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Full Length Research Paper

Doing well by doing good? Implementing new effective integrated CSR strategy

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Corporate Social Responsibility (CSR) increasingly receives attention from executives, business academics, and public officials. However, whether CSR positively contributes to firm performance is inconclusive. This paper integrates and extends the extant literature about CSR and introduces a conceptual framework and propositions on how firms can accomplish some social goals effectively and still, meet the performance expectations of shareholders. This paper suggests five major CSR-related strategies including the integration of CSR activities into business operations, CSR-related innovations and first-mover advantage, CSR-related advertising and risk management, relationships with CSR-related governmental and nongovernmental organizations, as well as implementation of international CSR through geographical diversification. Managerial interpretations of CSR as opportunities rather than as threats importantly facilitate the positive translation of CSR engagement into firm performance. This selective interpretation is dependent on the discretionary slack resources readily available to managers and the integration of CSR performance criteria into their performance appraisals. The implementation of CSR practices are not without costs. To determine the appropriate level of CSR engagement, firms need to take the demand and the supply of CSR-incorporated products into consideration. Most importantly, firms need to consider the level of CSR engagement from its benefits and costs in the same way as in all other investments with a long-term forward thinking and opportunity seeking approach.

Key words: Corporate social responsibility, doing well by doing good, stakeholder groups, shareholders, social performance, financial performance, firm performance.

INTRODUCTION

Companies nowadays are under intense pressures from many stakeholders to practice corporate social responsibility (CSR) in their business operations. CSR literature generally concurs that firms respond to these stakeholders by incorporating CSR decisions into their business and corporate-level strategies. CSR has also become an important field of research in a variety of social science disciplines (Crane et al., 2008). Thus, the development of a valid conceptual framework to assess the concept of doing well by doing good (DWDG) is particularly essential.

Executives, business scholars, and public officials are increasingly interested in how firms fulfill the concept of this DWDG. Annual reports of almost all large corporations presently states CSR in their mission statements in addition to the conventional goals of profitability and growth. The definition of corporate success has become much more complicated beyond the financial bottom line. Business organizations need to meet expectations from shareholders fundamentally and meanwhile, achieve some social goals in order to arrive at the sustainability of profitability and growth (Arya and Zhang, 2009; Chatterji and Toffel, 2010; Choi and Wang, 2009; Karnani, 2007; Lev et al., 2010). Many leading domestic and inter-national institutions concur with this notion as they seek to establish collaborations with private and public sectors to realize this emerging social goal.

To this end, this paper integrates and extends the extant literature of CSR and firm performance and proposes a conceptual framework on how firms can accomplish some larger social goals effectively and meanwhile, meet the expectations of shareholders. The proposed frame-work links CSR to the economic interests of the firm to answer the question: what CSR strategies can a firm pur-sue to concurrently fulfill its own business interests and societal interests of its stakeholders? Engaging in CSR activities is not without costs, therefore, without a clear strategic benefits accruing to the organization, the top management is unlikely to invest in these activities.

This paper is an inter-disciplinary research as it involves theories from several disciplines including strategic management, international business, marketing, and human resources. The conceptual framework in this study proposes that to achieve a sustainable competitive advantage, a firm already engaging in CSR integrate CSR activities into its business operations, introduce CSR-related innovations into its products, implement appropriate CSR-related advertising campaigns, handle the relationship with governmental and Non-Governmental Organizations (NGOs) effectively, as well as adopt international CSR in its geographical diversification strategy.

The next sections begin with the review of extant literature which includes competing arguments on engaging in CSR and its impacts on firm performance. The subsequent part then proposes a conceptual framework that integrates and extends the extant literature to arrive at new effective integrated CSR strategies. Particularly, this paper suggests how a firm engaging in CSR implements integrated CSR strategies to meet societal needs of various stakeholder groups and meanwhile, maintain or improve their competitive business performance expected by shareholders. Strategic elements in the proposed framework are further elaborated to generate various propositions.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

CSR in this study is defined as circumstances where a firm moves from being compliant or required by law to voluntarily engaging in practices that meet some social expectations (McWilliams and Siegel, 2001; McWilliams et al., 2006). CSR is a voluntary corporate action that extends beyond the explicit economic transactions and that attempts to improve social conditions (Mackey et al., 2007; McWilliams and Siegel, 2000). This study focuses on strategic CSR rather than altruistic or coerced CSR (Husted and De Jesus Salazar, 2006). Many studies on the relationship between CSR engagement and financial performance are inconclusive (Aupperle et al., 1985; Orlitzky et al., 2003; Ullmann, 1985; Vogel, 2005). While literature generally supports the positive side of CSR, many studies also show evidence that CSR has no significant impacts or even has negative impacts on firm performance.

Studies finding negative effects argue that CSR activities draw resources away from the firm's core business and that the firm cannot improve both competitive and social performance at the same time (Klassen and Whybark, 1999). Especially, socially responsible firms incur a competitive disadvantage from extra costs of implementing CSR activities which can otherwise be avoided or borne by others (Aupperle et al., 1985). Some studies further assert that engaging in CSR does not have significant impact on financial performance (McWilliams and Siegel, 2000). Such impact, if any, is too complicated to be realized because of too many variables involved (Margolis and Walsh, 2003; Ullmann, 1985). Besides, the difficulties in measuring these variables also hide their potential relationships (Waddock and Graves, 1997).

Nevertheless, many studies suggest that engaging in CSR positively contributes to financial performance. While a few organizations with good reputations for CSR encounter financial difficulties, the cause of this problem is usually unrelated to their practicing CSR but rather from their own strategic business decisions or competitive environments (Burke and Logsdon, 1996). Strategic CSR indeed concurrently supports the firm's financial bottom line and the interests of other stake-holders (Burke and Logsdon, 1996). The benefits to firms providing products with CSR attributes are more than the additional costs of engaging in CSR practices (Hull and Rothenberg, 2008). For example, socially responsible firms can better attract and retain prospective and current quality employees and increase operational efficiency (Hart and Ahuja, 1996). These firms can also increase market opportunities (Porter and Van der Linde, 1995) and organizational performance (Pil and Rothenberg, 2003).

