Descriptive, Instrumental and Strategic Approaches to Corporate Social Responsibility:  

Do they Drive the Financial Performance of Companies Differently?

Giacomo Boesso (Corresponding author)  
Department of Economics and Management,  
University of Padova (Italy)  
E-mail: giacomo.boesso@unipd.it  
Ph.: + 39 049 827 3844  
Fax: + 39 049 827 4211

Kamalesh Kumar  
Professor of Business Strategy  
College of Business  
The University of Michigan-Dearborn (USA)  
E-mail: Kamalesh@umd.umich.edu  
Ph.: + 1 313 593-5214

Giovanna Michelon  
Department of Economics and Management,  
University of Padova (Italy)  
E-mail: giovanna.michelon@unipd.it  
Ph.: + 39 049 827 3773
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ABSTRACT

PURPOSE: The purpose of this study is to investigate whether the descriptive, instrumental, and strategic approaches to corporate social responsibility (CSR) are related to corporate performance (CP) and to determine the nature of this relationship, if any. Using data collected by KLD Research Analytics and Global Reporting Initiative (GRI), the study examines the association between companies’ choice of approaches to the CSR and CSR-CP relationship.

FINDINGS: Results of this study indicate that each of the three approaches to CSR—descriptive, instrumental, and strategic—are associated with CP, but in different ways. While the instrumental approach to CSR has a positive association with short-term measures of CP, the strategic approach is associated with short-term and medium-term measures of CP, and the descriptive approach has no definite association with CP at all.

ORIGINALITY: This study integrates the prevailing justifications for CSR with the taxonomy of approaches to CSR—instrumental, descriptive and strategic—suggested in the literature. It has been argued that these frameworks influence managers’ conception of what constitutes effective stakeholder management and make a difference in how decision makers in an organization think and act in crafting the company’s social initiatives and in deciding what the company aims to achieve through these initiatives. By examining the association between companies’ approaches to CSR and stakeholder management of the CSR-CP relationship, the study offers another perspective of the ongoing debate in the social accounting literature about the accountability relationships between business and society.

KEYWORDS: Stakeholder management, corporate social responsibility, corporate financial performance, approaches to CSR
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INTRODUCTION

Heightened attention to CSR has resulted in a significant increase in the resources that companies devote to supporting the demands of non-shareholding stakeholder groups (Porter and Kramer, 2011; Vitaliano and Stella, 2006). However, even as more businesses embrace CSR, evidence from practice continues to show that companies often treat CSR largely as an exercise in public relations, media campaigns, and reputation management (Chatterji, Levine, and Toffel, 2009; Tinker and Gray, 2003). Popular press and scholars alike have expressed reservations about the true impact of corporate social initiatives, noting that existing CSR practices and processes, “have little to do with extending accountability and amount to nothing more than exercise in stakeholder management and corporate spin” (Cooper and Owen, 2007, p. 650). On the other hand, from the corporate perspective, while companies are increasingly realizing that stakeholder perceptions can be critical to corporate performance (CP)—and sometimes even survival (Boesso and Kumar, 2007; Orij, 2010; Russo and Fouts, 1997)—CSR initiatives have come under closer scrutiny in terms of the business benefits received from supporting the demands of disparate groups of stakeholders. Given the recent financial crisis, accurate assessment of the benefits received from various CSR initiatives has taken on new importance, as corporate boards try to balance their companies’ social obligations with the pragmatic imperative of the most effective utilization of shrinking resources (Boesso and Michelon, 2010; Maines and Sprinkle, 2010).

Therefore, accurate measurement of the benefits received from CSR initiatives takes on added importance from both the companies’ and the stakeholders’ perspectives. It is not surprising, then, that the number of organizations and agencies that evaluate and rank companies on their corporate social performance (CSP) has increased in recent years. The reports and guidelines of some of the rating organizations, such as the Global Reporting Initiative (GRI) and Kinder,
Lydenberg, Domini Research and Analytics (KLD) attract considerable attention and publicity worldwide (Chatterji et al., 2009). The rating agencies seek to make a company’s social initiatives more transparent by analyzing the company’s plans and investments that purport to enhance future CSP. Such measures of CSR are important for both managers and stakeholders of a company since these measures have the potential to improve the level of organizational transparency and accountability and can even promote improved stakeholder relationships (Cooper and Owen, 2007).

Notwithstanding the potential benefits, scholars have expressed reservations about the ability of these reporting standards, guidelines, and rankings to influence corporate social behaviors constructively (Burrit and Schaltegger, 2010; Edgely, Jones, and Solomon, 2010; Gray, Owen, and Maunder, 1988; Chatterji, et al., 2009; Cooper and Owen, 2007; Moneva, Archel, and Correa, 2006; Tinker, Lehman, and Neimark, 1991). The social accounting literature has dealt with this issue at length and has critically evaluated the shortcomings of social audits, corporate social reporting, stakeholder dialogue reporting, and sustainability reporting and suggested ways in which these reports and rankings may contribute to heightened accountability and constructively influence corporate social behavior (e.g., Gray, 2002).

In creating the framework for this study, we argue that the tension and the dilemma in the practice of CSR emanate, at least in part, from the confusion about the nature and purpose of CSR and stakeholder management that resides in the literature itself. The CSR and related stakeholder management theories have been advanced and justified in the literature based on markedly different approaches—descriptive, instrumental and normative—each of which involves different arguments, considerations, and implications (Donaldson and Preston, 1995). More recently, Porter and Kramer (2006) proposed a new, integrative way of approaching the relationship between business and society, which they called the strategic CSR approach. The descriptive approach outlines specific corporate characteristics and behaviors and describes how managers manage the interests of corporate constituencies. It reflects and explains past, present, and future states of affairs of corporations and their stakeholders. The instrumental approach establishes a framework for
examining the connections between the practice of stakeholder management and the achievement of various CP goals. The normative approach involves the notion that all stakeholders’ interests are of intrinsic value; that is, that each stakeholder group merits consideration for its own sake and not because of its ability to further the interests of some other group, such as shareholders (Donaldson and Preston, 1995). The strategic approach to CSR, while anchored in the justifications made by the earlier schools of thought, offers a framework companies can use to identify the social issues that benefit stakeholders while simultaneously strengthening the companies’ competitiveness. It has been argued (Porter and Kramer, 2011) that such an approach to CSR will result in a symbiotic relationship between a company and its stakeholders since the success of the company and the success of the stakeholders become mutually reinforcing.

