

The integration of CSR-related strategies into firms' decision making

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5. Conclusions

In this dissertation, I investigate firms' choices of incorporating CSR-related strategies. Over the last decade, there has been an increasing emphasis on socially responsible corporate activities around the world. In addition to economic profit creation, firms are expected to incorporate the needs of the environment and society into their business operations (KPMG 2013). Although firms' claimed commitment to CSR has increased over time, investors often feel skeptical towards the disclosed CSR activities. As there are no uniform criteria to evaluate and monitor firms' CSR performance, CSR strategies are often criticized to be a marketing tool, instead of being rooted in firms' internal decisions (e.g. Gray et al. 1995; Laufer 2003; Simnett et al. 2009; Eccles and Krzus 2010; KPMG 2011; Casey and Grenier 2014). The inconsistency between firms' internal and external CSR activities can lead to conflicts and ultimately weakens the credibility and the effectiveness of CSR strategies' outcomes (Weaver et al. 1999; Basu and Palazzo 2008; Yuan, Bao and Verbeke 2011).

I investigate three aspects related to firms' internal CSR strategies. In my first study, I investigate whether firms "practice what they preach" in terms of their employee dismissal decisions. Specifically, I investigate whether firms with a stronger claimed CSR orientation fire fewer employees when sales decrease than firms with a weaker claimed CSR orientation. I further investigate firms' dismissal decisions in more extreme situations where firms are pressured to meet earnings benchmarks. In my second study, I focus on how firms combine different CSR-related strategies, i.e. whether these CSR-related choices are made simultaneously, or whether they are determined independently from each other. I examine the interdependence between the choices of CSR disclosures and CSR contracting. In my third study, I investigate whether firms incorporate director experience with using CSR contracting in other firms when the focal firm adopts CSR-based performance measures in executives' incentive contracts. The section that follows discusses the findings of each of these three studies, followed by the main contributions, limitations and potential avenues for future research.

5.1. Summary

This dissertation analyses firms' internal and external CSR-related choices including CSR disclosure, CSR contracting and employee dismissal decisions. In chapter two, I investigate whether firms practice what they preach in terms of their declared CSR orientation. Specifically, I investigate whether firms with a stronger claimed CSR orientation fire fewer employees in response to a sales decrease. KLD ratings collect information from firms' disclosed CSR reports, websites and media disclosures. Therefore, the KLD database is often considered as capturing firms' words. I thus use KLD ratings to proxy for firms' claimed CSR orientation. As employees are often considered as the most important stakeholder of the firm, the way in which the firm treats its employees is thus an important signal of the firm's internal CSR practices (Pfeffer 2010; Shen and Benson 2016). I use firms' employee firing decisions when sales decrease to proxy for firms' internal CSR practices. I find that compared to those with a weaker claimed CSR orientation, firms with a stronger claimed

CSR orientation fire fewer employees when sales decrease. Furthermore, the differences regarding firing decisions between firms with a stronger and weaker claimed CSR orientation are amplified in myopic situations where firms are to meet earnings targets. My findings suggest that on average, firms practice what they preach in terms of CSR decisions. These findings are consistent with behaviour integrity theory (e.g. Simons 2002) and suggest the validity of KLD data as a proxy for firms' internal CSR decisions.

Despite increasing disclosure on CSR aspects, firms are frequently suggested to incorporate CSR-based performance measures in executive compensation contracts. However, there is little understanding of how firms adopt CSR contracting in CEO annual incentives. In chapter four, I examine the effect of director experience on the focal firms' adoption of CSR-based performance measures. I argue that CSR-based performance measure adoption imposes a distinct challenge on potential adopters. One important information channel is experienced directors who have used such performance measures in other firms. However, this information is only valuable for true adopters who care about the efficiency of CSR performance measures. I find a positive association between director experience and the likelihood of CSR performance measure adoption. I further show that the reliance on director experience is stronger when focal firms are in more information demand. This indicates that in general, firms are incorporating information from experienced directors when adopting CSR contracting. My findings suggest that director experience is one way to cope with uncertainties in innovative performance measurement systems.

