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How Historical and Social Aspirations Reshape the Relationship between Corporate Financial Performance and Corporate Social Responsibility

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Abstract

Integrating the behavioral theory of the firm into the discussion on why firms behave in socially responsible ways, the study here develops and empirically tests hypotheses articulating when and how past corporate financial performance (CFP) might lead to more or less engagement in corporate social responsibility (CSR). Rather than treating historical and social aspirations as comparable performance benchmarks that yield similar behavioral responses, as most prior studies do, these two modes of performance comparison may induce signals that executives interpret differently, and therefore may lead to conflicting firm responses towards CSR initiatives. Using panel data pertaining to a large sample of U.S. firms, the study finds that historical and social performance comparisons have differential effects on CSR engagement. The findings describe how different interpretations of achievement influence firm's engagement in secondary activities concerning environmental and social issues—a topic that has received very little attention in prior empirical research.

Keywords: Corporate social responsibility, historical aspirations, performance benchmarks, social aspirations

1. Introduction

In recent decades, strategy scholars are unravelling the effect of corporate social responsibility (CSR) on corporate financial performance (CFP). But there remains vigorous debate about the sign of this relationship (Awaysheh et al., 2020; Griffin & Mahon, 1997; Miras-Rodríguez et al., 2015; Moore, 2001; Orlitzky et al., 2003; Wang et al., 2016). Indeed, conflicting empirical evidence largely discredits the once popular notion of a positive relationship between the two constructs. As shown in Table 1, prior literature has found mixed results suggesting a positive, negative, or even neutral relationship. A frequent explanation for these inconsistencies in previous research findings is that CSR can be both a predictor and a consequence of financial results (Waddock & Graves, 1997).

Table 1 about here

Likewise, a substantial portion of more recent studies has revealed the importance of firm performance as a reliable predictor of CSR engagement (Gautam et al., 2016; Kolodinsky et al., 2010; Watto et al., 2020). While much has been written on this subject (e.g., Brammer & Millington, 2008; McWilliams & Siegel, 2000; Orlitzky et al., 2003), empirical research investigating how firm performance influences CSR engagement is still relatively underdeveloped. As summarized in Table 1, a stream of research uses merely the actual value of performance as a control variable, resting on the implicit assumption that high firm performance allows firms to divert their focus from short-term financial objectives to social objectives. In their analytical studies, for example, Tang et al. (2015), and Tang et al. (2018) find that firm performance has a positive impact on CSR. Similarly, the very few studies that explicitly theorize around this issue (e.g., Melo, 2012) indicate that improvements in firm performance will always lead to higher engagement in socially responsible activities (see Table 1). By contrast, Husted et al. (2016), and Yuan et al. (2020), who use firm performance as a control variable, show that its influence on the firm's propensity to engage in CSR is negative. Undoubtedly, the considerable variation in results reported in prior work challenges the logic underlying the causal relationship.

Explaining this sort of heterogeneity in the influence of firm performance on CSR is an opportunity for a meaningful theoretical extension of the assumption that well versus poorly performing firms may be better able to afford and thus, pursue greater social engagement (Adams & Hardwick, 1998; Carroll, 1991; Preston & O'Bannon, 1997; Seifert et al., 2004).

Despite the intuitiveness of the assumption, we propose that prior literature provides an incomplete overview of the relationship between CFP and CSR. Notably absent from the prior conversation is an explicit consideration of what good versus poor performances means (Hörisch et al., 2020). According to strategy scholars, any given level of performance is evaluated by comparison to some reference points that executives aspire to meet or exceed (e.g., Fiegenbaum et al., 1996; Greve, 2003; March & Shapira, 1992; Mishina et al., 2010). Relevant literature emphasizes two main reference points that emerge from different sources of performance feedback—historical aspirations (based on the firm's own performance history) and social aspirations (based on the performance of a reference group of firms). Therefore, firm performance is typically interpreted as good or bad depending on how much it exceeds or lags behind these aspirations levels (Cattani et al., 2017; Porac et al., 1999). Building on this notion, it is reasonable to believe that using actual values as a measure of firm performance, as most prior studies in the CSR literature do (see Table 1), should provide a less clear delineation of achievement compared to benchmarks, such as performance relative to historical and social aspirations (Greve, 2003; Shapira, 2017). A complete theoretical accounting of the influence of firm performance must therefore include theory to explain how and when these benchmarks are more or less likely to prompt firms to engage in CSR.

In this study, we attempt to address this gap by developing theory to explain the influence of performance relative to historical and social aspirations on CSR. To do so, we turn to the behavioral theory of the firm (BTOF), which has long noted that differences between aspiration levels and performance can influence firm behavior (Bromiley et al., 2001; Nickel & Rodriguez, 2002). Most importantly, we take a step further by integrating the BTOF with recent theory on the inherent differences in the origins and quality of information that historical and social aspirations entail (e.g., Kim et al., 2015). We suggest that performance

above historical aspirations and performance below social aspirations decrease CSR engagement, as managers will expect that performance enhancements may accrue by reducing the firm's CSR activities. In contrast, performance below historical aspirations and performance above social aspirations stimulate CSR engagement, because managers will anticipate that higher involvement in CSR initiatives may help their firms leverage significant performance benefits. This study theorises around these issues and empirically examines the validity of relevant assertions.

We test our hypotheses with data from 405 unique U.S. firms. Our theory and empirical findings accommodate explanations for why good performance may not always lead to greater CSR engagement (i.e., Husted et al., 2016; Yuan et al., 2020). In particular, we find that performance above historical aspirations has a negative effect on CSR engagement, while performance above social aspirations has a positive effect on CSR engagement. We ultimately prove that CFP has a conditional, either positive or negative effect on firm behaviour, in the context of CSR activities.

Overall, our study makes some important contributions. First, we challenge the common theoretical stance that good performance has always a positive effect on CSR engagement, by expanding the theoretical horizon to incorporate the contingency effects of both performances above and below historical and social aspirations. In so doing, we offer a novel explanation for the firms' (dis)engagement in CSR activities, complementing traditional strategic and organizational explanations for the drivers and inhibitors of these activities. Second, our research contributes to the extant literature on the behavioral theory of the firm. To date, prior research in the field has been centered on market-related strategic actions such as lobbying (Eun, & Lee, 2021; Rudy & Johnson, 2016), entering new markets (Ref & Shapira, 2017), and forming strategic alliances (Kavusan & Frankort, 2019; Tyler & Caner, 2016). Given this focus, the literature has not provided sufficient insight into whether historical and social aspirations will influence in similar ways non-market-related strategic actions, such as CSR engagement. We suggest that a complete and accurate understanding of the influence of firm performance requires that the distinctiveness of these two modes of performance comparisons to be brought to the foreground. Thus, our work aligns with and advances recent theorizing which indicates that

historical and social aspirations are two distinct modes of performance comparison that can potentially lead to dissimilar firm behavior (e.g., Kim et al., 2015). This brings us to the third contribution of our study, which is to delineate conflicting evidence from past empirical studies about the sign of the CFP-CSR relationship. By teasing out the effects of historical aspirations versus social aspirations, we show that evaluations of performance based on these distinct performance benchmarks are what drives observed differences in CSR engagement. Finally, our work advances research on aspiration levels by illuminating how and why firms may exhibit different interpretations of achievement—an issue that has received very little attention in prior empirical research.

2. Theory

2.1 Corporate Social Responsibility and Performance Evaluations

Corporate social responsibility reflects the extent to which a firm actively engages in social initiatives in response to a wide set of stakeholder interests and expectations (McWilliams & Siegel, 2000). Empirically, CSR consists of clearly articulated business activities that serve some of the wider societal good. Examples of such activities include incorporating social features into products and manufacturing processes, offering work-life benefits for employees, or engaging in recycling and pollution prevention activities (Kong al., 2021; Mishra & Modi, 2016; Shiu & Yang, 2017).

Although CSR is considered by many researchers to be a non-market-related and thus, secondary activity (Hubbard et al., 2017), CSR can be an important form of strategic investment that provides multiple benefits to firms (Farooq et al., 2017). Valuable insights into the performance benefits of CSR, have been already provided by a vast array of empirical studies (see e.g., Aguinis & Glavas, 2012; Kim, Lee, & Kang, 2021; Saeidi et al., 2015). A central argument in these studies is that CSR enhances financial performance through better relationships with various stakeholders (Luo, Wang, & Zhang, 2017; Okafor et al., 2021; Margolis & Walsh, 2003). Another related argument centres on the mechanisms through which CSR enhances

directly the firm's value. CSR activities reduce the occurrence of negative externalities, and therefore, decrease any associated costs (Crilly & Jiang 2016; Tang & Gekara, 2020).