The net result of managers’ attempts to derive guidance from these approaches to CSR results in companies that follow diverse approaches to stakeholder engagement and CSR (Jones, Felps, and Bigley, 2007; Young and Thyil, 2008). Following the normative approach, companies try to act as good corporate citizens in ways that honor ethical values and respect people, communities, and the natural environment, irrespective of the impact of such actions on CP. A company that takes the descriptive approach focuses on transparent accountability, such as providing basic information on the indicators that comprise the TBL—social, environmental, and financial performance. Companies that adopt the instrumental approach to CSR attempt to engage those stakeholder groups that can influence CP, thus creating accountability relationships that help them accomplish mutually important goals, as efficiently as possible. Finally, companies that pursue a strategic CSR approach, focus on social issues that are closely tied to the company’s business and undertake social initiatives whose social and business benefits are large and distinctive. A company may choose one approach over the other or may combine different approaches to CSR, depending on what performance outcomes it aims to achieve from its CSR initiatives and stakeholder management.
In this study we examined the descriptive, instrumental and strategic approaches to CSR and the nature of their relationship to corporate performance. The normative approach was not considered because it involves assessing the value orientation prevalent in a company, which makes the company consider interests of all stakeholder groups, irrespective of the impact of such actions on corporate performance. Given the archival nature of the data set used in this study, which listed the corporate social performance of companies, we could not examine the normative approach to CSR and its association with CP. While we recognize the fact that including the normative approach would have added an important dimension to the discourse on CSR, the nature of data constrained us from doing so.

Despite the continuing debate, whether high level of social performance really leads to improved financial performance (Garcia-Castro, Arino, and Canela, 2010), the view that CSP and CP go hand in hand—has become commonplace in both the academic and professional communities. The conclusion that companies can improve their bottom line by responding to stakeholder concerns and acting in a socially responsible manner has been drawn on the basis of numerous empirical studies that have examined the CSR-CP relationship by correlating a company’s CSR initiatives with measures of CP. (See Orlitzky, Schmidt, and Rynes, 2003 for a meta analysis of corporate social and financial performance.) However, to the best of our knowledge, no study has examined the association between companies’ choice of approach to CSR and the CSR-CP relationship.

**OBJECTIVE OF THE STUDY**

The objective of this study is to determine whether the descriptive, instrumental, and strategic approaches to CSR are related to CP and what is the nature of this relationship, if any. In this study, an argument is made that the relationship between CSR and CP may be better understood by using the framework in the literature to examine the differences in the approaches companies adopt towards CSR. Using data collected by KLD and GRI during 2005, 2006, and 2007, the study examines whether companies that adopt an instrumental approach to CSR have improved CP in
terms of short-term measures and whether companies that adopt a descriptive approach to CSR have improved CP in terms of medium-term measures. Finally, the study investigates whether companies that combine the instrumental and descriptive approaches to CSR in a strategic way perform better in terms of both short-term and medium-term measures than do companies that adopt one or the other approach. Thus, the study offers yet another perspective of the ongoing debate in the social accounting literature about accountability relationships in CSR and stakeholder management.

THEORETICAL BACKGROUND

A review of the literature shows that, as contributions to stakeholder management and CSR have grown, they have also become diffused (Friedman and Miles, 2002). This section examines the prevailing justifications for CSR and integrates them within the taxonomy of approaches to CSR—normative, instrumental, descriptive and strategic—suggested in the literature (Donaldson and Preston, 1995). A series of hypotheses related to the company’s approach to CSR and their association with company performance are generated based on this integration.

Prevailing Justifications for CSR

Scholars have noted four primary schools of thought, each providing its own justifications for CSR (Husted, 2000; Porter and Kramer, 2006; Singer, 2010): moral obligation, sustainability, corporate reputation, and license to operate. The arguments behind the moral obligation approach are that companies have a duty to “do the right things” and to be “good citizens” in ways that honor ethical values and respect people, communities, and the environment (Falck and Heblich, 2007). The principle of sustainability emphasizes corporate stewardship of the environment and the community—that is, operating in ways that avoid behaviors that are socially and environmentally detrimental (Clement, 2005). The reputation argument encourages companies to pursue social responsibility initiatives as a way of building reservoirs of goodwill and of improving their images (Peloza, 2006). Finally, the license-to-operate approach views CSR as a way for companies to seek implicit or explicit approval from host governments, communities, or other stakeholders about issues related to the companies’ operations (Fombrun, 1996; Graves and Waddock, 1994).
One can relate the four justifications for corporate social initiatives to the approaches to CSR—descriptive, instrumental, normative, and strategic (Jones, et al., 2007). The moral obligation justification emanates from the normative approach to CSR since it prescribes how stakeholders should be treated based on some underlying moral or philosophical principles (Young and Thyil, 2008). The sustainability and license-to-operate views, on the other hand, follow the descriptive approach since they describe the behaviors of companies as they interact with stakeholders (Berman, Wicks, Kotha and Jones, 1999). These justifications also imply both mandatory and voluntary reporting of CSP. The reputation justification follows the instrumental approach in the sense that they contend that companies that create a compact with a carefully selected group of stakeholders will have competitive advantage over companies that do not. Finally, the strategic CSR approach is based on the arguments that good citizenship is a sine qua non of CSR (the moral obligation justification), and that companies need to be attuned to the evolving social concerns of stakeholders (license to operate view), and develop measurable corporate social goals; and track results over time (sustainability and reputation argument).

One can see from the discussion above that although a rich literature on CSR has emerged over the years, it does not offer clear practical guidance to managers in identifying, prioritizing, and addressing the myriad social issues that a company can address (Tinker, 1984). A company’s social initiatives often become diffused among numerous efforts aimed at responding to different stakeholder groups (Jones, et al., 2007), which is one reason that the companies’ social initiatives often look like a “hodgepodge of uncoordinated CSR and philanthropic activities…that neither make any meaningful social impact nor strengthen the company’s performance” (Porter and Kramer, 2006, p. 9).

CSR and Company Performance

Scholars have proposed various arguments about how a company’s social performance may influence its financial outcomes (Clarkson, 1995; Jones and Wicks, 1999; McWilliams, Siegel, and Wright, 2006; Wood, 1991). The most common view is that a high level of social performance
helps build good relationships based on mutual trust and cooperation with stakeholders, which enhances the firm’s performance. Researchers interested in the way companies interact with various stakeholders have generally tried to determine whether attending to the needs of the organization’s various stakeholders, beyond just shareholders, contributes to the company’s ability to gain and sustain a performance advantage. To this effect, a number of studies have examined the relationship between the level of a company’s social performance and corporate financial outcomes and have generally found that there is a positive association between the two. (For reviews see Laplume, Sonpar, and Litz, 2008; Margolis & Walsh, 2003; Orlitzky et al., 2003; Roman, Hayibor, and Agle, 1999.) However, there is still considerable debate about the nature of this relationship (Doh, Howton, and Siegel, 2010; Van Beurden and Gossling, 2008), and much more remains to be understood about this relationship (Choi and Wang, 2009; Coombs and Gilley, 2005).

**HYPOTHESES DEVELOPMENT**

Following the findings of prior research, we acknowledge that CSR can be “an efficient management strategy” (Baron, 2003) and an “investment in a company’s future” (Fombrun, 1996; Falck and Heblich, 2007), but we also argue that companies can adopt alternative approaches to this end. More specifically, we argue that the alternative approaches—the descriptive, the instrumental and the strategic approaches—suggested in the literature influence managers’ conceptions of what constitutes effective stakeholder management, so they affect how decision makers in an organization think and act in crafting the company’s social initiatives and defining what the company aims to achieve through these initiatives.