More broadly, CSR engagement improves a firm's relationships with influential stakeholder groups that prevent potential costly conflicts with them (Hull and Rothenberg, 2008). Firms committing higher levels of voluntary CSR involvement can avoid potential conflicts between shorter-term business profitability and longer-term social benefits (Miles et al., 2002, 2004). Those not practicing CSR are likely to create tensions between explicit costs incurred by them and implicit costs incurred by other stakeholder groups (Waddock and Graves, 1997). Firms entertaining lower of these implicit costs by conducting socially irresponsible business can incur higher explicit costs imposed by other influential stakeholder groups afterward, resulting in a competitive disadvantage in a longer term.

While extant literature does not come to a consensus on the actual benefits of practicing CSR, most of the research up to date does support a positive side of CSR (Arya and Zhang, 2009; Choi and Wang, 2009; Dowell et al., 2000; Hart and Ahuja, 1996; Hillman and Keim, 2001; Hull and Rothenberg, 2008; Lev et al., 2010; Orlitzky et al., 2003). CSR relates positively to financial performance because the actual costs of implementing CSR are less than its potential benefits (Waddock and Graves, 1997). Strategic intents with a range of socially-embedded normatively defined social responsibilities can result in strategic outcomes that improve the financial bottom line (Waddock and Graves, 1997). High levels of social performance are an indicator of superior managerial capabilities (Alexander and Buchholz, 1982). Managerial attention to social performance also improves the firm's relationships with key influential stakeholder groups (Freeman, 1984) that can be positively translated into the overall firm performance.

More specifically, for example, an implementation of a superior employee relations policy is not without costs, but this policy can substantially improve employee morale that furthers productivity improvements, and eventually a competitive advantage. Similarly, a firm recognized as one of the best companies to work for by unbiased external media can better attract prospective quality employees that enhance its operational efficiency once hired (Moskowitz, 1972). Positive customer perceptions on a firm's products and its environmental awareness, as well as good government and community relations can become an inimitable competitive advantage (Prahalad and Hamel, 1994). Such customer perceptions can increase the sales revenues while good community relations potentially give firms an opportunity to convince the local authority to provide favorable business operating licenses that reduce its operating costs.

These positive impacts from a firm's internal and external stakeholder groups lead to an increase in sales revenues and a reduction in operating costs that are eventually translated into an improvement in the financial bottom line. Better financial performance is an indicator of higher levels of slack resources, providing a firm with greater latitude to further invest in CSR activities. This simultaneous relation forms a positive virtuous circle that leads to a sustainable competitive advantage (Lev et al., 2010; Waddock and Graves, 1997).

With respect to these competing arguments, this paper proposes the following conceptual framework displaying effective integrated CSR strategies for firms to meet social demands of various stakeholder groups and meanwhile, to achieve a sustainable competitive advantage, and firm performance expected by shareholders.

The conceptual framework in Figure 1 proposes that firms undertake five major integrated CSR strategies, including integration of CSR activities into business operations, CSR-related innovation strategy, CSR-related advertising strategy, relationship strategy with CSR-related governments and NGOs, as well as implementation of international CSR in geographical diversification strategy. The theoretical justification for each of these strategic elements is elaborated in the following sections.

Integration of CSR activities into business operations

Integrating CSR activities into business operations is essential for not a successful implementation of CSR activities but also a high-level of overall organizational performance. Overall firm performance improves because additional costs of introducing innovative CSR attributes are lower than additional benefits from the resulting superior products or improved processes (Hull and Rothenberg, 2008; Waddock and Graves, 1997). There There are several reasons that explain this net benefit. For instance, firms practicing CSR better attract and retain prospective and current quality employees which increase overall operational efficiency (Hart and Ahuja, 1996). Engaging in CSR increases market opportunities that generate additional revenues (Porter and Van der Linde, 1995). Managerial attention to social performance improves the firm's relationships with influential stakeholder groups which facilitate the smooth running of business operations (Freeman, 1984). Higher levels of social performance are an indicator of superior management skills (Alexander and Buchholz, 1982) that can be positively translated into firm performance.

These positive influences from inside and outside stakeholder groups lead to an increase in sales revenues as well as a reduction in explicit operating costs and implicit stakeholder management costs (Waddock and Graves, 1997). Therefore, the relationship between integration of CSR activities into business operations and firm performance is proposed as follows:

P1a: The degree to which a firm integrates CSR activities into business operations positively relates to firm performance.

The extent to which a firm can integrate CSR activities is really dependent on, at an individual level, managerial perceptions about the implementation of CSR initiatives and, at an organizational level, the available resources and control mechanisms to facilitate such integration. In particular, the following sections discuss the role of managerial interpretations of CSR initiatives, organizational discretionary slack resources, and employee performance appraisal criteria (Sharma, 2000) in this respect.

Managerial interpretations of CSR Initiatives

Managerial interpretations on CSR initiatives as opportunities rather than as threats (Sharma, 2000) are critical to the integration of CSR activities into business operations and importantly the positive translation of these activities into firm performance. Implementing CSR strategies involves a search for and an adoption of new organizational practices that often add complexity and unavoidably extra operational costs to current business operations (Russo and Fouts, 1997). Managers viewing uncertainties arising from these new organizational practices as threats that disrupt their current jobs are likely to be risk averse and tend to seek ways to minimize losses rather than to maximize potential gains(Kahneman and Tversky, 1979). Apparently, integration of CSR activities into business operations under this circumstance is minimized.