A close examination of CSR research finds roots in neoclassical economics. The search reveals the existence of opposing arguments. There seems to be a broadly shared understanding of CSR as an administrative burden, which causes unnecessary costs (Bhardwaj et al., 2018; Fiandrino & Tonelli 2021; Hamdoun at al., 2021; McWilliams & Siegel, 1997; Xu et al., 2018). Indeed, contradictory empirical evidence of a positive, negative, curvilinear or even a neutral relationship substantially strengthens the ongoing debate around the effects of CSR on the firm's financial performance. In this light, a substantial body of research has been dedicated to unravelling the causes of these contradictory results. For Waddock and Graves (1997), the contradictory results appear due to an important causation issue. CSR can be both a predictor and a consequence of financial results, creating what they call as a "virtuous circle".

While solving this puzzle has concurred the research on CSR to a great extent, over the past decade, researchers have also started to investigate the antecedents of CSR. A number of subsequent studies have provided arguments similar to those of Waddock and Graves (1997), shedding light on the role of slack resources on the engagement in CSR activities. As portrayed in each of these studies, firms might increase their engagement in secondary (non-market-related activities) activities, such as CSR, when the availability of financial resources increases (e.g., Surroca et al., 2010; Zhang, Wang, & Jia, 2021). Following a similar logic, other studies have considered firm performance as an important contextual variable to affect the engagement in CSR. In this strand of research, the basic argument is that high firm performance allows firms to divert the focus from short-term financial objectives to social objectives (García-Sánchez & Martínez-Ferrero, 2019; Mattingly & Olsen, 2018; Melo, 2012).

The above arguments propose a behavioral explanation to the decision to undertake socially responsible activities. But many anecdotal accounts of strategic decisions are difficult to reconcile with this logic. For example, Nike, an American multinational athletic apparel and footwear corporation, has one of the world's poorest CSR reputations, largely due to its indifference to human and labour rights (e.g., in the late 1990's,

Nike was accused of using sweatshops in the manufacturing of its products) (Tekle, 2020). However, Nike is one of the largest and most profitable companies in the world. Such an example thus presents researchers with a puzzle: Why do some well-performing firms deliberately choose to refrain from CSR activities?

A possible answer is that what good performance means in practice is not necessarily straightforward. Research on behavioral theory suggests that decision makers evaluate performance by referring to aspiration levels. Aspiration levels enable evaluations by transforming continuous measures of performance into discrete measures of success or failure (Greve, 2003; Joseph, Klingebiel, & Wilson, 2016). The study here departs from prior studies in the field by arguing that CSR decisions may be framed by these aspiration levels. This elaboration, we argue, has important implication for theoretical and empirical research on CSR. For instance, by identifying how performance relative to aspiration levels differs across firms, informs why, given a high level of performance, some firms may intensify while others may decrease their CSR activities.

2.2 Behavioral Theory of the Firm and Performance Aspirations

According to the behavioral theory of the firm, organizations strive to reach their aspirations. To evaluate their performance, firms make certain comparisons with these aspirations. The process of evaluating performance relative to aspirations has led to propositions concerning how these evaluations affect strategic decision-making (Gavetti et al., 2012). To this end, performance deviations were found to exert significant influence on outcomes ranging from strategic positioning (Audia et al., 2000) to resource management actions (Sirmon et al., 2010).

In brief, prior research has demonstrated that performance below aspirations may increase the firm's involvement in strategic actions aimed at improving performance (Chen & Miller, 2007; Eggers & Suh, 2019; Iyer & Miller, 2008). In contrast, performance above aspirations has been shown to reduce involvement in these actions (Smulowitz, Rousseau, & Bromiley, 2020). Researchers have also reported that performance relative to aspirations can influence strategic actions by altering the allocation of attention (March, 1989). Specifically, performance that exceeds aspirations can direct the firm's focus towards either previously unexploited opportunities (Zahra, 2005) or secondary (non-market-related) activities, which are given lower-priority and are

often overlooked (Greve, 2008; Greve & Gaba, 2017; Smulowitz, Rousseau, & Bromiley, 2020). Whereas performance below aspirations is often tied to strategic actions that are short-sighted and can bring immediate returns (Kavusan & Frankort, 2019; Rudy & Johnson, 2016).

Behavioral theorists argue that firms compare their current performance with two aspiration levels, namely historical and social aspiration levels (Joseph & Gaba, 2015). Historical aspiration levels, on the one hand, refer to the past performance of the firm and can inform prediction about future performance (Joseph & Gaba, 2015). Social aspiration levels, on the other hand, reflect performance comparisons with comparable peer organizations (Massini et al., 2005). The firm's aspirations may rise either when their current performance exceeds their past performance or when their performance exceeds the performance of comparable peer organizations. On the contrary, the firm's aspirations fall either when their own performance declines or when their performance lags behind the performance of comparable peer organizations. Accordingly, a firm's performance minus its aspiration level is a measure of relative performance that can be used to separate the regions of gain from the regions of loss (Hu et al., 2011).

Although both historical and social aspiration levels provide thoughtful ways to evaluate observed performance, they may differ significantly (Kim, Finkelstein, & Haleblian, 2015). Historical aspiration levels, on the one hand, are easily accessible and accurate because they are history dependent and reflect a firm's capabilities and resources (Audia & Greve, 2006). Social aspiration levels, on the other hand, allow for benchmarking (Fiegenbaum & Thomas, 1995), but pervasive causal ambiguity characterizes them. Phenomenologically, this difference is manifested in the fact that historical aspirations have an internal locus of causality, which enables firms to gather superior information associated with a wide range of strategic actions. This information allows executives to incorporate evolving realities into their capabilities and resource evaluation (Levinthal & March, 1981). In contrast, the locus of causality for social aspirations tends to be outside of the firm. To formulate precise evaluations of their own capabilities and resources, firms need to know how other firms achieved the observed performance. However, the information needed to do so is often private knowledge available only to peer firms (Kim & Miner, 2007; Menon & Pfeffer, 2003). Indeed,

empirical findings on the influence of historical and social aspirations do not always converge. For example, some studies demonstrate that historical aspirations have more significant effects than social aspirations (e.g., Audia & Greve, 2006; Greve, 2003; Shipilov et al., 2011), and vice versa (e.g., Harris & Bromiley, 2007).

3. Hypotheses Development

Due to the inherent differences in the origin and quality of information of historical and social performance feedback, we theorize and hypothesize the existence of differential effects on the firm's decision to engage in secondary (non-market-related) activities, such as CSR. As noted earlier, according to the BTOF, managers are expected to pay attention to secondary (non-market-related) activities when performance is above aspiration levels, while their attention may shift towards more short-sighted activities that can bring immediate returns when performance is below aspiration levels (Joseph & Gaba, 2015). We posit, however, that the firm's decision to intensify or decrease its current course of CSR activities may not be as straightforward as the current literature would have us believe. Considering the different cognitive and organizational processes that underlie historical and social aspirations should provide valuable insights into how managers shift their attention from market-related and/or short-sighted activities to secondary/non-market-related activities, such as CSR, and vice-versa. Drawing on this reasonable assumption, we develop the below hypotheses that focus on each of the positive and negative performance-aspiration discrepancies independently and clarify what is the influence of each discrepancy on the firm's decision to engage in CSR. The conceptual model of the study is illustrated in Figure 1.