Even without previous empirical verification of the relationship between a company’s approach to CSR and CP, its adoption of one approach or the other to CSR can be linked to variations in CP outcomes through analytical arguments. According to stakeholder-agency theory (Hills and Jones, 1992), managers can be seen as the agents of all stakeholders. However, stakeholders differ among themselves with respect to the importance of their stake in the firm and their power vis-a-vis the managers (Greenley, Hooley, Broderik, and Rudd, 2004). Hills and Jones
(1992, p. 132) argued that there is “no reason to assume that stakeholder-agent relationships are in equilibrium at any particular time.” In fact, there is often considerable friction in the stakeholder-agent relationship because of “some stakeholders’ ability to retard equilibrating adjustments that are unfavourable to them” (Donaldson and Preston, 1995, p. 78). As a result stakeholders are drawn into relationships with company’s managers to accomplish mutually important goals as efficiently as possible. This would imply that managers may adopt an instrumental approach to stakeholder management with organizational performance outcomes designed to achieve short-run goals.

While such an approach may be questionable to some from the ethical and moral perspectives (Tinker et al., 1991), approaching CSR in an instrumental way can give a company advantages in identifying trends or changes in the market, allowing the company to act quickly to establish itself at the forefront of the change (Falck and Heblich, 2007). The instrumental approach to CSR and stakeholder management may also help the company build competencies proactively by improving its scanning skills, processes, and systems that increase the organization’s preparedness for change, turbulence, and crises (Orlitzky et al., 2003). However, when companies approach CSR and stakeholder management in an instrumental way, what they aim to achieve keeps changing (Greenley et al., 2004) because the performance goals that the company targets are the outcomes of preferences of one group or another based upon their ability to contribute to the goals the company is trying to achieve. Therefore, we propose:

**H1: An instrumental approach to CSR is associated with superior company performance in terms of short-term measures.**

When companies approach CSR in a descriptive manner, they try to satisfy the demands of multiple and diverse stakeholder groups and to pursue social initiatives that may or may not be directly related to corporate financial performance goals. Researchers have often described CSR initiatives that emanate from the descriptive approach as “investments” comparable to those made in R&D or employee training because such initiatives lead to future growth potential in the same way (Fombrun, 1996). For example, a sound relationship with employees, a stakeholder group, may
increase the firm’s ability to attract and retain employees and to increase employee commitment and effort, leading to improved efficiency and productivity (Colbert and Kurucz, 2007). Similarly, a good relationship with customers, another stakeholder group, may lead to a stabler and more attached customer base and enhance brand value (Clement, 2005). A good relationship with the community, yet another stakeholder group, may lead to positive community involvement in providing infrastructure and support for the company’s growth (Epstein and Widen, 2011; Burke, Logsdon, Mitchell, Renier, and Vogel, 1986).

To assure multiple and diverse stakeholder groups that their interests are being coordinated in ways that lead to favorable outcomes consistent with their expectations, a company would volunteer to participate in monitoring devices, such as CSR reporting and other public reporting mechanisms, beyond mandatory requirements. Although companies often employ a variety of communication mechanisms in their attempts to reach and engage in dialogues with various stakeholder groups, externally certified voluntary disclosure is the cornerstone of stakeholder reporting (Epstein and Birchard, 2000; GRI, 2006). GRI and other institutional bodies have focused on this important issue. At the same time, in order to respond effectively to a disparate set of entities, companies that approach CSR from a descriptive perspective adopt the TBL framework, which outlines the economic, social, and environmental issues that firms must address. Colbert and Kurucz (2007) reported that, of the 250 largest multinational corporations, 68 percent had adopted TBL public reporting by 2005. The KPMG International Survey of Corporate Responsibility Reporting also noted an increase of 7 percent and 10 percent for separate reports and annual report information pertaining to CSR between 2002 and 2005, respectively (KPMG, 2005). These statistics show the increasing use of corporate reporting immediately preceding the period for which data was collected for this study. The most recent KPMG Survey (2011) shows that 95 percent of the Global Fortune 250 companies now report their corporate responsibility activities and in the 34 countries that were surveyed, reporting has increased by 11 percent since 2008, to 64 percent overall.
In terms of performance outcomes, companies that take the descriptive approach to CSR may build core values that provide stakeholders a sense of meaning and belonging. Falck and Hiblich (2007) observed that CSR is usually a long-term proposition, a specifically planned and carefully supervised investment in a company’s future, and Choi and Wang (2009) contended that the trust that characterizes any sound stakeholder relationship takes a long time to build. Therefore, by its very nature, a descriptive approach is unlikely to be linked with short-run performance goals. However, if such an approach is based on an efficient management strategy of investment in the future, it may contribute to improvements in CP over the medium-term. Therefore, we propose the following:

**H2: A descriptive approach to CSR is associated with superior company performance in terms of medium-term measures.**

Although the instrumental and descriptive approaches to CSR and stakeholder management lead managers to think and act differently when it comes to crafting the company’s social initiatives and to determining the performance goals that the company aims to achieve through these initiatives, the two approaches are not mutually exclusive. After conducting an extensive review of different approaches to stakeholder management and CSR, Donaldson and Preston (1995) concluded, “the three approaches to stakeholder are nested within each other” (p. 74). The external shell—the descriptive approach that presents and explores stakeholder relationships—is supported at the second level by the instrumental approach, which shows that, if certain practices are carried out in the course of stakeholder management, then certain corporate outcomes can be obtained. More recently, Porter and Kramer (2006) operationalized this thinking by introducing the concept of strategic CSR.

The strategic CSR approach while anchored in the justifications made by each of the three approaches to CSR, offers a framework companies can use to identify the social issues that benefit stakeholders while simultaneously strengthening company competitiveness. The inclusion of a descriptive approach increases the social legitimacy of the company (Roberts, 1992), especially
since this approach involves externally certified voluntary disclosures, such as GRI reporting. In addition, a firm’s positive relationships with its stakeholders helps it build resources that are valuable, rare, inimitable, and non-substitutable, thereby contributing to the company’s competitive advantage (Hillman and Keim, 2001; Choi and Wang, 2009; Melo and Garrido-Morgado, 2011). Previous researchers have also noted that companies that use CSR initiatives in a descriptive way can build positive reputations with stakeholder groups (McWilliam and Siegel, 2001; Sen and Bhattacharya, 2004; Melo and Garrido-Morgado, 2011), which have particularly enduring effects because of the inability of competitors to imitate them (Choi and Wang, 2009).

