CORPORATE SOCIAL RESPONSIBILITY: EXPLORING THE ROLE OF INSTITUTIONAL ANTECEDENTS, CONSUMER REACTIONS AND ENTREPRENEURIAL SOCIAL OPPORTUNITY SELECTION

By

DUSTIN BRADLEY SMITH

A dissertation submitted in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

WASHINGTON STATE UNIVERSITY
College of Business

May 2013
To the Faculty of Washington State University:

The members of the Committee appointed to examine the dissertation of DUSTIN BRADLEY SMITH find it satisfactory and recommend that it be accepted.

_________________________________________
Jonathan Arthurs, Chair

_________________________________________
Arvin Sahaym, Ph.D.

_________________________________________
Kristine Kuhn, Ph.D.
ACKNOWLEDGEMENT

I would like to acknowledge and express my sincere thanks for the hard work and guidance provided by my committee members Jonathan Arthurs, Arvin Sahaym and Kristine Kuhn.

I would also like to thank the faculty and staff of the College of Business, especially Dr. Joireman, for their support.

Finally, with much gratitude I thank my colleagues and co-workers, Doug Miller, Tera Galloway, and Kevin Chastagner.
CORPORATE SOCIAL RESPONSIBILITY: EXPLORING THE ROLE OF INSTITUTIONAL ANTECEDENTS, CONSUMER REACTIONS AND ENTREPRENEURIAL SOCIAL OPPORTUNITY SELECTION

Abstract

by Dustin Bradley Smith, Ph.D.
Washington State University
May 2013

Chair: Jonathan Arthurs

This dissertation investigates Corporate Social Responsibility through three essays. Essay one hypothesizes that in societies defined by greater public discretion, power and legitimacy is transferred to the public, enhancing its role as a legitimate firm stakeholder and augmenting its ability to pressure firms to conform to expectations of proper firm behavior. Additionally, this paper hypothesizes that information technology increases the capacity of the public to generate and change institutional norms, thereby leading to greater levels of firm social activity. The hypotheses are tested using a sample of firms across 47 nations. Results support the notion that public discretion, defined as participatory government, leads to an increase in firm-level CSR. Additionally, information technology is shown to positively moderate this effect.

Essay two investigates how CSR can buffer firms against negative outcomes following an adverse event (e.g., a service failure) through two studies. Study 1 shows that consumers are less likely to spread negative word of mouth following a product failure when a firm engages in environmental CSR, but only when consumers are also high in trait environmental concern (TEC) and that this effect is mediated by consumer anger. Study 2 and demonstrates that perceived value overlap reduces consumer anger which in turn reduces NWOM within a service
failure context. Perceived value overlap is greater among consumers when a firm distributes charitable donations to causes selected by the consumers. The findings show that, following service failures, a flexible CSR policy which donates to charities based on consumer choice may encourage feelings of value-alignment.

Essay three concerns the evaluation and selection of opportunities by socially oriented entrepreneurs. Utilizing a conjoint methodology this paper finds three attributes of social opportunities which significantly influence potential opportunity ratings; namely, proximity, pervasiveness, and impact. A significant interaction between financial returns and pervasiveness but not proximity and impact suggests SEs are conscious of economic concerns and will select opportunities that satisfy both conditions but only in certain instances. The paper concludes that the relationship between social and financial value creation is more complex than previously thought.
# TABLE OF CONTENTS

ACKNOWLEDGEMENTS ........................................................................................................... iii

ABSTRACT ................................................................................................................................. iv

LIST OF TABLES ....................................................................................................................... vii

LIST OF FIGURES .................................................................................................................... viii

CHAPTER

1. PAPER ONE ......................................................................................................................... 1
   “Corporate Social Performance in a Digital, Free Society”

2. PAPER TWO .......................................................................................................................... 42
   “Corporate Social Responsibility Initiatives Reduce Negative Reactions to Service Failures Among Value-Aligned Customers”

3. PAPER THREE ..................................................................................................................... 84
   “The Best of Both Worlds: The role of financial returns in social opportunity selection”

APPENDIX

A. SERVICE FAILURE SCENARIOS USED IN PAPER 2, STUDY 1……122

B. SCALES USED IN PAPER 2, STUDIES 1 AND 2……………………………………123

C. SERVICE FAILURE SCENARIOS USED IN PAPER 2, STUDY 2……125
LIST OF TABLES

1.1 Second Level Correlations, Paper One ................................................................. 26
1.2 Summary of Results, Paper One ........................................................................... 27
2.1 Results of the Regression Analyses for Study 1 ...................................................... 62
3.1 Conjoint Analysis Attributes and Levels .............................................................. 102
3.2 Results of the Hierarchical Analysis .................................................................... 106
## LIST OF FIGURES

1.1 The Effect of Public Discretion on CSR.................................................................28
1.2 CSR and Public Discretion at Low Levels of IT Use........................................29
1.3 Interaction of Public Discretion and IT Use.....................................................29
2.1 NWOM as a function of CSR Condition and Trait Environmental Concern..........63
2.2 Anger as a Function of CSR Condition and Trait Environmental Concern.............64
2.3 Variable means as a function of group (Study 2)..............................................67
2.4 Structural Equation Model for Study 2.............................................................68
3.1 Mean Utilities..................................................................................................107
3.2 Pervasiveness by Financial Returns..................................................................108
Dedication

This dissertation is dedicated to my Mother and Father whose encouragement made the long nights bearable.
CHAPTER ONE

PAPER ONE

CORPORATE SOCIAL PERFORMANCE IN A DIGITAL, FREE SOCIETY

ABSTRACT

Corporate social responsibility (CSR) has been widely recognized as a response to institutional pressures. Yet, to date few studies have linked the role of political freedom and information technology in determining firm CSR activities. By adopting both institutional and stakeholder theories, this paper hypothesizes that in societies defined by greater public discretion, power and legitimacy is transferred to the public, enhancing its role as a legitimate firm stakeholder and augmenting its ability to pressure firms to conform to expectations of proper firm behavior. Additionally, this paper hypothesizes that information technology, in its role as a medium promoting information diffusion and stakeholder collaboration, increases the capacity of the public to generate and change institutional norms, thereby leading to greater levels of firm social activity. The hypotheses are tested using a sample of firms across 47 nations. Results support the notion that public discretion, defined as participatory government, leads to an increase in firm-level CSR. Additionally, information technology is shown to positively moderate this effect. Theoretical implications and directions for future research are discussed.
INTRODUCTION

Over the last three decades, the prevalence of globalization and information technology has led to a greater focus on corporate social responsibility (CSR) internationally, which has become a phenomenon with important consequences for the global economy (Campbell, 2007; Luo & Bhattacharya, 2006; Matten & Moon, 2008). Though CSR encompasses a range of constructs delineating the relationship between business and society, we believe that CSR incorporates a firm’s voluntary commitment for social improvement through activities that are ethical and socially desirable in the eyes of stakeholders—such corporate policies and practices go above and beyond legal requirements. This is consistent with the conceptualization by Carroll (1991) and Matten and Moon (2008) who state that CSR fundamentally involves social imperatives and consequences of voluntary policies and practices that reflect business responsibility.

CSR is gaining prominence in the global economy more than ever before and firms are now expected to account for both financial and social performance that reflects their overall behavior in the eyes of global stakeholders in diverse countries (Chapple & Moon, 2005; Matten & Moon, 2008; Visser, Middleton, & McIntosh, 2005). As CSR is intertwined with social, cultural, political and institutional norms (Luo & Bhattacharya, 2006), it becomes particularly difficult to initiate CSR activities that are consistent with both local and international expectations of conduct. A key reason for such difficulty is that countries vary in terms of their norms and institutional practices; for example, there is a huge variance among countries with regard to the extent of political voice their publics have. Institutions that set and maintain such norms play an important role in developing and shaping CSR opportunities because they are
much more than background conditions and “directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy…” (Ingram & Silverman, 2002, p. 20).

Similarly, the role of digitally enabled social media cannot be underscored enough in the diffusion of business practices such as CSR (Capriotti, 2011; Sahaym, Steensma, & Schilling, 2007). Though prior research recognizes that there is a huge variance among countries with regard to factors such as public discretion (e.g., political freedom, presence of social media, social norms, among others) and digital enablement (e.g. Norris, 2003), literature is yet to focus its attention on how these factors influence CSR performance. Prior research has mostly focused on examining the relationship between CSR and firm financial performance in the context of U.S. or the U.S. based firms. Further, in the light of mixed results, the debate has mostly centered on whether this relationship yields positive, negative or equivocal results.

While acknowledging that above research has made important gains, we build upon and extend the preceding literature through two primary contributions. First, we respond to the numerous calls made by the scholars such as Matten and Moon (2008, p. 419) who state that future research should seek better “understanding of what CSR consists of, its specific institutional underpinnings, and the national contexts in which corporations operate and whose perceptions of appropriate social responsibilities they seek to live up to”. We not only identify antecedents of CSR from diverse literatures but also highlight conditions that motivate CSR in diverse national domains (e.g. Chapple & Moon, 2005 among others; Royle, 2005; Visser, et al., 2005). Secondly, this paper advocates the use of more general measures of information technology when exploring the effects of exposure and communication on firm social activities. The preponderance of previous studies, when assessing the moderating role of communication, has relied on traditional measures of mass communication such as broadcast and print sources.
While these previous studies have made significant progress in developing our understanding of how media relates to the institutionalization of firm CSR activities (e.g. Smith, 2003), scholars need to acknowledge the fundamental changes in how a population receives, consumes and shares information. The derivatives of information technology (social media, blogs etc.) are fast becoming a prominent source of information diffusal; both complementing (Althaus & Tewksbury, 2000) and in some cases, replacing traditional media outlets (Kaye & Johnson, 2003). Therefore, we argue that utilizing traditional media variables in CSR research is a useful but incomplete predictor of firm behavior. Because the world is becoming increasingly global and countries vary in the levels of public discretion (e.g., freedom of expression and voice) and digital enablement, it is somewhat surprising that research is yet to focus on the role of these factors in motivating CSR across nations.

We empirically examine the role of these factors using a sample of 757 firms across 10 industry categories from 46 countries. We build our theoretical framework by integrating the insights of stakeholder theory, institutional theory and digital enablement literatures. Our findings show a strong relationship between public discretion and firm CSR with information technology use moderating the effect. We contribute to the literature both theoretically and empirically because these reasoning and multi-level modeling have rarely been applied to the CSR context across domains.

Theoretical background

According to Belu and Manescu (2012) a major challenge for empirical investigations involving CSR as a construct is to “account for the multidimensional and heterogeneous nature of CSR…” Drawing on indexes such as Thomson Reuters Asset4, CSR is generally viewed as
corporations’ responsibility to integrate Environmental, Social, and Governance (ESG) practices into their business model, beyond mandatory legal requirements (e.g., Ioannou and Serafeim, 2013). This is consistent with most of the scholarly definitions of CSR that consider CSR as a composite, multidimensional construct capturing a business organization’s configuration of principles of social, environmental and governance-related responsibility, processes of responsiveness in these areas, and policies, programs, and observable outcomes as they relate to the firm’s relationships with diverse stakeholders (Bowen, 1953; Carroll, 1991, Hillman & Keim, 2001; Waddock & Graves, 1997; Waldman, Siegel, & Javidan, 2006b; Wolfe & Aupperle, 1991 and Ioannou and Serafeim, 2013; Wood, 1991: 693). In keeping with the precedent established by authors such as Waddock and Graves (1997) and Cheng et al. (2011), we assign equal weights to each of the social, environmental and governance-related responsibility areas of performance.

A consensus is emerging among scholars that recognizes that global corporations are engaged in multiple reciprocal relationships with various entities, such as communities, governments, suppliers, consumers etc. (Donaldson & Dunfee, 2002). Scholars have come to a conclusion that a firm is accountable not only to its owners, but also to a variety of stakeholder groups (Donaldson & Preston, 1995; Windsor, 1992). Though it is difficult to include all the groups that could have a ‘stake’ in business (Rowley, 1997); broader definitions of stakeholders recognize that loosely-connected groups can also be affected by an organization’s operations and include those as secondary stakeholders—as such, communities, the government, and other external actors are recognized as secondary stakeholders. Scholars have presented a range of definitions with narrower definitions including just those who “have a vested interest in the corporation in the form of capital” (Clarkson, 1995) whereas extremely broad definitions
encompassing a fairness-based approach includes even non-human entities such as the natural environment (Phillips & Reichart, 2000).

Secondary stakeholders can put pressure on a firm to engage in socially responsible behavior based on their power, legitimacy and the urgency of the issue (Mitchell, Agle, and Wood (1997). They interact with firms mostly for instrumentality, identity and ideology as they pursue specific interests, act upon their ideological positions and strengthen their identity (Den Hond & De Bakker, 2007; Johnson & Prakash, 2007; Klandermans, 2004; Rowley & Moldoveanu, 2003). In the case of conflict between business and society or unexpected events, their power cannot be underestimated, such as during the Olympic Torch controversy in 2008 (Horne & Whannel, 2010), the 2010 Deepwater Horizon catastrophe, or the Exxon Valdez oil spill. Secondary stakeholders are legitimate holders of particular stakes in a nation’s business and political environment. When there is ‘governance without government’ (Vogel, 2007) or ‘private politics’ (Baron, 2003), secondary stakeholders play an important role in civil societies. Under contingencies, they often form protest groups and develop social movements that can hurt the interest of a firm (Wheeler, Fabig, & Boele, 2002, p. 302). Often, they have motivated firms to pursue a systematic approach to public affairs and publish regular annual reports including health, safety, and environment issues. Also, they are present in every country, for example, China, a country with relatively lower public discretion, had over 354,000 NGOs registered with the concerned Ministry by the end of 2006 and their numbers increased to 420,000 by the end of 2009 (Lau, 2009; Li, 2012).¹

¹ Such NGOs in China belong to one of the following types: social organizations, non-governmental, non-commercials enterprises, or foundations (Irish, Jin, & Simon, 2004).
Both the stakeholders and CSR process have been transformed by information technology (IT) revolution in the past three decades. CSR is a process that needs diffusion and in recent years, information and communications technology has revolutionized the communication and coordination within and between firms (Sahaym, et al., 2007). Digital enablement and social media have played a key role in the globalization process. IT is considered as one of the key levelers in the world that is increasingly getting flatter (Friedman, 2005). Esrock and Leichty (1999) noted that IT enables efficient multi-stakeholder dialogue and CSR becomes “an ongoing and interactive process rather than a static annual product (Antal, Dierkes, MacMillan, & Marz, 2002, p. 34)

However, the role of institutions remains as important as before for the success of business processes like CSR because institutions have transformed themselves as enablers of the process and often negotiate with business on providing societal benefits to the community (Ingram & Silverman, 2002). In our context, institutions consist of only the formal organizations of government and corporations but also norms, incentives, and rules. This is along the lines with March and Olsen (1989) who define institutions as “collections of rules and routines that define actions in terms of relations between roles and situations” (p. 160). Institutions are associated with shared values and meaning and promote predictable and patterned interactions for stability (Peters, 1999).