Figure 1 about here

3.1 The differential effects of historical and social aspirations on CSR engagement

Broadly speaking, a performance that exceeds aspiration levels is traditionally thought to be highly motivational. In fact, such performance tends to boost a firm's future expectations and shifts its aspiration level

upward (Kim et al., 2015). Managers in this situation, therefore, may feel significant pressure to achieve even higher performance (Kim et al., 2015). As prior research suggests managers confronted with these levels of performance may be consistently motivated to intensify the firm's current course of action as a means to further increase its performance (Tversky & Kahneman, 1974). There are reasons, though, to expect that managers, whose firms enjoy performance that exceeds historical aspirations, in particular, may reduce their focus on CSR activities. First, as previous arguments have discussed, historical aspirations are based on the firm's past performance and they closely reflect how efficiently the core capabilities and resources of the firm were used to pursue financial goals (Kim, Finkelstein, & Haleblian, 2015). These performance benchmarks are easy to interpret. A firm with high performance, in terms of historical aspirations, has often a good understanding of the processes that led to success and thus, clear knowledge as to how its core capabilities and resources have been utilized to achieve financial goals (Baum and Ingram, 2002; Kim, Finkelstein, & Haleblian, 2015). However, the financial benefits that stem from secondary activities, such as CSR, are often invisible and distant in time (McWilliams & Siegel, 2011). To put it simply, the causal links between the resources and capabilities associated with CSR activities and current firm performance are less transparent than the causal links between the firm's resources and capabilities associated with other core business activities and current firm performance. The latter resources and capabilities, therefore, should produce stronger commitment by managers when evaluated in terms of their prospective contribution to a firm's future performance (Kim, Finkelstein, & Haleblian, 2015). At the same time, the immediate costs that CSR activities may impose on firms are usually highly transparent (McWilliams & Siegel, 2011). Consider, for example, the feedback received from a decision to engage in CSR. Administrative costs quickly increase, producing a clear and unambiguous outcome (e.g., administrative burden). Nevertheless, the positive performance consequences of this action are hard to observe at least in the short-run, even when historical performance feedback is readily available. In reality, it might be relatively easy to evaluate how the firm's core capabilities and resources contribute to financial performance, but quantifying the additional value contributed by socially responsible activities is significantly harder (McWilliams & Siegel, 2011). This is because the financial benefits of CSR may stem indirectly from other

intangible benefits, such as a positive change in corporate culture or a further decrease in accident rates in a company that is already relatively safe (Velasco Vizcaíno et al., 2021; Zwetsloot, 2003). This is coupled with the fact that CSR activities require diverting resources from the core business activities of the firm that are visibly successful in producing positive performance outcomes especially when historical aspirations are employed as a focal performance benchmark (Shea & Hawn, 2019). For all these reasons, when managers evaluate the current activities of their firms, they would develop an expectation that additional performance enhancements may accrue by reducing the firm's CSR activities. Therefore, this perspective supports H1a.

Hypothesis 1a: As performance rises above historical aspiration levels, the firm's engagement in CSR activities decreases.

However, while performance above aspirations promotes the firm's persistence in its current course of action, a performance that falls below aspiration levels, in general, can result in a downward adjustment of the estimation of their value (Kim et al., 2015). In fact, performance below aspiration levels suggests that the firm was unable to achieve what it had been normally able to achieve in the past and thus, creates the need for changes that could subsequently improve performance. In this context, a performance that falls below historical aspirations, in particular, does not only send signals indicating that the firm's capabilities and resources were used less than efficiently in pursuing financial goals, but also enables firms to make accurate inferences about what went wrong (Kim, Finkelstein, & Haleblian, 2015). As a result, managers whose firms performed below that level would be compelled to make targeted "corrective" adjustments in an attempt to improve the efficiency of those capabilities and resources that performed less than optimally. Under these circumstances, CSR activities may be particularly helpful as they can support targeted adjustments (Colquitt et al., 2001; Hannah et al., 2021). For example, developing more CSR programs may help in better aligning incentives between firms and employees by appealing to their general justice perception (Colquitt et al., 2001). Being more socially conscious also can help firms gain a better reputation. This, in turn, can facilitate the development of new strategic resources through obtaining and sustaining legitimacy (Bansal & Roth, 2000), charging premiums for products and/or services (Klassen & McLaughlin, 1996), recruiting and retaining quality

employees (Greening & Turban, 2000), and attracting investors and capital providers (Mackey, Mackey, & Barney, 2007). Therefore, intensifying CSR efforts might assist the evolution or adjustment of core organizational competencies (Kaplan & Henderson, 2005). This potential benefit of CSR may be particularly appealing when managers have a clear view as to how they should navigate potential changes in the core resources and capabilities, which in turn, can rectify performance shortfalls (Bansal & Roth, 2000; Mackey, Mackey, & Barney, 2007). More broadly, intensifying the CSR initiatives of their firms may be an attractive option for managers who seek to access critical stakeholder resources, which can be especially crucial for firms that strive to make a targeted change in their core resource/capability base (Hannah et al., 2021). Therefore, this perspective supports H1b.

Hypothesis 1b: As performance falls below historical aspiration levels, the firm's engagement in CSR activities increases.

Performance above social aspirations is also expected to heighten motivation for further increasing firm performance, but by providing different feedback in terms of quality. Compared to historical aspiration levels, which provide clear feedback on how effectively the firm's core capabilities and resources have been utilized, social aspiration levels offer little information given that the locus of causality for social aspirations tends to be outside of the firm. Indeed, social aspiration levels allow for performance comparison with comparable peer organisations through benchmarking (Fiegenbaum & Thomas, 1995)—a technique that organizations use to judge their performance via comparisons with outsiders (Valdes-Perez, 2015). For example, Xerox started using benchmarking in 1979 with the aim to determine whether their Japanese counterparts are performing better (Tucker et al., 1987). To identify superior performance among their comparable peer organizations, Xerox relied on trade journals, consultants, annual reports, and other easily available company publications that provide gross indicators of performance, such as return on assets (ROA)—a universally recognized measure for identifying the well-managed companies (Tucker et al., 1987). Although a company can take some high-level performance insights from benchmarking, this technique sheds little light on what to do to change that situation (Bendor-Samuel, 2020). Also, given their external focus, social aspiration levels are characterized by causal

ambiguity. Specifically, they offer limited insights into how the firm's current performance matches its core capabilities and resources, or how its core capabilities and resources compared to those of peers are being benchmarked (Kim, Finkelstein, & Haleblian, 2015). In fact, because performance above social aspirations may often mask the causes of good performance, managers should be less able to detect how the firm's core capabilities and resources have been utilized to achieve financial goals. Managers also have a limited understanding of which core resources and capabilities lead to the observed comparative performance advantage and thus, are superior to those possessed by their peers (Baum & Ingram, 2002; Kim, Finkelstein, & Haleblian, 2015). The same assertion also applies to CSR activities, as the financial benefits that capabilities and resources associated with these activities generate are invisible and distant in time. Specifically, their contribution to the performance advantage of the firm tends to be equally unknown. This implication of CSR is the same irrespective of the particular benchmark ultimately used to evaluate firm performance. In fact, when none of the firm's current capabilities and resources can be analyzed in terms of their contribution to performance, executives might shift their focus from these capabilities and resources to the outcomes themselves (i.e., the good performance) (Conell & Cohn, 1995; Porac et al., 1999). In the context of performance that exceeds social aspirations, therefore, favorable outcomes should become the central focus and thus, should increase managers' confidence in the current course of action adopted by their firms. This coupled with the fact that firms who enjoy performance that exceeds aspiration levels feel significant pressure to achieve even higher performance (Morrow et al., 2007), can prompt managers to increase uncritically their commitment to the particular recipe that led to the favorable outcomes (Hannan & Freeman, 1977; Kim, Finkelstein, & Haleblian, 2015). Accordingly, because CSR is part of this recipe, managers should be willing to increase their firms' commitment to CSR initiatives. Therefore, this discussion informs H2a.

Hypothesis 2a: As performance rises above social aspiration levels, the firm's engagement in CSR activities increases.

Again, the standard logic is that performance below aspirations will increase the need for "corrective" adjustments that can potentially rectify performances that are inferior to those of peers (Kim, Finkelstein, &

Haleblian, 2015). While poor performance compared to aspirations makes "corrective" adjustments desirable, the feedback received from a performance that lags behind social aspirations does not adequately justify which adjustments can be most effective in achieving better performance outcomes. As discussed earlier, performance relative to social aspirations provides no clarity as to how peer organizations achieved the observed levels of performance (Kim, Finkelstein, & Haleblian, 2015). Accordingly, a performance that lags behind social aspirations tends to disguise the causes of the poor performance and makes it difficult for managers to identify ways of improvement (Baum & Ingram, 2002). As prior studies suggest such a lack of clarity as to which "corrective" actions should be implemented might push managers to turn their focus on strategies that can potentially generate immediate returns as a means to offset prior losses (Conell & Cohn, 1995; Hamel & Prahalad, 1994; Porac et al., 1999). Some examples of such strategies include increasing price discounts, introducing more lenient credit terms, and/or overproducing to lower the cost of goods sold while increasing the firm's operating margins. Accordingly, because the benefits of CSR activities are often invisible and distant in time, while they require diverting scarce resources to social initiatives, managers might respond to performance shortfalls relative to social aspirations by reducing commitment and thus, spending on these activities (Cohen & Zarowin, 2010). Indeed, reducing spending on CSR activities can provide immediate cost advantages and therefore, can potentially compensate for low performance at least in the short run (Bhardwaj et al., 2018; Fiandrino & Tonelli, 2021; McWilliams & Siegel, 1997; Xu et al., 2018). Therefore, this perspective supports H2b.