A company’s decision to channel its resources based upon its stakeholder preferences may also lead to a performance advantage for the firm (Choi and Wang, 2009). Managing the CSR initiatives of the firm in terms of doing things better than and differently from how competitors do them (the instrumental approach) can contribute to competitive success in the same way that other aspects of competitive strategy do (Porter and Kramer, 2006). By linking the CSR initiatives to the likely preferences of their stakeholders, companies ensure that their corporate capabilities are particularly suited to helping create value for the stakeholder groups whose needs they are trying to address (Porter and Kramer, 2011). Therefore, we propose that:

**H3: A combination of the descriptive and instrumental approaches, in ways that lead to a strategic CSR approach, is associated with superior financial performance in terms of both short-term and medium-term measures.**

**RESEARCH METHOD**

**Sample**

The initial sample for this study, obtained from the KLD database, consisted of the one hundred companies recognized as *Business Ethics’* 100 Best Corporate Citizens for 2005, 2006, and 2007. More recent data could not be used in this study because in recent years data has been reported differently, and combining two forms of data set would not have allowed us to examine the association we intended to examine in this study. This group of companies was particularly
appropriate because they are leaders in terms of their stakeholder management and CSR efforts and are likely to have a definitive predisposition toward their approaches to CSR. Because some companies received the award more than once, there were 300 observations and 188 companies. In addition, we collected data about social performance for each company and each year from GRI reports on the same 188 companies.

**Measures of Corporate Financial Performance (CFP)**

Data on the companies’ financial performance was collected from Thomson’s Datastream, one of the largest financial statistical databases. CP was measured using both short-term and medium-term measures. The short-term measures used in the study included EBITDA and the companies’ market value at fiscal year-end (ENT_VALUE). We chose EBITDA because it is less subject to managers’ discretionary policy choices regarding surplus resources than many other accounting-based measures, so it provides a better reflection of a company’s actual short-term financial performance (Orlitzky et al., 2003). In addition, short-term performance was measured using companies’ market values at the end of each of the three fiscal years because it reflects the present assessment of the company’s abilities (Choi and Wang, 2009).

The medium-term financial measures consisted of capital expenditure investments (CAP_EXPEND) and intangible assets (INTANGIBLES). We chose capital expenditure investments because they indicate the longer-term initiatives that companies are pursuing to improve their future performance. Intangibles, which accrue from present and past performances of the company, were chosen as the second measure of medium-term performance because they are the result of longer-term efforts, and they have the potential to contribute to and sustain a company’s performance over a longer period. Following extant studies, we used both concurrent performance data and a lag of one year (Roberts, 1992; Choi and Wang, 2009).

**Measures of Corporate Social Performance (CSP)**

Data on CSP was collected from the KLD SOCRATES database, a comprehensive research database that measures companies’ CSR performance using social, environmental, and governance
ratings. Companies are rated in seven areas: environment, community, corporate governance, diversity, employee relations, human rights, and product quality and safety. The final rating in each of the seven areas of CSR is based upon an assessment by KLD analysts after an exhaustive investigation of public records, including more than 14,000 global media sources, company websites, reports from governmental agencies and NGOs, financial reports filed with regulatory agencies, company annual reports, direct communications with company officers, and visits to company facilities. In each area, the ratings indicate a company’s strengths and weaknesses on a five-point scale. To arrive at each score, KLD analysts subtract the weakness scores from the strength scores for the attributes in each of the seven areas of CSR (Mattingly and Berman, 2006). A low rating in an area indicates weakness or the absence of strength, while a high rating indicates the presence of positive activity with regard to the specific issue or the absence of weakness.

KLD data, considered “the most comprehensive and prominent data” on stakeholder management (Coombs and Gilley, 2005, p. 830) and “the de facto standard at the moment” for measuring stakeholder management and CSP (Waddock, 2003, p. 369), have been used extensively in scholarly research to operationalize companies’ social performance (Coombs and Gilley, 2005; Graves and Waddock, 1994; Hillman and Keim, 2001; Choi and Wang, 2009). Even though proponents of the normative approach to CSR have occasionally criticized the use of KLD data because of its lack of connection with corporate values (Johnson and Greening, 1999), given the focus of this study the database was appropriate. We also used the overall CSR performance score of each company, which was calculated as the average of the scores obtained in the seven sub-areas.

Measures of an Instrumental Approach to CSR

We measured a company’s instrumental approach to CSR by calculating the variance for each company in the seven areas of CSP for each of the three years; and if the variance was greater than the average variance for all observations for a given year, it was deemed to be an evidence that the company’s CSR initiatives were linked to its stakeholders’ preferences, so the company was approaching CSR in an instrumental way. By taking this approach, we captured what is at the core
of the instrumental approach—a prioritization process that selectively addresses the CSR issues related to the demands of stakeholder groups. A dummy variable, “KLD_VAR,” with a value equal to 1 is assigned to a company in this case, and 0 otherwise. Examining the variances in the sample’s means in order to understand variability/consistency in a company's practices is an approach that has been used in many extant studies (e.g. Simerly and Li, 2000; Choi and Wang, 2009).

**Measures of a Descriptive Approach to CSR**

We measured a company’s descriptive approach to CSP in two ways, both of which relied upon GRI reports. The GRI guidelines were developed as a way of helping organizations to report on their environmental, social, and economic performance—triple bottom line (TBL). The GRI has a high reputation, and many companies use its reporting guidelines. Following the GRI guidelines, companies provide basic information on the indicators that comprise the TBL. In particular, the framework integrates several types of disclosure in a structured set of seventy-nine indicators\(^1\) that are further aggregated into economic, environmental, and social performance measures. Companies may also voluntarily issue a summary compliance table outlining their compliance with the GRI guidelines.

Following the GRI guidelines, companies provide basic information on the indicators that comprise the TBL so stakeholders can understand the contributions of the reporting organizations. The concept of TBL does not mean that companies are required to maximize returns across the three dimensions of performance; the GRI simply provides a corporate social reporting model, and companies report their social responsibility credentials, labeling themselves as GRI reporters. Such an approach to reporting CSP clearly follows the descriptive approach to CSR.

To indicate that a company was following the descriptive approach, we first employed a dummy variable (GRI) of 1 if the company had made the voluntary decision to apply the GRI guidelines for its CSR reporting. Next, we measured the level of adherence to the GRI standards by counting the number of indicators for which the company had reported. In addition, we used content

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\(^1\) The number of items does not include the strategy and profile disclosure required by the GRI framework.
analysis to analyze the company’s summary compliance table to determine on how many indicators among those recommended by the GRI the company was reporting. The content analysis method is a line of research widely adopted to extract reliable and valid information from narrative data (Krippendorff, 2004). In analyzing companies’ sustainability reports, we matched each sentence with all seventy-nine items and coded it with a score of 0 if it provided no information and with a score of 1 if it provided one of the required GRI indicators. The level of adherence to the GRI framework was measured by counting the frequency of items since the same sentence can disclose more than one indicator. Similarly, if the same information was repeated in the report, this information was considered only once. Based upon these two analyses we calculated the DSCORE as the number of indicators reported by each company, divided by the maximum number of indicators that could be disclosed (79). The measure ranged from 0 (no GRI indicators are reported) to 1 (all GRI indicators are reported). Together, these two measures allowed us to verify the extent to which the companies were providing basic information on the indicators that comprise the TBL.