We also believe that firms proactively engage in CSR as part of political management. Corporate political strategies are designed to align the external environment with the internal capabilities of the firm (Galbraith & Kazanjian, 1986; Oliver & Holzinger, 2008). Oliver and Holzinger (2008, p. 497) posit them as "dynamic processes by which a firm influences or complies with their political environment for purposes of generating future value for the firm or
protecting the current value of the firm from future loss or erosion." Firms plan and enact such strategic actions by forming relationships with stakeholders in order to maximize economic returns within the governmental and political environments (Bonardi, 2005; Getz, 1997; Hillman & Keim, 1995; Shaffer, 1995). Seen through the lens of social capital, such strategies can be viewed as contributing toward the development of resources and capabilities through social relations (Adler & Kwon, 2002; Inkpen & Tsang, 2005; Oliver & Holzinger, 2008). For example, the effects of goodwill gained from these relationships include access to privileged information, influence, and solidarity (Adler & Kwon, 2002). Social relations often deal with the exchange of gifts and favors. The structural part, i.e., personal ties, facilitates trust and trustworthiness, bolstering the relational dimension of corporate political management (Tsai & Ghoshal, 1998). Indeed, the bridging view of relationships highlights the role of leveraging external relations in a firm’s success in competitive environments (Adler & Kwon, 2002).

Further, executives engage in corporate political management to produce public policy favorable to their economic survival and continued success (Keim & Baysinger, 1988, pp. 171-172; Schuler, 1996). Corporate political management can define or shape the norms, standards, and beliefs of an industry or reframe public perceptions contributing to competitive advantage (Hillman & Hitt, 1999; Inkpen & Tsang, 2005).

An integration of insights in the context of this study

We believe that firms engage in CSR for a variety of reasons, but mostly CSR incorporates a firm’s voluntary commitment for social improvement through ethical and social activities. We propose that key drivers of CSR include public discretion and digital enablement across countries. As secondary stakeholders can put pressure on firms to engage in CSR through their power, legitimacy and social capital, levels of public discretion in a country will affect the
engagement of firms in CSR. From the lens of firms, managers would engage in CSR as part of corporate political management. They would like to shape the norms and produce public policy favorable to their economic survival and continued success. Similarly, we propose that CSR is process and its diffusion is contingent on the levels of digital enablement as IT enables multi-stakeholder dialogue.

HYPOTHESES DEVELOPMENT

Public discretion and CSR

Firms are embedded in wider societal and political arrangements and become part of local, national, and transnational polities (de Bakker & den Hond, 2008). They are subjects and objects of national institutional environments. As such, they are engaged in multiple reciprocal relationships with various entities, such as communities, governments, suppliers, consumers etc. (Donaldson & Dunfee, 2002). These entities are often considered secondary stakeholders or stakeholders as they do not have a formal contractual bond with the firm or direct legal authority over the firm and firms are not contractually obligated to serve such stakeholders (Eesley & Lenox, 2006). Such stakeholders often claim to have or ‘seek’ a stake in the corporation’s decision making for gaining legitimacy and instrumentality, reinforcing their own identity and ideology (Heath, 1997; Holzer, 2008).

While legitimacy can be secured by performing well in an economic arena, economic legitimacy is, by itself, seldom sufficient to justify a firm’s operations. Patten (1991, 1992) differentiate between economic and social legitimacy explaining that, while economic legitimacy is conferred by the market, social legitimacy is conferred through the public policy arena. This means that how a firm responds to and presents itself in light of social issues is a major
determinant of the public’s perception of the firm as a legitimate actor. Variations in these institutional configurations can lead to differing perceptions as to what constitutes ‘legitimate’ and ‘illegitimate’ activities. These variations, derived from public policy can arise from the dissatisfaction of people, new or proposed legal action and regulatory oversight (Walden and Schwartz, 1997). Ultimately, it is the discretion of the public, filtered through formal governing institutions, that creates the normative grammar for firm social conduct.

However, there is a huge variance among countries with regard to discretion (e.g., freedom of expression) that their publics have. There are countries such as the U.S.A. on one extreme where stakeholders have high degree of influence in shaping CSR domain and on the other extreme; we have countries like Sudan where secondary stakeholder power is almost non-existent. This is important to consider because individual preferences regarding the social behavior of corporations are aggregated and passed through institutional configurations to arrive at country-level outcomes (Coleman, 1987). Therefore, variance in accessibility and participation in the public policy process can drastically affect which social issues are given credence at the national level. Since stakeholder power is reduced, under a repressive regime the influence and effectiveness of various social interest groups such as NGOs and trade unions is reduced (Gastil, 1990), meaning firms only have to justify their operations to a smaller, more select group (Iqbal, 1997). This logic is supported by studies such as Belkaoui (1985) which find that political freedom of a population is directly related to the extent and quantity of social reporting and disclosure by organizations. Further, in more democratic nations where international, pro-social agreements are more likely to be ratified (Cho and Patten, 2007), social activities are more likely to be effective as a legitimizing tool.
With the support of government and institutions, the citizenry becomes a formidable force with the capability to negotiate with businesses. Stakeholders are “providers of legitimacy but they can just as easily withdraw it” (Chiu & Sharfman, 2011, p. 1564). They have both the coercive power and an ability to provide a normative grammar for corporate conduct. At a higher level of discretion, stakeseeekers may engage in shaping their governing institutions by mobilizing citizens in favor of their ideology and advance claims on a national stage. Firms must manage stakeseeekers as under these circumstances institutions become accountable to stakeholders and society becomes a powerful force in determining regulations that can directly influence firm performance. At this level of public discretion, firms seek coalition with stakeseeekers and political-coalition perspective recommends collaborative relationships between business and stakeseeekers (e.g., between business and philanthropic organizations, non-government organizations (NGO) and social movement organizations (SMOs), among others) for productivity and societal benefits. As such, firms engage in CSR as a form of stakeholders’ political management as well as strategic philanthropy. By committing to CSR activities they are communicating that they are both concerned about and responsive to the needs of society in which they operate (Ellen, Mohr, & Webb, 2000).

At low levels of public discretion when democratic freedom, government’s responsiveness to society, and freedom of press etc. are low, we may observe a similar effect. At this level, businesses often take a lead in propagating voice and accountability. They proactively forge relationships with any existent groups for espousing social causes, philanthropic purposes as well as political management. Corporate political strategies are designed to enhance the influence of firms in the political environment for generating future value. In the relative absence of institutional entities, firms may engage in CSR by forming relationships with local citizenry.
Along the lines of strategic philanthropy, such CSR may earn them social capital and goodwill in governmental and political environments. The social capital they develop contributes to the development of resources and capabilities via access to privileged information, influence, and solidarity for long term competitive advantage (Adler & Kwon, 2002; Inkpen & Tsang, 2005; Oliver & Holzinger, 2008). In sum, firms often take lead in CSR activities when public discretion is low. They bring valuable information, awareness and knowledge, and global norms often playing the role of protagonists in developing civil society.

Therefore, we predict that in an environment with stronger stakeholder power as characterized by higher public discretion, firms will attempt to develop and maintain their legitimacy by engaging in more socially responsible activities. Conversely, in levels with low public discretion we predict firms will proactively engage in CSR for instrumental purposes. At intermediate levels, neither legitimacy-seeking nor instrumental motivation is compelling enough for the firms to engage in CSR. These arguments suggest a U-shaped relationship between levels of public discretion and firms’ engagement in CSR. In essence, firms engage in higher levels of CSR at low and high levels of public discretion than at intermediate levels of public discretion.

**H1:** Levels of public discretion in a country (i.e., degree of freedom of expression, political voice and accountability) will have a positive curvilinear effect on CSR such that CSR will be higher at both low and high levels of public discretion.

**Public discretion, IT enablement and CSR**

As discussed above, stakeholder communication and collaboration are essential for shaping the institutional environment. Social movements often predicate institutional upheaval and reformulation (Offe, 1985); and corporate social responsibility is one such phenomenon that
diffused with social awareness, movement and need for change. For example, in the 1970s, US firms were faced with growing public concern for a variety of issues including environmental conservation, worker safety, and equal treatment. This turbulent period of institutional upheaval forced a change in public policy and served to alter and add substance to the definition of ‘corporate social responsibility’ (Carroll, 1999). Given that social movements are a powerful force for altering the institutional landscape, it is important to note that social movements are “to a considerable extent, communication phenomena” where communication “is essential to every stage of a movement’s trajectory” (Hackett, 200 p.61).

Acknowledging the relationship between stakeholder communication and incentives for firms to engage in CSR, various other studies have utilized ‘media’ as both predictors and moderators for CSR (e.g. Chiu and Sharfman, 2011). The logic is such that media exposure enables secondary stakeholders to become informed about a firm’s social performance, make judgments regarding the desirability of that performance, and reward and punish the firm accordingly; thereby, in some respects, enabling media outlets to take on the role as ‘watchdog’ (Miller).

While media, as previously measured, undoubtedly serves an important role in the evolution and shaping of the institutional environment, we believe that a more complete picture of the CSR phenomenon would emerge if diverse information technologies are considered instead of a narrow focus on media. First, while media plays an important role in shaping environment, many national media sources are incorporated entities, meaning the content, focus, and delivery of information is hindered by workplace routines. As such, content that is filtered through these media sources and may be subject to ideological biases (Groseclose & Milyo, 2005), framing effects (Scheufele, 1999), and organizational imperatives among others. This
means that the portrayal and legitimacy of social concerns may be altered to conform to an established hegemony which ultimately could alter the evolution of the social institutional environment. Secondly, while media is an important tool for raising stakeholder awareness, the media outlets utilized in previous studies (i.e., broadcast and print) are inherently unidirectional. Receivers (the public) are consumers of the media message with little, if any, interaction.

We believe future research should focus more on interactive information technologies in place of unidirectional media when investigating CSR. Prior research has shown that IT is the most effective medium for interactivity, dialogue and multiple-way communication with stakeholders—only face-to-face individual meetings surpass IT in some of these aspects (Mithas, Ramasubbu, & Sambamurthy, 2011; Moreno & Capriotti, 2009; Rolland & Bazzoni, 2009). Unlike traditional forms of media, information technology enables dynamic, reciprocal interactions in which people are both senders and receivers (Birth, Illia, Lurati, & Zamparini, 2008; Dawkins, 2004; Moreno & Capriotti, 2009; Morsing & Schultz, 2006; Rolland & Bazzoni, 2009). This allows for unparalleled coordination and collaboration among stakeholder groups, activists and other citizens which, in turn, can influence organizational and institutional activities to better reflect the expectations of social stakeholders (Jacobs, 2005).

Scholars acknowledge that CSR is often part of corporate strategy and IT enablement plays an important role in the diffusion of CSR efforts (Dawkins, 2004; Etter & Plotkowiak, 2012; Morsing & Schultz, 2006). This is because IT facilitates coordination among various stakeholders, enhancing organizational effectiveness in dealing with actors between firms and stakeholders, firms and institutions, and stakeholders and institutions (Afuah, 2003; Hitt, 1999; Sahaym, et al., 2007). Indeed, aside from electricity, IT is considered to be one of the two most
important general-purpose technologies to date in terms of economic (Jovanovic & Rousseau, 2005) and social (Fountain, 2001) impact.

This is consistent with the findings of case studies by Nugroho (2008) in the context of Indonesia. He states:

“The terrain of Indonesian civil society (activities)...has considerably changed in the past decade: from a fairly focused concern about state-centrist issues, to...the role of non-state actors like business and private sectors...the focus of issues and concerns of Indonesian NGOs today are not only about building social awareness...(for)...promoting the democracy and human rights that were present in the past (as observed by Bird, 1999; Eldridge, 1995; Fakih, 1996; Sinaga, 1994; Uhlin, 1997) but also about enlightening society with contextual issues and societal concerns which stem from globalization...(This) is very much a consequence of the use of new information and communication technologies, particularly the Internet, in many organisations within civil society. Evidence shows that not only does Internet use impact upon NGO’s performance in terms of internal management, but more importantly, that such use has contributed to the widening of organisational perspectives, the expansion of organisational networks and has thus increased organisational influences in society. In fact, this technological use, to some extent, can also be seen to be part of the strategy of Indonesian NGOs to build critical views towards the practices of globalisation through their engagement with various civic groups” (page 23).

In the United States the effectiveness of the combination of high discretion and IT enablement was demonstrated in influencing the outcome on Stop Online Piracy Act (SOPA), a
bill advanced in the US congress with the intent of strengthening copyright protection by holding internet companies liable for content posted on their sites (Sanchez, 2012). Opponents, mostly secondary stakeholders, argued the bill would amount to censorship and would harm innovation. Secondary stakeholders organized a nation-wide protest using various IT tools—they communicated, coordinated and organized protests channeling and exchanging information throughout the U.S.A. These protests culminated in major interest groups voluntarily censoring their websites on January 18, 2012; and consequently representatives decided not to pursue this bill. The U.S. environment consists of both the high levels of discretion and IT enablement—indeed; it provided an ideal context for such protests and consequent outcome.

From the lens of stakeholders, high degree of public discretion grants them certain legitimacy and they need information, knowledge and capability to effectively deal and negotiate with businesses. IT enablement provides such stakeholders with relevant data and information with appropriate levels of accuracy, timeliness, and reliability. Diverse stakeholders even from geographically distant locations can come on common platform and leverage universal connectivity and global reach for promoting their sociopolitical objectives. Firms’ top management teams (Firm TMTs) and stakeholders’ key functionaries can use diverse IT resources (e.g., conferencing, group support systems, database management systems) for determining one-another’s requirements, expectations, and preferences.

