



Doing good and doing bad: The impact of corporate social responsibility and irresponsibility on firm performance[☆]



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ABSTRACT

Research on firm performance and corporate social performance (CSP) has recently broadened to concurrently evaluate corporate social irresponsibility (CSI) with corporate social responsibility (CSR). However, little is known about the underlying mechanisms that impact the performance relationship, particularly the duration of the influence of CSR initiatives and CSI incidents and the impact of the interaction of CSR and CSI on firm performance. This research expands understanding by examining the combined impact of “doing good” and “doing bad” to allow a more robust examination of a firm's regime in pursuing a better strategic position through social performance. We examine the effects of CSR and CSI and their combined effects using a moderating high-low matrix. The empirical findings provide two uniquely interesting findings: CSI incidents have a longer enduring effect than CSR initiatives and those firms doing little CSR and little CSI perform better than firms engaging in high levels of both.

1. Introduction

The corporate social performance (CSP) of a firm is comprised of both “doing good” through corporate social responsibility (CSR) initiatives and “doing bad” through corporate social irresponsibility (CSI) incidents (Carroll, 1979; Wood, 1991b). CSR has been widely acknowledged as a highly desired firm action that not only benefits communities but also helps firms achieve better business performance (Barnett, 2007; Cochran & Wood, 1984; McWilliams & Siegel, 2001). Researchers have only recently begun to broaden the understanding of CSR activities' impact on business performance through the inclusion of CSI, an opposing counterpart. CSI, understood to describe firm actions which reasonable stakeholders consider to be irresponsible behavior, is concerned with whether firms engage in harmful activities that benefit a few but cause substantive net harm when considering all stakeholders (Armstrong & Green, 2013). However, CSI has received scant attention from researchers and has rarely been examined in the literature to date (Murphy & Schlegelmilch, 2013). The impact of CSR and CSI on firm performance and the relationship between “doing good” and “doing bad” remains largely unresolved in the extant literature (Groening & Kanuri, 2013; Hull & Rothenberg, 2008; Lin-Hi & Müller, 2013; McWilliams & Siegel, 2000; Orlitzky, Schmidt, & Rynes, 2003; Tang, Hull, & Rothenberg, 2012; Waddock & Graves, 1997).

Economic theory states that the sole objective of a firm is to maximize long-term returns for shareholders that have entrusted management with their investment and forbids managers to use shareholder investments to underwrite social initiatives to improve the world (Friedman, 1970). Stakeholder theory opposes this perspective of CSR and promotes the ability of CSR to deliver firm benefits by aligning and connecting with stakeholders to enhance satisfaction and loyalty, produce positive identification with the firm, and produce a favorable firm image (Brown & Dacin, 1997; Friedman, 1970; Jensen & Meckling, 1976; Luo & Bhattacharya, 2006). Stakeholder theory conceptualizes CSI as a conflicting force to CSR that prompts negative stakeholder perceptions and relationships and produces negative firm consequences in the form of costly lawsuits, costs associated with a negative firm reputation, sales revenue losses, increased capital costs, and increased financial risk (Lange & Washburn, 2012; Oikonomou, Brooks, & Pavelin, 2012). Research supports this stakeholder approach in findings that indicate a strong positive relationship between CSI and financial risk and a weak negative relationship between CSR and systematic firm risk (e.g., Oikonomou et al., 2012). Additionally, other studies suggest that CSR lowers firm idiosyncratic risk, whereas CSI increases firm idiosyncratic risk (Mishra & Modi, 2013). Regarding firm value, scholars have evaluated firm value using accounting measures such as returns on assets (e.g., Hull & Rothenberg, 2008) and stock-based measures such as

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Tobin's Q and stock returns (e.g., Godfrey, Merrill, & Hansen, 2009). Studies have found that CSR increases firm value whereas CSI detracts from firm value (e.g., Gregory, Tharyan, & Whittaker, 2014; Jo & Na, 2012; Luo & Bhattacharya, 2009). In a comprehensive review of the literature, Margolis and Walsh (2001) report that in 80 of the 95 papers published between 1972 and 2000, CSP assists in the determination of firm financial performance. Additionally, in a second study, Margolis and Walsh (2003) note that 109 out of 127 studies indicate that CSP is a predictor of firm financial performance.

Researchers have recently begun to examine CSP's impact on business performance through the inclusion of CSI. Viewing social responsibility as the interaction of CSR and CSI provides a broader, holistic perspective that allows researchers and practitioners to more fully evaluate the firm's regime in pursuing a better strategic position through CSP (Jones, Bowd, & Tench, 2009; Lange & Washburn, 2012; Sweetin, Knowles, Summey, & McQueen, 2013). A review of prior literature indicates that researchers have primarily focused on the CSR perspective of CSP and conceptualized the CSR construct as a uni-dimensional or overall measure (Griffin & Mahon, 1997). This one-dimensional perspective limits understanding because it generally aggregates the responsible and irresponsible aspects of CSP (e.g., Johnson & Greening, 1999). Strike, Gao, and Bansal (2006) determined that firms can engage in CSR and CSI simultaneously by being both “good and bad.” Specifically, the Lin-Hi and Müller (2013) study performs a review of the literature to date on CSI and proposes that preventing CSI requires complex management and is a condition of firms being socially responsible in the long run. Our research extends the CSI literature and answers a call by Lin-Hi and Müller (2013) for further research on the relationship between CSR's approach of “doing good” and CSI's approach of “doing bad.”

Practically, certain firms promote substantial CSR, others engage in little or no CSR, and other firms focus on avoiding CSI in efforts to avoid doing any harm (Minor & Morgan, 2011). The level of firm engagement in CSR activities is not the only factor to consider when evaluating the influence of CSP on firm performance. Researchers suggest that CSR can have a positive, negative, mixed, or neutral impact (McWilliams & Siegel, 2000), although the majority of research indicates a positive impact on firm performance (Margolis & Walsh, 2003). Conversely, firms that are found to engage in CSI may generate serious hazardous consequences to the environment, employees, communities, and other social entities (Lange & Washburn, 2012). When considering the influence of CSP on firm performance, this evaluation should consider the impact of the level of firm engagement in both CSR and CSI as well as the combination of engagement in CSR and CSI (Lin-Hi & Müller, 2013; Strike et al., 2006). The possibility of little or no engagement should also be considered, i.e., doing nothing, neither “doing good” nor “doing bad.” Firms have been found to engage in both CSR and CSI simultaneously at different levels of commitment (Cai, Jo, & Pan, 2012; Nossiter, 2010). Conducting a factor analysis of Kinder, Lydenberg, Domini Research & Analytics (KLD) data, Mattingly and Berman (2006) confirm the independence of responsible and irresponsible behaviors, suggesting that social strengths and weaknesses are independent of one another. From a theoretical perspective, one study proposed that CSI is likely to have an opposite yet stronger effect than CSR on a firm's relationships, reputation, and performance (Lange & Washburn, 2012), although this proposal has not been empirically examined to date. Therefore, although a small number of studies have explored the interaction between CSR and CSI or have called for the interaction to be examined, we do not know the longevity of these effects or the combinations of CSR and CSI that yield the strongest impact on firm performance. This paper intends to address the following questions and identified gaps in the research stream.

Do CSR and CSI have opposing effects on firm performance when firm value and risk are considered?

Does CSI more strongly affect firm value and risk than CSR?

Would “doing both good and bad” (high CSR-high CSI) be better than “doing nothing” (low CSR-low CSI)?

Does CSI have a more enduring effect on firm performance than CSR?

First, CSR and CSI have scarcely been examined together to determine the magnitude of influence on firm performance, whether harmful or beneficial. Second, although a firm may pursue CSR activities and also be involved in CSI activities in the business world, the interaction of these two constructs is rarely studied in the literature (Murphy & Schlegelmilch, 2013), although a firm may adopt a distinct combination of CSR and CSI (Lin-Hi & Müller, 2013). Third, although the contending influence of CSR and CSI on firm performance is important to researchers, there is little empirical research that demonstrates how these two constructs jointly affect firm performance. Specifically, there is a dearth of empirical research examining the combination of high/low CSR and CSI effects or the longevity of CSR and CSI effects, particularly the length and strength of these effects.

Insight into these research questions will significantly contribute to both theory and practice. Theory may be enriched by examining stakeholder relationships and incorporating the influence of high/low CSR and CSI on firm performance. The confirmation of the different longitudinal patterns of CSR and CSI also contributes to the stakeholder theory, which has long supported the notion that CSR should provide long-term positive effects in addition to an immediate positive impact on the firm (Jones, 1995; Wang & Choi, 2013). In addition, this research provides practical insights on managing the simultaneous effects of CSR and CSI on stakeholder relationships.

2. Theoretical framework and hypotheses development

First, we provide our reasoning for viewing CSP as having both CSR and CSI dimensions. CSP is defined as the application of socially responsible principles and socially responsive processes to ensure firm policies, programs and observable outcomes that address the needs of the firm through societal relationships (Wood, 1991b). The original conceptions of CSP viewed performance outcomes as the attainment of only societal objectives and values (Bowen, 1953). This perspective of social performance has evolved over time from focusing solely on the social impact, policy, and programs to include other firm metrics such as firm financial impact (Lerner & Fryxell, 1988; Oikonomou, Brooks, & Pavelin, 2014; Wood, 1991a). Conceptually, CSP proposes social responsibility as the dimensions of corporate behaviors that interact with social and environmental concerns (Sethi, 1979). These corporate behaviors include both responsible (CSR) and irresponsible (CSI) behavior in nature (Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991b). The CSP perspective of social responsibility and irresponsibility combines the principles and processes of social responsiveness with the outcomes of social issues management. Carroll (1979) stated that a firm's response to CSP may be very responsive to environmental conditions or social pressures, although a firm may act either responsibly or irresponsibly. The performance component of CSP is clearly expressed as the observable outcomes of a firm's social behavior and interaction (Wood, 1991b).

Next, we address stakeholder theory and research that supports the stakeholder view of CSP and firm performance. Stakeholder theory considers the firm as a collection of stakeholders that are defined as groups of individuals who can affect or are affected by firm actions in pursuit of firm goals (Freeman, 1984). Instrumental stakeholder theory examines and identifies the relationship between stakeholders and management in efforts to achieve firm economic benefits and goals (Margolis & Walsh, 2003). Stakeholder relationships are managed through stakeholder identification and prioritization and are based on management's perception regarding whether the stakeholder possesses power, legitimacy, and urgency (Mitchell, Agle, & Wood, 1997).