Measures of Control Variables

Data on control variables was collected using Datastream. We selected size and industry as control variables based on the recommendations made in prior studies (Ullman, 1985; McWilliams and Siegel, 2000) that investigated the association between CSR and financial performance. According to Burke et al. (1986), as firms grow, they are more likely to adopt CSR principles because of the increased pressures from stakeholders. The average cost of implementing CSR initiatives may also be proportionately less for large firms than for smaller ones (McWilliams and Siegel, 2001) since large size often facilitates economies of scale or scope (Roberts and Dowling, 2002). We measured firm size by the natural logarithm of the number of employees, rather than

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2 One of the authors performed all the coding activity. Coding activity may suffer from consistency problems in two areas: across coders and over time. By using only one coder, we avoid the first problem and improve the overall reliability of the analysis. In order to ensure the reliability and validity of the data collected and to determine whether the second problem played a role, the same author repeated the coding procedure over a sub-sample three months after the first coding. This generated a Cronbach’s alpha of 0.95 (Krippendorff, 2004), indicating internal consistency in the coding procedure.
other indicators like revenue or sales, because companies in our sample come from many different industries with very different revenue and sales patterns.

Industry effects may also influence a company’s CSR initiatives and its performance (Waddock and Graves, 1997; Hillman and Keim, 2001). This measure was particularly important because companies in the sample came from nine industries (basic industries, cyclical consumer goods, non-cyclical consumer goods, cyclical services, non-cyclical services, financial, general industrial, information technology, and utility). Since the focus of this study was on examining the relationship between the approach companies adapt to CSR and CP, it was necessary to recognize “business exposure,” that is, the degree to which a firm is vulnerable to its environment. Firms in industries like consumer goods, utilities, and oil and natural gas are under substantial scrutiny from a broad range of stakeholders (i.e., they face significant business exposure), so they are more likely than firms in other industries to adopt a certain approach to CSR. The industry in which a firm operates can also affect the pressures it faces from stakeholder groups, influencing its approach to CSR. For example, consumer product companies see their largest exposure and greatest pressure from customer groups, while firms in industrial sectors like utilities and oil and gas face the greatest pressure from stakeholders who are concerned about environmental impacts.

MODELING THE EFFECT OF APPROACHES TO CSR AND CFP

The data for this study consisted of CSR ratings for the one hundred and eighty eight companies that were ranked as the best corporate citizens over three years (2005-2007). Since many companies made the list more than once during the three years and since CSR ratings may have varied, the data set is panel data. Panel data have the between-subjects information among subjects for any given time period, and they have the within-subjects information for the same subjects across time (Wooldridge, 2002). Given the nature of the data, one finds different error variances for the different cross-sections, and with such cross-section heteroskedasticity, the OLS standard errors are inconsistent. In addition, because we included in our research models time-invariant variables (industry effects), panel data modeling with fixed effects was deemed inappropriate for analysis.
Therefore, we performed a panel-corrected standard error linear model, assuming within-unit homoskedasticity\textsuperscript{3}. The OLS estimates with panel-corrected standard errors are conservative, so they are valid alternatives to feasible GLS estimates (Beck and Katz, 1995). To perform a robustness check of our results, we ran all regression models using both robust (clustered) variance estimates, which provided similar results. We also performed a Durbin–Wu–Hausman test for simultaneity in the relationship between corporate financial performance and social performance (as suggested in Davidson and MacKinnon, 1993) and found no evidence of simultaneity. Thus, the estimates provided by the panel-corrected standard error model are consistent.

To test hypothesis 1, which predicted an association between an instrumental approach to CSR and CP in terms of short-term performance measures, we specified model (1) to test this relationship:

\begin{equation}
FinancialPerformance_{it} = \alpha_0 + \alpha_1 OVERALL_{it} + \alpha_2 KLD_{VARit} + \alpha_3 KLD_{VARit} \times OVERALL_{it} + \\
+ \alpha_4 size_{it} + \sum_{ind=1}^{n} \alpha_{ind} \text{Industry}_{it,ind}
\end{equation}

To test hypothesis 2, which predicted an association between a descriptive approach to CSR and CP in terms of medium-term performance measures, we tested two models, model (2) with CP concurrent with the CSR and model (3) with CP after a one-year lag. We took this approach to testing the relationship because the descriptive approach to CSR may involve a time-lagged relationship with CP, and testing the relationship with concurrent and time-lagged performance tests the hypothesized association in a robust way. Accordingly, the following two models were specified:

\begin{equation}
FinancialPerformance_{it} = \alpha_0 + \alpha_1 OVERALL_{it} + \alpha_2 GRI_{it} + \alpha_3 DSCORE + \alpha_4 GRI_{it} \times OVERALL_{it} + \\
+ \alpha_5 size_{it} + \sum_{ind=1}^{n} \alpha_{ind} \text{Industry}_{it,ind}
\end{equation}

\textsuperscript{3} We also performed the Wooldridge test for autocorrelation in panel data and did not identify any serial correlation in the error term of our models.
FinancialPerformance_{it+1} = \alpha_0 + \alpha_1 \text{OVERALL}_{it} + \alpha_2 \text{GRI}_{it} + \alpha_3 \text{DSCORE} + \alpha_4 \text{GRI}_{it} \ast \text{OVERALL}_{it} +
+ \alpha_5 \text{size}_{it} + \sum_{ind=1}^{8} \alpha_{6ind} \text{Industry}_{it\text{ind}}

To test hypothesis 3, which predicted that a combination of the descriptive and instrumental approaches is associated with superior financial performance in terms of both short-term and medium-term performance measures, we once again tested the relationship with two models, model (4) with CP concurrent with the CSR and model (5) with CP after a one-year lag.

FinancialPerformance_{it+1} = \alpha_0 + \alpha_1 \text{OVERALL}_{it} + \alpha_2 \text{KLD\_VAR}_{it} + \alpha_3 \text{GRI}_{it} +
+ \alpha_4 \text{KLD\_VAR}_{it} \ast \text{GRI}_{it} + \alpha_5 \text{size}_{it} + \sum_{ind=1}^{8} \alpha_{6ind} \text{Industry}_{it\text{ind}}

FinancialPerformance_{it+1} = \alpha_0 + \alpha_1 \text{OVERALL}_{it} + \alpha_2 \text{KLD\_VAR}_{it} + \alpha_3 \text{GRI}_{it} +
+ \alpha_4 \text{KLD\_VAR}_{it} \ast \text{GRI}_{it} + \alpha_5 \text{size}_{it} + \sum_{ind=1}^{8} \alpha_{6ind} \text{Industry}_{it\text{ind}}

RESULTS

Table 1 provides descriptive statistics and correlations of all variables included in the study. Results show that all variables are related in a meaningful way and that all of the hypothesized associations between variables are statistically significant. Table 2 provides results for the regression analyses relative to hypothesis 1, which predicted that the instrumental approach to CSR is associated with superior company performance in terms of short-term measures. Although all four models designed to test the relationship between CSR and CP are statistically significant, the measure of CSR performance (OVERALL) is not significantly associated with any measure of CP, so the level of CSP reported in KLD has no association with CP. However, when the measures reported in KLD are used with an instrumental approach (KLD\_VAR), which is selectively focused on key stakeholders, it has a statistically significant association with short-term measures of performance—both EBITDA and market value. This result provides support for hypothesis 1. It is also worth noting that the instrumental approach to CSR shows no association with medium-term performance measures.