IT enablement accentuates freedom, voice and transparency through modes such as Internet-based message boards, virtual communities, and personalized information channels. In the countries with high levels of discretion, secondary stakeholders such as publics and NGOs can effectively monitor, evaluate, and control their activities systems based on the real-time, online information (Bourne, Neely, Platts, & Mills, 2002; Eccles, 1991; Kaplan & Norton, 1992).
In such contexts, IT enablement provides flexibility, speed, and cost efficiency to NGOs, publics and citizenry. These entities gain valuable reach and connectivity crossing geographical boundaries to leverage the discretion they have and proactively initiate sociopolitical and cultural events that can connect diverse organizations and institutions. Such entities can even use IT tools to assess their performance over time using various project management tools, metrics and analytics. Indeed, organizations in every walk of life have invested in IT for efficient communication and coordination with entities within and across firm boundaries (Bharadwaj, 2000; Mithas, et al., 2011).

As IT resources and capabilities have emerged as an effective medium for interactivity, dialogue and two-way communication with stakeholders, a key premise is that variance in the levels of public discretion and IT enablement will influence firms’ engagement in CSR. Therefore, we predict that the positive effect public discretion has on CSR will be enhanced by information technology usage. Specifically, we hypothesize that at high levels, IT use will positively moderate the effect of public discretion on CSR.

**H2: At the highest levels of IT enablement, public discretion will have a positive effect on firm CSR.**

At the lowest levels of IT use when information diffusion, communication and collaboration are relatively muted, public discretion will not have as much effect on CSR. Public discretion contributes to secondary stakeholder power and CSR via superior representation, a free press, and legal system. Though public discretion can motivate CSR to a certain extent, its effect will diminish beyond a point for the want of IT which plays an important role in diffusion, communication and collaboration (Fountain, 2001). At the lowest levels of IT when such benefits are at their minimum, it would be difficult to develop a critical mass of publics and
stakeholders who can motivate and scale up CSR to its maximum. As such, we maintain that at the lowest levels of IT use where information diffusion, communication and collaboration are relatively muted, public discretion will retain a positive yet diminishing effect on firm CSR. This is made evident in countries such as Jordan and Egypt where social change has suffered from inertia and rigidity. It was not until the proliferation of the internet that citizens were given a tool for free association thus weakening the strength of exclusionary government practices (Wheeler, 2006).

Secondly, in line with previous arguments, a firm may be more inclined to engage in CSR in a country defined by greater public discretion, but without an efficient tool for disseminating information about corporate activities among the public the institutional pressure to engage in more significant levels of CSR activity may be absent. Overall, we hypothesize that while public discretion will retain a positive impact on CSR, the effects will diminish in countries with low levels of IT enablement.

**H3: At the lowest levels of IT enablement, public discretion will have a positive but diminishing effect on CSR**

**METHODS**

In line with our theory, we collected both firm level and national level data. As such we started by collecting data from the Thompson Reuters Asset4 data set. Asset4 was founded in 2003 in Switzerland and it was acquired by Thomson Reuters in 2009. Asset4 collects data and scores firms on three broad pillars of social responsibility relating to the environment, society and governance (Cheng, Ioannou, & Serafeim, 2011). Research analysts collect more than 900 evaluation points per firm, where all the primary data used must be objective and publically
available. Each firm receives a standardized z-score for each of the CSR categories in the dataset. We then matched these firms with data from the nation they reside in. This data was collected in line with country-level variables relating to information technology and political voice. After the full aggregation of our data we were left with 740 firms from 46 different nations.

**Dependent variable**

At the firm level our dependent variable of interest, CSR, was created using scores obtained from the Thomson Reuters Asset4 dataset. The scores for each broad CSR category (environmental, social and governance) are reported from 0 to 1. This rating methodology has several key advantages over earlier methods of assessing CSR performance. Prior studies have relied on a variety of methods including reputation indices (McGuire, Alison, & Schneeweis, 1988), subjective surveys (Luo & Bhattacharya, 2006), and industry professional ratings. The difficulty with using tools such as a reputation index is that they have been found to be biased toward financial performance (Fryxell & Wang, 1994). According to Cheng, et al. (2011), rating services such as KLD (Kinder, Lyndenberg, Domini) and Asset4 overcome these weaknesses by measuring objective criteria such as the amount of firm hazardous emissions in addition to expert analysis. Since Asset4 reports aggregate scores regarding environmental, social, and governance performance, the second challenge becomes assigning category weights. As previous authors have noted (Cheng, et al., 2011; Mitchell, et al., 1997), there is still no theoretical justification for assigning differential weights to CSR categories. In keeping with the precedent established by authors such as Waddock and Graves (1997) and Cheng, et al. (2011), we assign equal weights to each area of performance. Thus, CSR is an average of an individual firm’s performance.
Independent variables

Our hypotheses predict that the ability of the citizenry and stakeholders to formally and informally influence diverse institutions in addition to the structure of the institutional environment will impact the level of socially responsible behavior of firms. This reflects the authority or discretion of publics to influence CSR performance—we refer this construct as public discretion along the lines of managerial discretion (e.g. Finkelstein & Boyd, 1998; Hambrick & Finkelstein, 1987) which reflects managers’ influence on their organization’s strategic direction, structure, and performance.

To capture public discretion, we employed data collected from the World Bank’s Worldwide Governance Indicators Survey. The survey captures national governance information across six factors from three core governance areas: the ability of the government to change and be replaced, the effectiveness of the government in implementing and enforcing policies, and the degree to which institutions and citizens respect the established legal framework. Specifically, we use a measure of monitoring and change entitled “voice and accountability,” described by the authors as “capturing perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media” (Kaufmann, Kraay, & Mastruzzi, 2010). The measure is calculated by obtaining data from a variety of sources including direct surveys and expert ratings from governmental and non-governmental organizations (NGOs). An example of factors includes Freedom House’s measure of press freedom, and surveys from the Gallup World Poll. The diverse rating scales are then standardized and included in a linear function to arrive at a score between -2.5 (least public discretion) and 2.5 (most public discretion).
Our second variable of interest, *IT enablement*, is conceptualized as the ability to perform work processes using a variety of IT resources and capabilities (Rai & Sambamurthy, 2006; Sahaym, et al., 2007). Information systems scholars emphasize that digital or IT enablement provides resources and capabilities, structures, and routines through which organizations can conceive and create desired processes for providing services or developing products, plan how these are offered and orchestrated, and how interactions and exchanges for productivity and performance will be managed (e.g. Mithas, et al., 2011; Rai & Sambamurthy, 2006).

To capture these concepts we collected data about usage rates and technology infrastructure for the nations in our sample as a proxy for IT enablement. In particular, data were collected on the percentage of homes with access to computers and the percentage of the population who reportedly used the internet. This is in keeping with previous research that describes internet access, including the requisite hardware, as the foundational element of digital communication (Guillen & Suárez, 2005). In addition, broadband internet represents a “mature service” (Maier, Feldmann, Paxson, & Allman, 2009), enabling tightly integrated IT interaction and information diffusion. The usage of broadband internet promotes greater connectivity, thereby augmenting the level of interaction between, governments, businesses and society (Firth & Mellor, 2005). To account for the enhanced collaborative and monitoring potential of broadband, data on the number of broadband internet connections per capita was obtained. All data regarding hardware, usage and infrastructure were obtained from the World Bank Country Survey and the United States CIA World Factbook. Due to high correlations among our measures for IT enablement, a single factor was extracted using maximum likelihood estimation.
Each of the three variables exhibited strong loadings for the single factor solution (greater than .85), with the factor accounting for 90.52% of the variance in the sample.

Controls

To investigate the impact of public discretion and IT use on CSR we found it necessary to control for other predictors of CSR activity. In particular, previous research has established that firm size may alter the strategic focus of a firm, increase its visibility, or in the case of larger firms, place greater emphasis on responsible activities due to their positions of power (McWilliams & Siegel, 2001; Udayasankar, 2008). Thus, to account for effects caused by the scale and scope of firm operations, we control for firm size as measured by total assets in USD.

Second, firms may have greater ability to invest in CSR initiatives by virtue of their resource stocks (Orlitzky, Schmidt, & Rynes, 2003; Waddock & Graves, 1997). Specifically, as firms control greater levels of discretionary funds and resources, the basic building blocks of firm activities (Mathews, 2002), they are given access to a wider set of opportunities. When firms are resource poor, management may be unwilling to commit scarce resources to CSR activities which may not have a direct impact on financial performance (Barnett, 2007). However, when firms are resource rich, management may shift its focus and invest in more uncertain CSR activities. This is consistent with prior findings which demonstrated that prior profitability and slack resources were significant predictors of CSR performance (Kraft & Hage, 1990; Seifert, Morris, & Bartkus, 2004; Stanwick & Stanwick, 1998). To control for the effect slack resources may have on CSR performance, we include available slack as measured by the current ratio (Bromiley, 1991).

Third, while this study focuses on national-level determinants of CSR, we acknowledge that these are not the only normative frameworks influencing firm behavior. In particular, firms
within similar industries may face specialized expectations for proper conduct. Membership within industry-specific organizations, strategic activities from direct competitors, and similarity of organizational processes may create variability between industry clusters with regards to firm-level provision of public goods. To control for industry effects, we utilize the 10 industry categories present in the Asset4 database, dummy coded with the financial and banking industry as the baseline.

We also control for multiple variables of interest at the national level. In-line with prior research which demonstrates the wide-ranging impact of economic development and education (e.g. Mauro, 1998) we control for the GDP per capita of the nation, and level of education measured by the average number of years in school by citizens over the age of 25.

Next, perceptions of acceptable levels of CSR are not uniform across nations. Attitudes, beliefs, regulations, and institutional pressures differ between states resulting in heterogeneous pressures for firms to engage in CSR activities (Gjølberg, 2009b; Matten & Moon, 2008). In particular, we focus our attention on European “welfare states” where stronger labor bargaining power and more stringent environmental and social regulations may influence firm scores on our measure of CSR. To control for these national-level effects we included data from the Environmental Sustainability Index (ESI). The ESI is a rating system published by the Yale Center for Environmental Law and Policy which, among other factors, measures the strength of a nation’s environmental regulations (Esty, Srebotnjak, & de Sherbinin, 2005). Specifically, we chose the ESI measure of “global stewardship” which accounts for, among other things, a country’s efforts to reduce greenhouse gas emissions and participation in transnational environmental agreements (ESI). The ESI measure is strongly correlated with nations adopting more stringent socially responsible firm regulations (Gjølberg, 2009a).
Additional, evidence suggests that governmental control of an economy stymies the ability of stakeholders to pressure firms to engage in CSR (Baughn, Bodie, & McIntosh, 2007). For instance, in Asian firms with strong ownership by government interests, inertia is introduced which slows progressive change with regards to responsible firm governance (Kimber & Lipton, 2005). Additionally, when “the state is seen as the institution in charge of social welfare” (Baughn, et al., 2007 p.194) the focus shifts from responsible stewardship by private firms to government distribution of public goods (Weaver, 2001). To account for this effect we include a measure of economic freedom published by the Heritage Foundation (Miller & Holmes, 2009). The scale measures the extent to which a government interferes with the workings of the market by inhibiting the flow of capital, labor and goods. The index has been widely used by scholars (e.g. De Haan & Sturm, 2000; Goerzen & Beamish, 2003) to study topics such as internationalization and economic development.

Finally, to account for the causal nature of our predictions, all variables were lagged one year with respect to our dependent variable.

MODEL

In view of the multi-level hierarchical nature of our theoretical model which requires cross-level analysis, our datasets are hierarchical in structure. We developed our model such that it accommodates the complex nature of international diversification where variables at lower level in hierarchy (i.e., firm-level) get influenced by higher level (e.g., country-level) variables. Some of the challenges in developing this model are as follows: 1) As we test how country-specific advantages interact with firm-specific advantages underscoring non-independent nature of hierarchical data, some of these influences may not be completely independent, and 2) the nested nature of relationships violates the assumption of equal residual variance.
In view of these parameters and constraints, we determined that simple OLS (ordinary least squares) regression method is not appropriate to test our research model for the following reasons: 1) nested nature of relationships, 2) non-independence of hierarchical data, and 3) OLS ignores the dependence among observations leading to underestimation of the standard errors (Hofmann, 1997). Our assessment is consistent with that of the researchers such as (Hofmann, 1997) who underscore that higher level (e.g., country-level) variables tend to be deflated within an OLS framework.

Thus, we employed a multi-level modeling technique to conduct a nested level of analysis—the Hierarchical Linear Modeling (HLM) (Raudenbush & Bryk, 2002). HLM is appropriate for examining cross-level analyses because it can take into account the nested, non-independent nature of the data by partitioning and estimating simultaneously, both within and between groups (Raudenbush & Bryk, 2002). The HLM simultaneously computes the two models for estimation, one that uses country-level parameters (Level 2) and the other that uses firm-level parameters (Level 1). Further, the first model estimates relationships within each of the lower level units, and the second model estimates how these relationships within units vary between units (Hofmann, 1997). This approach can explicitly model both individual and group level residuals and helps us in taking into account the partial interdependence of individuals within the same group.

RESULTS

Table 1 shows the correlations among the variables in our model. Table 2 shows the model estimates for our models on CSR. There are four models included in our analysis. Model 1 includes the control variables only. Model 2 tests the linear relationship for public discretion and
Regarding the controls tested in Model 1, total assets (β = .06, p < .001) had a significant effect on firm CSR activity. This result mirrors predictions from past research (Lepoutre & Heene, 2006; McWilliams & Siegel, 2001) which state that larger firms are more likely to engage in CSR due to greater access to resources, improved opportunity recognition resulting from increased absorptive capacity, and additional stakeholder pressure derived from greater expectations of socially responsible behavior. Additionally, our categorical variables for industry produced significant effects in energy (β = .05, p < .01), non-cyclical goods (β = -.15, p < .001), and technology (β = .09, p < .001), confirming our expectations that varying normative frameworks at the industry level would impact the provision of CSR at the firm level.