This research focuses on the specific application of instrumental stakeholder theory to the relationship between CSP and firm performance. Stakeholder theory suggests that firm performance is contingent on the ability of management to formulate and execute strategy that effectively manages stakeholder relationships (Donaldson & Preston, 1995; Jones, 1995). Gregory and Whittaker (2013) present the stakeholder argument against the economic theory perspective by suggesting that CSR is a value-enhancing firm activity. They also find that markets positively view and value the majority of CSP using market value based measures such as Tobin's *q*. Certain researchers indicate that CSR involves activities that relate to perceived stakeholder obligations to influence firm performance (Luo & Bhattacharya, 2006; Sen & Bhattacharya, 2001). Specifically, responsible CSP perceptions affect the image of firms and their brands to drive consumer propensity to purchase goods from and patronize these firms, which impacts firm performance when evaluated using market value based measures (Luo & Bhattacharya, 2006). Using accounting-based performance measures, Berman, Wicks, Kotha, and Jones (1999) provide support for the stakeholder view, finding that stakeholder relationships with employees and consumers through product safety and quality have a direct and significant impact on firm performance.

The literature on irresponsible CSP is not as developed as the research on CSR. Armstrong and Green (2013) present the stakeholder theory argument that CSI is detrimental to the firm and advocate that firms should seek methods to prevent irresponsible behaviors. Empirical research supports the stakeholder perspective that firm value can be negatively affected by irresponsible choices and actions by the firm. Additional findings indicate that CSI may bring penalties, fines, and other performance-impacting negative consequences for the firm, including reducing consumer relationships to the point where consumers are willing to punish the firm (Strike et al., 2006).

Stakeholder theory also incorporates risk that stakeholders bear in the firm and its association with CSP investment (Margolis & Walsh, 2003). Researchers have found that CSR can improve shareholder value by reducing firm-idiosyncratic risk and have suggested that investment in CSP is similar to research and development and advertising investments (Luo & Bhattacharya, 2006). Other researchers note that CSR investments aimed at secondary stakeholders and society potentially protect the firm from the risk of sanctions and negative judgments (Godfrey et al., 2009). Mishra and Modi (2013) use stakeholder theory to suggest that by managing stakeholder expectations through CSR and CSI, firms can impact idiosyncratic risk, with CSR lowering risk and CSI increasing risk.

Management possesses the ability to create positive perceptions of the firm and to improve shareholder relationships to create positive firm performance through CSR (e.g., Hillman & Keim, 2001; Hull & Rothenberg, 2008). Furthermore, we posit that CSI will be negatively related to firm performance. Just as stakeholders establish valuable relationships with firms due to CSR, stakeholders will punish or establish detrimental relationships with firms due to CSI (Du, Bhattacharya, & Sen, 2010).

One assumption of instrumental stakeholder theory is that outcomes are contingent upon stakeholder behaviors and their perception of value. Stakeholder relationships are respectively conditioned on the psychological covenant that exists between stakeholders and the firm (Jones, 1995). The managers of the firm establish stakeholder relationships intentionally and unintentionally in the form of psychological contracts with stakeholders (Sweetin et al., 2013). Based on this assumption, we use the psychology literature to formulate and strengthen arguments in our hypothesis development.

2.1. Firm performance

Firm performance has various definitions in the literature (Barney, 2002). Accounting and firm value definitions have generally been used to study the relationship between CSP and firm performance (Orlitzky

et al., 2003). This research addresses firm performance from the perspective of market value and idiosyncratic risk. These measures represent firm performance very well in evaluating CSP and are consistent with stakeholder theory (e.g., Luo & Bhattacharya, 2006; Mishra & Modi, 2013). Due to the rising importance of CSR and CSI to stakeholders, these measures of firm performance will be relevant and purposeful for our study.

Firm value represented by market value is a salient, forward-looking indicator that reflects shareholders' expectation of the firm's future performance (Anderson, Fornell, & Mazvancheryl, 2004). Market value represents a combination of multiple firm performance items such as sales, profit, cash flow, and earnings volatility. We use Tobin's *q* as our performance outcome measure because of its ability to capture the value of long-term and intangible investments (Surroca, Tribo, & Waddock, 2010). Tobin's *q* is an appropriate financial performance measure because it incorporates the benefits and potential costs of CSP and combines capital market and accounting-based data (Germann, Ebbes, & Grewal, 2015).

Firm idiosyncratic risk is the stock price volatility directly associated with firm-specific factors such as management, marketing, and operations activities and efficiency (Rego, Billett, & Morgan, 2009). This comprehensive view of performance outcomes provides reliable evidence about the firm (Srivastava, Shervani, & Fahey, 1998). Firm idiosyncratic risk is a financial risk indicator which adds to our measurement of market value. Each indicator represents an important dimension of a domain, using separate constructs to measure financial performance (Richard, Devinney, Yip, & Johnson, 2009).

There are opposing views regarding the impact of CSR on firm financial performance. The traditional economic argument suggests that managers should maximize the wealth of firm shareholders (Friedman, 1962). This argument views CSR as activities that are inconsistent with these economic objectives and should be avoided. This economic view is in conflict with the stakeholder view in which CSR fosters stakeholder relationships that reduce transaction costs and create market opportunities, resulting in higher financial performance (Margolis & Walsh, 2003). This research evaluates firm performance as market value and idiosyncratic risk.

2.2. CSR, CSI, and firm market value

CSR is defined as “situations where the firm goes beyond compliance and engages in ‘actions that appear to further some social good, beyond the interests of the firm and that which is required by law’” (McWilliams, Siegel, & Wright, 2006, p. 1). The importance of engaging in CSR activities to the macro social environment and micro firm surroundings is well-documented (e.g., Margolis & Walsh, 2001). CSR builds relationships with stakeholders by meeting the important needs of various salient stakeholders such as shareholders, employees, managers, customers, suppliers, and the community (Maignan & Ferrell, 2004). Through stakeholder management, a sustainable firm advantage can be derived by developing positive relationships with stakeholders that enhance firm financial performance (Hillman & Keim, 2001). Shareholders are concerned with market value because it captures “growth prospects and sustainability of profits, or the expected performance in the future” (Rust, Lemon, & Zeithaml, 2004, p. 79). Long-term relationships with shareholders generate favorable stakeholder attitudes and promote investment in the firm; in addition, these relationships build corporate and brand images and enhance shareholder advocacy (Du et al., 2010). CSR engagement with stakeholders can signal long-term value to shareholders and lead to superior financial performance (Gregory et al., 2014).

From the perspective of the employee, CSR creates a positive internal environment that can promote productivity and motivation (Rupp, Ganapathi, Aguilera, & Williams, 2006) and also establishes a culture that leads to more cohesive working conditions, resulting in better productivity and financial gains to the firm (Rodrigo & Arenas,

2008). Managers are in a special category of stakeholders because they are technically employees of the firm but are also tasked with establishing stakeholder relationships on behalf of the firm (Jones, 1995). Managers enjoy benefits as employees, as previously stated, but also must safeguard the welfare of the firm by mediating and balancing the conflicting interests of all stakeholders (Hill & Jones, 1992). Managers may also be shareholders, which may encourage managers to engage in endeavors that benefit shareholders at the expense of other stakeholders (Armstrong, 1977). The ability of managers to pursue CSR or CSI to benefit certain stakeholders over others must be evaluated with respect to the costs and benefits to the firm. Managers may act in their own self-interest or firm-specific interest by engaging in CSI to maximize revenues or reduce costs.

The beneficial role of CSR to the firm has been confirmed by researchers in different consumer areas. For example, CSR is a strong antecedent of consumers' willingness to pay (De Pelsmacker, Driesen, & Rayp, 2005), tendency to spread the word (Du et al., 2010), and willingness to reward (Becker-Olsen, Cudmore, & Hill, 2006). Consumers seek identification with the firm, and CSR can create and leverage a positive perception of the firm as a whole, as well as regarding individual products and services (Bhattacharya & Sen, 2004). The loyalty resulting from positive consumer perception yields financial outcomes such as improved profitability (Helgesen, 2006), cross-selling opportunities (Srinivasan, Anderson, & Ponnnavolu, 2002), higher customer lifetime value (Zhang, Dixit, & Friedmann, 2010), and greater customer support (Luo & Bhattacharya, 2006). All of these benefits should add value to the firm through augmented financial income flows.

CSR facilitates supplier relationships because the firm directly or indirectly incorporates the supplier's offering into their products. Aligning firm CSR interests in the supply chain through relationships facilitates relationships with customers and managers (Hietbrink, Berens, & Rekom, 2011). CSR creates a positive environment in a firm's immediate surroundings that appeals to various social groups (Clarkson, 1995). For example, CSR is an effective way to build necessary relationships with local communities by showing the firm's friendly intentions and long-term commitment (Kapelus, 2002). This social effect is also reflected by a close connection between the firm and the environment that enables the firm to address negative events more quickly than competitors. These close connections allow the firm to have a better reputation and lower costs (Vanhamme & Grobбен, 2009).

In management literature, there is an increasing recognition that CSR is not only a firm activity devoted to improving society but also a strategic action that produces financial returns for the firm (McWilliams & Siegel, 2011). This practical view of CSR fortifies the legitimacy of engaging in CSR as a win-win approach in seeking both social and business performance. CSR can build a competitive advantage because social practices strengthen social relationships with stakeholders (Wang & Choi, 2013). Through shareholder management, CSR can transform these stakeholder relationships from transactional to relational, producing a competitive advantage (Hillman & Keim, 2001). The rationale behind this notion is that CSR, as a firm investment, builds valuable complex relationship networks that include the firm, its employees, shareholders, customers, suppliers, social groups, and possibly governments, and these relationships become a source of competitive advantage (Barney, 2001). This social complexity pinpoints a source of a firm's competitive advantage by preventing imitation by competitors (Colbert, 2004; Russo & Fouts, 1997). In this sense, CSR becomes an irreplaceable strategic resource that managers can utilize to create value (McWilliams & Siegel, 2011; McWilliams et al., 2006).