\footnote{Wald chi-square tests present p-values equal to 0. For panel-corrected standard errors linear models, the Wald chi-square test is analogous to the F statistics in OLS.}
measures of performance. In addition the test for interaction between high levels of CSP and the instrumental approach shows no significant association with any of the four measures of CP. This result indicates that it is the approach to CSR, more than the level of CSP that accounts for the difference in CP.

**Insert Tables 1 and 2 about here**

Table 3 provides results of the regression analyses designed to test hypothesis 2, which predicted that the descriptive approach to CSR is associated with superior company performance in terms of medium-term measures. While Panel A shows the regression results of the association between the descriptive approach to CSR and CP using concurrent measures of CP, Panel B presents the results of the same relationship with CP measured after a one-year lag. The descriptive approach was measured using the GRI guidelines (GRI) and the level of compliance with the GRI guidelines (DSCORE). Once again, all of the models tested in Panel A and Panel B are significant (Wald Chi Square greater than 100). The adoption of GRI has negative and significant association with capital expenditures, in terms of both concurrent and lagged measures. While the level of compliance with GRI guidelines (DSCORE) is not associated with any measure of performance, concurrent or lagged, the interaction term measuring GRI adoption and level of compliance has a significant association with capital expenditure in terms of both concurrent and lagged measures. Intangibles, the other measure of medium-term performance is not associated with either the adoption of GRI or the level of GRI compliance. These results can be interpreted as providing partial and weak support for hypothesis 2.

**Insert Table 3 about here**

Finally, Table 4 shows the results of regression analyses designed to test the third hypothesis, which predicted that a combination of the descriptive and instrumental approach in ways that lead to a strategic CSR approach is associated with superior CP in terms of both the short-term and the medium-term measures. Panel A presents the regression results of the relationship between the combined approach (descriptive and instrumental) to CSR in terms of concurrent
performance measures. The interaction term KLD_VAR*GRI, which is designed to investigate the association between the strategic use of the combined approach to CSR and CP shows a significant association between the combined approach and three of the four performance measures—EBITDA (a short-term measure), capital expenditure and intangibles (both medium-term measures). When this association was examined using the lagged measure of performance (Panel B), results were similar; but the association with EBITDA was absent, while the association with enterprise value (a short-term measure) and capital expenditure (a medium-term measure) was significant. Although these results provide some support for hypothesis 3, the nature and stability of the association between the combined approach is not conclusive.

Insert Table 4 about here

DISCUSSION

In order to clarify the CSR-CP relationship, this study examined how companies approach the task of managing their relationships with their stakeholders and whether differences in the approach to CSR are associated with the CSR-CP relationship. An argument was made that the choice a company makes in terms of the approach that it adopts to CSR has a bearing on the company’s conception of what constitutes effective stakeholder management, its crafting of corporate social initiatives, and the performance goals that it wishes to achieve through these initiatives. The results indicate that that each of the three approaches to CSR—descriptive, instrumental, and strategic—are associated with CP, but in different ways.

In following the instrumental approach, managers are drawn into relationships with stakeholders based upon preferences accorded to one stakeholder group over the other in order to achieve outcomes related to short-term measures of CP. Results related to the tests for this hypothesis show that the instrumental approach to CSR has a positive association with both of the short-term measures of CP used in the study—EBITDA and market value—but no association with the medium-term measures of CP. These findings provide support for the claim made by scholars who are proponents of instrumental approach to the CSR, that in order to realize the true impact of
CSR, companies must move away from indiscriminate investments in social value creation and choose the social issues on which to focus (Margolis and Walsh, 2003; Peloza, 2006). Although such an approach may appear to be pragmatic, it does not address the more complex debate in the social accounting literature concerning the nature of the relationship between business and society⁵.

When companies adopt a descriptive approach to CSR, they try to satisfy the demands of diverse stakeholder groups by pursuing a host of social initiatives that may or may not be directly related to CP goals. Companies that adopt this approach also participate in voluntary reporting mechanisms designed to inform the diverse stakeholder groups whose interests they are trying to fulfill about their social performance. Such an approach to CSR, if it is based on an efficient management strategy of investment in the future, will be associated with CP in terms of medium-term measures—expenditures in capital investment targeted at improving stakeholder relationships and will be manifest in higher levels of intangibles for the company. Results of the study provided only weak and partial support for this assertion. While the adoption of the descriptive approach does appear to be associated with capital expenditure, it does not have an association with intangibles. Results also showed a significant interaction effect between the descriptive approach and the level of reporting (DSCORE) in terms of capital expenditure; indicating that companies that pursue the descriptive approach to CSR and have higher levels of reporting, have a stronger association between their CSR initiatives and medium-term measures of performance (capital expenditure) than do companies with low levels of reporting.

The failure to find an association with intangibles (as hypothesized) may perhaps be because many companies that adopt this approach report their social responsibility credentials in an attempt to enhance their company image and build corporate reputation, rather than use them as an investment for building improved stakeholder relationships. Such findings lend credence to the criticism from scholars who contend that the concept of CSR, in practice, is often reduced to giving basic information on indicators that comprise the TBL (Chatterji and Levine, 2006) and that

⁵ The authors thank the anonymous reviewer for pointing out this limitation, noted here and elsewhere in the paper.
reporting mechanisms are essentially window dressing (Moneva et al., 2006). It, therefore, appears reasonable to conclude that, while the CSR initiatives that follow the descriptive approach may have the potential to build long-term propositions that characterize sound stakeholder relationships, but to the extent that they are used as exercises in public relations, media campaigns, and reputation building, they do not contribute to improvements in CP.

The strategic approach to CSR is based on the thinking that stakeholder management and CSR are fundamentally pragmatic concepts. Companies have finite resources, and managers try to deal efficiently with many pressures exerted by stakeholder groups. Prior research has found that some types of corporate responses to stakeholders are more effective than others. For example, Hillman and Keim (2001) found that, while effective stakeholder management leads to improved value creation for companies and stakeholders, pro forma participation in social issues can detract from that value. Following this line of thinking, we tested the hypothesis that adopting an integrative approach to CSR that strategically combines the descriptive and instrumental approaches may lead to sustained improvement in CP (i.e., it will be associated with superior performance in terms of both short-term and medium-term measures). Results of the tests for hypothesis 3 generally support this assertion, as the strategic approach to CSR has significant association with both short-term and medium-term performance measures, both with concurrent and lagged measures of performance. These results, although tentative, do provide support for the assertion that when companies shift away from the fragmented and diffused approach that often characterizes the instrumental approach and away from generic social initiatives that are often inherent in the descriptive approach to identify and prioritize social issues in a unified way, both the company and its stakeholders stand to benefit (Porter and Kramer, 2011). However, such a conclusion can only be treated as tentative, until confirmed by future studies.

