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Corporate Social Responsibility Reporting and Organizational Stigma: The Case of "Sin" Industries

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A B S T R A C T

We examine corporate social responsibility (CSR) reporting strategies by focusing on stigmatized firms belonging to the alcohol, tobacco, gambling, nuclear energy and firearm sectors. These are often described as "sins" due to their perceived deviation from broadly-endorsed standards. We employ a sample of 109 U.S. listed "sin" firms for a seven-year period (2003-2009) and control with another set of 109 similar-sized, non-"sin" firms for the same period. We find that "sin" firms are more prone to issuing standalone CSR reports. We also demonstrate that a greater risk of litigation by third parties increases the likelihood of a "sin" firm instigating CSR reports, while variations in ownership structure do not. By drawing upon literature on organizational stigma, we argue that CSR disclosures constitute an integral part of "sin" firms' strategic goal to distract attention from their controversial activities, lessen the negative consequences of stigmatization and neutralize the impact of litigation proceedings.
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1. Introduction

Prior research has illuminated the role of corporate social responsibility (CSR) disclosures as strategic tools (Groening & Kanuri, 2013; Herzig & Moon, 2013; Kemper, Schilke, Reimann, Wang, & Brettel, 2013; Lin-Hi & Müller, 2013; Perks, Farache, Shukla, & Berry, 2013) through which managers secure broader stakeholder support (Hillenbrand, Money, & Ghobadian, 2013; Park, Lee, & Kim, 2013) and attract the interest of institutional investors and analysts (Dhaliwal, Li, Tsang, & Yang, 2011). However, these findings cannot be generalized since limited attention has been paid to the CSR disclosure strategies of firms characterized by less-favorable reputations (Mishina & Devers, 2012). For instance, firms suffering organizational stigma, i.e. the "label that evokes a collective stakeholder group-specific perception that an organization possesses a fundamental, deep-seated flaw that deindividuates and discredits the organization" (Devers, Dewett, Mishina, & Belsito, 2009, p. 157), have been left largely unexplored; thus, there has been a call from academics for further research (Hudson, 2008; Philippe & Durand, 2011; Vergne, 2012).

The importance of such an investigation is of broader interest for two reasons. Firstly, any organization may be stigmatized by certain social audiences, either as a result of various anomalous events or due to their normal activities and operations[3] (Hudson, 2008; Hudson & Okhuysen, 2009). Secondly, intense public debates have been triggered by the activities of certain industries, including: mining and oil firms, due to their propensity for environmental damage; utilities and hospitals due to billing policies; pharmaceutical companies due to drug-access policies; and manufacturers in the U.S. and Europe due to their controversial outsourcing policies (see Elsbach, Sutton, & Principe, 1998; Heal, 2008). While not all firms belonging to these groups have been stigmatized (Heal, 2008), other group members live with an increased likelihood of encountering the repercussions of social stigma.

While episodic negative situations which lead to event-stigmatization are often managed through public statements, excuses, justifications,

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[3] Hudson (2008, p. 253) refers to abortion service providers, pornographers, strip clubs, men's bathhouses and professional wrestling franchises as additional examples of businesses that suffer organizational stigma because of their very nature of operation. Furthermore, well-known companies have suffered a stigma. For instance: Wal-Mart's discrimination against minority employees and its hiring and mistreating of illegal immigrants has caused a fierce reaction from activist groups who have labeled it as "evil" (Reuber & Fischer, 2010); Nike was stigmatized for child labor in Pakistan (Lund-Thomsen & Coe, 2013); Barclays was boycotted for its involvement in South Africa during the apartheid regime (Klein, Smith, & John, 2004); and Enron, Arthur Anderson, and Citibank have all been stigmatized for financial reporting irregularities which have resulted in serious public challenges and disputes (Galvin, Ventresca, & Hudson, 2005).