CSI is defined as "corporate actions that result in (potential) disadvantages and/or harm to other actors" (Lin-Hi & Müller, 2013, p. 1932). CSI does not appear to create positive ramifications for the firm. CSI exerts negative forces on firm outcomes through the decrease in value derived from stakeholder relationships. When consumers become aware of socially irresponsible behaviors, the positive identification

effect they have with the firm is interrupted; their identification becomes negative in that consumers no longer show interest in the firm or purchase their products (Wagner, Bicen, & Hall, 2008), leading to a loss of income. This negative perception of the firm may also damage the firm's reputation and brand (Du et al., 2010; Fombrun, Gardberg, & Barnett, 2000). As an integral part of firm assets, the brand may be harmed due to the conflict between the firm's image, as proposed in marketing communication campaigns, and the firm's actual behaviors (Sweetin et al., 2013). This conflict may be detrimental to a firm's brand value and thus reduce market value. CSI may also undermine the environmental supportiveness of stakeholders because the CSI can endanger communities, as in the case of BP's oil spill. Environmental supportiveness is necessary for satisfactory firm performance, and if lost, can cause increased pressures in handling relationships with the community, public, government, or other social groups (Sweetin et al., 2013). This pressure may eventually be transferred to channel members, partners, and agencies in the business network (Brass, Butterfield, & Skaggs, 1998). These negative effects of CSI significantly limit the ability of the firm to achieve satisfactory revenue and thus lower the firm's value to shareholders.

CSI does not always result in a disadvantage, however, because CSI may be rooted in producing an advantage through specific objectives to increase profits. Pollution, waste disposal, bribery, child labor, and accounting maleficence are examples of irresponsible behaviors that may provide the means to reduce costs and increase profits. Stakeholder theory predicts that attempts to lower firm implicit costs through CSI will increase firm explicit costs, resulting in a competitive disadvantage (Waddock & Graves, 1997). CSI may be intentional or unintentional actions of the firm. These types of CSI are generally only productive when they remain hidden from stakeholders; when uncovered, intentional CSI may be even more detrimental to the firm (Armstrong & Green, 2013; Lin-Hi & Müller, 2013). Stakeholders are 'willing to punish' firms for CSI through boycotts, strikes, supply chain disruptions, protests, and lower valuations (Sweetin et al., 2013). Although CSI has the ability to create positive ramifications for the firm, when CSI becomes known to stakeholders it then exerts negative forces on stakeholder relationships. As a result, firm shareholder relationships are negatively impacted because CSI may significantly decrease shareholder wealth (Frooman, 1997). This finding, in turn, may lower investor estimates of firm valuation.

Employees not only may be the target of CSI but also may be influenced in their relationships with irresponsible firms in that they may leave, may be less motivated to perform, and may be more difficult to recruit (Oikonomou et al., 2012; Strike et al., 2006). The negative effects of CSI can affect relationships with suppliers though negative perceptions emanating from the relationship with irresponsible firms (Amaeshi, Osuji, & Nnodim, 2008). Community relationships with irresponsible firms are negatively affected in that communities may protest and promote bad publicity, which can harm firm reputation and brand image (Fombrun et al., 2000).

Firm relationships with stakeholders are used by stakeholder management to provide value to stakeholders and achieve firm performance objectives. These objectives of increasing firm value by building a competitive advantage are consistent with economic and stakeholder perspectives. Building strong stakeholder relationships through CSR provides the firm with intangible assets that can provide a competitive advantage and lead to increased market value. CSI can weaken stakeholder management by diminishing stakeholder relationships and decreasing firm intangible assets, leaving the firm susceptible to competitors and thus reducing market value. Therefore, we posit:

H1a. CSR will be positively related to market value.

H1b. CSI will be negatively related to market value.

2.3. CSR, CSI and firm idiosyncratic risk

Using our theoretical framework, we propose that CSR will affect key stakeholder relationships to reduce firm idiosyncratic risk, whereas CSI will negatively affect relationships with key stakeholders to increase firm idiosyncratic risk. Research has indicated that CSR stakeholder management generates moral capital from stakeholders in the form of customer credibility, brand faith, employee affective commitment, community legitimacy, supplier trust, and shareholder reliability (Luo & Bhattacharya, 2009), whereas CSI stakeholder management increases firm idiosyncratic risk through customer and shareholder lawsuits, community proceedings, and supplier mistrust (Orlitzky & Benjamin, 2001).

The evaluation of CSR's effects on market value cannot be isolated from the implications of idiosyncratic risk. Idiosyncratic risk represents the volatility of the firm stock price and indicates the degree of confidence that investors are willing to endure to hold the firm's stock (Duffee, 1995). Shareholders not only care about firm market value but are also sensitive to firm idiosyncratic risk as investors (Campbell, Lettau, Malkiel, & Xu, 2001). The ability of strategic resources to reduce firm financial market risk has been examined in the marketing literature (Luo & Bhattacharya, 2006). Managers can reduce firm idiosyncratic risk by deploying key firm resources (Orlitzky & Benjamin, 2001). These resource deployments improve firm financial performance, and in addition, resource deployment visibility improves firm financial performance by reassuring investors (Becchetti, Ciciretti, & Hasan, 2015). CSR generates goodwill and moral capital, which acts as an “insurance-like” asset that provides investors with higher confidence and a smoother, more consistent stock price (Godfrey et al., 2009; Jo & Na, 2012; Luo & Bhattacharya, 2009). In this sense, CSR creates additional benefits to the firm because a steady stock price may also attract other financial resource providers such as debt holders, thus further enhancing the firm's performance stability (Godfrey et al., 2009; Sun & Cui, 2014).

Waddock and Graves (1997) support our institutional stakeholder theoretical approach with good management theory, postulating that CSR and good management are highly correlated because each fosters good relationships with key stakeholders. This positive relationship may increase employee morale and productivity, community tax incentives, and stakeholder satisfaction, which may reduce costs and improve firm financials (Rodrigo & Arenas, 2008). These benefits can create a competitive advantage through increased sales and reduced stakeholder management costs.

Conversely, a firm that engages in CSI may generate negative influences on firm idiosyncratic risk, indicated by reduced investor confidence and a more volatile stock price, making the future more unpredictable (Lange & Washburn, 2012). Research based on instrumental stakeholder theory supports the negative influence of CSI on firm financial risk, finding that firms engaged in CSI experience higher degrees of firm financial risk (Oikonomou et al., 2012; Wood, 1991a). CSI may cause the financial performance of the firm to be less dependent on controllable strategic inputs and more influenced by the degree stakeholders, such as consumers who may punish the firm, causing more volatile financial performance (Freeman, 1984; Sweetin et al., 2013). In particular, CSI may erode the firm's network that protects the firm during market turbulence (Oikonomou et al., 2012). For example, losing the trust of strategic alliance partners may throw the firm into disarray and disturb income flows (Cheung, Welford, & Hills, 2009; Zaheer, McEvily, & Perrone, 1998). These factors may significantly increase stock price turbulence, thereby increasing firm idiosyncratic risk.

As previously stated, managers may be included in multiple stakeholder groups including shareholders. Armstrong (1977) studies the conflicting roles of managers and shareholders, suggesting that when managers play a dual role of shareholder and manager, managers are likely to emphasize shareholder gains over the interests of other stakeholders. Using a role-playing experiment, this study found that

managers are inclined to impose serious harm on other stakeholders when managers believed it was proper behavior for their role, i.e., not illegal activities. Although such behavior may be beneficial in the short term, in the longer term irresponsible behaviors by managers may increase the risk premium of equity and debt that may result in future liabilities, increased risks, and reduced investor rates of return (Graves & Waddock, 1994). CSI can increase firm idiosyncratic risk and reduce competitive advantage by increasing the cost of equity capital (Dhaliwal, Li, Zhang, & Yang, 2011) and debt (Goss & Roberts, 2011). Firms with better CSR relationships face lower capital constraints due to improved stakeholder engagement (Choi & Wang, 2009).

Firm management of key stakeholders can reduce firm-specific risk. Reducing firm idiosyncratic risk will provide competitive advantages through lower costs of capital and lower costs of debt. Lower firm idiosyncratic risk can be obtained by building strong stakeholder relationships that provide a competitive advantage when considered as providing value to stakeholders. CSI can increase firm idiosyncratic risk through weaker stakeholder relationships that decrease trust, disrupt stakeholder networks, and promote stakeholder punishment. CSI can also erode competitive advantage through higher firm financing costs. Therefore, we expect:

H2a. CSR will be negatively related to firm idiosyncratic risk.

H2b. CSI will be positively related to firm idiosyncratic risk.

2.4. Differences in the strength and long-term effects of CSR and CSI

We have formulated our theoretical and empirical reasoning for the differing effects of CSR and CSI on market value. CSR creates value from stakeholder relationships to create competitive advantage (Jones, 1995) by building intangible assets in the form of relationships used to increase market value and to decrease firm idiosyncratic risk. CSI erodes the value of stakeholder relationships and diminishes competitive advantage by decreasing market value and increasing firm idiosyncratic risk. We now turn to a salient portion of our research by focusing on the strength and duration of the effect of CSR and CSI.

The performance impact of firm-initiated actions that strengthen or weaken shareholder relationships may vary in magnitude. CSR takes time to develop because the establishment of stakeholder relationships must “fit” stakeholder values and social perspectives (Freeman, 1984). CSR indicates that the firm is interested in mutually beneficial relationships with stakeholders. CSR activities become a part of the reputation or value system of the firm and develop into legitimacy (Godfrey et al., 2009; Wood, 1991b). Over time, stakeholders will recognize CSR as being a credible and unselfish firm behavior (Godfrey et al., 2009). Conversely, the performance impact of CSI differs from CSR, and CSI may have a stronger effect in harming stakeholder relationships than CSR's effect in building stakeholder relationships (Frooman, 1997; Muller & Kräussl, 2011). Irresponsible and/or illegal behavior is strongly and negatively received by stakeholders, and irresponsible and illicit behavior decreases shareholder value (Frooman, 1997). For example, Wal-Mart and Nike suffered negative press and faced stakeholder questions after being accused of operating sweatshops (Roberts & Engardio, 2006). The identification of these issues regarding worker exploitation and unsafe working conditions had long-term negative implications on Nike throughout the 1990s, prompting Nike to implement a code of conduct in 1998 to address CSR (Buchanan, Tariq, & Xijian, 2013). The Kathy Lee Gifford brand apparel incident that sparked negative press for Wal-Mart occurred in 1996. Once illuminated, these CSR practices continued to affect Wal-Mart for many years with regard to labor practices, child safety ordinances, wage issues, and anti-discrimination mandates, prompting the firm to create a code of ethics office in 2004 (Blair, Williams, & Li-Wen, 2008; Williams, 1999).