IMPLICATIONS AND LIMITATIONS OF THE STUDY

Although results of this study show that investing in stakeholder management and CSR may be complementary to CP goals and may provide a basis for superior performance, scholars have
expressed reservations about the ability of the reporting standards, guidelines, and rankings to influence corporate social behaviors constructively (e.g. Gray, 2010). The social accounting literature has been critical of the shortcomings of these reporting mechanisms and noted that these reports and rankings may or may not contribute to heightened accountability and may or may not constructively influence corporate social behavior. The Critical Theorists, in particular, have argued that “...corporate sustainability accounting is the cause and source of corporate sustainability problems...” because “...conventions are not fit for the purpose of recording and disclosing information about corporate, social and environmental impacts” (Buritt and Schaltegger, 2010, p. 829).

A recent study that examined corporate reporting of social responsibility noted that there is a “...reduced emphasis on normative principles and rather simplistic pursuit of “objective” measurement” (Joseph, 2012, p. 93). Since this study could not examine the association between the normative approach to CSR and CP, we are unable to engage critically with the ongoing debate in this area. The findings of the present study, nonetheless, contribute to this ongoing debate by showing that, more than being a good citizen or trying to address the concerns of myriad stakeholders, managers must develop more strategic forms of corporate social initiatives that are capable of engaging and empowering stakeholders while delivering returns to the company. However, we acknowledge that such a “middle ground approach” (Gray et al., 1988), pragmatic and even expedient as it may appear to be, carries the risk of making managers fall “down the hole in the middle of the road” (Tinker et al., 1991) because many contemporary issues related to business and society are contested and unstable.

This study has a number of limitations associated with the choice of sample and the way in which it operationalized approaches to CSR. Perhaps the most serious limitation stems from the manner in which we measured the approaches to CSR. While using the variances among and between companies’ CSP from a database that lists the CSP of the one hundred best companies may be valid for the purpose of this research, it does not capture all of the intricacies involved in taking
the instrumental approach. The same can be said about using GRI to measure the descriptive approach. Future research studies can overcome this limitation by finding better measures, such as analysis of company reports, to determine which approach a company uses. The study was also unable to examine the association between normative approach to CSR and CP. Future researchers can examine the presence of normative approach by collecting data on the value orientation of managers and then relating them to CSR initiatives of the company.

The generalizability of the findings of the study is also somewhat limited, given that the sample consisted of only the 188 most highly rated companies. It remains uncertain whether these results will hold with a larger cross-section of companies. Finally, researchers are well advised to examine the CSR-CP relationship over a longer period, considering that CSR initiatives may have a lagged relationship with CP.
REFERENCES


Table 1. Mean, Standard Deviation, and Correlation* of Dependent and Independent Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
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<td>1</td>
<td>0.39**</td>
<td>0.31**</td>
<td>0.38**</td>
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<td>0.23**</td>
<td>0.17**</td>
<td>0.23**</td>
</tr>
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<td>2 KLD_VAR</td>
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<td>0.47</td>
<td>0.43**</td>
<td>1</td>
<td>0.34**</td>
<td>0.33**</td>
<td>0.42**</td>
<td>0.42**</td>
<td>0.32**</td>
<td>0.29**</td>
</tr>
<tr>
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<td>0.37</td>
<td>0.29**</td>
<td>0.31**</td>
<td>1</td>
<td>0.78**</td>
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<td>0.34**</td>
<td>0.21**</td>
<td>0.33**</td>
</tr>
<tr>
<td>4 DSCORE</td>
<td>0.11</td>
<td>0.21</td>
<td>0.36**</td>
<td>0.27**</td>
<td>0.78**</td>
<td>1</td>
<td>0.33**</td>
<td>0.30**</td>
<td>0.20**</td>
<td>0.30**</td>
</tr>
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<td>5 EBITDAa</td>
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<td>4,569</td>
<td>0.20**</td>
<td>0.40**</td>
<td>0.43**</td>
<td>0.36**</td>
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<td>0.76**</td>
<td>0.72**</td>
</tr>
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<td>6 ENT_VALUEa</td>
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<td>94,418</td>
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<td>0.31**</td>
<td>0.23**</td>
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<td>0.72**</td>
</tr>
<tr>
<td>7 INTANGIBLESa</td>
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<td>888</td>
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<td>0.33**</td>
<td>0.39**</td>
<td>0.40**</td>
<td>0.72**</td>
<td>0.40**</td>
<td>1</td>
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<tr>
<td>8 CAP_EXPENDa</td>
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<td>0.72**</td>
<td>0.67**</td>
<td>0.45**</td>
<td>1</td>
</tr>
</tbody>
</table>

*In thousands of USD

* significant at <.05 ** significant at <.01

*Lower diagonal: Pearson’s correlation; Upper diagonal: Spearman’s Correlation
Table 2. Regression Models for the Instrumental Approach to CSR and Performance

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
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<th>4</th>
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<tbody>
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<td>ENT_VALUE</td>
<td>CAP_EXPEND</td>
<td>INTANGIBLES</td>
</tr>
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<td>177</td>
<td>1,026</td>
</tr>
<tr>
<td></td>
<td>[0.18]</td>
<td>[0.17]</td>
<td>[0.35]</td>
<td>[0.56]</td>
</tr>
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<td>75,433*</td>
<td>-58</td>
<td>3,599</td>
</tr>
<tr>
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<td>[0.03]</td>
<td>[0.01]</td>
<td>[0.83]</td>
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<td>-2,485</td>
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<td>281</td>
<td>282</td>
<td>260</td>
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<td>Number of clusters</td>
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<td>176</td>
<td>177</td>
<td>164</td>
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<tr>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>R squared</td>
<td>0.45</td>
<td>0.24</td>
<td>0.40</td>
<td>0.24</td>
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</tbody>
</table>

* significant at <.05 ** significant at <.01
Control variables (size and industry) are not reported in the table.
p-values are in brackets.
Table 3. Regression Models for the Descriptive Approach to CSR and Performance

Panel A. Concurrent financial performance

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
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<th>4</th>
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<tbody>
<tr>
<td></td>
<td>EBITDA</td>
<td>ENT_VALUE</td>
<td>CAP_EXPEND</td>
<td>INTANGIBLES</td>
</tr>
<tr>
<td>GRI</td>
<td>904</td>
<td>52,695</td>
<td>-974*</td>
<td>7,919</td>
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<tr>
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<td>[0.32]</td>
<td>[0.04]</td>
<td>[0.14]</td>
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<tr>
<td>DSCORE</td>
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<td>-26</td>
<td>-218</td>
<td>-1</td>
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<td>[0.81]</td>
<td>[0.14]</td>
<td>[0.38]</td>
<td>[0.54]</td>
</tr>
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<td>GRI*DSCORE</td>
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<td>3,146**</td>
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<td>Observations</td>
<td>271</td>
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<td>282</td>
<td>260</td>
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<tr>
<td>Number of cluster</td>
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<tr>
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</tr>
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<td>0.22</td>
<td>0.474</td>
<td>0.271</td>
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Panel B. Lagged financial performance (t+1)