Our first hypothesis predicts a positive curvilinear relationship between public discretion and CSR. Model 2 tests the main, linear effect and model 3 introduces the quadratic term. Based upon the results we find support for a significant, substantive curvilinear relationship. After controlling for country level education, GDP per capita, economic freedom, previous institutionalization of CSR and our various firm-level variables, both the singular (β = 0.14, p < .001) and the squared term were positive (β = 0.05, p < .05). In line with our predictions, firm-

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>s.d.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public_Discretion</td>
<td>0.51</td>
<td>0.96</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Per Capita</td>
<td>27154</td>
<td>22076</td>
<td>.529**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>9.56</td>
<td>2.21</td>
<td>.663**</td>
<td>.540**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESI_Global</td>
<td>49.18</td>
<td>19.19</td>
<td>.369**</td>
<td>0.17</td>
<td>0.07</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Econ. Freedom</td>
<td>67.2</td>
<td>11.24</td>
<td>.618**</td>
<td>.549**</td>
<td>.585**</td>
<td>0.21</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>IT_Enable</td>
<td>0</td>
<td>0.98</td>
<td>.734**</td>
<td>.737**</td>
<td>.774**</td>
<td>0.24</td>
<td>.707**</td>
<td>-</td>
</tr>
</tbody>
</table>

Note. ** Correlation is significant at .01
level CSR was greatest at both the lowest and highest levels of public discretion, lending support for the assertion that public discretion has a multi-faceted effect of firm CSR activities. Figure 1 shows the curvilinear nature of this relationship.

Table 1.2
Summary of Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intercept</strong></td>
<td>0.54</td>
<td>0.53</td>
<td>0.53</td>
<td>0.54</td>
</tr>
<tr>
<td><strong>Firm Level (Level 1)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controls</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>0.06***</td>
<td>0.01***</td>
<td>0.01***</td>
<td>0.01***</td>
</tr>
<tr>
<td>Slack Resources</td>
<td>0.01***</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Ind. - Energy</td>
<td>0.05**</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Ind. - Raw Materials</td>
<td>0.00</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Ind. - Industrial Equip.</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Ind. - Cyclical goods</td>
<td>0.02</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Ind. - Non-cyclical Goods</td>
<td>0.15***</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Ind. - Healthcare</td>
<td>0.00</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Ind. - Technology</td>
<td>0.09***</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Ind. - Telecommunications</td>
<td>0.06</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>Ind. - Utilities</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td><strong>National Level (Level 2)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controls</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Per capita</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Education</td>
<td>0.03†</td>
<td>0.02</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td>ESI - Global</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Economic Freedom</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>IT_Enable</td>
<td>0.07</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td><strong>IV</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public_Discretion</td>
<td>0.13***</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td><strong>Interactions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public discretion^2</td>
<td>0.05*</td>
<td>0.02</td>
<td>0.06</td>
<td>* 0.03</td>
</tr>
<tr>
<td>IT_Enable x Public Discretion</td>
<td>-0.01†</td>
<td>0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT_Enable x Public Discretion^2</td>
<td>0.06*</td>
<td>0.03</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = p<.001; ** = p<.01
* = p<.05; †=p<.10
In Model 4 we examined the effect of public discretion on firm CSR as moderated by IT enablement. The results of the interaction of public discretion and IT enablement ($\beta = 0.06, p < .05$) indicate that public discretion ($\beta = -0.01, p < .10$) has an inverse-u relationship with CSR under low levels of IT enablement, but a positive curvilinear relationship under high levels of IT enablement. Thus, we find support for our contention offered in hypothesis 2. In countries with high levels of IT enablement and public discretion, firms were more prone to engage in CSR related behavior. Likewise, in developing economies, classified as high levels of IT enablement yet low levels of public discretion firms also exhibited a tendency to engage in socially responsible behavior. Due to the complex nature of this relationship Figure 3 shows the nature of our models results.

Figure 1

*The Effect of Public Discretion on CSR*
Figure 2
*Public discretion and CSR at low levels of IT use*

Figure 3
*Interaction of Public Discretion and IT Use*
DISCUSSION

This study sought to examine national level conditions under which firms would be more likely to engage in socially responsible behavior. A powerful determinant of firm behavior is the ability of primary and secondary stakeholders to establish and enforce institutional norms. We have built upon prior research from authors such as Mitchell, et al. (1997) who state that stakeholder efficacy is determined by elements of power, legitimacy and urgency. Since firms are dynamic, political entities, engaged in a reciprocal relationship with their environment (Garriga & Mele, 2004), the ability of the public to be self-governed and make their voices heard on the national stage will augment the business climate at the firm level. We argued that in a society defined by greater degrees of freedom and public discretion, power and legitimacy is inherently transferred to the public, enhancing its ability to erect normative constraints on private sector firms. Secondly, at the lowest levels of public discretion we argued that firms work to fill the institutional vacuum, in effect pursuing more socially responsible behavior. We also introduced the prevalence and usage of information technology as a moderating effect. Our argument states that since information technology allows for the rapid distribution of information and collaboration among stakeholders, it thereby becomes a mechanism which improves the ability of the public to monitor firm behavior and collaborate for the achievement of their sociopolitical objectives. We hypothesized that IT use would interact with public discretion resulting in a stronger, positive effect on CSR.

Our results confirm the importance of public discretion when predicting the provision of firm-level CSR activities. Nations with the highest levels of public discretion contained the most socially responsible corporations. We also find that relatively low public discretion was associated with an increase in CSR behavior. Similarly, there was a significant interaction
between information technology use and public discretion. In instances of higher IT enablement, public discretion had a stronger effect on firm CSR behavior. Conversely, at the lowest level of IT enablement, public discretion had a positive, diminishing relationship with CSR.

**Theoretical Implications**

We believe our research makes several contributions to both the CSR and information technology literature. First, it is widely recognized that firm behavior is partially a function of the institutional environment it operates in (e.g. Scott, 1995). Following in this vein, authors have noted that firms face pressure from both market and non-market forces which constrain and influence firm behavior (Greenwood, Díaz, Li, & Lorente, 2010). In addition to pursuing financial objectives, firms must take heed of expectations from external stakeholders and be cognizant of the socio-normative environment. In recent years this logic has been offered as an explanation for seemingly fiscally irrational CSR oriented activities. To become legitimated, firms must adhere to expectations of ethical and socially responsible behavior and divergence from these minimally accepted standards exposes firms to risk. In building the institutional argument for CSR, authors such as Campbell (2006), theorize that CSR pressures may be derived from a variety of sources, yet, the specific role of public discretion remains unarticulated. Building upon these sources, our research fills that gap by demonstrating that discretion, or more simply free institutions, has a positive effect of firm-level provision of CSR. This provides insight regarding how socially responsible behaviors become institutionalized.

This research also contributes to stakeholder theory. A key challenge in the application of stakeholder theory is the identification of who and what constitutes a legitimate stakeholder (Phillips, 2003). Narrow views of stakeholder theory (e.g. Clarkson, 1995) define legitimate stakeholders as those connected financially to firm operations. While useful from a managerial
perspective, it neglects the influence that secondary stakeholders (i.e., government and communities) have in shaping firm actions. Excessively broad definitions of legitimate stakeholders have been criticized for their lack of structure and usefulness for informing managerial action. These views have been somewhat reconciled by introducing the concept of secondary stakeholders to define the broader institutional environment, but the inherent difficulty of assessing the limits of what constitutes a secondary stakeholder still remains. This research utilizes the preceding model of stakeholder salience as a partial function of power and legitimacy and argues that as a nation trends towards greater freedom and public discretion, power and legitimacy is essentially transferred to the public at large. By virtue of the public’s ability to shape the governing institutions, they can place pressure on firms to conform to widely-held social norms. Based on the assertion that firms should only account for those stakeholders who hold sufficient legitimacy, this research demonstrates that firms should be mindful of the perceptions of the broad society, thereby expanding and further defining broader conceptualizations of stakeholder theory.

Additionally, this research contributes to the information technology literature by highlighting the role IT plays regarding CSR. Detailed research has covered both the economic and social impact of digital communication (Mansell & Wehn, 1998), yet surprisingly, little research has explicitly investigated the link between country-level usage of IT and firm CSR. In the paper we draw from both established literature and anecdotal examples that highlight ITs function as both a monitoring mechanism and a tool for collaboration. For example, behavioral norms are selected for and enforced through a series of societal rewards and punishments (Jepperson, 1991). Firms which adhere to institutionalized expectations of behavior are rewarded with legitimacy while firms that violate those expectations “do so at their own peril” (Ashforth &
Legitimacy is a construct denoting action, as it is through patronage and support that consumers legitimize a firm. Consumer values are motivational constructs, influencing action (Verplanken & Holland, 2002). Therefore, firm’s whose behavior is judged as appropriate vs. inappropriate and ethical vs. unethical will align with consumer’s expectations of proper behavior and encourage the conference of legitimacy. But the perception of firm behavior is not a static quality as consumers are continuously acquiring new information and adjusting their cognitive models of a firm’s legitimacy. Thus, it is first the transfer of behavioral information that must occur before judgments of fitness and legitimacy can be made. This explains why more visible firms trend toward more responsible behavior (Chiu & Sharfman, 2011), as knowledge pertaining to an organization is more easily acquired subsequently increasing the risk of negative valuation resulting from operational missteps. Since information technology is inherently a tool of communication, firms in countries with greater degrees of IT use are more visible, more easily monitored, and therefore face greater pressure to conform to acceptable levels of social responsibility.

Information technology not only facilitates the dissemination of information, but enhances a stakeholder’s ability to collaborate. Through collaboration, a digitally enabled society can more easily rally for and coordinate against firms it deems to be acceptable and unacceptable. In essence, the infrastructure for coordination allows for the deliberate action which predicates institutional change (Boisot & Child, 1988). In sum, the linking of monitoring and collaboration increases stakeholder salience by transferring power to the consumer and influencing the positive uptake of socially responsible firm initiatives.
Limitations and future research

The preceding paper represents a broad exploration of the effects of public discretion and information technology on CSR. As such, we are aware of some limitations of the paper and opportunities for future research.

For the purposes of our analysis we depict firms as clustered within nations in order to ascertain the effect of country-level variables on CSR. This implicitly assumes that the firms in our sample have relatively strong ties to their domestic markets. As IT enables communication, it also enhances globalization resulting in truly transnational firms spanning international boundaries with less reliance on domestic markets. As firms become more global they may be less subject to the pressures of society’s stakeholders. As it is outside the scope of the current paper, future research could investigate the effect of internationalization in tempering the normative influence of individual nations.

In alignment with the broad perspective of the paper, we adopt a general measure of IT use. While this aids the analysis in terms of simplicity, it does not account for how IT is actually used. A greater prevalence of social networking, for example, may influence stakeholder collaboration and responsiveness to corporate activities. Future research could investigate specific forms of IT use and their relationship with CSR. Both qualitative and longitudinal designs would be useful for determining if the changing nature of information technology usage changes, bolsters, or negates CSR pressures.
References


CHAPTER TWO

PAPER TWO

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES REDUCE NEGATIVE REACTIONS TO SERVICE FAILURES AMONG VALUE-ALIGNED CUSTOMERS

ABSTRACT

A significant amount of research regarding corporate social responsibility (CSR) has focused on both macro-level and consumer-level outcomes of firm social performance. However, little research has investigated whether CSR can buffer firms against negative outcomes following an adverse event (e.g., a service failure). The current paper addresses that gap through two studies exploring if CSR activities shield against the negative effects of service failures. Study 1 shows that consumers are less likely to spread negative word of mouth following a product failure when a firm engages in environmental CSR, but only when consumers are also high in trait environmental concern (TEC) and that this effect is mediated by consumer anger. Study 2 demonstrates that perceived value overlap reduces consumer anger which in turn reduces NWOM within a service failure context. Perceived value overlap is greater among consumers when a firm distributes charitable donations to causes selected by the consumers. The major managerial implications derived from the findings is that, following service failures, CSR activities reduce the propensity to engage in NWOM when value alignment is high and a flexible CSR policy which donates to charities based on consumer choice may encourage feelings of value-alignment.
CSR, broadly defined, refers to a set of “actions that appear to further some social good, beyond the interests of the firm and that which is required by law,” (Carroll 1999). Given that an increasing number of consumers believe firms have higher-order ethical obligations (Narwal and Sharma 2008), it is no surprise that firm-level social involvement has grown considerably in the last decade. For example, in 2010, the United Nations Global Compact CEO survey reported that 93% of CEOs believe that sustainability issues will be an important factor for future success (Lacy et al. 2010). Moreover, in its annual report, the Giving USA Foundation estimated that in 2011, corporations contributed $15.29 billion worth of cash and products towards philanthropic activities, compared to $10.86 billion in 1999 (Giving USA 2011). Furthermore, sourcing from ethical producers such as Fair Trade Coffee has substantially increased over the past decade (Fair Trade USA 2010). This increased corporate attention toward altruistic activities is punctuated by the rise of CSR reporting frameworks. The Global Reporting Initiative and the Dow Jones Sustainability Index, for instance, now provide consumers and socially-conscious investors accessible tools with which to evaluate companies on CSR dimensions.

Given the proliferation of company-level CSR initiatives, many researchers have sought to understand CSR’s effects on consumer behavior. Surveys have shown that a majority of consumers feel companies should behave in socially responsible ways (Burson-Marsteller 2010). As a consequence, firms that engage in CSR activities experience benefits such as a positive impact on consumer preference for a particular brand (Barone et al. 2000), willingness to pay a premium for responsibly sourced goods (Arnot et al. 2006), and positive indirect effects on sales due to better brand evaluations (Creyer 1997).
Despite the progress research has made in articulating the impact of CSR initiatives on consumer behavior, the preponderance of studies to date have remained focused on pre-transaction behaviors such as firm evaluations and brand preference (Barone et al. 2000; Vaaland et al. 2008). The literature has largely neglected CSR’s effect on undesirable situations, post transaction, such as consumer reactions to service failures. To address this gap, the present paper hypothesizes that, following a service failure, CSR will attenuate feelings of anger thereby reducing the desire to spread negative-word-of-mouth (NWOM) and this effect will be strongest among value aligned customers.