Firms convicted of illegal CSI activities experience long-term

negative financial performance implications in the form of lower returns on assets and lower sales growth; firms with multiple convictions within a year of their initial conviction incur greater negative long-term effects on financial performance (Baucus & Baucus, 1997). CSI can illicit significant negative reactions from stakeholders and can have a significant negative impact on the firm (Brammer & Pavelin, 2005).

Although stakeholders may not demand proactive socially responsible firm behavior, irresponsible behavior is likely to be punished by numerous stakeholders (Sweetin et al., 2013). Consumers, suppliers, shareholders, and employees as stakeholders are more sensitive to negative occurrences of the firm than positive occurrences (Foreman, 2011). In addition, consumers tend to discuss and spread more negative news than positive news (Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001; Sen & Bhattacharya, 2001). Psychologically, consumers are also more sensitive to negative news because negative news makes consumers uncomfortable about engaging with the firm (Veitch & Griffitt, 1976) and makes them more likely to evaluate the firm and their products negatively (Brown & Dacin, 1997; Foreman, 2011). The propensity for CSI to remain in the public eye for a prolonged period, coupled with the propensity for stakeholders to react more strongly to negative news than positive news, may result in more serious punishment for CSI than positive rewards for CSR by firm stakeholders (Frooman, 1997; Lin-Hi & Müller, 2013).

Stakeholders weigh negative information more heavily than positive information (Lankoski, 2009). Some explanations of the stronger reactions to CSI can be found in the psychology literature. One bias addressed by the psychology literature is that negative information more strongly influences human evaluations than positive information, thus producing a negativity bias. This sensitivity to negative information as a result of CSI is stronger than the sensitivity to positive information as a result of CSR, and thus is referred to in this paper as the negativity effect. The negativity effect impacts stakeholders, whose “attention and interpretation can be influenced by specific qualities of the effect—including negativity, seriousness, unexpectedness, and concentration in time and space—and by specific qualities of the implicated firm—including size and prominence” (Lange & Washburn, 2012, p. 303). Previous research on human psychology reveals that there is significant asymmetry between the cognitive processing that people perform in response to negative information when compared to positive information (Kanouse & Hansen, 1972). We suggest that the negative bias effects of CSI will be stronger than the positive effects of CSR due to the negativity effect inherent in human cognitive processing and decision making (Ito, Larsen, Smith, & Cacioppo, 1998).

Rozin and Royzman (2001) present a taxonomy of this bias based on four aspects. The first and fourth aspects support our arguments for strength differences, and the second and third aspects support our arguments for temporal differences. The first aspect, negative potency, directly supports our argument for a stronger effect of CSI in stating that a negative event that is objectively equal to a positive event will be subjectively evaluated as more potent and important than the positive event. The fourth aspect states that negative events are interpreted more elaborately and construed as more differentiated than positive events.

In addition to hypothesizing that CSI will have a greater effect on firm performance than CSR, we expect that the duration of the CSI effect will last longer than the duration of the CSR effect. We also find support for this argument in the psychology literature. Negative news regarding companies tends to remain in consumers' memory for a longer period of time than positive news (Veitch & Griffitt, 1976). The CSI mitigation process not only consumes time, financial and human resources, and managerial efforts, but may also be continuously tracked by the media, social groups, and governments (Du & Vieira, 2012). The duration of the negativity effect may be caused by bias in the human memory mechanism, because the ability to recall bad news is linked to the bad news having a deeper psychological impact (Giner & Rees, 2001; Veitch & Griffitt, 1976). This negative news effect may also be

reflected by a long-term recovery process once CSI occurs and is publicized. This argument is supported by the second and third taxonomy aspects of Rozin and Royzman (2001). Negative events have a steeper gradient and grow more rapidly over time. When positive and negative events are combined, the resulting value to stakeholders is more negative than the algebraic sum of subjective evaluations.

Based on fit, legitimacy, and credibility, previous studies indicate that the effects of CSR and CSI will differ with respect to their strength and length of influence. We also provide support from the psychology literature to predict a longer duration and more prominent effect of CSI compared to CSR. Therefore, based on the extant literature and instrumental stakeholder theory, respectively supported by the psychology literature, we expect that the strength and length of temporal influence of CSI and CSR will have different effects on firm performance. We posit that CSI will have a stronger effect and a longer impact than CSR.

H3a. The effect of CSI will have a stronger impact on market value and idiosyncratic risk than the effect of CSR.

H3b. The effect of CSI will have a longer impact on market value and idiosyncratic risk than the effect of CSR.

2.5. Interaction of CSR and CSI

The coexistence of CSR and CSI signifies the need for a moderating model that examines how CSI may moderate the relationship between CSR and firm performance. The interaction of simultaneous activity of CSR and CSI is not determined purely based upon a positive or negative influence asymmetry of the activity. Behavior researchers indicate that the evaluation of activities is affected by humans' amount of actual control over the activity and value placed on the activity (Mitchell & Wood, 1980). Other factors that may influence this interaction include how the specific information regarding the activity is relayed, emphasized or deemphasized, and factual or distorted, because these interpretations can substantially affect stakeholder inferences and judgments (Barden, Rucker, Petty, & Rios, 2014). Additionally, stakeholders filter and frame information, which influences the perception and interpretation of CSI and CSR (Lange & Washburn, 2012). Wagner, Lutz, and Weitz (2009) suggest that stakeholders perceive and react to inconsistent CSR and CSI information based on the hypocrisy of the information and actions presented to the stakeholder. This hypocrisy effect is dependent upon whether the firm follows the presentation of CSR information with consistent or inconsistent actions (Barden et al., 2014). This hypocrisy effect directly and indirectly influences stakeholder attitudes.

Currently, the literature provides some evidence that indicates a negative moderating influence of CSI. The presence of a high level of CSI, as mentioned previously, undermines the environment that the firm depends upon for good relationships with consumers and support from stakeholders (Lin-Hi & Müller, 2013). The negative conditions and relationships created by CSI may decrease the effectiveness of the firm's CSR activities. For example, when consumers encounter both positive and negative news about a firm's behavior, they tend to discredit the firm's benevolence (Frooman, 1997). This negativity effect can also be observed in consumer brand perception. When consumers are confused by a brand image that contains both positive and negative elements, the positive elements are embraced less (Walsh & Mitchell, 2010). The detrimental influence may have a negative impact on investor perception and psychologically remove the beneficial effects of CSR (Muller & Kräussl, 2011; Rao & Hamilton, 1996).

The stakeholder perspective suggests that firms can increase performance by creating valuable relationships with stakeholders but that negative stakeholder relationships have the potential to damage performance (Lange & Washburn, 2012; Oikonomou et al., 2012). Good management and strategy practices indicate that firms should actively

pursue CSR while attempting to avoid CSI (Armstrong & Green, 2013). Consumers have the ability to influence market value and idiosyncratic risk by impacting sales through buying behavior and word of mouth (Du et al., 2010; Walsh & Mitchell, 2010). Irresponsible behaviors by stakeholders in the supply chain have the ability to produce negative firm performance through brand resentment (Amaeshi et al., 2008). Shareholders also have the ability to influence market value and idiosyncratic risk by valuing firm assets and costs (Groening & Kanuri, 2013; Jo & Harjoto, 2011; Jo & Na, 2012; Luo & Bhattacharya, 2009). Because firms may pursue CSR while seeking to avoid or mitigate CSI, CSI has the potential to moderate the relationship between CSR and market value and idiosyncratic risk.

Although the stakeholder perspective suggests that through good management CSR can improve financial returns, it also suggests more specifically that through bad social practices CSI will lower financial returns due to poor stakeholder management, which will increase costs and lower market value through the erosion of consumer trust and consumer unwillingness to purchase the brand in the future (Jones, 1995). Based upon our theoretical arguments and previous empirical research, we expect:

H4a. The presence of CSI will negatively moderate the positive relationship between CSR and market value.

H4b. The presence of CSI will positively moderate the negative relationship between CSR and firm idiosyncratic risk.

3. Data, measures, and estimation methods

To test the hypotheses empirically, we collected data from different sources including KLD, Compustat, and CRSP. We also obtained data from firm annual reports whenever necessary and available. The CSR and CSI measures were provided by the KLD data source that is regarded as a renowned source for evaluating these variables (Harrison & Freeman, 1999; Strike et al., 2006). Other variables such as market value were collected from Compustat, a rich data source that covers a wide range of firm information. In CSR-related studies, data from Compustat are frequently employed due to the scope of information, the objectivity of data, and the scale of sample coverage (Ali, Klasa, & Yeung, 2009). We utilized the CRSP data source to obtain the firm idiosyncratic risk data. We collected the variables from each of the databases and then merged them into a single data source. Based on the nature of KLD, Compustat, and CRSP, our sample covers a comprehensive set of firms across several industries: manufacturing, retail, wholesale, professional services, and transportation. Manufacturing firms account for the largest portion (45%) of firms, followed by retail and wholesale (22%). Our final dataset contains an unbalanced panel data structure with 2581 observations from 562 firms in the period 2000–2010. The relative number of firms and the distribution of industries in this dataset is representative of the current, real-world marketplace. The panel data format of the dataset provides certain advantages for generating insightful results but requires also us to consider special methods to remove possible biases arising from panel datasets. We will discuss these advantages and special methods in the Estimation methods section.

3.1. KLD measures of CSR and CSI

We collected CSR and CSI measures from the KLD data source (see Table 1). Among the data items, the 7 key stakeholder attributes of community, corporate governance, diversity, employee relations, environment, human rights, and product comprehensively summarize the aspects of a firm's social link with its environment. For each of these categories, firms are identified with a strength and concerns score. The scores are binary, with an item receiving a 1 indicating the strength or concern. For example, the community category reflecting charitable

Table 1
KLD strengths and concerns.