Hypothesis 2b: As performance falls below social aspiration levels, the firm's engagement in CSR activities decreases.

4. Methodology

4.1 Sample and data collection

The sample of the study is collected from the Environmental, Social and Governance factors (ESG) database provided by Morgan Stanley Capital International (MSCI). MSCI ESG Indices are the continuation of indices

developed by Kinder, Lydenberg, and Domini (KLD). KLD Indices became part of MSCI in June 2010. The database has information available for over 650 publicly traded firms. Specifically, it includes data for all companies on the Russell 3000®. The dataset includes companies of various sizes and in various industries, and it has been regarded as the most comprehensive dataset available to measure CSR (e.g., Choi & Wang, 2009). These are the most commonly and extensively used data on CSR, and have been shown to be valid measures (Mattingly & Berman, 2006; Muller & Kräussl, 2011).

Financial and corporate data were obtained from Standard and Poor's (S&P) COMPUSTAT. Given that prior literature suggests that the characteristics of top executives, and especially CEOs, affect intangible decisions like engagement in CSR (Chatterjee & Hambrick, 2007), we merge these data with information on top executives from proxy statements and other public data fillings provided by the EXECUCOMP database. The data cover the period between 2010 and 2017. After excluding for missing data, this procedure yielded a final sample of 3,090 firm-year observations that include 405 unique U.S. firms.

5. Measures

5.1 Measurement of CSR Engagement

Consistent with prior studies, we measured CSR engagement based on five qualitative issue areas: community, diversity, employee relations, environment, and product (e.g., Choi & Wang, 2009; David et al., 2007). KLD provides annual binary ratings for 32 CSR strengths and 31 CSR concerns. Although a few prior studies have constructed a single measure by subtracting total concerns from total strengths (e.g., Manner, 2010; Slater & Dixon-Fowler, 2009), the study measures CSR engagement as the sum of strengths across the above five qualitative issue areas. The KLD index score is computed as follows:

$$Total\ strengths\ community\ +\ total\ strengths\ diversity$$
$$+\ total\ strengths\ employee\ relations\ +\ total\ strengths\ environment$$
$$+\ total\ strengths\ product$$

This approach is line with prior studies that considers KLD strengths to be consistent with acting socially responsible (e.g., Husted et al., 2016) and prior research that treats KLD strengths and concerns as distinct empirical constructs (e.g., Godfrey et al., 2009; Price & Sun, 2017; Strike et al., 2006). To account for the distinct influence of CSR concerns, we use the sum of concerns across these five qualitative issue areas as control variable in all our models. Table 2 illustrates the KLD dimensions used in this study and the strength/concern areas.

Table 2 about here

5.2 Measurements of Performance Relative to Aspirations

As our performance measure, we use return on assets (ROA) calculated as the ratio of net income to total assets (e.g., Tang et al., 2012). Given our focus on CSR engagement, we use ROA because prior studies have repeatedly demonstrated its influence on socially responsible activities (e.g., Tang et al., 2012). ROA is an accounting-based measure which was found to be a better predictor of CSR than other frequently used market measures. Since perceptions of CSR are vastly considered as firm-specific, accounting measures of return are expected to be more sensitive to these perceptions than measures which reflect systematic market trends (Tang et al., 2012). Considering that the different performance measures represent different aspects of firm value, however, in our supplemental analysis section, we confirm the robustness of our analysis by using an alternative market-based measure of firm performance namely Tobin's Q (see below). Given that most studies in the field employ ROA or Tobin’s Q (e.g., Hull & Rothenberg, 2008; Kang, Germann, & Grewal, 2016; Petrenko et al., 2016; Price & Sun, 2017), we use both performance measures to enable meaningful comparisons of our results with these studies. Table 3 illustrates key CSR studies employing ROA and/or

Tobin's Q as performance measures, the operationalization of the measures used, and the underlying rational for using these measures.

Table 3 about here

To measure current historical aspirations, we take the classic weighted moving average of a firm's performance history (Levinthal & March, 1981). Specifically, the following function represents historical aspiration:

$$Historical\ Aspiration_{it} = a * Performance_{it-1} + (1 - a) * Historical\ Aspiration_{it-1}$$

where, $Historical\ Aspiration_{it}$ is the historical aspiration level of firm i at time t, $Performance_{it-1}$ is the performance in terms of the ROA of firm i at time $t - 1$, and a is an adjustment parameter that denotes the relative importance of the previous aspiration level versus the actual prior performance. Such a specification implies that higher a gives greater weight to more recent than to more distant performance. Following Joseph and Gaba (2015), we estimate the value of a by searching over all possible values of a in increments of 0.1. In our models, we use a fixed value of a ($a = 0.75$).

We then proceed to build our social aspirations measures by calculating the average performance of firms that belong to a relevant peer group based on their SIC code (Audia & Greve, 2006). We define the relevant peer group as the group of firms in a given year that had the same SIC code as the focal firm. Specifically, our social aspiration measure of firm i at time t is given by the following function:

$$Social\ Aspiration_{it} = \sum_{j \neq i} Performance_{jt}/N$$

where, $Performance_{jt}$ is the performance in terms of the ROA of competitor j at time t and N is the total number of the firm's i competitors. (The focal firm has been excluded from the relevant calculations).

The study employs a spline function to estimate the difference between performance and aspirations (e.g., Audia & Greve, 2006). Consistent with prior studies on performance relative to aspirations (e.g., Harris et

al., 2010), we construct separate variables for performance above and performance below aspirations. To make easier the interpretation of the respective models, we produce the absolute values of all types of performance-aspiration discrepancies (above and below historical and social aspiration). Performance above aspirations was measured by subtracting the measurement of (Historical/Social) $Aspiration_{it}$ from ROA_{it}. On the opposite direction, performance below aspiration was measured by subtracting ROA_{it} from (Historical/Social) $Aspiration_{it}$. Next, we replace all negative values with zero, while leaving all other values unaffected (positive values and zero) (see e.g., Kuusela et al., 2017). We avoid inclusion of historical and social aspiration measures in our models due to serious multicollinearity with our main explanatory variables.

5.3 Control variables

To minimise the possibility that omitted variables drive findings, we include several control variables in our models. The logarithmic transformation of the number of employees (*Employees*) was included to account for the firm's size. According to Borghesi, Houston, and Naranjo (2014), larger versus smaller firms have more resources to engage in CSR activities. Because a firm's debt ratio reflects financial constraints that force executives to shrink expenditures associated with social activities to ensure the continuing support of debt holders (Brammer & Millington, 2008), we account for the firm's debt ratio by including the ratio of long-term debt to assets (*Debt ratio*) in our models. Given that slack resources were also found to influence the firm's engagement in CSR (e.g., Surroca et al., 2010), we control for slack resources (*Available Slack*) measured as the ratio of current assets to current liabilities. Also, we control for research and development intensity (*R&D Intensity*) measured as R&D investments divided by the firm's annual sales, because R&D is a key primary objective, commonly viewed as an alternate use of firm resources. Given also that R&D intensity and CSR engagement are important components of a firm's differentiation strategy, they are often expected to be positively correlated (McWilliams & Siegel, 2000). To account for the possibility that KLD analysts' assessments of a firm's social responsibility strengths are affected partly by the firm's advertising campaigns, we control for contemporaneous changes in advertising expenses *(Advertising Intensity*) calculated as the ratio of advertising expenses to total assets (Flammer, 2015).

The study also controls for a set of CEO characteristics. Given that views about the importance of corporate social responsibility may vary with age, we controlled for *CEO age*. We include CEO tenure (*CEO Tenure*) coded as the number of years since the CEO first assumed the position. Fabrizi et al. (2014) posit that CEOs with shorter versus longer tenure tend to engage more in CSR activities, because they have to influence the market's beliefs about their ability to manage the firm. Given that CEO compensation has been reported to be positively associated with engagement in CSR (e.g., Mahoney & Thorne, 2005), we account for the CEO compensation (*CEO Compensation*). We measured this variable as the logarithm of the average of the total compensation including: (1) base salary in cash, (2) cash bonus, (3) long-term or deferred income, including stock options, performance unit or share plans and long-term management incentive plans. To account for potential links between CEO duality and decreased levels of CSR engagement (Chen et al., 2008), we further control for *CEO duality*. We coded the variable as a 1 if CEO is also a chairman of the board and 0 otherwise.