Service failures occur when the purchased product/service “falls short of expectations” (Somasundaram 1993). For instance, a newly purchased appliance may break down, laundry detergent may fail to meet consumer expectations of efficacy or poor service may be rendered by restaurant wait-staff. Research has all but concluded that product and service failures have strong potential for engendering negative consumer responses such as an increase in anger (Folkes et al. 1987), a desire to exact revenge in some fashion (Zourrig et al. 2009), such as through consumer complaining and spreading negative word-of-mouth (Curren and Folkes 1987), dissatisfaction (Bitner et al. 1990) and switching behavior (Keaveney 1995; Manrai and Manrai 2007). Compounding this problem, the heterogeneous nature of quality control and production systems means that product failures are all but an inevitable consequence of daily operations (Folkes 1984). Further, it has been shown that consumers rely heavily on anecdotal recommendations by other consumers when selecting products (Senecal and Nantel 2004), a process exacerbated by social media and online rating websites which allow for the near instantaneous spread of negative information (Kaplan and Haenlein 2010).
Recognizing the severe outcomes of failure events, marketing scholars have investigated methods through which negative consumer reactions can be mitigated following a failure. Palmer et al. (2000) use equity theory and show that satisfaction following failure is a function of the severity of the failure and the intensity of the recovery effort. Other researchers apply justice theory and show that consumers respond positively to perceptions of interactional and distributive justice (Davidow 2003), with other authors demonstrating the effect of emotions (Bougie et al. 2003) and demographic variables such as age and gender (Brown 2004; Cota-McKinley et al. 2001) on negative behavior. Apart from explicit activities a firm may perform following failure, research has shown that implicit firm characteristics may help assuage negative consumer reactions. For example, Hess Jr et al. (2003) used a service failure in a restaurant context to demonstrate that firm reputation acts to buffer negative consumer responses to both mild and severe failures.

While past research has offered valuable insights into the benefits of CSR, few studies have directly investigated the impact of CSR in a failure context. A promising avenue of research (e.g. Godfrey 2005; Peloza 2005) proposes an insurance view of CSR, stating that the goodwill generated by corporate philanthropy will act as a form of insurance, ameliorating the negative impacts of stigmatizing events (Godfrey 2005; Peloza 2005), such as countering negative publicity during a crisis (Vanhamme and Grobben 2009). For example, Klein and Dawar (2004) investigated how CSR influences consumer reactions during a product-harm crisis, specifically using a product recall scenario as the experimental context. Klein and Dawar’s research provided evidence that CSR efforts may enhance perceptions of non-related brand characteristics and thus mitigate a portion of the negative outcomes experienced during the crisis. Apart from the idea of preserving brand value, previous studies have neglected to consider how CSR may alter
consumer reactions following a product or service failure. The present study aims to fill that gap, adding to both the marketing and CSR literatures by addressing CSR’s effects during failure scenarios.

BACKGROUND AND HYPOTHESES

Corporate Social Responsibility

The concept of CSR originated from early works suggesting that firms have an obligation to society above and beyond the profit motive (Bowen 1953). Modern definitions describe CSR as activities which extend past base-level legal and ethical institutional requirements (Carroll 1999). Using this as a framework, CSR typically manifests in a variety of activities such as philanthropic donations, progressive workplace practices, and pro-environmental initiatives.

While some scholars assert that firms provide social benefits because of ingrained altruistic motivations (Baron 2001), others contend that the highly competitive business landscape necessitates a strategic use of CSR for differentiation and stakeholder management (e.g. Harrison et al. 2010; McWilliams et al. 2006). This is evidenced by the increasing number of companies turning to the use of cause-related marketing (CRM), or the strategic linkage between promotion and social causes (Brionn and Vrioni 2001). Typically, CRM campaigns involve donating a percentage of profits or product sales to an attached non-profit (Mullen 1997). An example would be the well-known Yoplait campaign, in which General Mills pledges to donate $.10 per product sold to breast cancer research (Nan and Heo 2007).

The result is both a dual-positive outcome for both the non-profit and the firm. The non-profit receives additional support from corporate donations and the firm increases its brand reputation and generates additional sales from consumer desire to support socially-oriented
campaigns. In this sense, corporate philanthropy becomes an exchange relationship (Murray and Vogel 1997). A firm performs philanthropic activities with the hope that consumers will reward the firm with additional sales. Since positive consumer outcomes, in this instance, represent the terminal goal of CSR, an understanding of the link between CSR activities and firm value requires an understanding of both the cognitive and behavioral consumer responses to CSR.

**Consumer Reactions to Corporate Social Responsibility**

Macro-level researchers have sought to uncover a connection between CSR activities and firm performance, the results of which have been largely equivocal (Orlitzky et al. 2003). The lack of a clear positive impact on firm performance has pushed some authors to question the business case for engaging in CSR (Friedman 1970; Henderson 2001). It may be the case, as Murray and Vogel (1997) suggest, that CSR has few short-term financial benefits, but instead has a longer term impact on intangibles such as corporate goodwill or consumer relationships. Underscoring this, more recent research has turned to the consumer level when investigating the CSR-performance link. For example, Luo and Bhattacharya (2006) found that market value was partially predicted by customer satisfaction which in turn was affected by firm CSR activities. Another study concluded that purchasers of Fair Trade coffee are less price elastic, suggesting that consumers derive value from firm social activities (Arnot et al. 2006).

The preceding research highlights how CSR can augment the firm-consumer exchange relationship. More specifically, CSR may affect the attitudes and perceptions a consumer has regarding the target firm. When consumers engage in transactions with a particular brand, they automatically form attributions with respect to the brand’s perceived quality, value, and character. Thus, the quality of a firm’s brand is a cognitive construct made through the linkage
of various attributes in the mind of a firm’s consumers (Hoeffler and Keller 2002). On one hand, brand evaluations are created by consumers through judgments about services on specific dimensions such as product performance. On the other hand, brand evaluations regarding specific attributes may be influenced by evaluations of separate attributes. Klein (2004) and other authors refer to the transfer of positive brand evaluations to other characteristics as the “halo-effect.” For example, positive perceptions regarding characteristics in one area such as service quality may implicitly lead to more positive evaluations of a service in terms of reliability.

This effect is not restricted to attributions strictly at the product and service level. Researchers have established that unrelated positive firm characteristics, such as perceptions of a firm in relation to expected societal contributions, alter the perception of a brand (Brown and Dacin 1997). This is consistent with the assertion from Varadarajan and Menon (1988) who state that firms engage in philanthropic activities with an implicit goal of projecting a brand image that is favorable to their consumers. In the context of the market, a firm or brand is deemed either good or bad, in part, by an overall evaluation of its ethical conduct (Folkes and Kamins 1999). Thus, by engaging in CSR, a firm attempts to project a positive brand image by demonstrating that it is both concerned with and responsive to the needs of society (Ellen, Mohr, Webb 2001). This is supported by previous findings that CSR information led to higher firm and brand evaluations during normal operations (Marin and Ruiz 2007; Sen and Bhattacharya 2001) and after a product-harm crisis (Klein and Dawar 2004).

At the behavioral level, CSR activities were found to have an indirect effect on customer loyalty (Salmones et al. 2005). Patrons of firms engaging in CSR initiatives tended to rate the firm’s services more favorably which in turn enhanced loyalty to the firm. In addition, Murray and Vogel (1997) showed that customers were more likely to recommend a job application to a
friend if they were exposed to information regarding the firm’s CSR activities. In another vein, CSR activities relating to support for non-profits and adherence to ethical codes increased emotional attachment to and purchases from a firm (Lichtenstein et al. 2004).

While a considerable amount of literature has been focused on positive, action-oriented behaviors such as brand selection (Peloza and Shang 2011), another stream of research suggests that CSR serves as a buffering mechanism against unwanted outcomes. Godfrey (2005) proposed that firms which engage in philanthropic activities accrue a form of “moral capital” which becomes attached to the brand’s overall global reputation and functions as a form of relational wealth. After a negative event, consumers evaluate the negative intentions behind the act and “stakeholders invoke [a] cognitive template... to help determine appropriate sanctions” (Godfrey 2005). Under the insurance view, moral capital acts as a positive reservoir of goodwill and provides evidence that the firm has acted positively on the customers’ behalf (Godfrey 2005). In line with this reasoning, Eisingerich et al. (2011) found that firm CSR caused consumers to be more resistant to negative information regarding the firm. However, this effect was diminished when consumers had greater levels of prior experience with the service provider. Thus, when a negative event occurs, a socially committed firm can be partially protected from value loss. In the present study, we argue that this protection will manifest itself in the form of reduced negative consumer responses following and service failure. To test this argument, we use revenge seeking behavior in the form of spreading negative word of mouth (NWOM). Formally, we hypothesize:

**H1: Consumers will be less likely to spread negative word of mouth following a service failure when a firm engages in CSR.**
Individual Values and CSR

The preceding arguments reference broad outcomes of firm social activities without accounting for individual differences among consumers. While many studies note a net benefit from CSR across aggregate respondents, previous research suggests that CSR activities may be more likely to have a beneficial effect if they match a consumer’s values (Golob et al. 2008). Since personal values are individual beliefs about what is desirable (Hitlin and Piliavin 2004) and mental representations of underlying needs (Lai 1995), consumers may be driven to support efforts by corporations that, by extension, are in alignment with their underlying value framework (Basil and Weber 2006; Siltaoja 2006). Sen and Bhattacharya (2001) detail a model of organizational identity to account for this effect. As individuals interact with organizations they become informed about the characteristics of an organization’s identity and values and may even incorporate elements of a firm’s identity into their own self-identity for consistency. Consumers who have a larger degree of support for the specific CSR area a firm is committed to may perceive a greater degree of alignment between themselves and the firm. Efforts to maintain a consistent self-image could then lead consumers to select and support organizations with the highest degrees of perceived value congruence.

As evidenced in Sen and Bhattacharya (2001), the effect of CSR information on firm evaluation was most salient among consumers who had stronger personal values regarding CSR. Similarly, products with attached pro-social attributes such as animal welfare were deemed more desirable by consumers who were more concerned with ethical issues (Shaw et al. 2005), and subjects with higher support for a CSR domain reported higher levels of purchase intent (Mohr and Webb 2005).
With regards to the present study, we expect a reduction in the revenge seeking behavior of NWOM to be most likely among consumers whose value systems reflect a high level of alignment with respect to the CSR initiative identified. Thus we arrive at the following hypothesis:

\[ H2: \text{CSR activities and environmental concern will interact such that, following a service failure, (environmental) CSR activities will lead to the largest reduction in NWOM among consumers who score high on trait environmental concern.} \]

**Anger as a Mediating Process**

Assuming the predicted interaction is observed, it raises the question, what psychological mechanism might mediate the value-aligned customers’ reduced NWOM in response to CSR? One likely candidate is reduced anger. This follows from cognitive dissonance theory (Festinger 1957) which assumes people have a need to maintain consistency between their various cognitions, and between their cognitions and behavior. When either of these are in conflict, such as when there is a discrepancy between closely-held values and behaviors, people experience negative affective states such as nervousness, discomfort, uneasiness (Harmon-Jones 2000a) and anger (Harmon-Jones 2000b). For instance, when a consumer purchases a service, he or she has already formulated some degree of expectations for performance and quality (Yi and La 2004). If the purchased goods do not meet expectations, consumers may experience negative affective states, because their behavior (buying the service) is inconsistent with their (negative) evaluation of the service, producing dissonance (Buttle 1998).
More relevant to the current paper, the intensity of the experienced negative affective state in response to a service failure may be mitigated depending on the value overlap between the consumer and the firm. For example, research shows that consumers with high regard for a particular type of CSR activity develop a greater degree of trust with a firm that purports to engage in a value-aligned CSR activity (Castaldo et al. 2009). Following this, Yi and La (2004) found that consumers who had more confidence and trust in the integrity of the brand were more likely to define a failure as a temporary occurrence thereby reducing cognitive dissonance and presumably anger. Therefore, we expect that when consumers high in trait environmental concern experience a service failure with a firm but are also informed that the firm engages in environmentally friendly CSR activities, they are likely to feel dissonance if they attempt to hold both negative and positive views of the firm simultaneously. Given that the more negative views may be more transient, it seems likely that such consumers would prefer to maintain their generally positive view of the firm that engages in valued CSR activities, resulting in a reduction in anger.

When cognitive dissonance is experienced, it may lead an individual to adopt a dissonance-reduction strategy in an effort to correct the contradictory mental state (Elliot and Devine 1994). Given that a product or service failure may lead to the spread of NWOM (Weun et al. 2004), authors have noted that this may be a result of a consumer’s attempt to achieve consonance (Cheng et al. 2006; Lindberg-Repo 1999). When a consumer vents frustrations through negative communication they are reducing dissonance related anxiety. Thus, negative word of mouth is a terminal behavior which manifests as the end result of a series of cognitive and emotional consumer processes.
(Blodgett et al. 1993). Utilizing this model, we expect that consumers who are exposed to a service failure will experience a negative affective state. In turn, we expect the intensity of the affective state to affect the likelihood of engaging in NWOM. However, we also expect that those high (but not low) in trait environmental concern will be less likely to experience that anger when they learn a firm engages in CSR. Thus, the preceding arguments lead to the following two hypotheses:

**H3:** CSR activities and environmental concern will interact such that, following a service failure, (environmental) CSR activities will lead to the largest reduction in anger among consumers who score high on trait environmental concern.

**H3:** Following service failure, anger will mediate the hypothesized interaction between CSR and TEC.

**OVERVIEW OF STUDIES**

To test our hypotheses, we conducted two studies. In both studies, participants imagined a service failure in a local coffee shop. This scenario was selected because restaurants and similar environments have been prominently used in the service failure literature (e.g. Hess Jr 2008). In study 1, participants were exposed to one of three scenarios which manipulated the percentage amount of profits that the coffee shop donates to charity. To test our key interaction hypotheses, trait concern for the environment and anger were measured as a moderator.

In Study 2, we build upon the first study in two ways: First, we test the hypothesis that CSR’s effect on anger and NWOM is driven by an underlying perception of value overlap. Second, to add a practical component to our research, we test whether perceived value overlap is influenced by the manner in which a firm distributes charitable donations. To do this we use two
conditions: a control condition where no CSR information is provided and an experimental condition where the hypothetical coffee shop surveys customers and agrees to disperse charitable donations based on consumer CSR preferences.