Category	Strength	Concern
Community	Charitable Giving, Innovative Giving	Investment Controversies
	Non-U.S. Charitable Giving	Negative Economic Impact
	Support for Housing	Indigenous Peoples Relations (2000 – 2001)
	Support for Education	Tax Disputes (new 2005)
	Indigenous Peoples Relations (moved 2002)	Other Concern
Corporate governance	Volunteer Programs (new 2005)	
	Other Strength	
	Limited Compensation	High Compensation
	Ownership	Ownership
	Transparency (new 2005)	Accounting (new 2005)
Diversity	Political Accountability (new 2005)	Transparency (new 2005)
	Other Strength	Political Accountability (new 2005)
	CEO	Other Concern
	Promotion	Controversies
	Board of Directors	Non-Representation
Employee relations	Work/Life Benefits	Other Concern
	Women & Minority	
	Contracting	
	Employment of the Disabled	
	Gay & Lesbian Policies	
Environment	Other Strength	
	Union Relations	Union Relations
	Cash Profit Sharing	Health and Safety
	Employee Involvement	Workforce Reductions
	Retirement Benefits	Retirement Benefits
Human rights	Health and Safety	Other Concern
	Other Strength	
	Beneficial Products and Services	Hazardous Waste
	Pollution Prevention	Regulatory Problems
	Recycling	Ozone Depleting Chemicals
Product	Clean Energy	Substantial Emissions
	Communications	Agricultural Chemicals
	Management Systems	Climate Change
	Other Strength	Other Concern
	Indigenous Peoples Relations (new 2002)	Burma
Changes noted for 2000–2010	Labor Rights Strength (added 2002)	Mexico (Only 1995–2002)
	Other Strength	
	Quality	Labor Rights
	R & D Innovation	Indigenous Peoples Relations
	Benefits to Economically Disadvantaged	Other Concern
	Other Strength	Product Safety
		Marketing Contracting
		Antitrust
		Other Concern

giving strength is given a 1 when the company has consistently donated more than 1.5% of trailing three-year net earnings before taxes to charity, and the corporate governance item reflecting high compensation concern is given a 1 when the total compensation is more than \$10 million per year for a CEO or \$100,000 per year for outside directors. We tally the scores per year for each firm. A higher strengths score indicates the firm engages more actively in CSR, whereas a higher concerns score indicates more involvement in irresponsible activities. The final measurement of CSR and CSI is the total of strengths and concerns summated from all seven categories. This approach of KLD CSR measures is widely used in management, marketing, and general business research (e.g., Lin-Hi & Müller, 2013; Muller & Kräussl, 2011;

Tang et al., 2012). The number of strengths and concerns may vary slightly across years¹. The KLD data report both firm CSR strengths and CSI weaknesses (concerns) separately as distinct measures, as opposed to a single combined variable reflecting an overall measure of CSP. The taxonomy of the KLD database concerning strengths and concerns is distinct both conceptually and empirically (Mattingly & Berman, 2006). These separate measures have been used in prior studies to investigate and evaluate both CSI and CSR effects (e.g., Doh, Howton, Howton, & Siegel, 2010; Kang, Germann, & Grewal, 2016; Kotchen & Moon, 2012; Mattingly & Berman, 2006; Oikonomou et al., 2012; Strike et al., 2006).

We use the technique of tallying the items score across categories for strengths and concerns to provide an overall yearly assessment. The data were transformed by normalizing individual CSR and CSI scores against the total number of strengths and concerns of each year within the same category (Kang, Germann, & Grewal, 2016). We standardized the scores to account for the addition and removal of certain items over the years. For example, in the corporate governance category, both transparency (a strength) and accounting (a weakness) were added in 2005.

3.2. Market value

We used Tobin's q to measure market value (Bebchuk & Cohen, 2005; MacKay & Moeller, 2007). This approach has a number of advantages. First, Tobin's q is a prominent forward-looking indicator that reflects shareholder expectations of the firm's future performance (Anderson et al., 2004). Second, Tobin's q is a combination of multiple firm performance items such as sales, profit, cash flow, and earnings volatility. This comprehensive view of firm outcomes provides reliable evidence about the firm (Srivastava et al., 1998). Third, Tobin's q is an objective measure rather than managers' subjective conclusion regarding firm performance and thus is a preferred measure of the true value of the firm (Srivastava et al., 1998). To obtain Tobin's q, we followed Chung and Pruitt's (1994) method, which uses Compustat data items to compute the extent that investors' expectation goes beyond the firm's book value.

$$\text{Tobin's } q = \frac{MVE + PS + DEBT}{TA}, \quad (1)$$

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.

3.3. Firm idiosyncratic risk

The risks in the financial market include systematic risk and idiosyncratic risk. Whereas the former indicates how the firm's stock price co-changes with the market, the latter reflects the stock price volatility directly associated with firm-specific factors such as management, marketing, operational activities, and operational efficiency (Rego et al., 2009). Therefore, idiosyncratic risk is a better measure if the research goal is to reveal specific firm factors' impact on stock price (Luo & Bhattacharya, 2009). A common approach to measuring this risk type is the Fama-French 4-factor model on the daily return of each firm's stock. This approach suggests that the daily return of a stock can be explained by market factors (market return, the difference between small and large stocks, the difference between low and high book-to-

market ratio stocks, and stock return momentum) and firm-specific factors that are expressed as the portion of variance that is not explained by the 4 factors. The model is expressed as.

$$r_{it} = \alpha_i + \beta_i^{MKT} r_t^{MKT} + \beta_i^{SMB} r_t^{SMB} + \beta_i^{HML} r_t^{HML} + \beta_i^{UMD} r_t^{UMD} + \mu_{it}, \quad (2)$$

The R_{it}^2 resulting from this model represents the degree to which the firm's stock co-varies with the market. Therefore, $1 - R_{it}^2$ is the variance portion of the stock volatility unexplained by the market situation, and hence is the measure of firm idiosyncratic risk. Luo and Bhattacharya (2009), in line with the norm in finance, adopt a log-transformed risk to account for the boundary issues of the coefficient of determination:

$$\text{Risk}_{it} = \ln \left(\frac{1 - R_{it}^2}{R_{it}^2} \right). \quad (3)$$

The daily stock returns are collected from CRSP. The mean of idiosyncratic risk is 3.15 with a standard deviation 2.71. These results are comparable with previous research (e.g., Luo & Bhattacharya, 2009).

3.4. Control variables

We collected a series of control variables, controlling for firm size because firm size should influence firm performance (Samiee & Walters, 1990). To control for firm size, we collected the total asset size from Compustat and applied a log-transformation (Sun & Cui, 2014). We controlled for firm age because firms' experience and knowledge accumulation increase with age and thus might influence their performance. We measured firm age by calculating the number of years a firm appeared in Compustat (Anderson & Reeb, 2003). The study also controlled for the environmental factors munificence, turbulence, and competition. These three variables capture and control for industry characteristics (Keats & Hitt, 1988). We followed Keats and Hitt (1988) to obtain the measures of munificence, which is the industry sales growth trend in a five-year period. The study used the coefficient of variation of each industry's sales of a five-year period to measure environment turbulence (Fang, Palmatier, & Steenkamp, 2008). We measured competition by using 1-Herfindahl-Hirschman Index (HHI), which represents the intensity of competition (Fang et al., 2008). We also controlled for asset growth in the market-value model, because the asset growth rate is an important indicator to investors (Cooper, Gulen, & Schill, 2008). Resource abundance was incorporated as a control variable because resource abundance may provide the firm with more support to achieve performance. We used cash flow as a measure of resource abundance (Seifert, Morris, & Bartkus, 2004), controlling for volatility because investors value the uncertainty of the firm's income (Srivastava et al., 1998). We used the coefficient of variation on each firm's cash flow over a five-year period to measure cash flow volatility. In the market-value model, we also controlled for firm diversification by using Compustat's business segment database to collect each firm's business areas measured by the number of 4-digit SIC codes (Daines, 2001). In the firm idiosyncratic risk model, we controlled for leverage because borrowing is likely to affect firm idiosyncratic risk (Luo & Bhattacharya, 2009). In addition, we controlled for dividend payments and liquidity because they both are potentially related to firm idiosyncratic risk (Luo & Bhattacharya, 2009). In both the market-value and risk models, we included a set of time dummy variables (year) to control for extra heterogeneity associated with time trends.

3.5. Estimation methods

The final model for market value is specified as follows:

¹ We have noted the changes made to the strengths and concerns categories in Table 1. Only changes made during our sample period from 2000 to 2010 are noted.

Table 2
Descriptive statistics and correlations.

		M	SD	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14
V1	Firm Value	2.13	1.87														
V2	Idiosyncratic Risk	3.15	2.71	0.03													

V3	CSR	0.09	0.14	0.11	−0.02												

V4	CSI	0.11	0.12	−0.08	0.02	0.24											
				***	**	***											
V5	Firm Size	7.68	1.86	−0.25	−0.11	−0.11	0.06										
				***	***	***	***										
V6	Firm Age	2.98	0.72	−0.09	−0.10	−0.06	0.08	0.37									
				***	***	***	***	***									
V7	Munificence	1.05	0.10	0.05	0.01	0.05	−0.03	−0.05	−0.11								
				***		***	***	***	***								
V8	Turbulence	0.03	0.02	−0.01	0.01	0.00	−0.03	−0.11	0.04	−0.07							
				***	***	***	***	***	***	***							
V9	Competition	0.74	0.20	0.11	0.04	0.07	0.06	0.00	0.06	−0.03	−0.30						
				***	***	***	***	***	***	***	***						
V10	Asset Growth	0.15	0.55	0.22	0.07	0.04	−0.00	−0.13	−0.19	0.08	0.00	−0.01					
				***	***	***	***	***	***	***	***	***					
V11	Slack Resource	0.04	0.25	−0.05	−0.08	0.00	0.00	0.11	−0.04	0.02	−0.02	−0.03	0.02				
				***	***	***	***	***	***	***	***	***	***				
V12	Cash Flow Volatility	0.68	0.86	−0.01	0.04	−0.04	−0.03	−0.11	−0.10	0.03	0.02	−0.08	0.04	−0.09			
				**	***	***	***	***	***	***	***	***	***	***			
V13	Diversification	0.89	0.50	−0.11	−0.04	0.07	0.00	0.14	0.23	0.00	0.00	0.02	−0.07	−0.01	0.00		
				***	***	***	***	***	***	***	***	***	***	***	***		
V14	Leverage	0.17	0.21	−0.32	0.04	−0.06	0.10	0.10	0.06	−0.01	0.01	0.10	−0.06	−0.07	−0.11	0.01	
				***	***	***	***	***	***	***	***	***	***	***	***	***	
V15	Liquidity	3.50	3.30	0.32	0.06	0.06	−0.00	−0.35	−0.19	0.01	0.03	−0.11	0.15	−0.03	0.05	−0.09	−0.22
				***	***	***	***	***	***	***	***	***	***	***	***	***	***