We control for the industry concentration ratio (Industry Concentration Ratio), because a lower industry concentration is likely to intensify market competition. Firms confronted with greater levels of market competition may increase their CSR engagement because they increasingly depend on various stakeholders for resources (Tang et al., 2015). We compute the Herfindahl–Hirschman index of industry concentration as the sum of squared market shares of all companies in a given SIC industry and year. In addition, we include industry dummies to account for idiosyncratic CSR trends. Industries have been found to vary significantly across the differentiation strategies that follow. Firms in younger industries tend to engage in a range of alternative differentiation strategies that compete with CSR activities (Brammer & Millington, 2008). Last, we include year dummies to alleviate the risk of correlation across firms in the error term and to control for unobserved time effects (Roodman, 2009). All control variables are lagged by one year.

6. Method and Results

To test the hypotheses, the study uses a fixed effects estimation model, accounting for robust clustered standard errors (SE) at the firm level. This model accounts for stable firm characteristics and thus, enables us to identify

if our arguments apply to within-firm changes in performance-aspiration discrepancies. This, along with the inclusion of year dummies and lagged values of our main independent and control variables can strengthen our ability to make causal inferences from our data. Table 4 includes the descriptive statistics and correlation matrix for the main variables used in this study. The maximum value of the variance inflation factor (VIF) was 3.18, well below the cut-off point of 10 (Ryan, 1997). This finding indicates that multicollinearity was not a serious problem in this study.

Table 4 about here

Table 5 reports the findings. Model 1 presents the results of the control model. Model 2 adds the four independent variables for performance-aspiration discrepancies: *Performance – above historical aspiration; Performance – below historical aspiration; Performance – above social aspiration;* and *Performance – below social aspiration*.

H1a and H1b predict that as performance rises above and falls below historical aspiration levels, the firm's engagement in CSR activities decreases and increases, respectively. As expected, the results in Model 2 reveal that the coefficient of *Performance – above historical aspiration* is negative and significant (b=-2.706, SE=0.736), while the coefficient of *Performance – below historical aspiration* was found to be positive and insignificant (b=0.058, SE=0.768). Therefore, these findings offer support for H1a, but not for H1b.

H2a and H2b suggest that as performance rises above and falls below social aspiration levels, the firm's engagement in CSR activities increases and decreases, respectively. In Model 2, we find that *Performance – above social aspiration* and *Performance – below social aspiration* have a positive and significant (b=2.719, SE=0.830) and a negative and insignificant (b=-0.336, SE=0.942) effect on CSR engagement, respectively. Thus, H2a receives support, while H2b does not. These estimates provide only support for our theoretical prediction that as performance rises above historical aspiration levels firms are likely to decrease their CSR

engagement while, as performance rises above social aspiration levels firms are likely to increase their CSR engagement.

Table 5 about here

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7. Supplemental Analysis

We conducted supplemental tests to check if our results are sensitive to alternative specifications. First, because we employ an unbalanced panel, we check if our results are robust to the correction for sample selection. We treat this issue by adopting the procedure suggested by Wooldrigde (1995). First, we estimate the likelihood of engaging in CSR for each year by using a probit model and we calculate the inverse Mills ratio. In the first–stage equation, we include slack resources, industry level CSR, and industry dummy variables. Different institutional cues, like social activities undertaken by peers in the same industry, affect firms when setting the level of their social engagement (Raffaelli & Glynn, 2014). Industry level CSR was calculated as the average CSR strengths in each industry. Industry dummies were included because prior findings show that firms in different industries demonstrate different patterns of social engagement (e.g., Wang et al., 2008). Next, we estimate a fixed-effects panel data specification where we introduce the inverse Mills ratio. We find that the inverse Mills ratio is statistically significant in Model 3. This result justifies the inclusion of the variable to correct for the firm choice to engage in CSR. After the inclusion of the inverse Mills ratio as control, the results remain qualitatively similar increasing confidence in our main findings.

Second, we estimate our main explanatory variables by using an alternative market-based performance measure: Tobin's Q. Tobin’s Q is a forward-looking measure that reflects future profitability (Broadstock et al., 2019, Jayachandran et al., 2013). Given that CSR is likely to influence future rather than current profitability rates, we expect that executives will draw on future profitability expectations to make informed conjectures about the optimum level of CSR engagement (Nekhili et al., 2017). We adopt Chung and Pruitt’s (1994) method to compute Tobin's Q. Results from this analysis are consistent with our main findings. The effects of

both *Performance – above historical aspiration* and *Performance – above social aspiration*, however, are significant at a 0.05 level instead of a 0.01 level reported in the main analysis. Further, the effect of *Performance –below social aspiration* becomes marginally significant (see model 4). Perhaps our findings reflect this, since CSR activities offer some legitimacy benefits but uncertain economic returns, they might also trigger more pessimistic expectations of future profitability, which are reflected in the significance of the coefficient estimated for *Performance – below social aspiration*.

Third, we choose to consider two alternative measures of CSR engagement. In particular, we follow Manner (2010) and construct the KLD index by subtracting total CSR concerns from total CSR strengths. We also follow Slater & Dixon-Fowler (2009) in constructing the KLD index as the sum of strengths across seven instead of five qualitative issue areas. Specifically, we consider two further areas: human rights (i.e., positive record in South Africa; indigenous people's relations strength; labour rights strength; other strengths) and corporate governance (i.e., limited compensation; ownership strength; transparency strength; political accountability strength; other strength). Models 5 and 6, with the alternate measures of CSR, yield similar results.

Last, we tested the stability of the influence of our focal independent variables. As Kang, Germann, and Grewal (2016) demonstrate firms may engage in CSR to mitigate any adverse consequences of corporate social irresponsibility (CSI) incidents previously occurred. By modelling, therefore, only performance relative to aspirations and CSR, we may not be able to tease out potentially important effects resulting from CSI (Kang, Germann, & Grewal, 2016)[1]. To account for these effects, we include four interaction terms in our base model (i.e., *Performance – above historical aspiration X CSR concerns; Performance – below historical aspiration X CSR concerns; Performance – above social aspiration X CSR concerns; Performance – below social aspiration X CSR concerns*). In model 7, all interaction terms are insignificant. Further, the effects of our main independent variables are qualitatively similar to those obtained with the base model. These extended model

[1] We thank an anonymous reviewer for directing us to this interesting insight.

results point to the overwhelming influence of performance that exceeds both historical and social aspirations. Overall, our sensitivity analyses showed that our findings are robust to alternative specifications.

8. Discussion and Conclusions

The key question of how to explain the firms' engagement in socially responsible activities motivated the present study. Drawing on the behavioral theory of the firm, and particularly on performance feedback, we tested the influence of discrepancies between CFP and aspirations on the decision to engage in CSR. Our findings highlight the importance of performance feedback in stimulating varying firm decisions when setting the level of their social engagement. Our empirical evidence shows that as financial performance rises above historical aspiration, the firm's engagement in CSR activities decreases, whereas as financial performance rises above social aspiration, the firm's engagement in CSR activities increases.

8.1 Theoretical Implications

The findings, when taken together, offer a variety of theoretical contributions. First, focusing on performance relative to aspirations enabled us to identify a previously unrecognized reason for the firm's decision to increase or decrease its engagement in socially responsible activities. Whereas prior conceptual work has noted that firm performance will always lead to higher engagement in socially responsible activities (e.g., Melo, 2012; Tang et al., 2015; Tang et al., 2018), the reasons why some studies find apparently contradictory results have remained unclear (e.g., Husted et al.,2016; Yuan et al., 2020). We address this gap by stressing the necessity to differentiate between historical and social aspirations and by establishing that firm performance that exceeds these aspiration levels does not affect isomorphically the patterns of social engagement. This alternative view suggests that high firm performance may not always lead to higher engagement in social responsibility; it also can prohibit executives from shifting their attention to social initiatives. According to our theorizing, the quality of information that those two performance benchmarks entail can determine the attention given to social activities (e.g., Kim et al., 2015). In support of this view, we find that performance that exceeds historical aspirations can lead to less engagement in CSR activities. We reconcile this finding with past work

which finds that high past performance may often increase corporate illegality (e.g., Mishina et al., 2010). Since corporate illegality resides on one end of a continuum wherein CSR occupies the opposite end (Carroll & Brown, 2018), high past performance should also hinder adoption of CSR initiatives. By attending to differences between historical or social aspirations (e.g., Kim et al., 2015), our theory helps to clarify when good performance boosts and when good performance hinders CSR engagement, thereby advancing understanding about the role of performance benchmarks on evaluations of CSR practices.