STUDY 1

Method

Participants were drawn from upper division business courses at a large state university in the western U.S. (N = 142) and Amazon’s MTurk service (N = 198), resulting in a final sample of 340 (45.3% male, 83.5% Caucasian, median age = 30). In exchange for participating, students were entered into a drawing for one of three $10 gift cards and online participants were paid $1 for completing the survey.

MTurk is a crowd-sourced labor market where individuals and organizations can post jobs (referred to as Hits) which individual workers complete and submit electronically. Preliminary research has demonstrated that participants sourced from Mturk exhibit very similar behavior and decision processes compared to more traditional participant pools (Buhrmester et al. 2011; Paolacci et al. 2010). We restricted participant to individuals in the United States, as prior studies have determined that expectations of CSR may vary across countries (e.g. Matten and Moon 2008), and cross-country effects are outside the scope of this paper.

All participants were asked to read a purchasing scenario involving a local coffee shop and were then given additional information based on one of three conditions. In the low and high CSR conditions, participants were told the café donates either 2% or 15% of its profits to charitable causes respectively. The control condition received no information beyond the initial
purchase description. Following this, all participants were exposed to a service failure including an inordinately long wait time and an incorrect drink order. After the presentation of information, participants were asked a series of questions relating to their perceptions of the store’s commitment to the environment, their feelings of anger ($\alpha = .89$) and desire to engage in negative word of mouth (NWOM) ($\alpha = .94$). All questions were measured using a 7-point likert scale (see appendix B for a list of scale items). Next, participants completed the 16-item revised New Environmental Paradigm scale (Dunlap et al. 2000). The revised NEP scale and its original version have been widely used to measure people’s degree of pro-ecological orientation. Two sample items include: “If things continue on their present course, we will soon experience a major ecological catastrophe” and “Humans are severely abusing the environment.” The items on the NEP were captured using a 5-point likert scale: 1 = strongly disagree, 5 = agree, (current study $\alpha = .84$).

**Results**

*Manipulation check.* To ascertain the effectiveness of our CSR manipulation, we asked for participants’ perception of the firm’s commitment to the environment (Appendix B). A one-way ANOVA indicated a significant effect of CSR condition on perceptions of environmental commitment, $F(2, 337) = 54.45, p < .001$. Post-hoc comparisons using the Tukey’s Honestly Significant Difference test revealed significant differences ($p < .05$) between the control ($M = 3.99$), low CSR ($M = 4.83$), and high CSR conditions ($M = 5.60$). This suggests that both the provision of CSR information and the level of CSR activity influence consumers’ opinions regarding a firm’s environmental commitment, thus providing evidence of the efficacy of our manipulation.
*NWOM as a function of TEC and CSR.* To test H1 and H2, we conducted a two-step multiple regression analysis. On step 1, we entered mean deviated TEC, and helmert contrast codes to test for the effect of CSR (contrast 1 = control vs. CSR; contrast 2 = low vs. high levels of CSR). On step 2, we entered the interaction terms between TEC and the two CSR contrast codes. In the event of a significant interaction, we conducted simple slope analyses testing the effect of the relevant CSR contrast at low (-1SD) and high (+1SD) levels of TEC. Results for the global analysis are shown in Table 1. Preliminary regression analyses on NWOM and anger indicated that sample (student vs. MTurk) did not have a main effect and did not enter into any higher order interactions (p’s > .22). In addition, the conclusions reached in the text were not altered by entering sample or its interactions in the models. Thus, we dropped sample from the model and focused on our primary predictor variables (CSR contrasts, TEC and their interactions).

The results indicate no significant main effect of CSR on NWOM (i.e., neither of the CSR contrast codes was significant). However, the interaction between TEC and the first CSR contrast code (control vs. CSR) was significant. This interaction is shown in Figure 1. Follow-up simple slope analyses were consistent with H2: CSR had no effect on NWOM at low levels of TEC, $t(319) = .76, p = .45$, but reduced NWOM at high levels of TEC, $t(319) = -1.94, p = .053$. As such, results supported our theorizing that CSR would only lead to a reduction in NWOM when consumers held values consistent with the CSR effort. Results also suggest that the level of CSR has no significant effect.
Note. N = 323. Coding for Con 1 (Control = -2, Low CSR = 1, High CSR = 1) and Con 2 (No CSR = 0, Low CSR = -1, High CSR = 1). TEC = trait environmental concern. NWOM = negative word of mouth.

Table 2.1
Results of the Regression Analyses for Study 1

<table>
<thead>
<tr>
<th>Step 1</th>
<th>NWOM</th>
<th>ANGER</th>
<th>NWOM with Mediator</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>t</td>
<td>p</td>
</tr>
<tr>
<td>No CSR vs. CSR (Con 1)</td>
<td>-0.04</td>
<td>-0.80</td>
<td>0.426</td>
</tr>
<tr>
<td>Low vs. High CSR (Con 2)</td>
<td>0.06</td>
<td>1.05</td>
<td>0.293</td>
</tr>
<tr>
<td>TECdev</td>
<td>-0.27</td>
<td>-5.04</td>
<td>0.001</td>
</tr>
<tr>
<td>Step 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Con 1 X TEC</td>
<td>-0.11</td>
<td>-1.99</td>
<td>0.048</td>
</tr>
<tr>
<td>Con 2 X TEC</td>
<td>-0.08</td>
<td>-1.41</td>
<td>0.158</td>
</tr>
<tr>
<td>Anger</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anger x TEC</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Anger as a Mediator of the CSR x TEC Interaction. We also hypothesized that anger would mediate the CSR x TEC interaction on NWOM. To test for this mediated moderation effect, we employed the analytical technique suggested by Muller et al. (2005). According to their guidelines, to establish mediated moderation, the treatment and moderator should produce a significant interaction on both the primary dependent variable and the proposed mediator. Our previous analysis demonstrated a significant CSR by TEC interaction on NWOM. To test whether a similar pattern emerged on anger, we conducted the same two-step hierarchical regression analysis treating anger as the dependent variable. On step 1, results for the first CSR contrast revealed that CSR significantly reduced anger (relative to the control condition). More importantly, on step 2, results revealed a significant CSR (contrast 1) x TEC interaction. As shown in Figure 2 the pattern of this interaction replicated the pattern on NWOM. Consistent with our earlier strategy, we next tested the simple effect of CSR at low and high levels of TEC.
Replicating our findings on NWOM, results revealed that CSR did not significantly reduce NWOM among individuals low in TEC, $t(321) = -0.80$, $p = .43$, but did significantly reduce NWOM among those high in TEC, $t(321) = -4.16$, $p < .001$. In sum, results supported the prediction that consumers experience less anger following a service failure when a firm engages in CSR activities that the consumer values, and results met the first requirement for mediated moderation specified by Muller and colleagues.

Next, following Muller et al. (2005), we evaluated whether the primary (CSR x TEC) interaction on NWOM was reduced to non-significance once anger and the anger x TEC interaction were entered into the model; according to Muller et al., at least one of the two latter predictors must be significant in this model to establish mediated moderation. As can be seen in Table 1, these conditions were met. The previously significant CSR x TEC interaction on NWOM was no longer significant once anger and the anger x TEC interaction were entered into the model, while anger (the presumed mediator) was significant in this analysis.

Figure 2
Anger as a Function of CSR Condition and Trait Environmental Concern
Discussion

We sought to test our hypotheses within a service failure context using a common failure scenario. We found that consumers high in concern for the environment showed a significantly reduced desire to spread NWOM after learning a firm engaged in (environmental) CSR activities, whereas those low in TEC did not. We also tested whether the effect of CSR varied as a function of the level of the CSR activity. Here, results indicated no significant effect for the level of CSR. Further, we tested whether anger would mediate the TEC x CSR interaction. Results from our mediated moderation analysis supported that hypothesis, providing support for our assertion that the reduction in NWOM among value-aligned customers exposed to a firm’s CSR activities is due to a reduction in anger following the service failure.

While the results from Study 1 are encouraging, from a practical perspective, the application may be rather limited. The study utilizes a specific CSR area (the environment) which in turn may only influence a narrow selection of consumers. Given the diversity of value systems people may adopt, consumers may be more apt to respond to initiatives such as human rights campaigns or contributions to healthcare research. To answer the question regarding what a firm can do in order to maximize value alignment among a broader set of consumers, Study 2 introduces a scenario where consumers are asked about their CSR preferences and the firm indicates it will donate money in proportion to the responses. The assumption is made that when a firm expresses an intention to conform to its customer’s social preferences, it will engender greater feelings of value-alignment. To test this assertion, Study 2 builds upon Study 1 by directly measuring perceived value alignment in addition to anger and NWOM.
STUDY 2

Method

Participants recruited from MTurk participated in the brief survey in exchange for $1 (N = 142; 79.6% Caucasian, 62% male, median age = 30). All participants read a core purchasing scenario which varied based on one of two conditions. In the CSR condition, participants were presented with a situation in which a local coffee shop surveyed customer with regards to their preference for corporate charitable donations. Then the firm indicated it would donate 15% of profits to charity with amounts distributed among charitable causes based on the survey results. The control condition contained no additional information. Two distractor items were included following the core scenario and CSR information to help mitigate any priming effects (see Appendix C for scenario descriptions). Following the distractor items all participants were exposed to a service failure where a drink order was prepared incorrectly and the wait time was undesirably long. Participants then completed a 3-item perceived value overlap scale (alpha = .78) which asked participants to rate the extent to which they felt the firm shares the values and is concerned about the opinions of its customers, and to indicate graphically their perceived value overlap by selecting among two circles of varying distances (Schubert and Otten 2002), (note: item 3 was converted from an 8 to a 7 point scale prior to analysis for consistency). Participants also completed the 3-item anger (alpha = .92), and 3-item negative word of mouth scale (alpha = .95). Appendix B lists all scale items.

Results
A two-level ANOVA revealed a significant effect on perceived value overlap, \( F(1, 140) = 40.27, p < .001, \eta^2 = .223 \); anger, \( F(1, 140) = 31.74, p < .001, \eta^2 = .185 \), and NWOM, \( F(1, 140) = 8.09, p < .01, \eta^2 = .054 \). Figure 3 displays the resulting means for value overlap, anger and NWOM for both the control and CSR groups. As can be seen in figure 3, perceived value overlap was significantly higher and anger and NWOM were significantly lower in the CSR survey condition.

![Figure 3: Variable means as a function of group (Study 2)](image)

To further explore the data we fitted a structural equation model using AMOS 20 and maximum likelihood estimation. The resulting indices show acceptable model fit (NFI = .945; CFI = .975; RMSEA = .074) and all paths analyzed produced significant coefficients (\( p < .001 \)). As before, higher levels of anger were associated with a greater likelihood of engaging in NWOM (standardized coefficient = .63). However, and in line with our theorizing, surveying customers regarding their CSR preferences had a significant positive effect on perceived value overlap (standardized coefficient = -.46) which in turn significantly reduced consumer anger.
(standardized coefficient = -.46). In sum, surveying customers about their CSR preferences, and allocating the firm’s CSR donations according to those preferences enhanced perceived value overlap, reduced anger, and reduced NWOM as a result. The model is indicated graphically in Figure 4.

**Figure 4: Structural Equation Model for Study 2**

| Model Fit: NFI = .945, CFI = .975, RMSEA = .074 |
| *** p < .001 |

**Discussion**

The results of Study 2 reinforce and expand upon the results of Study 1 in several ways. To begin, we sought to test the broader effect of CSR by replacing the environmental CSR context in Study 1 with a dynamic set of CSR activities where consumers were given the choice in how charitable donations were spent. Our reasoning states that the reduction in NWOM is driven by the resulting perception of congruence between a consumer’s and firm’s values. Results support this conclusion given that when participants were afforded the choice of CSR activities, perceived value overlap was significantly higher than in the non-CSR condition. In turn, the reported level of anger following a service failure was significantly lower among participants who indicated a greater level of value overlap. And, consistent with Study 1, we found that consumers who reported greater levels of anger following a failure were in turn more likely to engage in NWOM.
GENERAL DISCUSSION

Research Contribution

Previous research has not investigated the impact of CSR on consumer reactions following service failures. To address this gap, we utilized two service failure scenarios to determine how consumer behavior may be affected post-failure by firm-level CSR activities.

The findings lend support for and extend the insurance view of CSR (Godfrey 2005). While previous research has indicated that, in some cases, CSR creates protection against financial loss following a negative event (Hess Jr et al. 2003; Klein and Dawar 2004), the consumer-level mechanisms that account for this effect are relatively unexplored. To account for this, we offer a reduction in negative consumer reactions following failure as a potential explanation. Both studies provide evidence that, following failure, consumers expressed a lower desire to spread NWOM when a firm engaged in CSR. However, an important caveat is that the reduction occurred only among those who perceived a higher level of value-overlap between themselves and the firm. This was accounted for indirectly in Study 1 by pairing environmental values with an environmentally focused firm activity, and manipulated directly in Study 2 via a questionnaire.

Our research goes beyond the generic argument that CSR acts as insurance against failure by helping a firm to first develop a reservoir of goodwill and a superior corporate reputation. Instead, our research clarifies the insurance view by asking among whom do these particular
benefits accrue? Since consumers are characterized by a variety of values, it is intuitive to assume that not all consumers will respond to CSR in the same manner. While some may be particularly sensitive to concerns such as the environment, others may be more heavily influenced by contributions to education or healthcare. Therefore, insurance against failure among one segment of the population may not transfer equally to another segment and vice versa. This positions CSR less as a general action meant to appeal to a broad population and more as a targeted activity done in accordance with the value systems of a firm’s particular consumers. This reasoning may also provide insight as to why many previous studies have produced contradictory results when investigating whether CSR produces an effect on financial returns (Orlitzky et al. 2003). Given the heterogeneous characteristics of a population, it may be difficult or perhaps impossible to produce a measure that accurately captures the effects of CSR at an aggregate level.

Managerial Implications

The current results have two distinct implications for management. First, while the return on investment for engaging in CSR activities is not always clear (Orlitzky et al. 2003), our research shows that CSR can provide an insurance effect in certain instances. Given that the heterogeneous nature of service delivery makes failure all but inevitable (Folkes 1984), this research becomes especially pertinent for firms wishing to mitigate deleterious effects of failure.