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

$$\begin{aligned}
 \text{Firm Value}_{it+1} = & \beta_0 + \beta_1 \times \text{CSR}_{it} + \beta_2 \times \text{CSI}_{it} \\
 & + \beta_3 \times \text{CSR}_{it} \times \text{CSI}_{it} \\
 & + \beta_4 \times \text{Firm Size}_{it} + \beta_5 \times \text{Firm Age}_{it} \\
 & + \beta_6 \times \text{Env. Munificence}_{it} + \beta_7 \times \text{Env. Turbulence}_{it} \\
 & + \beta_8 \times \text{Competition}_{it} \\
 & + \beta_9 \times \text{Asset Growth}_{it} \\
 & + \beta_{10} \times \text{Slack Resource}_{it} \\
 & + \beta_{11} \times \text{Cash Flow Volatility}_{it} \\
 & + \beta_{12} \times \text{Diversification}_{it} + \text{Time Dummies} + \varepsilon_{it}
 \end{aligned}
 \tag{4}$$

The final model for firm idiosyncratic risk is specified as

$$\begin{aligned}
 \text{Firm Idiosyncratic Risk}_{it+1} = & \beta_0 + \beta_1 \times \text{CSR}_{it} + \beta_2 \times \text{CSI}_{it} \\
 & + \beta_3 \times \text{CSR}_{it} \times \text{CSI}_{it} \\
 & + \beta_4 \times \text{Firm Size}_{it} + \beta_5 \times \text{Firm Age}_{it} \\
 & + \beta_6 \times \text{Env. Munificence}_{it} \\
 & + \beta_7 \times \text{Env. Turbulence}_{it} \\
 & + \beta_8 \times \text{Competition}_{it} \\
 & + \beta_9 \times \text{Asset Growth}_{it} \\
 & + \beta_{10} \times \text{Leverage}_{it} \\
 & + \beta_{11} \times \text{Dividend Pay}_{it} \\
 & + \beta_{12} \times \text{Liquidity}_{it} + \text{Time Dummies} + \varepsilon_{it}
 \end{aligned}
 \tag{5}$$

(i denotes firms, j means industries, and t represents time periods).

To test our hypotheses using these models, several concerns must be addressed. First, the dataset includes a number of firms that are different in nature. The firm-specific aspects in the sample are controlled for by the inclusion of the control variables described previously. Second, in addition to firm-specific factors, industry and environmental influences are controlled for by the inclusion of the set of industry

variables: munificence, turbulence, and competition. Third, the dataset spans multiple years; therefore, the time effect is controlled by the inclusion of time dummy variables. Fourth, to better estimate panel data with large firm data, heteroscedasticity and autocorrelation must be addressed. We selected two robust regression methods to address heteroscedasticity and autocorrelation in the data. In the first robust regression, we used White robust standard errors to correct for heteroscedasticity, clustering each firm in different years to account for autocorrelation (Petersen, 2009). In the second robust regression method, we used Newey-West robust standard errors to account for both heteroscedasticity and autocorrelation (Cecchetti, Kashyap, & Wilcox, 1997; Newey & West, 1986).

To examine the long-term effects of CSR and CSI on firm performance, we adopted a vector autoregressive model designed for panel data. The panel VAR method examines the dynamic relationship among a set of variables for a number of different firms that have different profiles. In comparison to the traditional VAR model, which explores the time-series pattern of variables for an individual unit, the panel VAR method accommodates the generalized pattern from many units and therefore is preferred when the research goal is to reveal fundamental relationships that exist in many firms (Koutsomanoli-Filippaki & Mamatzakis, 2009; Love & Zicchino, 2006).

These models include equation systems that assume variables within each system will mutually influence each other in the time series. The results of their long-term effects are reflected by the impulse response functions (IRFs). The IRFs show the magnitude of change that a variable will have based on the change (one standard deviation) of another variable. This elasticity can be visualized to clearly illustrate the relationship direction and strength.

4. Analysis results

The descriptive statistics and correlations are presented in Table 2.

The correlation between CSR and CSI is 0.23. This positive relationship supports our viewpoint that companies tend to simultaneously exhibit both CSR and CSI activities and encourages an examination of how the combination of these two activities affects firm performance. The correlation between market value and risk is 0.03, a positive correlation that is not high but that is significant. The risk-reward notion is reflected by this correlation. In the regression models that examine how CSR, CSI, and their interaction impact market value and firm idiosyncratic risk, we used a step-wise approach that first runs the control variables, then adds the main effects, and finally runs the full model. For all the robust regressions, variance inflation factors (VIFs) were checked; none was found to be higher than 10, meaning that multicollinearity is not a concern. The partial F tests show that the incremental additions of variables are significant. The addition of variables does not create significant inconsistency in the market value and risk models. In the control variable set, firm size is found to decrease both market value and firm idiosyncratic risk. In the stock market, large firms usually have a more stable performance due to the diversification of their business scope. However, the risk-reward rule indicates that they also have relatively lower return rates. Firm age is found to significantly lower firm idiosyncratic risk. This finding echoes previous findings such as that of [Luo and Bhattacharya \(2009\)](#). Experience gained through longevity helps the firm to better mitigate and control turbulence. Investors' confidence in a firm can be undermined by increasing cash flow volatility because cash flow volatility has been found to strongly decrease market value and increase revenue uncertainty ([Rego et al., 2009](#)).

Our first hypothesis predicts that CSR and CSI have an opposite relationship with market value. These predictions are confirmed by the results (see [Table 3](#)). CSR positively impacts market value ($\beta = 0.08$, $p < 0.01$) whereas CSI negatively influences market value ($\beta = -0.17$, $p < 0.01$). Thus, both [H1a](#) and [H1b](#) are supported.

Meanwhile, CSI shows a much stronger impact on market value than CSR (0.17 vs. 0.08), supporting [H3a](#). Our second hypothesis predicts that CSR and CSI have an opposite relationship with idiosyncratic risk (see [Table 4](#)). Our [H2a](#) hypothesis indicates that CSR should be negatively related to firm idiosyncratic risk. The results strongly support this hypothesis ($\beta = -0.05$, $p < 0.01$). Our [H2b](#) hypothesis predicts the positive relationship between CSI and firm idiosyncratic risk. This hypothesis is weakly supported ($\beta = 0.06$, $p < 0.1$). In addition, CSI still shows a stronger effect size than CSR (0.6 vs. 0.5) on firm idiosyncratic risk; thus, [H3a](#) is supported.

Our [H4a](#) and [H4b](#) propose that the interaction between CSR and CSI will affect both the relationship between CSR and market value and between CSR and firm idiosyncratic risk. CSI will negatively moderate the relationship between CSR and market value as well as firm idiosyncratic risk. We find evidence from both market value ($\beta = -0.03$, $p < 0.05$) and firm idiosyncratic risk ($\beta = 0.05$, $p < 0.1$) to support [H4a](#) and [H4b](#). These two interactions are visually depicted in [Fig. 1](#) and [Fig. 2](#). When market value is considered and CSI is lower, CSR more strongly drives market value ([Fig. 1](#), dotted line). However, when CSI is higher, the power of CSR becomes weaker. Notably, a firm engaging in both high CSR and high CSI has a lower market value than a firm engaging in both low CSR and CSI. This pattern suggests that doing both good and bad is inferior to doing nothing. The interaction with firm idiosyncratic risk indicates that when CSI is higher, CSR's risk reduction power is lower ([Fig. 2](#)).

The regression models examine the cross-sectional patterns and provide no indication of long-term effects. We ran a panel data VAR model to demonstrate CSR's and CSI's effects across time, first conducting a series of tests to ensure that each key variable was stationary in nature. We employed the methods suggested by [Pesaran \(2007\)](#), [Im, Pesaran, and Shin \(2003\)](#), and [Levin, Lin, and Chu \(2002\)](#) to check for a unit root. None of these tests indicated any evidence of a unit root;

Table 3
Analysis results: market-value.
DV: Market-value (t + 1).

	Control Model		Control and Main Effects		White-Cluster Robust Estimation		Newey-West Robust Estimation	
	β (t)	Sig.	β (t)	Sig.	β (t)	Sig.	β (t)	Sig.
CSR			0.09 (4.41)	***	0.08 (4.03)	***	0.08 (5.43)	***
CSI			-0.16 (-3.21)	***	-0.16 (-3.23)	***	-0.16 (-4.33)	***
CSR $\times$ CSI					-0.04 (-2.32)	**	-0.04 (-2.88)	***
Firm Size	-0.17 (-4.95)	***	-0.17 (-4.90)	***	-0.17 (-4.97)	***	-0.17 (-4.90)	***
Firm Age	-0.03 (-1.35)		-0.03 (-1.41)		-0.01 (-0.42)		-0.03 (-1.96)	**
Munificence	0.04 (2.37)	**	0.04 (2.54)	**	0.04 (2.53)	**	0.04 (2.96)	***
Turbulence	-0.03 (-1.78)	*	-0.03 (-1.68)	*	-0.03 (-1.78)	*	-0.03 (-2.28)	**
Competition	0.07 (3.36)	***	0.06 (3.00)	***	0.06 (3.18)	***	0.06 (4.56)	***
Asset Growth	0.08 (3.43)	***	0.07 (3.45)	***	0.08 (3.48)	***	0.07 (3.41)	***
Slack Resource	-0.19 (-1.00)		-0.19 (-1.01)		-0.19 (-1.03)		-0.19 (-1.03)	
Cash Flow Volatility	-0.04 (-2.74)	***	-0.04 (-2.72)	***	-0.03 (-1.86)	*	-0.04 (-2.66)	***
Diversification	-0.04 (-1.81)	*	-0.05 (-2.12)	**	-0.05 (-2.29)	**	-0.05 (-3.16)	***
Time Dummies	Yes		Yes		Yes		Yes	
Adj. R ²	0.133		0.141		0.149		0.149	

All VIFs are lower than 10. β represents standardized coefficients.

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

Table 4

Analysis results: firm idiosyncratic risk.
DV: Idiosyncratic Risk ($t + 1$).