<table>
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<th>4</th>
</tr>
</thead>
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<tr>
<td></td>
<td>EBITDA</td>
<td>ENT_VALUE</td>
<td>CAP_EXPEND</td>
<td>INTANGIBLES</td>
</tr>
<tr>
<td>GRI</td>
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<td>-10,707</td>
<td>-1,679**</td>
<td>1,186</td>
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<td>[0.53]</td>
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<td>[0.00]</td>
<td>[0.80]</td>
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<td>DSCORE</td>
<td>157</td>
<td>36,329</td>
<td>-3,184</td>
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</tr>
<tr>
<td></td>
<td>[0.99]</td>
<td>[0.86]</td>
<td>[0.05]</td>
<td>[0.94]</td>
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<tr>
<td>GRI*DSCORE</td>
<td>5,356</td>
<td>-2,170</td>
<td>7,763**</td>
<td>731</td>
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<td>[0.00]</td>
<td>[0.98]</td>
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<td>[0.00]</td>
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<td>[0.00]</td>
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<tr>
<td>Observations</td>
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<td>97</td>
<td>97</td>
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<td>69</td>
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<td>66</td>
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<tr>
<td>R squared</td>
<td>0.68</td>
<td>0.26</td>
<td>0.62</td>
<td>0.30</td>
</tr>
</tbody>
</table>

* significant at <.05  ** significant at <.01
Control variables (size and industry) are not reported in the table.
p-values are in brackets.
### Table 4. Regression Models for the Strategic Approach to CSR (Combining Instrumental and Descriptive Approaches) and Performance

#### Panel A. Concurrent financial performance

<table>
<thead>
<tr>
<th></th>
<th>1 EBITDA</th>
<th>2 ENT_VALUE</th>
<th>3 CAP_EXPEND</th>
<th>4 INTANGIBLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>OVERALL</td>
<td>-327</td>
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<td>356</td>
<td>-1,053</td>
</tr>
<tr>
<td></td>
<td>[0.73]</td>
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<td>[0.08]</td>
<td>[0.61]</td>
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<tr>
<td></td>
<td>[0.26]</td>
<td>[0.06]</td>
<td>[0.18]</td>
<td>[0.79]</td>
</tr>
<tr>
<td>KLD_VAR</td>
<td>779</td>
<td>33,794</td>
<td>-7</td>
<td>103</td>
</tr>
<tr>
<td></td>
<td>[0.06]</td>
<td>[0.05]</td>
<td>[0.93]</td>
<td>[0.89]</td>
</tr>
<tr>
<td>KLD_VAR*GRI</td>
<td>2,917*</td>
<td>13,262</td>
<td>801**</td>
<td>6,506*</td>
</tr>
<tr>
<td></td>
<td>[0.04]</td>
<td>[0.66]</td>
<td>[0.00]</td>
<td>[0.05]</td>
</tr>
<tr>
<td>Constant</td>
<td>-10,811**</td>
<td>-125,019**</td>
<td>-2,024**</td>
<td>-13,985**</td>
</tr>
<tr>
<td></td>
<td>[0.00]</td>
<td>[0.00]</td>
<td>[0.00]</td>
<td>[0.00]</td>
</tr>
</tbody>
</table>

Observations: 271
Number of cluster: 170
Wald chi-square: 76.95
P-value: 0.00
R squared: 0.50

#### Panel B. Lagged financial performance (t+1)

<table>
<thead>
<tr>
<th></th>
<th>1 EBITDA</th>
<th>2 ENT_VALUE</th>
<th>3 CAP_EXPEND</th>
<th>4 INTANGIBLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>OVERALL</td>
<td>70</td>
<td>-17,100</td>
<td>187</td>
<td>3,820</td>
</tr>
<tr>
<td></td>
<td>[0.96]</td>
<td>[0.50]</td>
<td>[0.60]</td>
<td>[0.18]</td>
</tr>
<tr>
<td>GRI</td>
<td>224</td>
<td>30,145</td>
<td>-295</td>
<td>-2,290</td>
</tr>
<tr>
<td></td>
<td>[0.85]</td>
<td>[0.08]</td>
<td>[0.26]</td>
<td>[0.42]</td>
</tr>
<tr>
<td>KLD_VAR</td>
<td>71</td>
<td>46,151*</td>
<td>68</td>
<td>-2,476</td>
</tr>
<tr>
<td></td>
<td>[0.30]</td>
<td>[0.03]</td>
<td>[0.65]</td>
<td>[0.38]</td>
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<tr>
<td>KLD_VAR*GRI</td>
<td>1,060</td>
<td>43,805*</td>
<td>933*</td>
<td>6,999</td>
</tr>
<tr>
<td></td>
<td>[0.52]</td>
<td>[0.05]</td>
<td>[0.04]</td>
<td>[0.34]</td>
</tr>
<tr>
<td>Constant</td>
<td>-18,318**</td>
<td>-170,151**</td>
<td>-2,363**</td>
<td>-33,022**</td>
</tr>
<tr>
<td></td>
<td>[0.00]</td>
<td>[0.00]</td>
<td>[0.01]</td>
<td>[0.00]</td>
</tr>
</tbody>
</table>

Observations: 92
Number of cluster: 65
Wald chi-square: 192.32
P-value: 0.00
R squared: 0.68

* significant at <.05 ** significant at <.01

Control variables (size and industry) are not reported in the table.

p-values are in brackets.
## Appendix-A. Measures of Dependent, Independent, and Control Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>Earnings before interest, taxes, depreciation, and amortization at the end of each fiscal year</td>
</tr>
<tr>
<td>ENT_VALUE</td>
<td>Company market value at the end of each fiscal year</td>
</tr>
<tr>
<td>CAP_EXPENDITURE</td>
<td>Capital expenditures at the end of each fiscal year</td>
</tr>
<tr>
<td>INTANGIBLES</td>
<td>Total value of intangible assets at the end of the fiscal year</td>
</tr>
<tr>
<td>OVERALL</td>
<td>Average of KLD social performance scores of a company across seven areas</td>
</tr>
<tr>
<td>KLD_VAR</td>
<td>Dummy variable that is equal to 1 if the variance of a company was greater than the average variance for all observations for a given year, and 0 otherwise</td>
</tr>
<tr>
<td>GRI</td>
<td>Dummy variable that is equal to 1 if the company volunteered to apply the GRI guidelines to its CSR reporting, and 0 otherwise</td>
</tr>
<tr>
<td>DSCORE</td>
<td>Level of compliance with GRI (measured as the number of indicators on which the company reported, out of the 79 GRI indicators)</td>
</tr>
<tr>
<td>Size</td>
<td>Natural logarithm of the number of employees</td>
</tr>
<tr>
<td>Basic industries</td>
<td>Dummy variable that is equal to 1 if company is in a basic industry, and 0 otherwise</td>
</tr>
</tbody>
</table>