Study 1 indicates that even modest spending (2% of profits) on CSR can provide an insurance against NWOM in the case of service failure. This is particularly salient in the U.S. and in other developed countries where services are becoming a greater portion of the overall economic activity.
Secondly, while organizations might use social donations in an attempt to influence the greatest amount of consumers, the difficulty lies in determining the underlying values of a specific group of customers. For example, it may be that some customers will react favorably to a company that contributes money to help wounded veterans or help promote cancer awareness, while others might prefer money contributed towards the environment. Given the multitude of values in a population, it may be difficult to craft a single CSR activity which is appealing to a majority of consumers.

To address this challenge, Study 2 builds on Study 1 by showing that it may be possible to promote greater perceived value alignment by building flexibility into CSR policies (I.E., basing allocations on customers’ stated preferences). Consider the donation structure instituted by ableBanking, an online financial firm. It pledges to donate $25 to charity for each new account opened and consumers can select the donation recipient. This builds flexibility into its CSR program and, can encourage ‘collective giving’ where multiple supporters of a single charity may be attracted to the firm in order to maximize the donations that charity receives. With regards to the present study, surveying consumers about CSR preferences and donating in proportion to the survey results directly increased feelings of value overlap which in turn reduced the intention to engage in NWOM. These results suggest that organizations should craft social policies which promote the greatest feelings of value alignment. This research indicates a choice-based method of charitable donations may be a valuable tool in achieving this end.
Limitations and Future Directions

We recognize that the current work is not without limitations and we believe there are many future avenues for research concerning CSR spending and its insurance effect and which would yield valuable theoretical and practical implications.

Both studies focused on a common but arguably innocuous service failure where a participant’s drink order was delayed and incorrect. It may be the case that the cost of the service and the severity of the failure will have an effect on consumer reactions. A failure with an expensive service would most likely be more than a temporary annoyance and therefore may not enjoy the same kind of insurance against NWOM. For example, an airline leaving a customer stranded for multiple days may generate NWOM despite the airline spending a significant amount on CSR. In this case an airline ticket represents a greater financial commitment on behalf of the consumer and the failure is particularly egregious. Future research could investigate the insurance value of CSR with services across multiple price points.

For model simplicity, participants in both studies were restricted to residents of the United States. Since CSR is not an objective phenomenon but rather a subjective interpretation of how a business should interact with society, country-level variables may serve to augment the effects detailed in this paper. A rich body of knowledge is being developed which underscores factors such as national legacies and system of government that alter what people perceive to be
CSR (Gjølberg 2009). Future studies could replicate this research across multiple populations in order to test its robustness to cultural and institutional effects.

This paper also does not account for competitor characteristics with regards to CSR. For example, if a similar firm exhibits comparable CSR spending, the effects of CSR might be less pronounced. Further, as CSR spending in an industry becomes commonplace consumers may develop an expectation for firm social involvement. In this environment, CSR would cease being a value added experience and instead become simply a cost of doing business thereby nullifying any insurance benefits CSR might provide. Alternatively, if close competitors or an industry do not exhibit similar CSR spending, the insurance effect of CSR spending for the focal organization may be even more pronounced. Future models could include competitive intensity and industry characteristics in order to ascertain their effects on service failures.
References


Fair Trade USA (2010), "2010 Almanac," Fair Trade USA.


Giving USA (2011), "Giving USA," Giving USA Foundation.


Muller, Dominique, Charles M. Judd and Vincent Y. Yzerbyt (2005), "When moderation is mediated and mediation is moderated," *Journal of Personality and Social Psychology; Journal of Personality and Social Psychology*, 89 (6), 852.


Peloza, John (2005), "Corporate social responsibility as reputation insurance," in *2nd annual corporate social performance conference*. Haas School of Business, University of California, Berkeley.


Vanhame, Joëlle and Bas Grobben (2009), "“Too good to be true!”. The effectiveness of CSR history in countering negative publicity," *Journal of Business Ethics*, 85, 273-83.


CHAPTER THREE

PAPER THREE

The Best of Both Worlds: The role of financial returns in social opportunity selection

Abstract

Intrinsic to entrepreneurship is the evaluation and selection of opportunities. Yet, in the realm of social entrepreneurship little is known about this process beyond the conceptual level. On one hand, social entrepreneurs may be driven to select opportunities based upon perceptions of future social value generation while on the other hand, pragmatic concerns of financial viability may lead social entrepreneurs to pursue more commercially oriented ventures. This paper investigates how social entrepreneurs value these two factors when selecting a particular opportunity to pursue. Utilizing a conjoint methodology this paper finds three attributes of social opportunities which significantly influence potential opportunity ratings; namely, proximity, pervasiveness, and impact. A significant interaction between financial returns and pervasiveness but not proximity and impact suggests SEs are conscious of economic concerns and will select opportunities that satisfy both conditions but only in certain instances. The paper concludes that the relationship between social and financial value creation is more complex than previously thought. Implications and future directions for research are discussed.
INTRODUCTION

Social Entrepreneurship, or entrepreneurial activities with prominent social goals, has generated considerable scholarly interest in recent years (Dacin, Dacin, & Matear, 2010). Like their commercial counterparts, social entrepreneurs identify untapped opportunities and marshal resources (many times outside of their current resource stocks) to exploit these opportunities. Unlike commercial entrepreneurship which is concerned with opportunities resulting from “situations in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends or means-ends relationships” (Eckhardt & Shane, 2003, p. 57), and whose focus is primarily on monetary returns, social entrepreneurs innovate and establish business models to correct social issues (Seelos & Mair, 2005) such as hunger, poverty, and inadequate access to healthcare. To the social entrepreneur, an opportunity is a chance to create social rather than economic value.

Implicit in the opportunity exploitation process is the notion that an entrepreneur must first decide (among a pool of available options) which opportunity to exploit. Much research has been conducted in the commercial realm to uncover attributes of opportunities which are favorable and lend themselves to pursuit by entrepreneurs (e.g. Choi & Shepherd, 2004; Shane & Venkataraman, 2000a). However, research is still largely unaware of the aspects of social opportunities which encourage exploitation by SEs.

In another sense, an opportunity is composed of various characteristics (I.E. the number of potential customers to be served, individual knowledge of the area etc.), and it is the mixture of these attributes that lend it to being identified as viable. The influence of opportunity attributes on entrepreneurial processes is an important point to consider. Specifically, the decision to
pursue opportunity ‘A’ over opportunity ‘B’ has been argued to be a critical element in our understanding of entrepreneurship (Choi & Shepherd, 2004). However, research has concluded that, by their very nature, value generating opportunities are rare, and the ability to identify them is, by itself, a valuable resource (Alvarez & Busenitz, 2001). Such is not the case in social entrepreneurship. Social opportunities are abundant and ‘often far outstrip the resources available to address them’ (Austin, Stevenson, & Wei Skillern, 2006, p. 7). This paper argues that due to the plethora of social issues, the crux of social entrepreneurship is not on the identification process but rather on the selection process. Thus, understanding how SEs select rather than identify viable opportunities is paramount to advancing our understanding of social entrepreneurship.

Specifically, this paper focuses on how SEs weight both social and economic concerns when selecting which opportunities to pursue. While researchers accept the notion that financial returns are a necessary component to social entrepreneurship, others portray social entrepreneurs in a more idealized light. To them, social entrepreneurs are agents of change, driven by bold visions (Dees, 1998), forged with “unshakable optimism” (Light, 2009), to whom financial returns are only a “means to an end” (Dees, 1998). These conceptualizations are not necessarily incorrect as many typologies of SEs contain an underlying value-driven component to varying degrees (Dorado, 2006; Thompson, Alvy, & Lees, 2000). However, these conceptualizations may serve to bias research towards a more “heroic” interpretation of the social entrepreneur (Dacin, Dacin, & Tracey, 2011). Indeed, some interpretations place the phenomenon squarely in the not-for-profit realm, distinguished only from other NGOs by their application of commercial business practices (Reis, Clohesy, & WK Kellogg Foundation, 1999).
Biased characterizations such as this are troubling because they serve to marginalize the role that economic gains play in the social entrepreneurship process. The result, as Dacin (2011) argues, is a bias when studying the potential motivation and missions of individual SEs. It forces researchers to adopt the notion that social entrepreneurs are largely altruistic, unfettered by monetary concerns (Roberts & Woods, 2005). We know that this is not the case. Heterogeneity exists among individuals resulting in various levels of commitment and zeal towards bringing about social change (Tan, Williams, & Tan, 2005); the result being that, while SEs may work to engender social improvements in their communities and abroad, not all may have the same attitude towards economic gains.

This potential marginalization of financial objectives interferes with researchers’ abilities to draw meaningful comparisons among SEs based on individual differences. Further still, it may reduce our capacity to determine what characteristics of a social externality lead it to be recognized as a viable opportunity by a social entrepreneur; an important point to consider being that the recognition and exploitation of untapped opportunities rests as the cornerstone of entrepreneurship research (Venkataraman, 1997).

This paper has a number of objectives. First, it seeks to determine to what extent are these heroic conceptions of social entrepreneurs accurate. Do social entrepreneurs push forward and attempt to correct social injustices while eschewing the profit motive? Or are they more pragmatic and strike a distinct balance between the two forms of wealth creation. Empirical research is largely silent in this area. While the role of financial returns has been theorized in a host of conceptual articles (e.g. Mair & Marti, 2006; Mort, Weerawardena, & Carnegie, 2003), the effect of potential financial returns on social entrepreneurial decision processes has yet to be
formally tested. To explore these areas, the paper pulls from recent literature and utilizes a conjoint analytic methodology to test the importance of three key social opportunity attributes: specifically, proximity, pervasiveness, and impact. Potential financial returns are included to assess how returns are weighted alongside social characteristics.

The rest of the paper is organized as follows: a brief review of social entrepreneurship is conducted in order to provide necessary background information. Next, potential attributes of social opportunities are proposed which would lend them to being considered attractive to SEs; from these attributes specific hypotheses are developed. Finally, a conjoint analysis is conducted as a method for uncovering a SE’s decision criteria. The paper concludes with a discussion of the research design and potential future research.

OVERVIEW

Conceptualizations of social entrepreneurship range from broad to narrow. In the former category, SE is defined as innovative, social value creating activities that can occur within or across the non-profit, business, or government sectors (Dees, 1998). Narrower definitions place it within the realm of corporate entrepreneurship with the social mission being attached to a broader strategy (Mort, et al., 2003).

Although creating an exact definitional construct of social entrepreneur is still somewhat problematic (Peredo & McLean, 2006), some consistent themes have been developed. For example, social entrepreneurship has been studied as a way for dealing with complex social needs (Johnson, 2000). It is a method with which entrepreneurs deliver community services by applying for-profit techniques (Peredo & McLean, 2006), and in cases where the business is run
as a for-profit enterprise, economic considerations are subsumed by the social goal (Dees, 1998). Further conceptualizations by Peredo (2006) describe social entrepreneurship along a continuum with one extreme occupied by non-profit organizations whose goals are entirely social. At this end, the organization operates with the express purpose of enacting social change and does not engage in profit seeking behavior. The middle of the continuum is occupied by firms operating with a dual focus. An example is Ben and Jerry’s, a confectioner with a strong commitment to social initiatives and also to more traditional economic viability (Stephens, 2003). Finally, at the other extreme are businesses which chiefly engage in commercial exchanges but social causes play a material part in organizational operations. However, in most instances a social entrepreneurial firm acts with a dual identity (Moss, Short, Payne, & Lumpkin, 2010), concentrating on delivering both social and economic value. Thus, it is the mission of the social entrepreneurial enterprise that serves as its defining characteristic (Austin, et al., 2006).

Many similarities exist between social and commercial entrepreneurship (Austin, et al., 2006), leading some to describe SEs as ‘one genus of the species entrepreneur’ (Dees, 1998). Traditional entrepreneurship is classically studied as a linking of opportunities with individuals (Stephens, 2003). Studies have focused on the discovery of novel, untapped opportunities (Shane & Venkataraman, 2000b), and the mobilization and organization of resources to exploit these opportunities in the hope of creating economic value. More myopic definitions typically focus on starting and running a small business. While technically correct, however, entrepreneurship as an academic field more importantly encompasses any undertaking in which the entrepreneur usually has to shoulder a certain degree of risk and make profits in the face of that risk (Tan, Williams, Tan, Economics, & Sciences, 2003). The same characteristics apply to social entrepreneurship in
that an emerging social entrepreneur has recognized a failure or inefficiency in the market to provide a sought after social product (Austin, et al., 2006) and then organizes the resources and capabilities necessary to exploit that opportunity, while opening themselves up to the risk of loss.

While there are many similarities in processes, the nature of social opportunities is different. Social entrepreneurs follow similar patterns of opportunity recognition and exploitation (Corner & Ho, 2010), yet the end goal is that of creating social value. Therefore, it is proposed that the varying characteristics of social opportunities, much like their commercial counterparts, will drive the opportunity selection process.

The Nature of Social Opportunities

The process of opportunity recognition and exploitation remains a key focus for entrepreneurship research (Shane & Venkataraman, 2000b; Venkataraman, 1997). For commercial entrepreneurs an opportunity represents a potential source of commercial value creation. Conversely, a social opportunity represents the potential to provide social wealth. Whereas commercial opportunities may surface due to commercial market failure, social opportunities are created from social market failure; for instance, the failure of a public good to meet the needs of various stakeholders. In many cases these needs are created by consumer’s inability to pay for services (Austin, et al., 2006). Examples include inadequate health care coverage for impoverished people, lack of access to sufficient educational services, or poor and non-existent housing. Thus the focus shifts from what potential wealth can be created to what social need can be addressed.
Consider, for instance, the case of Grameen Bank. Grameen Bank was founded by Muhammad Yunus in 1976 as a means to provide micro-loans to impoverished people in Bangladesh. Yunus recognized the opportunity for social improvement by providing small amounts of startup capital to people whose only option at the time was uncertain and risky predatory loans. By 2007, the bank had grown to over 24,000 employees and had provided billions worth of loans to disadvantaged people (Bornstein, 1996).