On the contrary, when managers interpret CSR initiatives as opportunities, they seek to reduce ambiguities arising from new organizational practices by searching more

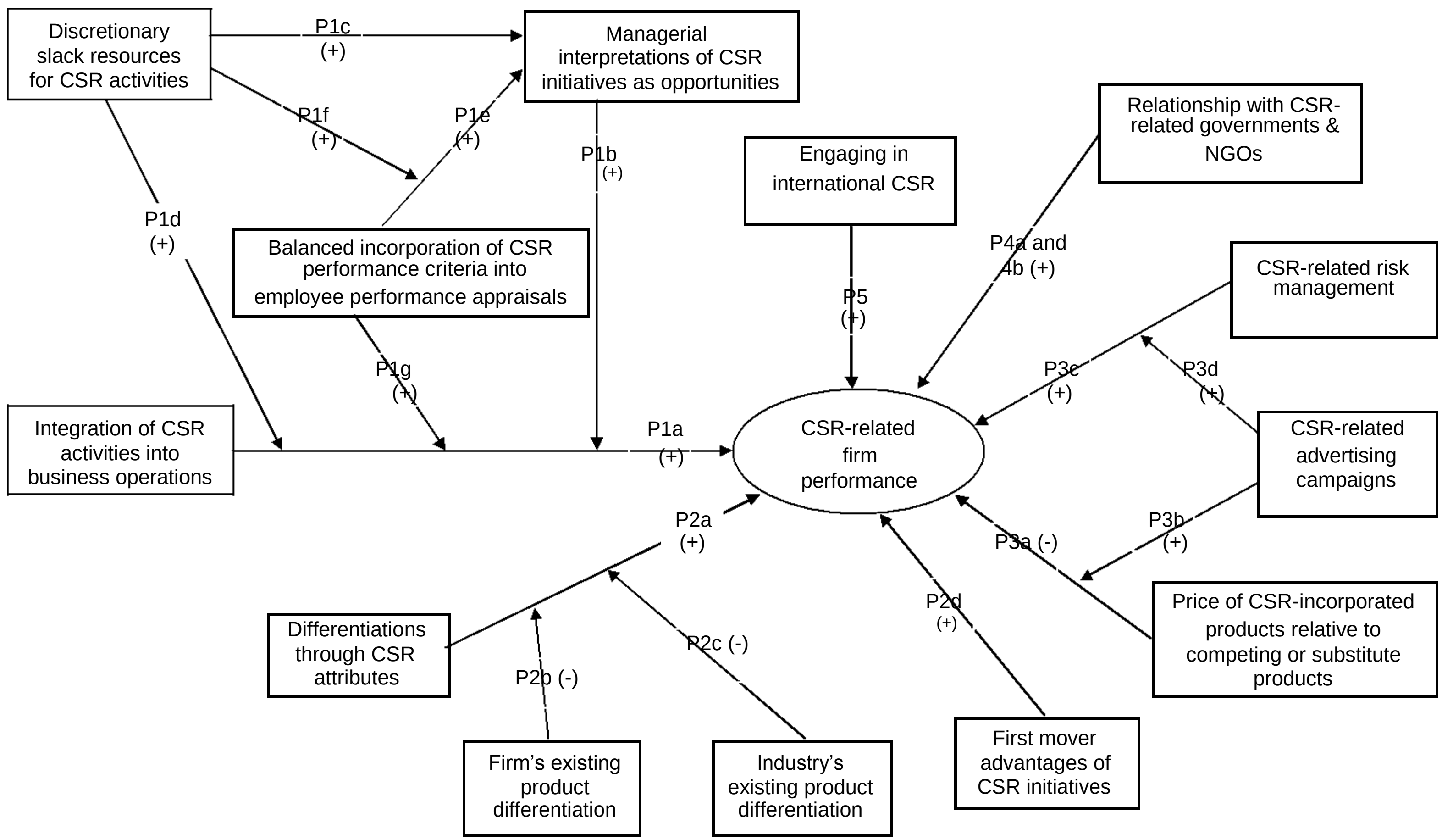

Figure 1. Conceptual framework on the Effective Integrated CSR Strategy.

more externally for appropriate solutions (Nutt, 1984). These managers then convey their selective positive interpretations to other members in the organization through formal interactions and social processes (Dutton and Jackson, 1987; Hambrick and Mason, 1984; Kostova and Roth, 2003). These interactions and processes then become embedded in the organization and lead to more predictable actions and outcomes (Dutton and Jackson, 1987). This embeddedness helps the firm to integrate CSR activities into business operations more smoothly. Therefore, the influence of managerial interpretations of CSR initiatives on firm performance is proposed as follows:

Proposition 1b: The degree to which managers interpret CSR initiatives as opportunities (threats) positively (negatively) moderates the relationship between integration of CSR activities into business operations and firm performance.

Influence of organizational context

A search for and an adoption of new organizational practices resulting from CSR initiatives is an integrated and socially complex process requiring substantial involvement, coordination, interpretation, and forward thinking from employees in a variety of disciplines within an organization (Russo and Fouts, 1997). Obviously, organizational context plays a significant role in shaping interpretations of managers on CSR initiatives (Sharma, 2000; Sharma et al., 1999). Important drivers within an organizational context include discretionary slack resources readily available to managers for solving problems arising at the interface between business needs and societal expectations and an incorporation of CSR performance criteria into employee performance appraisals at all levels.

Discretionary slack resources

Discretionary slack resources are critical in managing risks and uncertainties arising from CSR initiatives that associate with a search for and an adoption of new organizational practices (Russo and Fouts, 1997). This type of resources facilitates certain strategic behaviors and meanwhile, allows firms with more flexibility to encounter changes in the external environment (Bourgeois, 1981; Cyert and March, 1963). Therefore, discretionary slack resources allow managers with latitude to carry on CSR strategies, to adjust them in response to external turbulences, and to experiment new CSR initiatives.