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concessions, apologies, denials and attacks (Carter & Deephouse, 1999; Dutton & Dukerich, 1991; Elsbach, 1994), core-stigmatization is usually associated with deeply-rooted negative evaluations which require systematic strategies to minimize their impact (Hudson, 2008; Hudson & Okhuysen, 2009). The latter is often accompanied by an increased probability of litigation by third parties (Grinols, 2004; Lytton, 2009), restrictive state interventions (Janofsky, 2005) and adverse reactions from various social groups or influential social movements (Banerjee & Bonnefous, 2011; Bansal & Clelland, 2004; Haniffa & Cooke, 2005).

Against this background, we bring to the fore the alcohol, tobacco, gambling, nuclear energy and firearms industries, often referred to as "sins" due to their core activities (Leventis, Iftekhar, & Dedoulis, 2013). Firms belonging to "sin" sectors ceaselessly strive to lessen the impact of core-stigmatization (Galvin et al., 2005; Hudson & Okhuysen, 2009) and are worthy of attention since their defensive strategies constitute prime examples for various firms confronting severe reputational challenges (see Brown, 2014).

Firms associated with "sin" industries do appear to engage in CSR practices (Ahrens, 2004; Rundle-Thiele, Ball, & Gillespie, 2008; Waxler, 2004). With this type of activity becoming prominent, we seek to understand whether managers of "sin" firms are more prone to initiating CSR reports than their counterparts in non-controversial firms and, if so, why? We then attempt to identify the characteristics of CSR-initiating "sin" firms, i.e. the determinants of this action. For this purpose, we employ a sample of 109 U.S. listed "sin" companies for a seven-year period (2003-2009) and control with a benchmark group of a further 109 non-"sin" companies belonging to the same two-digit SIC industry sector, for the same period. We demonstrate that, in comparison to the non-controversial group, "sin" companies appear to be more active disclosers of CSR reports. Moreover, we find that a greater risk of litigation by third parties increases the likelihood of a "sin" firm issuing voluntary CSR reports, while variations in ownership structure do not. Additionally, better governing structures, larger size, and a greater financial capacity are all variables which determine CSR disclosures.

Our study's contribution is threefold. Firstly, we contribute to the literature on CSR by demonstrating that the instigation of discretionary CSR reports constitutes a proactive and/or reactive strategy primarily employed by firms experiencing negative social evaluations, in order to diminish the effects of social disapproval. Secondly, we extend the literature on organizational stigma, which has primarily examined various forms of public-relations efforts (Elsbach & Kramer, 1996; Elsbach et al., 1998; Ginzel, Kramer, & Sutton, 1992), by showing that voluntary CSR reporting constitutes a central defensive mechanism for "sin" firms. Thirdly, we contribute to current understandings by elucidating the profile of stigmatized firms which are more likely to engage in CSR reporting.

The rest of the paper is organized as follows: In the next section, we discuss the theoretical perspectives underlying the study and we develop testable hypotheses. In the research design section, we describe the data-collection procedures and specify the empirical model. The results are discussed in the subsequent section and the robustness tests are presented in the sensitivity testing section. Finally, in the last section, we present the conclusions drawn from our analysis.

2. Prior Literature and Hypotheses Development

The literature on organizational stigma[4] focuses on firms negatively evaluated by groups of stakeholders (Barnett & Pollock, 2012; Hudson, 2008; Philippe & Durand, 2011). With its roots in labeling theory which is grounded in the sociology of deviance (Erickson, 1962; Gibbs & Erickson, 1975), researchers adopting this perspective draw attention to processes by which various stakeholders identify firms with negatively-evaluated groups of companies (Devers et al., 2009; Hudson, 2008). As a result of corporate actions, or because of inherent properties, different social audiences may view a firm as a member of a socially-discredited category: "[t]his categorization facilitates negative stereotyping because when we slot an entity into a category, we infer additional information about the entity from the attributes we normally consider associated with that category" (Reuber & Fischer, 2010, p. 41).