Second, we contribute to the behavioral theory of the firm and particularly, to financial performance feedback by examining the theory in the context of social activities. To the best of our knowledge, no prior study so clearly demonstrates the differential effects that performance feedback might exert on the decision to engage in secondary (non-market-related) activities, such as CSR. Most previous studies have mainly focused on primary strategic objectives (e.g., R&D, new product development, geographic diversification). While our results corroborate previous findings that high past performance reinforces existing strategies (Haleblian et al., 2006; Smulowitz, Rousseau, & Bromiley, 2020), they also demonstrate how alternative performance benchmarks can stimulate opposing firm responses. Like Kim, Finkelstein, and Haleblian (2015), who examined the firm's acquisition behavior, we also found that historical and social aspiration levels do not affect firm's behavior regarding secondary activities, and particularly, engagement in CSR, in a uniform fashion, as most of the previous studies suggest (e.g., Baum et al., 2005; Harris & Bromiley, 2007). For instance, financial performance that exceeds the firm's historical aspiration was found to dampen the firm's engagement in CSR. On the contrary, financial performance that exceeds social aspirations was found to positively influence the firm's engagement in CSR. These insights offer a more nuanced understanding of the relationship between CFP and the decision to engage in CSR, by clarifying important distinctions between different performance benchmarks that may explain varying firm responses to social pressures. Therefore, they shed light on why firms exhibit varying interpretations of achievement—an issue that has received very little attention in prior empirical research (an exception as previously discussed is Kim et al., 2015).

Our reasoning for these opposing interpretations of achievement is that the quality of information that historical and social aspirations entail differ significantly (e.g., Kim et al., 2015). Social aspiration levels are more ambiguous and therefore, more difficult to interpret than historical aspiration levels because they often mask the causal links between capabilities and performance. Therefore, when organizations evaluate performance relative to social aspirations are only able to observe the outcomes themselves rather than the processes that led to those outcomes (Conell & Cohn, 1995; Porac et al., 1999). When performance exceeds social aspiration levels, focusing merely on the outcomes, can shift managers' attention to CSR activities. In such cases, the effect of making a prior decision to engage in CSR may increase the propensity to devote more effort toward this activity. On the contrary, when performance exceeds historical aspirations, organizations are frequently better able to understand how and which firm capabilities and resources have been utilized effectively (Baum & Ingram, 2002). In fact, executives might pay less attention to CSR when they have a relatively good understanding of the organizational capabilities that led to success. Because the benefits that stem from secondary activities, such as CSR, are often invisible and distant in time, managers may decide to reframe from additional investments in CSR and to focus more on those resources and capabilities that have proven to be successful in value adding.

These differences lead to an additional contribution of our study, that is, to provide new insights into the antecedents of CSR activities by focusing on the firms' relative, rather than absolute, financial performance. The CSR literature (e.g., García-Sánchez & Martínez-Ferrero, 2019; Mattingly & Olsen, 2018; Melo, 2012; Surroca et al., 2010) has largely focused on providing behavioral explanations for the firms' decision to engage in socially responsible activities, but has overlooked the factors that motivate firms to allocate excess resources to these secondary activities and those that lead to deviations from doing so. Our study fills this gap by showing that signals stemming from different performance benchmarks can cause seemingly varying interpretations of achievement and therefore, opposing firm responses. The most important implication of these findings is that without considering discrepancies between performance and different aspirations, previous literature (e.g.,

Melo, 2012; Tang et al., 2015; Tang et al., 2018) may have overgeneralized or mis-specified the effect of past performance on the decision to engage in CSR activities.

Overall, this study reinforces observations that historical and social aspirations are not created equal (e.g., Bromiley & Harris, 2014; Kim, Finkelstein, & Haleblian, 2015; Kuusela, Keil, & Maula, 2017; Washburn & Bromiley, 2012). Our results corroborate previous findings. For example, Kim, Finkelstein, and Haleblian (2015) show that as financial performance rises above historical aspiration, the probability of making a subsequent acquisition decreases, whereas as financial performance rises above social aspiration, the probability of making a subsequent acquisition increases. One possible explanation for the similarities between the results of this study and the results of the above study may be related to the nature of our outcomes. Just as CSR, acquisitions require major resource commitments (Pablo et al., 1996), but are generally discretionary in nature (Wan & Yiu, 2009). These activities might differ significantly from other primary activities as they entail two conflicting levers that executives must concurrently evaluate (Orlitzky et al., 2003). For example, engagement in CSR can give firms a differentiation advantage against their peers (Pil & Rothenberg, 2003), but also a disadvantage since it leads quickly to significant increases in expenditures (McWilliams & Siegel, 1997). These contradicting expected outcomes may stimulate interpretations of signals stemming from discrepancies between performance and aspirations that differ significantly from those directed to primary strategic objectives. This is because they may potentially contribute, depending on how enlightening the performance feedback received is, to more optimistic or pessimistic expectations of future profitability.

8.2 Managerial Implications

From a managerial perspective, the study highlights the importance of financial success in deciding upon the optimal level of social engagement. Decision-makers might often use financial performance excesses estimated based on the financial performance of the focal firm to justify their choices regarding cutting back investment in CSR. The boards of directors must recognize these attempts and put policies in place to deter decision-makers from holding back CSR funds. Further, in the case of success, the board of directors can promote the

use of financial performance comparisons based on the performance of industry peers to direct decision-makers attention to enhancing rather than reducing the firm's CSR engagement.

Further, our study shows that financial performance excesses estimated based on the performance of the focal firm and the performance of industry peers have very different implications for the trade-off between managerial perceptions of return associated with CSR. An explicit understanding of this trade-off could be important for decision-makers in gaining a better sense of the firm's investment in CSR. Our findings also imply the need for moving away from financial indicators when deciding upon levels of CSR engagement. Instead, a societal understanding of CSR that focuses on the impact of the firms' operations through stakeholder concerns might be a much more fruitful avenue for increasing CSR engagement than the focus on financial indicators.

9. Limitations and Future Research

As with all studies, this study also has its own limitations. The focus only on firms in the United States is a limitation. These firms may exhibit a number of idiosyncrasies that might limit the generalizability of our results. For instance, prior studies (e.g., Hillman & Hitt, 1999; Waddock, 2004) document that U.S. firms develop strong political ties that lead to increased levels of corporate political activism. These ties may inflect the level of CSR engagement upward artificially. It would be worthwhile to examine whether our findings hold elsewhere.

Next, the composite CSR engagement measure employed in this study deserves further investigation. For instance, do the influences of performance-aspiration discrepancies vary across different corporate social responsibility dimensions? This question is theoretically important as the conceptual distinction of CSR dimensions demonstrates the relative salience of different CSR activities (Saridakis, Angelidou, & Woodside, 2020). As previous studies suggest each of these activities indicates an alternative way that firms use to manage their relationships with different stakeholders (e.g., Chang, Kim, & Li, 2014; Clarkson, 1995). Because each stakeholder could have different demands in terms of financial performance and social performance, we would

expect that the relationship between different performance aspirations and CSR engagement might be subject to the different CSR activity examined each time (e.g., Chang, Kim, & Li, 2014; Saridakis, Angelidou, & Woodside, 2020). Effort to closely examine these relationships, by using different dimensions of CSR, is thus a promising avenue for research.

Further, other firm-level factors may affect the relationship between performance feedback and CSR engagement. For example, the firms' moral character (e.g., Freeman & Auster, 2011) might lead to alternative interpretations of performance feedback, altering its effect on the firm's CSR engagement. Future studies should provide a detailed understanding of how firms' moral character could potentially moderate this relationship. Last, due to data limitations, underlying organizational processes influencing the firm's engagement in CSR such as the level of ambiguity (quality of information) and risk perceptions associated with each type of performance feedback are proposed but not tested directly. Future research should further investigate such underlying causal processes by using different methodological approaches such as experimental designs.

Also, we focused on the influence of performance evaluations relative to historical and social aspirations individually. Whereas the focus on each individual benchmark can establish an important difference in firm's response to social initiatives, it may mask more fine-tuned evaluations, where managers pay attention to both performance benchmarks simultaneously. An interesting avenue for future research would be to assess whether these two modes of performance comparisons are theoretically and empirically distinct and how the simultaneous evaluation of performance relative to these modes affects the firm's engagement in CSR initiatives.