Nevertheless, only high-discretion, unrestricted, and readily available type of slack resources is able to handle such risks and uncertainties (Sharfman et al., 1988). The larger the discretionary slack resources provided to managers to solve problems at the interface between business needs and societal expectations, the greater their interpretation of CSR initiatives as opportunities, which in turn, facilitates the positive translation of CSR integration strategies into firm performance. Therefore, the influence of discretionary slack resources on managerial interpretations of CSR initiatives and firm performance is proposed as follows:

P1c: Discretionary slack resources readily available to managers positively relate to managerial interpretations of CSR initiatives as opportunities (rather than threats).

P1d: Discretionary slack resources readily available to managers positively moderate the relationship between integration of CSR activities into business operations and firm performance.

Employee performance appraisals

CSR initiatives do not usually generate positive economic returns within a short period of time (Galbraith and Merrill, 1991; Rajagopalan, 1996). A search for CSR solutions involves low task programmability and high outcome uncertainty (Rajagopalan, 1996; Rajagopalan and Finkelstein, 1992; Russo and Fouts, 1997). Since management commitment is a key driver for the increase in the level of CSR (Muller and Kolk, 2010) and with these natures of search for CSR solutions, CSR criteria for the manager's performance appraisals need to be subjective and organic (Russo and Fouts, 1997), output-based and open-ended (Govindarajan, 1984, 1986), long-term and holistic (Rajagopalan, 1996), and balanced between long-term CSR objectives and short-term economic goals (Landis and Bernard, 1993; Govindarajan, 1984, 1986).

To this end, the balance between long-term output-based CSR performance and shorter-term economic-based performance is critical in employee performance appraisals. Employee performance appraisals that focus too much on shorter-term economic-based performance can result in the manager's viewing CSR initiatives as threats to ongoing jobs. Therefore, the relationship between CSR performance criteria in employee performance appraisals and the manager's interpretation of CSR initiatives is proposed as follows:

P1e: The degree to which CSR performance criteria is balanced in managers' performance appraisals positively relates to their interpretations of CSR initiatives as opportunities (rather than threats).

Managing CSR initiatives involves risks and uncertainties as well as a variety of problems arising at the interface between business needs and societal expectations. A firm needs to channel discretionary slack resources adequately in such a way that allows managers to be able to deal with these problems effectively with a long-term forward thinking and opportunity-seeking approach (Rajagopalan, 1996). Without adequate readily available slack resources, managers will hardly handle such problems and as a result, they will perceive CSR initiatives as threats to their ongoing jobs. Therefore, the critical role of discretionary slack resources is proposed as follows:

P1f: Discretionary slack resources allocated to managers positively moderate the relationship between incorporation of CSR performance criteria in their performance appraisals and their interpretations of CSR initiatives as opportunities (rather than threats).

To persuade managers to perceive CSR initiatives as opportunities for gain, criteria for longer-term CSR performance and shorter-term economic-based performance need to be balanced in employee performance appraisals. Importantly, adequate discretionary slack resources provided to managers to pursue CSR initiatives are critical in establishing such a positive perception. Putting together these linkages, discretionary slack resources and the balanced incorporation of CSR performance criteria in employee performance appraisals both facilitate integration of CSR activities into business operations and thus positive translation of this integration into firm performance. Therefore, in addition to proposition 1d about the moderating role of discretionary slack resources already derived earlier, the influence of balanced CSR performance criteria in employee performance appraisals on this positive translation is proposed as follows:

P1g: The degree to which CSR performance criteria is balanced in managers' performance appraisals positively moderates the relationship between integration of CSR activities into business operations and firm performance.

CSR-related innovation strategy

Differentiation through CSR Attributes

Innovative ideas emerging in markets can destroy firms that stick to old existing ideas (Schumpeter, 1934). Firms thus achieve competitive advantage by introducing new ideas to challenge old existing ideas. Since existing resources a firm possesses are not immobile, innovations are critical to differentiate its products from competitors to survive and to maintain or increase profitability (Barney, 1991; Hamel, 2000). Engaging in innovative CSR activities is one of many ways firms employ to achieve such differentiation (McWilliams and Siegel, 2001). Firms differentiate and improve competitive position by utilizing allocated resources to pursue these CSR activities (Hart, 1995; Russo and Fouts, 1997). Such resources include investment in research and development to achieve innovative differentiated products or processes.

All other things being equal, consumers are likely to purchase goods that incorporate some socially responsible attributes through product innovations while others value goods that are produced through socially responsible process innovations. Therefore, the relationship between differentiation strategy and firm performance is proposed as follows:

P2a: The degree to which a firm engages innovative CSR as a differentiation strategy in products or processes positively relates to firm performance.

For firms that are already substantially innovative, introducing a minimum level of CSR attributes into their products or processes prevents them from negative consequences arising from unprecedented societal demands of external stakeholder groups (Miles et al., 2002). Less innovative firms, however, can employ CSR strategy to differentiate their products from competitors (Hull and Rothenberg, 2008). As long as their products are comparable to those of competitors, CSR strategy can make them gain a significant competitive advantage (Mackey et al., 2007; Siegel and Vitaliano, 2007). Thus, positive translation of innovative CSR as a differentiation strategy to firm performance is not very strong when the firm itself already achieves a substantially high level of innovations. Accordingly, the influence of a firm's existing innovation level on its differentiation strategy and firm performance is proposed as follows:

Proposition 2b: A firm's existing innovation level negatively moderates the relationship between the degree to which it engages innovative CSR as a differentiation strategy and firm performance.

Competition in highly differentiated industries is typically not based on price (Porter, 1980, 1996). Firms perform better in these industries when their management allocates more resources to differentiation activities (McWilliams and Siegel, 2000). Nevertheless, when it comes to CSR, added differentiation through innovative CSR attributes has less effect on the firm's competitive position among highly-differentiated competitors (Hull and Rothenberg, 2008). Particularly, positive translation of such CSR attributes into firm performance in highly-differentiated industries is hard to be materialized. In relatively low-differentiated industries, however, innovative CSR substantially impacts the firm's competitive position (Hull and Rothenberg, 2008). When a firm begins to differentiate its products among low-differentiated competitors through CSR attributes, these competitors may not be aware that such attributes becomes a competitive tool in achieving a competitive position.

