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

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Corporate social responsibility has attracted a growing attention from various stakeholder groups, including investors, customers, top executives of firms as well as regulators of industries. As mentioned by the latest KPMG Survey of Corporate Social Responsibility Reporting, there are an increasing number of firms that voluntarily disclose their CSR-related strategies in stand-alone CSR reports. CSR issues covered by these reports varies from concerns of environmental protection to the wellbeing of labors, and from an emphasis of customer health and safety to a welfare creation of broader community and civil society. While increasing CSR disclosure improves transparency of firms’ long-term oriented strategies, investors often hold a skeptical opinion towards such unregulated information. More importantly, it seems difficult for investors and other stakeholders outside a firm to understand whether and how firms integrate CSR initiatives in decision making.

The three studies in this dissertation investigate firms’ internal choices of CSR related strategies, i.e. employee dismissal decision and CSR contracting in executives’ annual incentives. As indicated by previous chapters, for a firm to successfully implements its CSR orientation, merely focusing on CSR-related disclosure or simply viewing CSR issues isolate from business operations might not be sufficient. It is equally important for the firm to integrate its CSR orientation when making decisions. However, despite numerous papers on CSR topic, most of prior research focuses on CSR disclosure or CSR assurance (e.g. Dhaliwal et al. 2011; Simnett et al. 2009). Therefore, it is very hard for outsiders such as practitioners, regulators and investors to understand whether firms’ internal practice is aligned with their CSR orientation. In this dissertation, I focus on two important internal choices, employee dismissal and CSR contracting, and find that in general, firms’ external disclosure is consistent with internal choices. Specifically, when firms are under pressure of meeting earnings benchmarks, firms with stronger claimed CSR orientation are less likely to fire employees to boost profits. In addition, rather than treating CSR disclosure and CSR contracting separately, I show that firms are more likely to consider these two choices from a systematically consistent perspective. The findings of my studies provide important insights of what firms are doing with respect to internal and external CSR decisions. Recognizing patterns of firms’ CSR-related choices can not only depict a more complete picture to wide stakeholders outside the firm, but also bring a better understanding of a firm’s CSR impact.

Further, with increasing recognition of the importance of CSR, firms are suggested to incorporate CSR performance measures in their executives’ annual incentive contracts. As the saying goes, “what gets measured gets done”. By using CSR performance measures in CEO compensation contracts, CEOs are expected to allocate resources and efforts to improve performance on CSR dimensions. However, as indicated in previous chapters, the design of CSR contracting may impose distinct challenges on the board. I show that firms may rely on directors’ experience of using CSR performance measures in other firms to make the decision of adopting CSR contracting. Moreover, this reliance becomes stronger when firms are in situations where they demand more information related to CSR contracting. These findings have important practical implications on several aspects: First, the practice of CSR contracting can be influenced by firms’ financial environment and stakeholder diversity. In other words, firms with different contexts may have different cost-benefit trade-offs of CSR.
contracting. Simply adopting CSR performance measures without analysing firms’ contextual characteristics may lead to symbolic adoption. Second, while firms are encouraged by investors, regulators and active NGOs to integrate CSR criteria into executive performance evaluation, creating a better information environment regarding how pioneer adopters cope with uncertainties associated with CSR contracting may enhance the effectiveness of CSR contracting, for instance, increasing firms’ awareness of potential challenges and thus mitigating these issues.

Furthermore, the findings of my dissertation may help firms to improve the efficiency of CSR-related decisions. Specifically, as indicated in previous chapters, I find that firms’ CSR disclosure and CSR contracting complement each other, jointly serving the purpose of sending a credible signal of CSR strategies. I argue that the costs and benefits of one CSR-related choice such as disclosure may influence the costs and benefits of another such as CSR contracting. Designing CSR-related strategies systematically may help firms simultaneously respond to inside and outside stakeholders and thus enhance legitimacy with respect to CSR.

To sum up, the three studies of my dissertation respond to the call of investigating the integration of CSR-related choices in firms’ decision. Overall, my findings can improve the understanding of the consequences and interrelationship of firms’ internal and external CSR decisions. My studies have direct practical implications for firms, investors and regulators. By publishing the findings in academic and practitioner oriented journals or by presenting the findings at various workshops, this dissertation can provide a more complete picture of firms’ CSR-related decisions to both academics and practitioners, and improve firms’ effectiveness of designing CSR-related strategies.