be extended to other emerging markets.

Third, the firms in our sample are largely exporting small businesses whose resource conditions and proclivity towards sustainability issues may be different from larger multinational

enterprises conducting business in less developed economies such as Africa (Khavul and Bruton, 2013). Additionally, the strategic orientations of small businesses may be different from those of larger multinational enterprises, and an argument could therefore be made that the strategic postures of those firms (e.g. stakeholder orientation) may differ in the extent to which they drive sustainability expenditure (Calic and Mosakowski, 2016). Thus, while our data does not contact larger firms to enable us compare the findings across smaller and larger firms, we call for additional research to further explore the resource slack-sustainability expenditure nexus using sample of smaller and larger developing economy firms.

Fourth, the process through which financial slack (a tangible resource stock) enhances sustainability expenditure is a useful direction for future research. For example, future research may draw insights from dynamic capability theory to theorize that specific firm capabilities (e.g., adaptive capability) and strategies (e.g., sustainability program adaptation versus standardization) may serve as channels through which financial slack impacts sustainability expenditure.

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Table 1: Descriptive Statistics and Inter-Construct Correlations

	Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10
1	Financial resource slack	3.41	0.90										
2	Market pressure	4.60%	8.00%	0.47**									
3	Political connectedness	4.90%	6.80%	0.29**	0.47**								
4	Sustainability expenditure	5.60%	6.20%	-0.16*	0.40**	0.32**							
5	Industry	58.00%	42.00%	0.03	0.15*	-0.01	0.03						
6	Firm size (total full-time employees)	61	67	0.23**	-0.15*	0.01	-0.02	-0.01					
7	Number of African markets served	42	45	0.07	-0.13*	0.08	0.13*	-0.05	0.49**				
8	Africa business experience (in years)	8	7	0.29**	0.09	0.21**	-0.05	0.04	0.57**	0.39**			
9	Number of products exported	15	7	0.31**	0.10	0.22**	0.15*	0.02	0.26**	0.22**	0.51**		
10	Firm age	9	6	0.19**	0.13*	0.22**	0.01	0.06	0.42**	0.39**	0.48**	0.44**	

**: Correlation is significant at the 0.01 level (2-tailed).
*: Correlation is significant at the 0.05 level (2-tailed).
SD: Standard Deviation

Table 2: Results of Moderated Regression Analysis

Dependent Variable (2014): Sustainability expenditure				
Independent Variables (2013)	Model 1	Model 2	Model 3	VIF
Controls				
Industry type	0.04 (0.66)	0.00 (0.04)	0.02 (0.43)	1.05
Firm size (total employees)	-0.02 (-0.29)	-0.12 (-1.76)	-0.12 (-1.75)	1.95
Number of African markets	0.17 (2.27)*	0.20 (3.33)**	0.21 (3.53)**	1.43
Years doing business in Africa	-0.37 (2.41)*	-0.31 (-2.46)*	-0.07 (-0.51)	1.54
Number of products exported to Africa	0.24 (2.26)*	0.16 (2.65)*	0.12 (1.99)*	1.49
Firm age	0.17 (1.27)	0.07 (0.64)	-0.14 (-1.16)	1.80
Main effects				
Market pressure (MP)		0.28 (3.89)**	0.25 (3.62)*	2.04
Political connectedness (PC)		-0.11 (-1.84)	-0.10 (-1.89)	1.45
H1: Financial Resource slack (FR)		-0.11 (-1.78)	-0.12 (-1.99)*	1.35
Moderating effects				
H2: FR x MP			0.17 (3.04)**	1.34
H3: FR x PC			-0.25 (-4.30)**	1.41
Fit statistics				
F-Statistics	3.30*	15.29***	15.45***	
R^2	0.08	0.39	0.44	
Adjusted R^2	0.05	0.37	0.41	
ΔR^2	-	0.30***	0.05**	

Standardized coefficients are reported (t-values are in parentheses);
Significant levels: * = 0.05; ** = 0.01; *** = 0.001 (2-tailed test);
VIF = Variance Inflation Factor

Figure 1: Moderating effect of market pressure

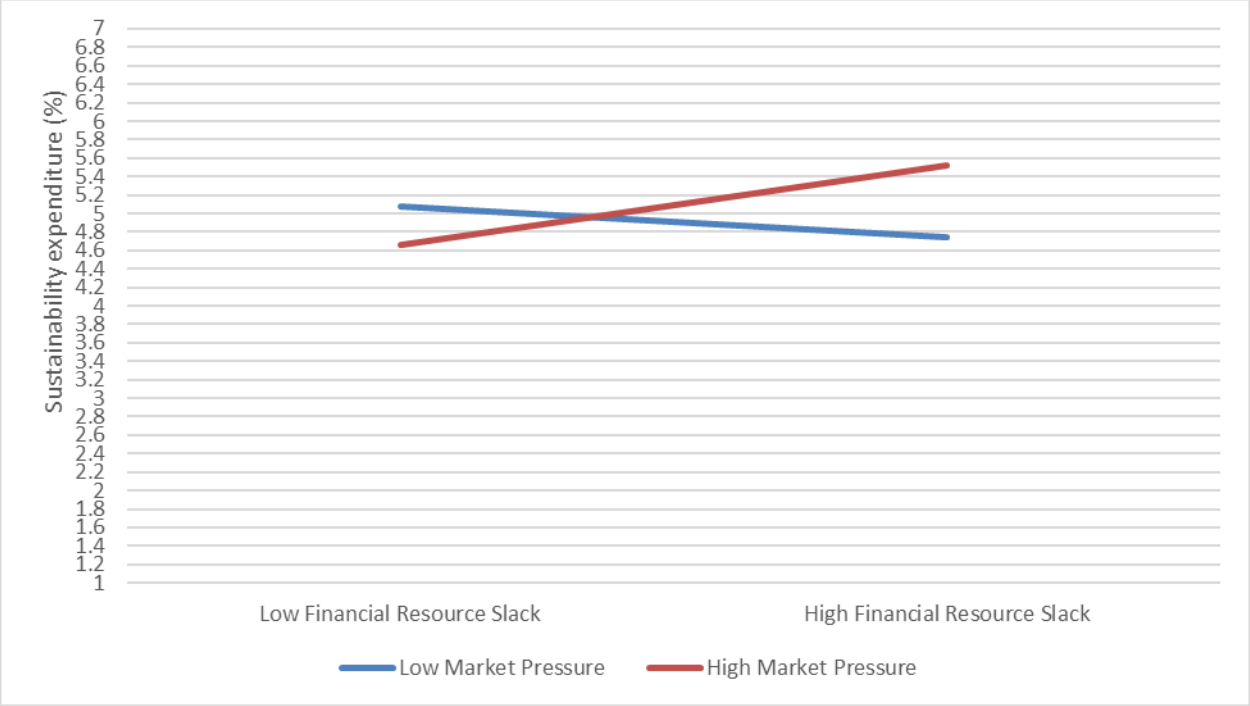

Figure 2: Moderating effect of political connectedness