	Control Model		Control and Main Effects		White-Cluster Robust Estimation		Newey-West Robust Estimation	
	β (t)	Sig.	β (t)	Sig.	β (t)	Sig.	β (t)	Sig.
CSR			−0.03 (−1.83)	*	−0.05 (−2.79)	***	−0.05 (−3.92)	***
CSI			0.07 (2.04)	**	0.06 (1.85)	*	0.06 (3.19)	***
CSR × CSI					0.05 (1.72)	*	0.05 (2.41)	**
Firm Size	−0.10 (−3.71)	***	−0.11 (−3.82)	***	−0.12 (−4.33)	***	−0.12 (−7.00)	***
Firm Age	−0.04 (−1.59)		−0.05 (−1.90)	*	−0.06 (−2.10)	**	−0.06 (−3.30)	***
Munificence	−0.01 (−0.44)		0.00 (0.05)		0.00 (0.02)		0.00 (0.03)	
Turbulence	−0.01 (−0.84)		−0.01 (−0.81)		−0.01 (−0.81)		−0.01 (−1.16)	
Competition	0.02 (0.97)		0.02 (0.95)		0.02 (1.01)		0.02 (1.56)	
Asset Growth	0.02 (1.68)	*	0.02 (1.67)	*	0.02 (1.68)	*	0.02 (1.72)	*
Leverage	0.07 (3.17)	***	0.06 (2.73)	***	0.06 (2.73)	***	0.06 (4.31)	***
Dividend Pay	0.02 (0.93)		0.02 (1.07)		0.02 (1.04)		0.02 (1.50)	
Liquidity	0.03 (0.79)		0.03 (0.87)		0.03 (0.81)		0.03 (1.22)	
Time Dummies	Yes		Yes		Yes		Yes	
Adj. R ²	0.094		0.099		0.102		0.102	

All VIFs are lower than 10. β represents standardized coefficients.

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

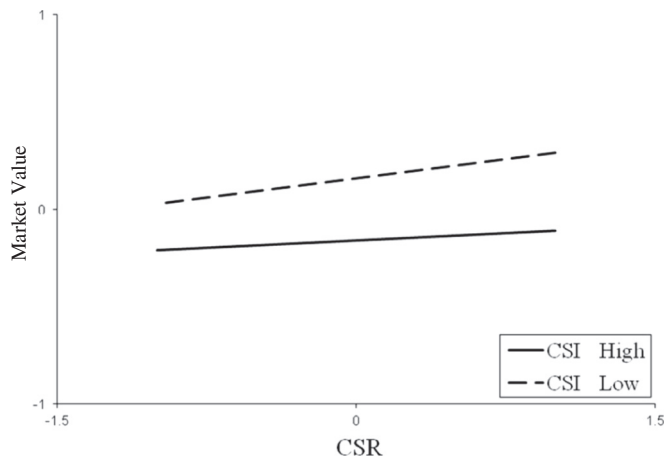


Fig. 1. The impact of interaction of CSR and CSI on market value.

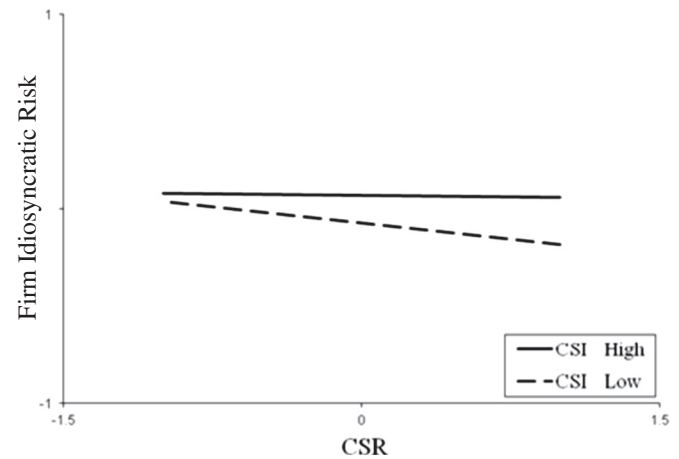


Fig. 2. The impact of interaction of CSR and CSI on firm idiosyncratic risk.

therefore, the variables were presumed to be stationary. We determined the time lag length using Akaike's information criterion (AIC), as suggested by the panel VAR literature (e.g., Gohmann & Fernandez, 2014; Holtz-Eakin, Newey, & Rosen, 1988; Reilly, Nyberg, Maltarich, & Weller, 2013). The resulting optimal lag length of our dataset is two. We then conducted a Helmert transformation on the variables. This transformation involves a forward mean-differencing process that removes the fixed effects from variables and ensures orthogonality between the transformed variables and their lagged terms (Arellano & Bover, 1995). We used a system GMM method to estimate the equations using the lagged terms as instruments (Gohmann & Fernandez, 2014; Holtz-Eakin et al., 1988; Love & Zicchino, 2006; Reilly et al., 2013). The long-term effect is demonstrated by generating IRFs from the system. Elasticities between

CSR/CSI and market value/risk were computed. We also calculated the significance intervals of the elasticity estimators using Monte-Carlo simulation running 1000 times (Reilly et al., 2013). We performed this analysis to determine at what time point a variable's influence was no longer significant. The results of the estimation are shown in Table 5. The bold numbers indicate significant estimators, which are depicted in Fig. 3 and Fig. 4. Regarding market value, both CSR and CSI exert an impact that lasts several periods (year). However, CSI lasts longer than CSR (5 years vs. 3 years, respectively), supporting H3b. One interesting finding is that both CSR and CSI show a grow-decay pattern, i.e., their influence on market value first increases over time and then decreases. This pattern indicates that their effects will take a certain amount of time before reaching maximum strength. Although CSR has a very short effect on firm idiosyncratic risk, CSI's power on firm idiosyncratic risk is

Table 5
Longitudinal analysis with panel data vector autoregressive model.

Response Variables	Market-value		Idiosyncratic Risk	
	CSR	CSI	CSR	CSI
Impulse Variables				
Time Periods				
1	0.1361	−0.1467	−0.0688	0.1031
2	0.1401	−0.1802	−0.0333	0.1205
3	0.1160	−0.1648	−0.0156	0.1050
4	0.0936	−0.1364	−0.0075	0.0823
5	0.0768	−0.1054	−0.0036	0.0619
6	0.0601	−0.0780	−0.0018	0.0442
7	0.0467	−0.0570	−0.0007	0.0299
8	0.0382	−0.0409	−0.0003	0.0212
9	0.0299	−0.0305	−0.0001	0.0129
10	0.0224	−0.0280	0.0000	0.0090

*Bolted numbers are significant at 0.05 level based on 1000 times Monte-Carlo simulation of the impulse response function.

more enduring. In addition, CSR's effect on firm idiosyncratic risk does not follow a grow-decay pattern and monotonically decreases.

5. Discussion

The relationship between CSP and financial performance is complex (McWilliams & Siegel, 2000). The positive relationship of CSR with firm performance confirms previous research by finding a positive association between Tobin's q and CSP (Gregory & Whittaker, 2013; Jo & Harjoto, 2011). We also confirm prior research by finding a negative relationship between CSR and idiosyncratic risk (Luo & Bhattacharya, 2006) and a positive relationship between CSI and idiosyncratic risk (Mishra & Modi, 2013). The negative relationship between CSP and firm performance is also consistent with previous research, which indicates that this relationship may be attenuated by financial leverage (Mishra & Modi, 2013). Our findings add support to previous findings that CSI has a negative influence on market value (Muller & Kräussl, 2011) and increases firm idiosyncratic risk (Mishra & Modi, 2013). Our evaluation of CSR and CSI as independent components of CSP indicates that they have opposite and conflicting influences on firm performance.

Our findings suggest that CSI negatively moderates the relationship between CSR and firm performance. Considering market value when CSI incidents are lower, CSR activities more strongly drive market value. However, when CSI incidents are higher, the power of CSR activities on market value becomes weaker. Regarding firm idiosyncratic

risk, our results show that when CSI incidents are higher, CSR's risk reduction power is reduced, and when CSI incidents are lower, CSR's effect of reducing firm idiosyncratic risk is higher. Notably, a firm engaging in both high CSR activities and high CSI incidents has lower market value than a firm engaging in both low CSR activities and CSI incidents. This pattern suggests that “doing both good and bad” is inferior to “doing neither good nor bad.”

Our research finds that CSI negatively moderates CSR's impact on firm performance; however, other recent research that examined the interaction of CSR and CSI found that using CSR as a penance mechanism for CSI is ineffective in offsetting the negative performance effects (Kang et al., 2016). These findings suggest that other factors may be influencing this relationship. One possible factor may be firm communication. Vanhamme, Swaen, Berens, and Janssen (2015) found that CSR communications to address CSI allegations can buffer stakeholder attitudes towards the company when CSR efforts are communicated through company-controlled outlets. Another factor to consider may be firm commitment to CSR activities. CSR engagement appears to produce insurance-like benefits for negative events on stock and bond prices, provided it is engaged in a continuous, long-term manner (Shiu & Yang, 2016). Our research is also consistent with recent conceptual research that proposes “doing good” will have a stronger effect on the firm than “avoiding bad” (Lin-Hi & Blumberg, 2016).

The temporal effects of CSR activities and CSI incidents on market value indicate that both CSR and CSI exert an impact that lasts several years. The impact of CSI incidents lasts longer than the effect of CSR activities at 5 years and 3 years, respectively. One interesting finding is that both CSR activities and CSI incidents display a grow-decay pattern. Their influence on market value initially increases and then subsequently decreases over time. This pattern indicates that the effects of both CSR activities and CSI incidents will take a certain amount of time before reaching their maximum strength. CSR activities have a very short effect on firm idiosyncratic risk whereas the power of CSI incidents is more enduring. In addition, the effect of CSR activities on firm idiosyncratic risk does not follow a grow-decay pattern, and it monotonically decreases.

This research evaluates the high-low states of CSR activities and CSI incidents on firm performance. Although CSR's effects on firm performance have been confirmed by previous cross-sectional data research, the long-term impact has not been thoroughly studied. Our panel data VAR models formulate the time-series patterns of both CSR and CSI and demonstrate the effect over time by confirming the proposition that CSI has longer effects than CSR. We extend and address the Lin-Hi and Müller (2013) study with respect to further research on “doing good”

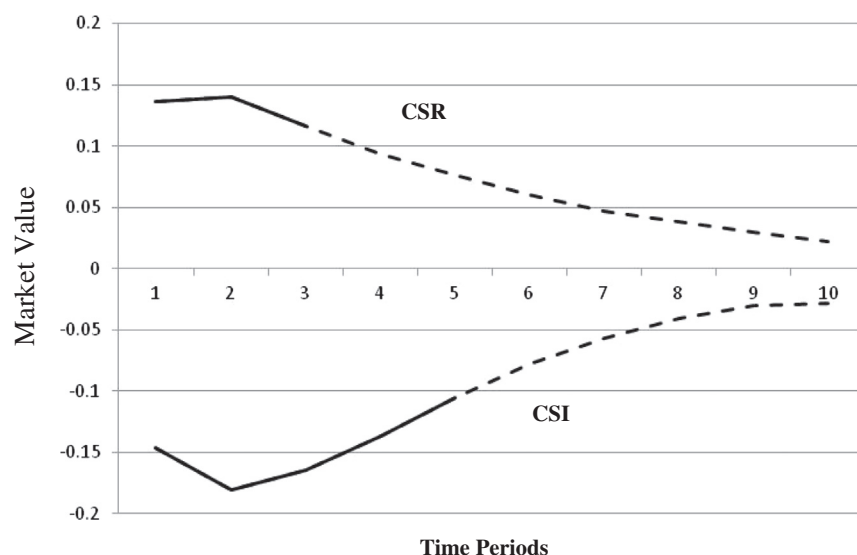


Fig. 3. Impulse response functions: responses of market value to CSR and CSI.