Such effects of differentiation level in an industry also imply that industry life cycle of a particular product becomes matter when determining effectiveness of introducing CSR attributes as a differentiation strategy. As industry life cycle for a particular product enters a mature stage, product differentiation of a firm among other competitor firms becomes an effective marketing strategy. During this mature stage, CSR attributes play an important role for firms to achieve substantial product differentiation. The influence of an industry's differentiation level and product life cycle on a firm's differentiation strategy and firm performance is consequently proposed as follows:

Proposition 2c: An industry's existing differentiation level (maturity of product life cycle) negatively (positively) moderates the relationship between the degree to which a firm engages innovative CSR as a differentiation strategy in that industry and firm performance.

First mover advantage of CSR initiatives

Firms gain cost advantages from addressing CSR issues in products or processes earlier than other competitor firms or before the authority's approval and enactment of related regulations (Christmann, 2000). Early implementation of such anticipated regulations minimizes potential disruptions from time constraint pertinent to searching, developing, and implementing necessary compliances in the regular course of business operations (Dierickx and Cool, 1989; Nehrt, 1996, 1998). Only firms that reasonably anticipate future regulations can comply with effected regulations smoothly within a short period of the authority's notice (Nehrt, 1996, 1998).

Effects of learning curve also allow early firms to gain cost advantages (Lieberman and Montgomery, 1988; Nehrt, 1996, 1998). Such CSR can become a source of competitive advantage because accumulated capabilities for generating new technology, superior products, or improved processes is relatively more costly for competitor firms to imitate (Russo and Fouts, 1997; Sharma and Vredenburg, 1998). Besides, early firms can influence future developments of related regulations in such a way that is favorable to their business operations. Therefore, future regulations, once affected, give early firms relative cost advantages by raising costs of other competitor firms that try to comply with these regulations (Salop and Schefman, 1983). Accordingly, the relationship between timing of engaging CSR and firm performance is proposed as follows:

Proposition 2d: The earlier a firm's timing of engaging innovative CSR in products or processes and introducing them to the market, the greater the firm performance.

CSR-related advertising strategy

Relative pricing of products with CSR attributes

Customers are likely to express a desire to support ethical companies, but their actual purchase behaviors are often unaffected by ethical concerns (Carrigan and Attalla, 2001). These consumers also tend to express willingness to purchase products from socially responsible companies but only when they are convenient to do so. Price, quality, and value indeed outweigh ethical criteria in consumers' purchase decisions (Carrigan and Attalla, 2001). Low-income consumers, in particular are relatively more price sensitive, whereas high-income consumers are more willing to pay a higher price for similar products with additional CSR attributes.

Nevertheless, demand for a firm's products with CSR attributes is affected by price of competing or substitute products since not all consumers value these attributes. Consumers are likely to purchase products with CSR attributes when their price is equal to or slightly higher than price of other similar products (McWilliams and Siegel, 2001). Consumers generally switch away from products that incorporate CSR attributes but are substantially more expensive than other similar products without these attributes. Therefore, demand for products with CSR attributes correlates positively with price of other competing or substitute products. Accordingly, firm performance with respect to this relative pricing is proposed as follows:

Proposition 3a: The higher the price of a firm's CSR incorporated products in relation with other competing (or substitute) products, the lower the firm performance.

Firms improve their brand and corporate image by demonstrating to various influential stakeholder groups a high degree of success in implementing CSR in business operations (Brammer and Pavelin, 2006). This social responsiveness positively influences judgments of stakeholder groups which augments a firm's reputation (Brammer and Pavelin, 2006; Donaldson and Preston, 1995; Fombrun and Shanley, 1990). Therefore, corporate reputation links closely to CSR (Fombrun, 1996). Building and maintaining a positive corporate reputation ensure that stakeholder groups continue to support corporate activities (Brammer and Pavelin, 2006). This support is fundamental to profitability and survival of a corporation (Clarkson, 1995).

Unlike search goods that consumers determine their attributes and quality prior to the purchase, products with CSR attributes are experience goods which consumers need to consume before in order to know their true value (Nelson, 1970, 1974). Firms selling these experience or credence goods are more likely to be socially responsible than those selling search goods (Siegel and Vitaliano, 2007). These firms typically use advertising to build and maintain reputation for quality, reliability, and honesty, which are difficult for customers to determine by search. Advertising reduces information asymmetry about CSR attributes at product and firm level (Siegel and Vitaliano, 2007) as it provides more information to customers about these products and ties them to the firm's established reputation and brand name.

Most consumers are uninformed about firms' ethical behaviors (Carrigan and Attalla, 2001). Thus, ethical marketing information has to be conveyed in such a manner that does not confuse consumers. Advertising plays a critical role in raising customer awareness about this ethical information, particularly for experience goods (Sinclair and Irani, 2005). Advertising makes potential customers aware of CSR attributes so they will not purchase other similar products without these attributes. Consumers typically assume that products from a reliable and honest company are of high quality (Sinclair and Irani, 2005). They will perceive that CSR-incorporated products that belong to a trustworthy company are of high quality as well.

Since consumers rely on the company's reputation when purchasing experience goods like CSR-incorporated products, advertising is important in increasing customer awareness of CSR attributes and hence demand for these products. This type of advertising differentiates a firm's products from those of competitor firms while allows it to charge a premium price. Therefore, advertising Therefore, advertising facilitates positive translation of CSR attributes in a firm's products or processes to firm performance. Accordingly, the influence of advertising on relative pricing of CSR-incorporated products and firm performance is proposed as follows:

P3b: Advertising intensity positively moderates the relationship between the higher price of a firm's CSR incorporated products in relation with other competing (or substitute) products and firm performance.