Groups of stakeholders often associate firms with stigmatized industries on the basis of their outputs, routines, actions and operations (Galvin et al., 2005; Hudson & Okhuysen, 2009; Vergne, 2012). Hudson (2008) characterized this type of stigma as "core". Core-stigmatization is usually of a permanent nature since it is based on a breach of institutionalized values which generate the perception that the organization's activities are incongruent with endorsed standards of corporate behavior.

"Sin" industries are stigmatized due to firmly-established perceptions that their core activities deviate from widely-endorsed standards of organizational behavior (Leventis et al., 2013). Alcohol, tobacco and gambling firms have long been denounced for the addictive nature of their products and services and the devastating social impact on families and communities (Galvin et al., 2005; Grinols, 2004; Hudson, 2008; Vergne, 2012). Firearm manufacturers and retailers are increasingly considered as the facilitators of tragedies relating to small firearms misuse, environmental damage from artillery testing and the use of chemical and biological weapons (Brauer, 2000; Byrne, 2007; Vergne, 2012). The nuclear industry has also been associated with unprecedented environmental and social destruction (Janofsky, 2005) as a result of military nuclear testing, radiation spills from accidental reactor failures and the disposal of nuclear waste (Clemens & Papadakis, 2008). Moreover, stigmatized firms' externalities may occasionally spark industry crises, transgressing the organizational boundaries of the entities involved and aggravating negative public perceptions of the industry as a whole (Durand & Vergne, 2014; Yu, Sengul, & Lester, 2008). Thus, "sin" firms permanently live with what has been termed a "negative headline risk" and remain constantly under the social microscope of value judgments (Fabozzi, Ma, & Oliphant, 2008, p. 86).

Apart from negative social evaluations, "sin" industries encounter considerable hostility (Hudson, 2008) which may take the form of restrictive legislation (Janofsky, 2005) and/or adverse social activism (Banerjee & Bonnefous, 2011; Bansal & Clelland, 2004; Devers et al., 2009; Galvin et al., 2005; Haniffa & Cooke, 2005). Keeping disapproval at a minimum or mitigating the negative consequences of core-stigmatization is particularly crucial for "sin" firms, since the risk of scapegoating for stigmatized group members is extremely high (Hudson, 2008; Hudson & Okhuysen, 2009; Vergne, 2012).

Prior studies suggest that stigmatized firms attempt to polish their tarnished images or neutralize stakeholder criticisms by using impression-management tactics (Bansal & Clelland, 2004; Carter & Deephouse, 1999; Dutton & Dukerich, 1991; Elsbach, 1994; Elsbach & Kramer, 1996; Elsbach et al., 1998; Ginzel et al., 1992). They often resort to CSR to initiate a "dialogue between the company and its stakeholders" (Gray, Kouhy, & Lavers, 1995, p. 53), since such practices are contemporarily viewed as a social corporate "obligation" (Philippe & Durand, 2011, p. 971) which signals conformity to social audiences.

In particular, CSR reporting broadcasts important signals of institutional congruence which is highly likely to mask, or at least distract attention from, their core-stigmatized activities (Elsbach & Sutton, 1992). Thus, by initiating the issuance of CSR disclosures, "sin" firms employ a defensive mechanism of a proactive and/or reactive nature which can cushion the impact of negative evaluations of their operations and keep social disapproval at a low level (Vergne, 2012). Therefore, we argue that, as a result of the severe adversity "sin" firms encounter, "sin" firm managers may have a far greater incentive to issue CSR reports in order to disseminate signals of social and environmental conformity than managers in non-"sin" firms (Elsbach, 1994;

[4] Although some studies use the terms "negative reputation" and "stigma" equivalently and interchangeably, we adopt Mishina and Devers' (2012) definitions and conceptual clarifications, according to which the former is understood as a collective, multidimensional judgment about a firm by its multiple stakeholders and the latter is conceived of as a label or descriptor denoting that an organization possesses a fundamental flaw that deindividuates and discredits the organization.

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