The solid parts of the lines are significant impulse responses at 0.05 level based on 1000 times Monte-Carlo simulation. The dotted parts are impulse responses that are no longer significant.

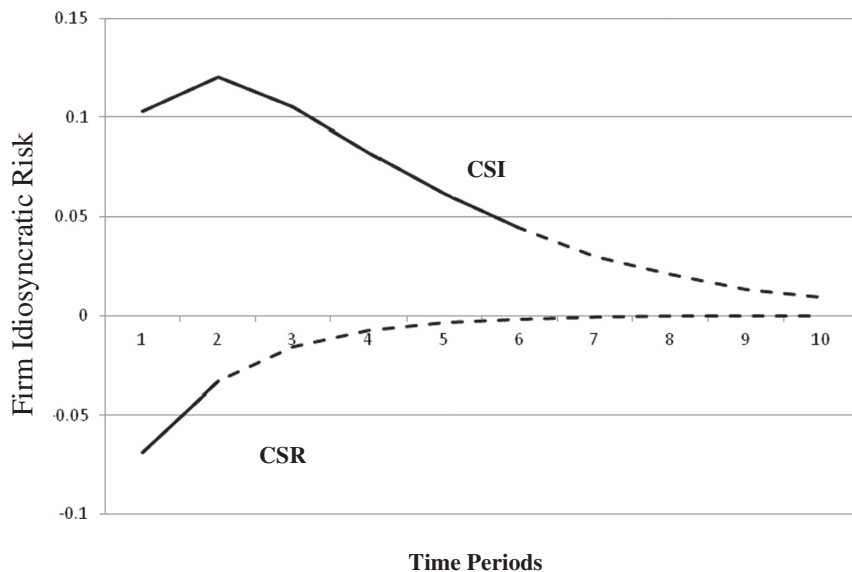


Fig. 4. Impulse response functions: firm idiosyncratic risk to CSR and CSI.

The solid parts of the lines are significant impulse responses at 0.05 level based on 1000 times Monte-Carlo simulation. The dotted parts are impulse responses that are no longer significant.

and “avoiding bad.”

5.1. Implications for theory

Instrumental stakeholder theory has been used in existing CSP research (e.g., Godfrey et al., 2009; Mishra & Modi, 2013). The existence of CSI may undermine the benefits of CSR, which could partially explain why researchers have failed to find consistent relationships between CSP and performance (Margolis & Elfenbein, 2008; Mishra & Modi, 2013). With the addition of CSI to CSP, we empirically extend the instrumental stakeholder theory to include both positive and negative effects of stakeholder relationships. Our research suggests that understanding the CSR mechanism is strongly enriched when firms are viewed in a high-low/CSR-CSI matrix. When a firm demonstrates full engagement in CSR and minimizes CSI, the firm can have both higher market value and lower stock market risk. Conversely, when a firm exhibits high CSI but low CSR, its market value is harmed and firm risk increases. More importantly, our research results extend the horizons in this direction, find that when market value is considered, firms doing both “good” and “bad” have stronger performance than firms doing neither. These findings are important for researchers who are interested in formulating CSP models. Shareholders appear to favor companies that actively engage in positive activities, which could correct the mistake or make up the psychological loss of stakeholders due to CSI incidents. These findings reveal how shareholders value the firm in a matrix model of CSR and CSI.

We find that CSI yields a much stronger effect than CSR on market value but only a marginally stronger effect on risk. This finding informs stakeholder theory that negative stakeholder relationships are more important to avoid due to the enduring psychological nature of stakeholders holding the firm accountable for irresponsible behaviors. This result is interesting because market value reflects the magnitude, while risk reflects the volatility of shareholders' favorability. The stakeholder shift from a specific irresponsible incident may have a significant magnitude but may wane before causing significant investor risk. Specifically, certain stakeholders such as consumers may strongly punish the firm in the short term, whereas other stakeholders such as investors may not view this as a firm risk in the long term. When combining these effects, this pattern indicates that investors realize the financial benefits of CSR in market value, but they are more aware of the negative impact from CSR as firm idiosyncratic risk. These effects are consistent with Doh, Howton, Howton, and Siegel (2010), finding that socially responsible investments provide value to the firm and may

be evaluated as risks by investors.

The long-term patterns of CSR and CSI provide further implications regarding the stakeholder view of the firm. First, firm resources have unanimously been conceptualized as endowments leading to competitive advantages (e.g., Colbert, 2004; Russo & Fouts, 1997). Stakeholder relationships are firm resources that can be used to create a competitive advantage (Jones, 1995). In this sense, identifying CSR's and CSI's long-term effects is necessary to fully demonstrate the power of these resources. In this sense, CSR and CSI should be viewed along a past-current-future timeline. Stakeholder theory must consider the longitudinal nature of stakeholder relationships with the firm, rather than a simple collection of short-term relationships.

Our research also contributes to the psychological aspect of stakeholder relationships through the incorporation of the negativity bias and cognitive processing from the psychology literature. The effects of CSI not only offset the effect of CSR but also may reverse CSR's influence. In addition, the strategic view of the firm can be enriched by our research. Deploying firm strategies such as CSR should involve CSI factors because, as our research shows, CSR's effectiveness is dependent on the presence of CSI. For example, when CSI is high, engaging in additional CSR activities may alleviate the worsening performance over time.

5.2. Implications for practice

Managers appear to recognize the importance of CSI incidents. Crisis management is an important area in firm management because any publicized CSI may damage the firm's image, resulting in weaker performance. Therefore, effectively managing these situations becomes a necessary skill for managers. Following a publicized CSI, common practices include silence, apologies, and arguments against the accusations (Perks, Farache, Shukla, & Berry, 2013). Our research results suggest that in addition to common practices, initiating CSR projects might be another option to reduce the impact and the length of time that CSI deteriorates firm performance. Managers should recognize that CSR is a beneficial ongoing undertaking. More importantly, firm managers should realize the differences between the power of CSR and CSI. In particular, managers should understand the more enduring influence of CSI and be especially attentive to potential CSI incidents. Managers should act responsibly through CSR and avoid engaging in CSI (Lin-Hi & Müller, 2013).

In addition, our research suggests a necessary shift in management orientation and resource allocation. Although financial and human

resources are required to launch CSR projects, attention must be given to preventing the occurrence of CSI (Minor & Morgan, 2011). The absence of CSI will significantly avoid undesirable consequences and contribute more to overall firm performance. Further, our research provides useful strategic insight for risk management. Traditional views on firm idiosyncratic risk are generally constrained to the field of operations related to core business areas. Managers should build a broad mindset that incorporates all stakeholders because each of these groups has the potential to affect the firm.

Our findings regarding the long-term patterns of CSR and CSI also provide useful insights for managers in that these activities may display an increase-and-decay trend. For example, CSI's effect may peak several periods after its occurrence. Our research thus suggests that managers should consider this pattern to deploy resources to correct, recover, or reverse CSI within a sufficient time frame. As our time-series research shows, managers should be responsive to CSI incidents because the accumulated performance loss over multiple years is considerably larger than the loss indicated by traditional single-period, cross-sectional research.

6. Limitations and future research directions

This research focused on examining CSR's and CSI's effect on firm performance. In previous literature, the stakeholder view of the firm suggests additional entities of interest for further studies. For example, the way in which CSR and CSI jointly affect consumers' opinion of the firm is not explored. In addition, there is little knowledge regarding how CSR and CSI jointly affect the opinions of social interest groups or the general public. In general, future research should evaluate the impact on other stakeholders.

Important limitations of our study include our use of the KLD data for our CSR and CSI measures. The KLD data weight all strengths and concerns equally regardless of the magnitude of benefit or harm caused. For example, when evaluating concerns, a missing written environmental policy does not have the same magnitude of harm as a serious hazardous waste dumping violation. Future research should include the ability to compare the effects of CSR and CSI in a given category. The dimensions of the strengths and concerns must be defined in a manner that is comparable. For example, the diversities category is defined by items that make up the strengths and weaknesses. Although “controversies” is listed as a concern, there is not a comparable strength. These items also vary in severity to different stakeholders such as customers, shareholders, suppliers, or members of society. We are unaware of another data source currently available to obtain better representations of CSR and CSI.

We examine the link between CSP using CSR and CSI. There are numerous factors that could influence this relationship that we do not account for in our research, such as mediating mechanisms and moderating conditions. These mediating and moderating phenomena should be included in future research to better understand the boundary conditions and causal links between CSP and financial performance. The current research formulates a two-way interaction to show the combined effects of CSR and CSI. Three-way interactions could also be tested to deepen the understanding of the mutual influence of CSR and CSI under different external conditions and inherent nature, i.e., firm size, firm age, and management capability.

Future research should substantiate the findings of our research by investigating the link between CSR and CSI to firm performance with data from other sources. Specifically, there is a need not only to investigate these phenomena from the firm perspective at the macro level but also to address the micro foundations as prescribed by Aguinis and Glavas (2012). The micro-level perspective will provide a better understanding of when and how CSR and CSI affect firm financial performance. Researchers also must address CSR and CSI subjectively by examining the underlying micro mechanisms at the individual level (Aguinis & Glavas, 2012).

7. Conclusions

We build on stakeholder theory to provide a framework to characterize the impact of CSP on firm financial performance. The inclusion of CSI into CSP is found to be an important factor that influences market value and idiosyncratic risk. CSI incidents not only more strongly influence market value in the opposite direction than CSR but also have a longer lasting negative impact. Firms with different combinations of CSR activities and CSI incidents yield different performance results. Overall, our results provide support for the positive effects of CSR and the negative effects of CSI on firm performance. The inclusion of the interaction and longitudinal effects of CSR activities and CSI incidents provides new evidence for theory and practice and assists researchers and practitioners to gain clarity regarding the performance relationship. CSI incidents have a longer enduring effect than CSR initiatives and those firms doing little CSR and little CSI perform better than firms engaging in high levels of CSI and CSR.

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