Social awareness and risk management

Engaging in CSR activities sends signals to other social actors that the firm is willing to conduct businesses in an altruistic manner (Kennett, 1980; Sherry, 1983). Particularly, larger firms are subject to more media scrutiny as they are more visible to the public. These large firms also attract attention of various stakeholder groups more easily therefore, they are particularly careful about reputation (Fombrun, 1996). For example, firms tend to improve level of their CSR in response to poor CSR ratings made by external credible rating agencies to mitigate potential threats from stakeholder sanctions (Chatterji and Toffel, 2010). By appearing socially responsible to the public, these firms can deflect some negative attentions of influential stakeholder groups.

Responsiveness to stakeholders is very important as it positively affects firm performance (Jones, 1995). However, under a business norm of profit taking (Friedland and Alford, 1991), these CSR signals are only to inform to stakeholder groups that the firm is not entirely self-serving.

When external stakeholder groups acknowledge these signals, the firm accumulates moral capital (Godfrey et al., 2009; Luo and Bhattacharya, 2009) to the extent that these activities are viewed by stakeholder groups as socially and morally desirable activities (Godfrey, 2005; Godfrey et al., 2009; Luo and Bhattacharya, 2009). For CSR activities to be noteworthy for accumulation of this moral capital, a firm needs to publicize these activities substantially enough to create a credible declaration to other stakeholder groups to believe that it indeed conducts socially desirable business activities. An effective means to convey such declaration is through media recognized by these stakeholder groups.

Business operations sometimes generate negative impacts to well-being of important stakeholder groups. Depending on severity of related negative events, stakeholder groups respond to these events with varying degrees of sanctions (Godfrey, 2005; Godfrey et al., 2009; Luo and Bhattacharya, 2009; Weick, 1988). Moral capital which is accumulated through engaging in CSR activities provides an insurance-like protection for the firm during these negative events (Godfrey et al., 2009; Luo and Bhattacharya, 2009; Peloza, 2006). It is in the form of goodwill that mitigates severity of sanctions over negative effects (Fombrun et al., 2000; Godfrey, 2005; Godfrey et al., 2009). Thus, firms invest in CSR to secure such risk management tool because risk reduction adds value to shareholders (Smith and Stulz, 1985).

Under negative events, prior engagements in CSR activities signal to investors an existence of moral capital that can alleviate severity of potential sanctions (Godfrey et al., 2009; Luo and Bhattacharya, 2009). Prior engagements in CSR activities also signals to investors about reactions of other influential stakeholder groups, making decline in shareholder value during negative events smaller. Firms not engaging in CSR activities before are susceptible to greater negative impacts from stakeholder groups due to a lack of buffering moral capital, resulting in a much greater decline in shareholder value during similar negative events. Accordingly, the influence of CSR engagement and firm performance in negative events is proposed as follows:

P3c: In negative events that impact well-being of stakeholder groups, performance of firms engaging CSR in products or processes is less susceptible to adverse consequences (than performance of firms not engaging CSR in products or processes).

Prior advertising or publicity campaigns (e.g., through media) about a firm's engaging in CSR activities reduce information asymmetry between the public and the firm and increase social awareness of the firm's CSR activities which enhances a positive effect of derived moral capital and in turn, positively impacts demands of the firm's products (Godfrey et al., 2009; Luo and Bhattacharya, 2009; Peloza, 2006; Siegel and Vitaliano, 2007; Sinclair and Irani, 2005). Therefore, the influence of advertising on effect of CSR engagement and firm performance is proposed as follows:

P3d: In negative events that impact well-being of stakeholder groups, prior advertising intensity about a firm's CSR engagements positively moderates the relationship between the degree to which the firm engages in CSR and firm performance.

Relationship strategy with CSR-related governmental and nongovernmental organizations

Governments, activists, and the media are increasingly able to hold companies liable to negative social consequences of their business activities. Many organizations rank companies on their CSR performance and meanwhile, substantially publicize their rankings. CSR strategies firms undertake to approach these governments and NGOs as well as employee relations affect their performance in many ways.

Employee relations

Employees are an important internal stakeholder that demands for personal safety, financial security, and other workplace amenities, as well as progressive labor relations policies. Implementation of CSR is common in firms that have labor union, that are in highly unionized industries, and that are in industries lacking of skilled workforce. Labor unions often encourage firms to practice CSR as they also influence CSR policies in other nonunion firms in the same industry (Mills, 1994).

Firms practicing CSR in their employees can increase positive work attitude, worker loyalty, employee morale, and productivity (Moskowitz, 1972; Peterson, 2004). These firms can also enhance many beneficial initiatives contributed by their employees (Ramus and Steger, 2000). Engaging CSR in business practices is a means to recruit and retain prospective and current skilled employees (Siegel, 1999). Firms being perceived to be committed to CSR attract better job applicants and retain them once hired, thereby reducing turnover, recruitment, and training costs (Albinger and Freeman, 2000; Surroca et al., 2010; Turban and Greening, 1997).

Therefore, improved CSR level positively contributes to accumulation of valuable human capital. Even during economic slowdown, CSR is still a critical element in building and maintaining intrinsic rewards necessary to attract, manage, and retain talents (Tymon et al., 2010). Accumulation of such human capital that is derived from engaging in socially responsible business practices can become a source of competitive advantage (Becker and Gerhart, 1996; Huselid, 1995). Therefore, the influence of a firm's practicing CSR in its employee on firm performance is proposed as follows:

P4a: The degree to which a firm engages CSR as a relationship strategy in employees positively relates to firm performance.

Relations with Governments and NGOs

Local and state governments as well as minority and community groups increasingly demand for products and services that incorporate CSR attributes through formal and informal channels. Shareholder actions and regulatory are likely to prime firms to adopt CSR practices that are in line with aims of a broader social movement (Reid and Toffel, 2009). For example, governments encourage proactive environmental practices through an approval and an enactment of environmental regulations while community groups ask for supports to local social services.