Finally, on the measurement front, we estimated performance discrepancies by comparing with social aspirations, which were measured as the average performance of firms that belong to the main industry in which the focal firm operates. Although this measurement is consistent with prior studies (e.g., Audia & Greve, 2006; Joseph & Gaba, 2015; Kuusela, Keil, & Maula, 2017), empirical work suggests that some firms might operate across many industries simultaneously (e.g., Santalo & Becerra, 2008; Tanriverdi, 2006; Xue, Ray, &

Sambamurthy, 2012). There is the possibility, therefore, that managers evaluate firm achievement by comparing firm performance with that of peer organisations who belong in multiple industries. Future research will benefit from developing a more fine-grained measure for social aspirations that reflects this fact.

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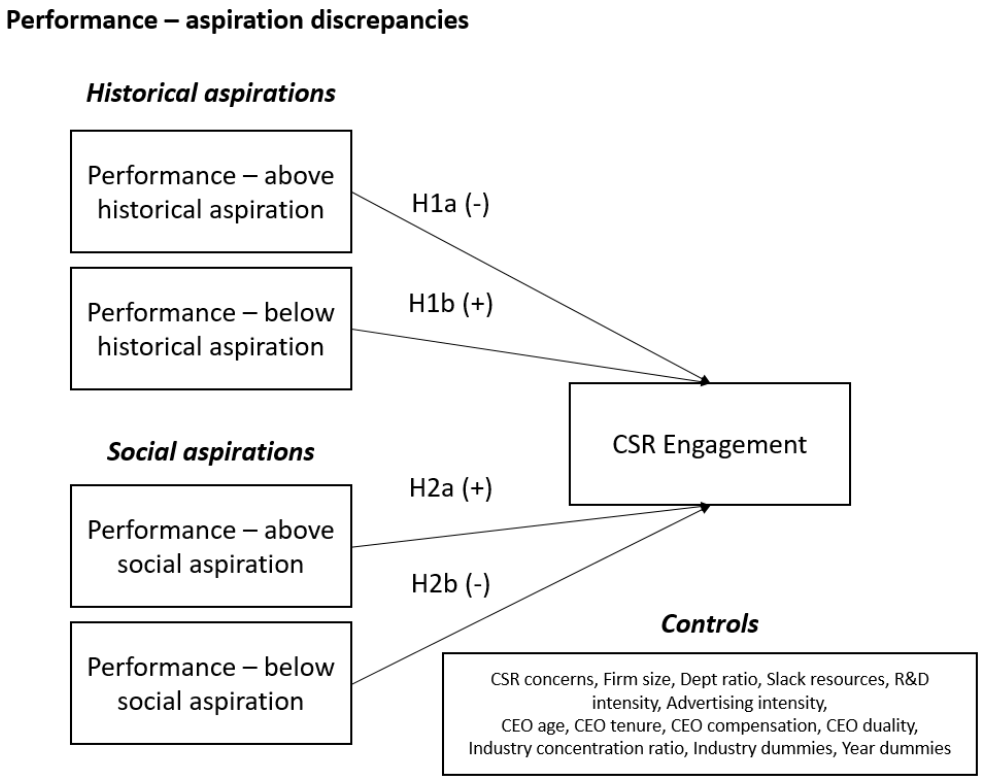

Figure 1. Conceptual model

Table 1. Review of research on the relationship between CSR and CFP

Research	Data	Key findings	Sign of the relationship	Theorizing around the effect of the independent variable	Use the dependent variable merely as control	Use of actual values of performance
		Studies examining CSR→CFP				
Lev, Petrovits, & Radhakrishnan (2010)	Secondary sources: National Center for Charitable Statistics (NCCS) Core Trend Private Foundation Data Extract; COMPUSTAT; Thomson Reuters 13F filings database	Corporate giving has a positive and significant impact on performance	+	✓	×	✓
Surroca, Tribó, & Waddock (2010)	Secondary sources: Sustainalytics Platform database; COMPUSTAT	CSR is positively and significantly related to CFP	+	✓	×	✓
Al-Shammari, Banerjee, & Rasheed (2021).	Secondary sources: KLD database; COMPUSTAT EXECUCOMP; GMI database; I/B/E/S database	CSR is positively related to firm performance	+	✓	×	✓
Callan & Thomas (2009)	Secondary sources: KLD database; COMPUSTAT	A positive and significant relationship exists between CSP and CFP	+	✓	×	✓
Wei et al. (2020)	Secondary sources: KLD database; COMPUSTAT; ACSI databases; Center for Research in Security Prices (CRSP)	Firms can earn rewards for CSR	+	✓	×	✓

Aupperle, Carroll, & Hatfield (1985)	Primary sources (survey data)	There is insufficient evidence to support the claim that socially responsible firms perform better than other firms	?	✓	×	✓
Vance (1975)	Primary sources (survey data)	CSR is determined not to be a good investment for firms; negative correlation between CSR and CFP	-	✓	×	✓
Makni, Francoeur, & Bellavance (2009)	Secondary sources: MJRA database; Stock Guide database; Canadian Financial Market Research Center (CFMRC) database; TSX – CFMRC	A better environmental performance is associated with poor short run CFP	-	✓	×	✓
Lopez, Garcia, & Rodriguez (2007)	Secondary sources: Dow Jones Secondary sources: Sustainability Index (DJSI); AMADEUS; corporate disclosures available on the Internet	The effect of sustainability practices on performance indicators is negative	-	✓	×	✓
Hillman & Keim (2001)	Secondary sources: KLD database; Ster Stewart Performance 1000 database	Social issue participation is negatively related to shareholder value creation	-	✓	×	✓
Hu et al. (2021)	Secondary sources: RANKINS database; Shanghai and Shenzhen stock exchanges; The Win.d database	CSR issues about corporate information transparency, as well as the standardization and integrity of annual reports are	-	✓	×	✓

		negatively related to firm performance				
		Studies examining CFP→CSR				
Tang et al. (2015)	Secondary sources: KLD database; COMPUSTAT; EXECUCOMP; the Investor Responsibility Research Center (IRRC) and I/B/E/S databases.	There is a positive relationship between financial performance and social activities; firms with better financial performance can afford to engage in CSR	+	×	✓	✓
Tang et al. (2018)	Secondary sources: KLD database; COMPUSTAT; BoardEx databases; archival data; news articles	There is a positive and significant relationship between financial performance and CSR	+	×	✓	✓
Husted, Jamali & Saffar (2016).	Secondary sources: KLD database; COMPUSTAT; the U.S. Census Bureau's Gazetteer city files	There is a negative and significant relationship between financial performance and CSR	-	×	✓	✓
Yuan, Lu, Tian, & Yu, Y. (2020)	Secondary sources: KLD database; COMPUSTAT	The relationship between CFP and CSR is negative and significant	-	×	✓	✓
Melo (2012)	Secondary sources: KLD database; COMPUSTAT	Past financial performance, positively affects CSR	+	✓	×	✓

Table 2. KLD dimensions and strength/concern areas

Dimension	Strength areas	Concern areas
Diversity	-Assignment of a woman or minority CEO -Promotion of women or minority employees -Assignment of women or minority board of -directors -Work/Life benefits -Women & minority contracting -Employment of the disabled -Gay & lesbian policies -Other strengths	-Controversies and discrimination issues -Non-Representation of women or minorities -Other concerns
Employee relations	-Union relations -Cash profit sharing -Employee involvement -Retirement benefits -Health and safety issues -Other strengths	-Union relations -Health and safety issues -Work force reductions -Other concerns
Product	-Product quality -R&D/Innovation -Benefits to economically disadvantaged consumers -Other strengths	-Product safety issues -Controversial marketing/Contracting practices -Antitrust -Other concerns
Environment	-Sustainable products and services -Pollution prevention -Recycling -Use of clean energy -Sustainable management systems -Other strengths	-Use of hazardous waste -Regulatory problems -Use of ozone depleting chemicals -Substantial emissions -Use of agricultural chemicals -Impact on climate change -Other concerns
Community	-Charitable giving -Innovative giving -Non-US charitable giving -Support for housing -Support for education -Volunteer programs -Other strengths	-Investment controversies -Negative economic impact -Tax disputes Other concerns

