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Corporate life cycle, organizational financial resources and corporate social responsibility ☆

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ABSTRACT

This study examines the association between the corporate life cycle and corporate social responsibility (CSR). Motivated by the resource-based theory, we hypothesize and find supportive evidence that the resource base and competitive advantages allow mature firms to invest more in CSR-related activities than firms at other stages of the corporate life cycle. We further examine the role of financial resources in explaining the relation between the corporate life cycle and CSR. Our results show that size, profitability and slack resources moderate the association between the corporate life cycle and CSR. These findings are robust when subjected to a series of sensitivity tests.

1. Introduction

Corporate social responsibility (CSR) has become an integral part of conducting business around the world. Companies allocate a significant portion of their expenses to CSR-related activities. According to the Sustainable and Responsible Investing (SRI) report of 2014,[1] SRI assets had grown by 76 percent since the beginning of 2012 to a total $6.57 trillion, which manifests the dramatic increase in CSR investment, as well as in CSR-related initiatives, in recent years. Because of its strategic and practical implications for the business world, a wide body of academic literature has also emerged around CSR (Margolis and Walsh, 2003; Orlitzky et al., 2003; Wang et al., 2016).

Various firm-level attributes are likely to affect firms' CSR investment, and an understanding of these attributes is essential as firms attempt to derive strategic value from CSR (Udayasankar, 2008). Previous studies, such as those by Campbell (2007), Chih et al. (2010), Clarkson et al. (2011), McWilliams and Siegel (2001), Padgett and Galan (2010) and Russo and Fouts (1997), advance the thesis that the resource base and profitability of the firm play an important role in CSR investment decisions. In particular, McWilliams and Siegel (2001) and Russo and Fouts (1997) posit that the industry life cycle is an important supply-side determinant of CSR investment, but they cannot test this conjecture empirically and, hence, call

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[1] http://www.ussif.org/files/Publications/Annual_%20Report_14_FINAL.PDF

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for more research in this area. We respond to this call for additional research. We incorporate the "dynamic resource-based view" as a theoretical lens for understanding firms' CSR investment. We argue that firms' ability and incentives to become involved in CSR activities vary at different life cycle stages; therefore, it is important to understand the life cycle implications of CSR involvement.

The "dynamic resource-based view" of the firm posits that the general patterns and paths in the evolution of organizational capabilities change over time. This resource-based view argues that the application of the bundle of valuable, interchangeable, immobile and imitable resources generates the basis of the competitive advantage of a firm and that this resource base is the basis of heterogeneity in organizational capabilities (Penrose, 1959; Rumelt, 1984; Wernerfelt, 1984). The dynamic resource-based theory incorporates the founding, development and maturity of capabilities and suggests that the competitive advantages and disadvantages in terms of resources and capabilities evolve over time in important ways (Helfat and Peteraf, 2003). The extant studies (e.g., Russo and Perrini, 2010; Williamson et al., 2006) show that investments in CSR are costly and that firms need to conduct cost–benefit analysis in pursuing such investments. Thus, the evolution of firms' competitiveness, in terms of their resource base and capabilities, should have implications for their ability to engage in CSR investments.

Firms at different life cycle stages are associated with varying levels of resources that shape their CSR behavior. Campbell (2007) argues that firms' slack resources are important determinants of CSR investment and proposes that, "corporations will be less likely to act in socially responsible ways where they are currently experiencing relatively weak financial performance" (p. 952). Likewise, Clarkson et al. (2011) document that better financial performance leads to better environmental performance. Hong et al. (2012) also confirm that less-constrained firms spend more on CSR activities. We argue that a competitive advantage, rich resource base and better financial performance allow mature firms to invest more in CSR-related activities. Therefore, we expect a positive association between firm maturity and CSR-related involvement.

Using a large sample of US firms with available CSR data from the *Kinder, Lydenberg, Domini Research & Analytics* (*KLD*) database, we find that mature firms are associated with significantly higher CSR initiatives than firms in other life cycle stages. We further examine the moderating effects of the firm-level resource base through which the life cycle may influence CSR. Our results show that firm size, profitability and slack resources make mature firms more capable of investing in CSR-related activities. Our results remain robust to alternative specifications of CSR scores, life cycle proxies and controls for potential endogeneity.

Withisuphakorn and Jiraporn's paper (2016) is closely related to ours. They use firm age as a proxy for the firm life cycle and show that mature firms invest significantly more in CSR and that the investment varies across CSR dimensions. Our paper differs from theirs in the following important ways.

First, instead of taking an *indirect* and *imprecise* approach to the firm life cycle, our study uses a *direct* and *precise* life cycle measure to examine the relation between the firm life cycle and CSR engagement. In particular, age and size, as life cycle measures, cannot clearly differentiate among different stages of the firm life cycle, since these proxies rely on the assumption that a firm *moves monotonically* through its life cycle (Dickinson, 2011). Our direct measure, on the other hand, is free from this contentious assumption and shows that firms' engagement in CSR differs significantly across life cycle stages. Second, Withisuphakorn and Jiraporn (2016) do not identify a specific channel through which the firm life cycle affects CSR engagement. We use firms' financial resources as a channel that influences their ability to engage in CSR initiatives. Third, possibly due to data limitations, Withisuphakorn and Jiraporn (2016) do not control for corporate governance and managerial incentives in their analysis: factors that could undermine their main findings because of omitted variable bias. This is particularly important, since corporate governance and managerial incentives may differ across firms and across the corporate life cycle (within the firm) and relate to both slack resources and CSR. Fourth, to rule out the possibility that firm age captures life cycle dynamism, we explicitly control for firm age in all our regression specifications. We show that the association between our firm life cycle measure and CSR is robust, even after controlling for age and other determinants of CSR, implying that age as a life cycle measure cannot truly capture the life cycle dynamics.

Our study contributes to the literature in several ways. *First*, we extend the CSR literature by examining the role of the firm life cycle in influencing CSR initiatives directly. While prior research investigates the role of the firm life cycle in dividend payments, capital structure, cost of equity, risk taking and tax avoidance (Bender and Ward, 1993; DeAngelo et al., 2006; Fama and French, 2001; Habib and Hasan, forthcoming-a; Hasan et al., 2015, forthcomming), little attention is paid to the role of the firm life cycle in determining CSR initiatives. *Second*, we bridge the literature on the determinants of CSR and firm life cycle theory by providing a direct link between them. We also show the channels through which the life cycle may affect firms' ability to invest in CSR (Aguinis and Glavas, 2012). Our study in this context complements the findings of Clarkson et al. (2011) that the organizational resource base determines the level of environmental performance. We not only incorporate CSR other than environmental dimensions but also show how the interaction of the life cycle and resource-based differences affects corporate CSR involvement. *Third*, our study reconciles the conflicting findings of the prior CSR literature. For example, Erhemjamts et al. (2013) and Udayasankar (2008) suggest a U-shaped relationship between firm size and CSR participation, suggesting that small firms also invest in CSR to differentiate themselves from their competitors. Contrary to this, Withisuphakorn and Jiraporn (2016) show that older firms invest significantly more in CSR. Using a life cycle proxy that is more theoretically aligned with the organizational life cycle transition, we show that mature (introduction, growth, shake-out and decline) firms exhibit more (less) CSR involvement.