Collaborations with NGOs to arrive at socially desirable practices provide benefits to firms in several ways. Firms can develop new competencies through collaboration with NGOs (Christmann, 2000). Particularly, when internal development of specialized skills and knowledge is costly, inefficient, or time-consuming, NGOs can become an external source of such expertise (Peloza and Falkenberg, 2009). Engagements with NGOs on social and environmental issues can also lead to a cultural change in firms toward increased innovations (Kanter, 1999).

Importantly, these governments and NGOs affect demands of products through their own consumption or through influencing other consumers. Trying to fulfill demands for CSR from these stakeholder groups increases demands of a firm's products. For instance, implementation of CSR practices is common in firms that are awarded government contracts since governments often impose a prerequisite that these firms achieve a certain level of CSR.

Therefore, establishing relationships with governments and NGOs gives firms an opportunity to increase product revenues from these stakeholder groups and meanwhile, to build up new competencies and to increase innovations. Accordingly, the influence of engaging in CSR with relation to governments and NGOs on firm performance is proposed as follows:

P4b: The degree to which a firm engages CSR as a relationship strategy in relevant governments and NGOs positively relates to firm performance.

Implementation of international CSR

Firms pursuing geographical diversification experience an increase in stakeholder pressures owing to social, cultural, legal, regulatory, and economic variations between countries (Kostova and Zaheer, 1999; Sharfman et al., 2004). Pressures from stakeholder groups for firms to adopt CSR practices also vary between countries (Gladwin et al., 1995; Hoffman, 1999; Sharfman et al, 2004). These pressures are heightened in certain countries, demanding firms to demonstrate relatively strong CSR (Brammer et al., 2009). Firms need to respond to these international stakeholder groups more carefully as effective responsiveness positively affects firm performance (Jones, 1995).

Geographical diversification increases firm size and network, allowing diversified firms to better communicate with local communities about their societal expectations, manage complexity of regulations in different countries, and negotiate with local governments to influence regulations, as well as innovate to meet home and host standards of CSR practices (Strike et al., 2006). Therefore, these firms can build up relationships with stakeholder groups in host countries and manage CSR interface between home and host countries more effectively. Building good relationships with local governments, for example, allows firms to access to host markets and infrastructure successfully (Luo, 2001). Relationships with stakeholder groups in host countries can become idiosyncratic resources that bring a competitive advantage to firms because these resources are tacit, socially complicated, and difficult to duplicate as they take time to develop (Hillman and Keim, 2001). Geographically diversified firms also have a greater opportunity to learn from diverse contexts with a variety of social, cultural, and environmental challenges (Kochhar and Hitt, 1995; Kolk and Pinkse, 2008). These challenges allow firms to develop knowledge about international markets and respective idiosyncratic characteristics (Hitt et al., 1997). Thus, adopting international CSR practices provides firms an opportunity to develop certain firm-specific advantages and sometimes even help them reconfigure key firm-specific advantages that subsequently become the main source of profitability, growth, and survival (Kolk and Pinkse, 2008).

Since CSR links closely with reputation (Fombrun, 1996), geographically diversified firms can build up reputation in home and host countries by introducing international CSR attributes in products or processes. Reputation is an intangible resource that not only facilitates firms in securing a social and legal permission to operate in host countries smoothly (Luo, 2001) but it is also a critical source of sustainable competitive advantage (Barney, 1991; Deephouse, 2000).

Therefore, a firm integrating international CSR practices into business operations achieves an international competitive advantage through building and exploiting idiosyncratic relationships with stakeholder groups in host countries, developing certain firm-specific advantages, and obtaining international reputations. Accordingly, the influence of a firm's practicing international CSR on firm performance is proposed as follows:

P5: The degree to which a geographically diversified firm engages international CSR in products or processes positively relates to firm performance.

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The conceptual framework and propositions for effective integrated CSR strategies derived in this study support the argument of DWDG through five major strategic elements. These elements include integration of CSR activities into business operations, CSR-related innovation strategy, CSR-related advertising strategy, relationship strategy with governments and NGOs, as well as international CSR strategy.

In particular, a firm needs to fully integrate CSR activities into its business operations because extra costs of products or processes with innovative CSR attributes are lower than their additional benefits (Hull and Rothenberg, 2008; Waddock and Graves, 1997). To facilitate a translation of CSR integration into firm performance, managerial interpretation of CSR initiatives as opportunities rather than as threats plays a pivotal moderating role (Sharma, 2000; Sharma et al., 1999). This positive interpretation is critically influenced by organizational context in terms of readily available discretionary slack resources and CSR performance criteria in employee performance appraisals (Bourgeois, 1981; Cyert and March, 1963; Sharfman et al., 1988; Sharma, 2000; Sharma et al., 1999).

Further, a firm needs to differentiate its products through innovative CSR attributes, particularly when products are relatively less innovative among competitor firms or when products compete in an industry with low product differentiation (a mature stage of product life cycle), to attract demands of customers who value CSR attributes (Hull and Rothenberg, 2008). To gain cost advantages from learning effects and to avoid potential disruptions from time-compression diseconomies after the authority's enactment of CSR regulations, a firm needs to strive to be relatively early in the market to introduce differentiated products with innovative CSR attributes (Christmann, 2000; Lieberman and Montgomery, 1988; Nehrt, 1996, 1998).

Since products with CSR attributes are mostly experience goods (Nelson, 1970, 1974), potential customers need to be made aware of these attributes, otherwise they will purchase from other similar products without these attributes (Carrigan and Attalla, 2001; McWilliams and Siegel, 2001). A firm needs to implement advertising strategy to raise customer awareness and to tie products to its established reputation and brand name, which links closely to CSR engagements (Brammer and Pavelin, 2006; Fombrun, 1996; Fombrun and Shanley, 1990; Fombrun et al., 2000). As a part of risk management strategy, a firm needs to publicize itself to an extent that laying CSR activities are noteworthy in the perception of influential stakeholder groups. CSR activities together with an appropriate level of publicity signal to investors the presence of moral capital occupied by the firm (Godfrey, 2005; Godfrey et al. 2009). This moral capital tempers potential sanctions under unprecedented negative events that impact well-being of stakeholder groups (Godfrey, 2005; Godfrey et al., 2009; Luo and Bhattacharya, 2009; Peloza, 2006; Weick, 1988).