Table 3. Key CSR studies employing ROA and/or Tobin's Q as performance measures

Study	Performance measure	Operationalization of performance measure	Underlying rational
Petrenko et al. (2016)	ROA & Tobin's Q	ROA: net income divided by assets at t. Tobin's Q: calculated by dividing the firm's market value by firm's asset replacement costs and Market Value Added (MVA), calculated by subtracting capital (i.e., the debt and shareholders' equity invested in the firm) from the equity market valuation of the firm.	ROA: a widely accepted measure of operational performance that captures the effects on the performance of firm operations caused by CSR decisions. Tobin's Q: provides an approximation of the stock market's estimation of the firm's net present value.
Hull & Rothenberg (2008)	ROA	ROA: net income divided by total assets.	ROA: represents the profitability of the firm with respect to the total set of resources, or assets, under its control. Strategy involves the use of resources to give the company a competitive advantage and ROA yields the most direct information about the results of the chosen allocation of those resources.
Price & Sun (2017)	Tobin's Q	Chung and Pruitt's (1994) method as follows: Tobin's Q: (MVE + PS + DEBT)/TA; where MVE is the firm market value at the end of the financial year (stock price x share outstanding); PS is the liquidation value of outstanding preferred stock; DEBT is the difference between short-term liabilities and assets + book value of inventories + long-term debt; and TA is the book value of total assets.	Tobin's Q: prominent forward-looking indicator that reflects shareholder expectations of the firm's future performance. It is also a combination of multiple firm performance items such as sales, profit, cash flow, and earnings volatility, providing reliable evidence about the firm. Last, it is an objective measure rather than managers' subjective conclusion regarding firm performance and as such, is a preferred measure of the true value of the firm.
Kang, Germann, & Grewal, (2016)	Tobin's Q	Chung and Pruitt's (1994) method as above.	Tobin's Q: Compared with accounting-based financial performance measures such as return on assets (ROA), which only capture short-term performance, it is a more appropriate financial performance measure to understand the benefits as well as potential costs of a firm's social performance.

Table 4. Descriptive Statistics and Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) CSR	1.000															
(2) CSR concerns	0.423	1.000														
(3) R&D intensity	0.022	-0.090	1.000													
(4) Advertising intensity	0.071	-0.022	-0.058	1.000												
(5) Historical aspirations_above	-0.050	0.025	0.094	-0.003	1.000											
(6) Historical aspirations_below	-0.030	0.001	0.105	-0.001	-0.157	1.000										
(7) Social aspirations_above	0.099	0.047	-0.038	0.029	0.241	-0.138	1.000									
(8) Social aspirations_below	-0.070	0.005	0.220	0.020	-0.040	0.769	-0.264	1.000								
(9) Employees (logged)	0.515	0.443	-0.265	0.000	-0.116	-0.110	-0.014	-0.092	1.000							
(10) Debt ratio	0.103	0.116	-0.152	0.082	-0.031	0.021	-0.023	0.057	0.248	1.000						
(11) Available slack	-0.154	-0.168	0.205	-0.060	0.027	0.036	0.069	-0.024	-0.418	-0.285	1.000					
(12) CEO tenure	-0.138	-0.121	0.035	-0.073	-0.052	-0.015	-0.003	-0.057	-0.163	-0.158	0.170	1.000				
(13) CEO compensation (logged)	0.352	0.180	-0.002	0.010	-0.031	-0.112	0.023	-0.133	0.464	0.245	-0.229	-0.164	1.000			
(14) CEO age	0.007	0.030	-0.097	-0.092	-0.053	-0.032	-0.032	-0.014	0.127	0.058	-0.019	0.359	0.034	1.000		
(15) Industry concentration ratio	-0.229	-0.135	0.333	-0.018	0.109	0.081	0.035	0.111	-0.494	-0.272	0.314	0.114	-0.319	-0.098	1.000	
(16) CEO duality	0.080	0.120	-0.059	0.030	-0.046	-0.048	0.009	-0.052	0.143	0.047	-0.067	0.279	0.056	0.269	-0.047	1.000
Mean	1.28	0.79	0.20	0.03	0.02	0.03	0.03	0.03	0.82	0.21	2.47	7.63	3.57	56.27	2269.95	0.43
S.D.	2.10	1.31	4.97	0.04	0.07	0.08	0.05	0.09	0.57	0.21	2.10	7.17	0.46	7.21	76784.12	0.50

Table 5. Regression models Predicting CSR Engagement

	Model (1) Fixed effects regression model-only controls	**Model (2)** Fixed effects regression model-Main effects	**Model (3)** Fixed effects regression model-Main effects with correction for sample selection	**Model (4)** Fixed effects regression model-Main effects with Tobins q	**Model (5)** Fixed effects regression model-Main effects with dependent variable calculated based on Manner (2010)	**Model (6)** Fixed effects regression model-Main effects with alternative dependent variable calculated based on Slater & Dixon-Fowler (2009)	**Model (7)** Fixed effects regression model-Moderation effects of CSR concerns
CSR concerns	0.373***	0.385***	0.344***	0.377***		0.369***	0.4139***
	(0.068)	(0.068)	(0.068)	(0.068)		(0.054)	(0.71)
R&D intensity	-0.834***	-0.763***	-0.971***	-0.713***	-0.509***	-0.739***	-0.789***
	(0.196)	(0.203)	(0.178)	(0.155)	(0.187)	(0.183)	(0.198)
Advertising intensity	4.084**	5.488*	4.664*	5.990**	3.538	3.682	5.321*
	(1.939)	(2.844)	(2.705)	(2.823)	(2.771)	(2.619)	(2.826)
Employees (logged)	1.414**	1.052*	1.288**	1.050*	0.199	0.677	1.194**
	(0.612)	(0.565)	(0.570)	(0.550)	(0.488)	(0.473)	(0.572)
Debt ratio	-0.125	0.025	-0.182	-0.018	-0.335	-0.228	0.003
	(0.383)	(0.400)	(0.377)	(0.403)	(0.388)	(0.418)	(0.408)
Available slack	0.002	0.001	0.118***	-0.004	-0.032	-0.032	0.005
	(0.022)	(0.024)	(0.032)	(0.025)	(0.030)	(0.028)	(0.024)
CEO tenure	0.012	0.010	0.013	0.009	0.008	0.002	0.009
	(0.014)	(0.015)	(0.015)	(0.015)	(0.011)	(0.011)	(0.015)
CEO compensation (logged)	0.103	0.096	0.106	0.069	0.170	0.166	0.092
	(0.112)	(0.121)	(0.113)	(0.123)	(0.113)	(0.113)	(0.121)
CEO age	-0.015	-0.014	-0.013	-0.014	-0.012	0.001	-0.016
	(0.013)	(0.014)	(0.014)	(0.014)	(0.011)	(0.011)	(0.014)
Industry concentration ratio	-0.000*	-0.000***	-0.000**	-0.000***	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
CEO duality	0.127	0.158	0.159	0.154	-0.039	-0.083	0.173
	(0.151)	(0.154)	(0.154)	(0.155)	(0.126)	(0.134)	(0.154)
H1a: Performance – above historical aspiration		-2.706***	-2.591***	-0.161**	-1.475**	-2.191***	-1.572*
		(0.736)	(0.726)	(0.075)	(0.587)	(0.597)	(.816)
H1b: Performance – below historical aspiration		0.058	0.130	0.089	0.215	-0.491	0.784
		(0.768)	(0.752)	(0.061)	(0.752)	(0.708)	(0.808)
H2a: Performance – above social aspiration		2.719***	2.890***	0.137**	2.272***	2.900***	1.869*
		(0.830)	(0.832)	(0.055)	(0.826)	(0.802)	(0.993)

H2b: Performance – below social aspiration		-0.336	-0.244	-0.310*	-1.016	-0.815	0.093
		(0.942)	(0.917)	(0.170)	(0.868)	(0.848)	(1.137)
Performance – above historical aspiration X CSR concerns							-1.078
							(0.744)
Performance – below historical aspiration X CSR concerns							-0.869
							(0.721)
Performance – above social aspiration X CSR concerns							0.750
							(0.755)
Performance – below social aspiration X CSR concerns							-0.361
							(0.851)
Inverse Mills ratio			-3.166***				
			(0.568)				
Constant	0.656	0.855	2.829***	1.059	0.858	0.388	0.78
	(0.904)	(0.938)	(0.960)	(0.933)	(0.896)	(0.845)	(0.943)
Industry dummies	Included	Included	Included	Included	Included	Included	Included
Year dummies	Included	Included	Included	Included	Included	Included	Included
Obs.	3090	2947	2947	2945	2947	2947	2947
R-squared	0.202	0.218	0.246	0.215	0.061	0.266	0.223
F	13.45	13.55	16.61	14.72	17.92	14.69	12.94

Standard errors are in parenthesis
*** p<0.01, ** p<0.05, * p<0.1