While chapter two and chapter four look into firms' CSR-related disclosure and CSR contracting separately, in chapter three, I take one step back and investigate whether a relationship between external and internal CSR actions exists and which form this relationship takes. I find that CSR disclosures and CSR contracting are complements, as they both demonstrate a strong CSR orientation of the firm to the market. Further, firms that have a strong CSR orientation but face higher credibility concerns show stronger complementarity between the two strategies and are more likely to use both strategies intensively. This study is linked to and extend the other two chapters by showing that firms interactively use strategies to deal with internal and external stakeholders.

5.2. Contribution and Implications

I have discussed the contributions of each individual study separately in the corresponding chapters. However, I would like to highlight some of the key contributions of this dissertation overall. First, this dissertation contributes to the debate of credibility issues regarding CSR practices. The CSR literature has long discussed the difficulty to monitor and verify firms' CSR practices (Simnett et al. 2009; Cohen and Simnett 2014). Due to the fact that CSR activities are often voluntarily implemented, and there is a lack of uniform criteria to evaluate CSR declarations, firms' announced CSR practices are often criticized for being symbolic or greenwashing (e.g. Laufer 2003; Lydenberg 2002). In contrast to this argument, my findings suggest that in general firms' CSR-related practices are not symbolic. In chapter two, I provide large-sample evidence that firms' claimed CSR orientations are reflected in their internal CSR decisions. In chapter four, I show that firms are incorporating relevant

information from experienced directors when adopting CSR performance measures, which suggests that the trend of CSR contracting adoption does not arise due to firms' symbolic attempts. In chapter three, I find a complementarity between CSR disclosures and the use of CSR-based performance measures in executives' incentive contracts. I further find that firms in industries facing high credibility issues show stronger complementarity between the two mechanisms. These findings again testify that credibility is an important issue related to CSR and that firms interactively use internal and external CSR strategies to address this concern.

Second, from the perspective of internal coherence (defined in Chapter one), firms are expected to incorporate announced CSR strategies into their internal business operations. However, very few studies explore whether and how CSR is integrated into firms' internal practices (Yuan, Bao and Verbeke 2011). My studies show that firms do achieve an internal coherence with respect to their CSR decisions. First, I show that firms' internal CSR practices are aligned with their externally claimed CSR orientation. My finding suggests that when firms are considering their CSR strategies, they not only communicate their CSR orientation to outside stakeholders, but also factor these orientations into their internal decisions. This therefore indicates an internal consistency between firms' internal business operation and firms' claimed CSR orientation. Second, in contrast to most research that investigates internal and external CSR choices separately, my studies view the choices of CSR strategies from a perspective of systematic coherence. I show that firms are incorporating the interdependencies that exist between CSR practices when making CSR-related decisions. This indicates the achievement of internal fit with respect to CSR-related choices.

Third, this dissertation contributes to the growing stream of management accounting literature on innovative performance measures. While this dissertation shows the incorporation of CSR performance measures in executive compensation contracts, my findings are not limited to CSR, but can be generalized to complex and innovative performance measures as well. For instance, my findings highlight the importance of individual experience in reducing uncertainties associated with innovations in performance measurement systems. My findings also provide evidence on the effectiveness of performance measurement systems in communicating firms' orientations and strategies.

5.3. Limitations and Future Research

As with any study, this dissertation is subject to certain limitations that provide avenues for future research. While I have discussed limitations of each study in the previous chapters, I would like to discuss common limitations of all chapters here. First, in all the three studies, I focus on CSR-related internal practices and strategies. For instance, in chapter two, I examine firms' firing decision in response to a sales decrease, which can be viewed as a reflection of firms' attitudes towards internal stakeholders. In chapter three and four, a common variable I use is the incorporation of CSR-based performance measures in executives' incentive contracts. Grabner and Moers (2013) demonstrate that the relative benefits of one organizational choice can be influenced by the use of another organizational choice. While my current studies focus on CSR-related choices, it might be that firms' non-CSR-related strategies are adjusted as well when CSR-related strategies are in place. Examining how firms

adapt strategies with different orientations and related consequences could be an interesting avenue to follow. Future research can explore how firms combine long-term and short-term oriented tasks. This process might not be achieved at once but progresses dynamically.

Furthermore, my dissertation shows the effectiveness of performance measurement systems in communicating firms' orientations and strategies. For instance, the use of CSR performance measures can be viewed as a signal that the firm is incorporating CSR orientation into its internal business operations. Future research may investigate whether and how performance measurement systems can change outsiders' perception about the firm, and what the consequences are of this change of perception.