Meanwhile, internally, a firm needs to implement CSR initiatives in its workforce (Albinger and Freeman, 2000; Peterson, 2004; Turban and Greening, 1997). Accumulated human capital derived from socially responsible practices in workforce is an important source of competitive advantage (Becker and Gerhart, 1996; Huselid, 1995; Siegel, 1999; Surroca et al., 2010; Tymon et al., 2010). Externally, managing demands from relevant governments and NGOs through an appropriate CSR policy leads to an increase in demands of the firm's products as well as an opportunity to build up new competencies (Christmann, 2000; Peloza and Falkenberg, 2009) and increase innovations (Kanter, 1999). Internationally, a geographically diversified firm can build and exploit idiosyncratic relationships with stakeholder groups in host countries, certain firm-specific advantages, as well as international reputations by implementing an international CSR strategy (Fombrun, 1996; Hillman and Keim, 2001; Kolk and Pinkse, 2008).

DISCUSSION AND MANAGERIAL IMPLICATIONS

The approaches to practicing CSR need to connect closely with business and strategy. To create value, CSR practices have to be fully embedded within a firm's products or processes. Investments in CSR should not be treated as a discretionary expense since CSR links closely with reputation (Brammer and Pavelin, 2006; Fombrun, 1996; Fombrun and Shanley, 1990; Fombrun et al., 2000). Reputation of a firm is arguably one of the most valuable assets that is worth protecting. As in all other forms of insurance, purchasing insurance for a firm's reputation through investing in CSR is one of the top priorities (Godfrey et al., 2009; Luo and Bhattacharya, 2009; Peloza, 2006).

Prospects for a firm's CSR strategy can be analyzed by employing frameworks same as for other core business choices. Doing so warrants that CSR is not a cost, a constraint, or a charitable deed but it is indeed a source of opportunity, innovation, and competitive advantage (Porter and Kramer, 2006). Nevertheless, translating the adoption of CSR practices into competitive advantage is not without costs. A firm needs to devote appropriate resources (Barney, 1991) to meet societal demands from a variety of stakeholder groups. Additional capital is required to generate necessary CSR attributes in products or processes. To an extent that CSR practices meet societal demands from influential stakeholder groups, adequate intermediate resources such as existing or additional employees are required to implement and promote these CSR efforts.

Therefore, to determine an appropriate level of CSR engagement, a firm needs to take demand and supply of CSR-incorporated products into consideration (McWilliams and Siegel, 2001). There is a level of CSR adoption that maximizes a firm's profits, and meanwhile satisfies societal demands from multiple stakeholder groups (McWilliams and Siegel, 2001). While a firm practicing CSR incurs higher costs for every level of outputs, consumers who value CSR are likely to pay a slightly higher price for a similar product with additional CSR characteristics (Carrigan and Attalla, 2001; McWilliams and Siegel, 2001).

In a deployment of innovation and differentiation strategy, managers have to evaluate a possibility of product differentiation among other competing products. When existing products provide only little or no room to differentiate, demands for these products may not increase with an additional provision of CSR attributes (Hull and Rothenberg, 2008; Siegel and Vitaliano, 2007). Importantly, demands for CSR-incorporated products, which are experience goods, is subject to consumers being made aware of CSR attribute existing in these products (Carrigan and Attalla, 2001; McWilliams and Siegel, 2001). Therefore, advertising plays a critical role in determining an optimal level of a firm's provision of additional CSR attributes. Advertising reduces information asymmetry about CSR at product and firm level and raises consumers' awareness in these CSR attributes (Siegel and Vitaliano, 2007). Therefore, information asymmetry affects both the types of product to be sold and the level of investments in CSR (to reduce the level of information asymmetry).

Nevertheless, not all information through advertising prompts the same degree of reaction from consumers. The intensity of messages also depends on sources of information (Schuler and Cording, 2006). Sources of information can be from the firm itself and from other external sources such as media, NGOs, rating agencies, governmental agencies, and a stakeholder's direct experience. Information about a firm's socially responsible business practices provided by particularly credible external sources is likely to have a greater degree of intensity because consumers usually perceive that information from unbiased parties is more reliable (Schuler and Cording, 2006). Many consumers are cynical about differentiation between companies on their ethical grounds (Carrigan and Attalla, 2001). Especially, a cynical consumer usually views company-sponsored advertising campaigns as being self-serving and tries to search for more credible external sources of information (Schuler and Cording, 2006). Therefore, under this circumstance, companies need to find ways to convince consumers to believe in their integrity.

Strategic outcomes from adopting international CSR of a geographically diversified firm can be impeded by cross-country differences in institutions that regulate business activities (Kostova and Zaheer, 1999; Sharfman et al., 2004). Advantages from being an internationally socially responsible firm also bring about significant managerial complexities and challenges. Institutional differences lead to different expectations and returns with relation to CSR activities, which complicate the type and the level of engaging in CSR activities. A firm then needs to process an increasing volume and diversity of information between foreign affiliates effectively (Boyacigiller, 1990). Coordination, integration, and exchange of resources and personnel among geographically diversified affiliates further add to managerial complexities and challenges (Kostova and Roth, 2003) as the firm has to balance among culturally different demands with respect to its available resources and capabilities (Geringer et al., 1989; Kostova and Zaheer, 1999).

Finally, a firm has to evaluate costs of resources required for adopting CSR practices, and meanwhile, realize possibilities of relevant scale and scope economies (McWilliams and Siegel, 2001). A firm should offer precisely a level of CSR engagement such that an increase in benefits resulting from superior products or improved processes at least equal to additional costs of required resources and management efforts. Most importantly, a firm must handle decisions related to CSR engagement through a benefit-cost analysis same as in all other investment decisions with a long-term forward thinking and opportunity seeking approach.

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