Contained within entrepreneurship is a process wherein an entrepreneur identifies a potential opportunity and exploits that opportunity by developing the necessary infrastructure and creating a new venture (Ardichvili, Cardozo, & Ray, 2003). Implicit in this process is the necessary step of opportunity evaluation and selection (Haynie, Shepherd, & McMullen, 2009). An entrepreneur is confronted with a choice set of potential opportunities; the entrepreneur evaluates the potential choices based upon a set of decision criteria, and selects the opportunity that presents itself as more attractive to the entrepreneur. For instance, Haynie et al (2009), among other things, showed that the attractiveness of an opportunity is due in part to the potential future resource generation capability of that opportunity. An entrepreneur would be more likely to select opportunity X over opportunity Y if he or she determined that opportunity X had the greatest potential for future gains.

The availability of opportunities has a potential important impact on the selection process. The literature suggests that availability of commercial and social opportunities in a given market are quite different. Commercial opportunities are understood to be rare, knowledge dependent (Shane, 1999), and recognized by individuals with certain attributes (Kirzner, 1979). Due to the premium nature of viable commercial opportunities, it makes sense that a great deal of research
has focused the cognitive characteristics of entrepreneurs and the processes they follow to identify opportunities (e.g. Hills, Lumpkin, & Singh, 1997; Krueger & Brazeal, 1994). In contrast, social opportunities are much more abundant. A social entrepreneur may be presented with a seemingly endless array of opportunities to fight poverty, counteract homelessness, and address inadequate health care (Haugh, 2005). Stressing this point, Austin et al (2006), states: “Unlike in the commercial sector in which unexploited, profitable, high-growth opportunities are relatively hard to capture, in the social sector, social needs, and hence opportunities for social entrepreneurs, often far outstrip the resources available to address them” (p.7). Thus, while Haynie (2009) argues that opportunity evaluation and selection is an important piece in understanding commercial entrepreneurship; because social opportunities are abundant and the means to pursue them are limited, how SEs evaluate and select an opportunity becomes an even more crucial factor in our understanding of social entrepreneurship. The following section discusses attributes of social opportunities and their relationship to selection.

**Attributes, Levels, and Hypotheses**

Zahra et al 2009 proposed that social entrepreneurial opportunities are evaluated with regards to the economic and social benefits that they potentially can accrue. Thus, referencing the “total wealth” generated by an opportunity as a method of accounting for decisions undertaken by a socially motivated, commercial venture which elicit tangible outcomes (financial returns, products developed) and intangible outcomes (increases in well-being etc.). To them, attractive options are ones that maximize total wealth with regards to the following equation:

\[ TW = EV + SV - (EC + OC + SC) \]
In this framework, total wealth (TW) is a function of both the economic value (EV) and social value (SV) produced by a course of action while subtracting the economic costs (EC), opportunity costs (OC) and social costs (SC) incurred through the exploitation of the selected opportunity.

While this framework is useful at a conceptual level, it is hindered by the inherent non-quantifiability of social actions. While the potential benefit of economic opportunities can be easily converted into monetary terms, no similar metric exists for ascertaining the expected value of a social activity (Harding, 2004). What factors then would influence opportunity selection by social entrepreneurs?

Social Identity Theory (SIT) provides an excellent framework for uncovering attributes of social opportunities that may be attractive to social entrepreneurs. Social identity theory (Haslam, Powell, & Turner, 2000; Turner & Oakes, 1986) is concerned with how individuals categorize themselves into groups. For instance, individuals can perceive membership in a certain group based on personal attributes such as age, gender, culture etc. (Ashforth & Mael, 1989), or on environmental characteristics such as belonging to a particular organization (Hogg & Terry, 2000), or being associated with a community, state, nation, or other grouping such as a particular sports team (Hogg, Terry, & White, 1995).

The identification with a particular group allows group members to make comparisons with non-group members; in effect, creating an “us vs. them” mentality. While identification with a particular group may have negative consequences such as providing an antecedent for ethnocentrism and workgroup conflict (Ashforth & Mael, 1989), social identification has been shown to have a significant impact on pro-social, altruistic behavior. For example, the sense of
connectedness fostered by the feeling of belonging and interaction has been shown to increase a person’s empathy towards other members of that group (Kramer, Pommerenke, & Newton, 1993) and increase the probability a person will engage in pro-social behaviors directed towards that group. For instance, members of a particular social identity would be more likely to volunteer for an organization that supports members of a person’s perceived in-group (Tidwell, 2005).

SIT concludes that the proximity of the social opportunity would affect the probability that a social entrepreneur would direct their socially beneficial actions towards the affected group. In connection with Zahra’s (2008) framework, the empathic leanings provided by SIT and the desire to maximize social wealth would suggest that a more viable opportunity is one in which the social problem is a widespread occurrence (scope), and one where the SE has the potential to provide a greater increase in social utility (efficacy). These will now be discussed in turn.

**Proximity.** The motivation to engage in altruistic behavior that benefits one’s in-group offers a reasonable explanation as to why social entrepreneurs seem to predominantly address local problems. The propensity to evaluate a social opportunity as viable due to proximal considerations has been well documented in qualitative reviews of social entrepreneurship. Consider the following interview excerpts presented in Shaw and Carter’s (2007) work on the antecedents of social entrepreneurship:

... *I want to see the change for myself and where I live, it can be frustrating to see what happens where you live. I really want to put something back.* (p.426)

*A local need was identified; nobody else was willing to start the initiative* (p.426)
I can see opportunities and facilitate developments for the community to take advantage of. (p. 427)

Or the following taken from Hoogendoorn et al’s (2010) typology regarding the individual characteristics of SEs:

At odds with conventional entrepreneurship, social entrepreneurs seem to be driven by obligations and need rather than opportunity. Their attention is directed towards collective need-driven action for local change, with little emphasis on outcomes and more on the process of doing something. (p.18, emphasis added)

Taken together, these studies provide compelling evidence for the assertion that SEs are driven to solve local problems. This may be due in part to the increased probability that a social entrepreneur whose networks, livelihood, and daily activities which are part of the local community, identifies strongly with the local community as their in-group.

This is supported by other work in SIT which states that the primary driver of altruistic in-group oriented behavior is not only a product of identification with that group, but is also derived from the ability of an individual to acquire knowledge of a problem affecting members of that group (Bekkers & Wiepking, 2011). In this instance, it is reasonable to suggest a SE’s membership and participation in a local community would provide them with superior knowledge of underlying social problems faced by certain members of that community.

Thus, it is hypothesized that proximity will be an important factor when selecting viable social opportunities. Proximity would provide the motivation necessary to engage in prosocial
behavior out of desire to benefit the members of a SEs ‘ingroup’. Furthermore, logic suggests that proximity would increase a SEs knowledge and awareness of a social problem, a primary enabler of altruistic activity. Stated formally:

\[ H1: \textit{Decisions to exploit a social opportunity are positively related to opportunity proximity} \]

**Pervasiveness.** Opportunity scope refers to how widespread and pervasive the social issue is; be it poverty, environmental degradation etc. It makes sense that entrepreneurs choosing to maximize social wealth within local communities by engendering social change would first choose to tackle the most pressing issues affecting a population.

SEs directing their efforts towards larger areas of unfilled social needs is analogous to commercial entrepreneurs seeking wealth maximization. For commercial operations high levels of unfilled demand is an attractive industry characteristic. Larger target markets equates to greater amounts of potential consumers and higher levels of wealth generation. So too with social entrepreneurs, more pressing issues create an opportunity to generate social improvements for larger concentrations of people.

Consider for instance the fact that nearly 15 million people die each year from communicable diseases, infections, and prenatal conditions, many of them preventable given adequate access to health care (World Health Organization, 2011) It comes as no surprise then that a sizable proportion of social entrepreneurs listed as fellows for the Ashoka foundation (a social entrepreneurship network) are dedicated to bringing health care solutions to poor and disadvantaged populations.
Thus, under a social wealth maximizing framework it is hypothesized that SEs will evaluate social opportunities as more favorable when the opportunity carries with it the ability to affect larger, more prevalent problems.

_H2:_ *Decisions to exploit an opportunity are positively related to perceived opportunity pervasiveness*

**Impact.** Apart from issues about opportunity scope (who can I help), are issues about potential opportunity efficacy (how much can I help). Naturally, since social entrepreneurs have a limited set of resources, tradeoffs must be made in terms of how those resources are employed to pursue opportunities. While it is argued that the number of individuals affected represents a prime concern for the pursuit of social opportunities, a second consideration is how effective can the social entrepreneur be at helping the target individuals. This is similar to the distributive efficiency criterion used in welfare economics (Paavola, 2007) used to measure the efficiency of the provision of social goods. In this framework, allocations are efficient when goods flow to those who most need them, or those that can extract the most benefit out of resource provisions. Thus utility, or units of improvement in social value, would be greatest when efforts are directed towards opportunities that have the largest potential for generating impact. In keeping with the framework of social wealth maximization, the most attractive opportunities then become those which are perceived to be the most efficacious:

_H3:_ *Decisions to exploit an opportunity are positively related to perceived opportunity impact*

Like all businesses, social entrepreneurial ventures need to generate funds for survival. Unlike commercial operations, a social venture’s mission places additional strain upon
organizational resources. The hybrid business model adopted by social entrepreneur’s means that managers operate with a dual focus, both on organizational performance towards the pursuit of a social goal, and performance towards survivability. Survival is made difficult by the fact that revenue generation is contingent upon a customer base who, by the very nature of the social opportunity, may be unable to pay for the provided services (Austin, et al., 2006). While SEs have additional sources of revenue generation and resources not available to commercial entrepreneurs such as government grants, donations, and volunteer work, (Shaw & Carter, 2007), these sources are uncertain. Furthermore, traditional sources of external capital normally afforded to commercial ventures, such as venture capitalist financing, may be scarce for socially driven organizations due to the difficulty with monetizing social activities.

As Weerawardena and Mort (2006) suggest, social ventures operate fully aware of the need to balance economic viability with its social mission. In their view, social entrepreneurs are more pragmatic individuals whose idealism is tempered by rational economic constraints. This is in stark contrast to rhetoric which insinuates that SEs operate with at most, a very low regard for the economic potential of an opportunity.

While a multitude of scholars accept the definition of the dual-focus social enterprise, what remains to be tested is the degree to which social entrepreneurs factor financial returns into their decisions to exploit social opportunities. The previous sections argue that various social attributes of opportunities will augment the opportunity set SEs perceive as viable. Based upon the portrait of a SE as a more pragmatic individual, the ability to generate financial return will increase the desirability of an opportunity based upon its direct benefit to organization survival.
**H4:** Potential financial returns will have a positive effect on desire to pursue an opportunity

**H5:** The effect of scope (a), impact (b), and proximity (c), is moderated by perceived financial return such that higher levels of potential financial gain will increase decisions to exploit an opportunity

As an extension to the previous theorizing we seek to test not only if the prospect of wealth generated has a significant effect on ratings, but also if wealth given up is a significant factor as well. To this end, we include opportunity cost as the final attribute in our hypothetical firm profiles.

**H6:** Opportunity cost will have a negative effect on opportunity ratings

**METHODS**

**Conjoint analysis**

Conjoint analysis, first developed by Luce and Tukey (1964), is a popular methodology used in marketing studies to determine consumer preferences for a particular product given that product’s stated attributes (Green, Krieger, & Wind, 2001).

In a conjoint analysis a survey respondent is presented with product descriptions which vary based upon levels and combinations of pre-determined factors. Given the product description, the respondent is then asked to rate their purchase intentions (in the case of a rating scale design) on a numbered scale. In other designs a respondent may be tasked with ranking the given profiles (ranking method) or selecting a preferred option among two or more profiles.
(paired comparison method) (Louviere, 1988). Researchers are then able to calculate consumer preference in the form of attribute level values (called part-worths). These part-worth values allow researchers to make inferences regarding potential consumer demand given a change in a product level attribute.

While conjoint analysis has been used extensively in a multitude of marketing studies, its usage has not been solely restricted to that field. Conjoint analysis, and a related methodology called policy capture, has been employed by various researchers investigating topics such as strategic decision making (Priem, 1992), evaluation of job applicants (Dunn, Mount, Barrick, & Ones, 1995), and compensation decisions (Viswesvaran & Barrick, 1992).

Additionally, the use of conjoint analysis is not without precedent in the entrepreneurship literature. For example, Choi and Shepherd (2004) utilized conjoint analysis to determine how an entrepreneur’s decision to start a new venture is influenced by perceptions of customer demand, technology development, managerial capability, and stakeholder support. More recently DeTienne, Shepherd and De Castro (2008) used conjoint analysis to determine how various individual and situational factors affect an entrepreneur’s likelihood of persisting with a poorly performing venture. Other areas of focus have been how venture capitalists evaluate potential business plans (Franke, Gruber, Harhoff, & Henkel, 2006), and perceive new venture survival probability (Zacharakis, McMullen, & Shepherd, 2007).

Conjoint analysis has considerable advantages over more basic designs where respondents would be asked to individually rank the desirability of separate factors. For instance, respondents may be motivated to alter their responses due to their preconceived notions of the

---

2For a more detailed review of entrepreneurship studies which feature conjoint analysis, please see Lohrke (2010).
social desirability of a particular answer (Lohrke, Holloway, & Woolley, 2010), or as some researchers have shown, respondents may have difficulty in articulating complex decision processes (Shepherd & Zacharakis, 1997). Thus, conjoint analysis serves as an established, effective tool for analyzing the questions presented in this paper.

Variables

**Dependent variable.** The dependent variable will be the likelihood that the subject will pursue the given opportunity. After being presented with a particular scenario the subject will give their opinion based on a 7-point likert scale with values ranging from 1 (not at all likely) to 7 (very likely). The wording and use of a likert scale is consistent with methods utilized in other entrepreneurial decision studies (Haynie, et al., 2009).

**Independent variables.** The independent variables are the attributes identified previously in the paper. The social variables tested consist of opportunity proximity, pervasiveness, and potential impact. Financial attributes include potential for economic return and opportunity cost. Values for these attributes are tested on two levels: High to Low, and proximity is described as either near or far. Similar descriptors have been used in past conjoint analysis studies to denote levels of an attribute (Choi & Shepherd, 2004). Table 1 provides detailed descriptions of the attributes and levels used in the analysis.
Table 3.1: *Conjoint Analysis Attributes and Levels*

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Levels</th>
<th>Text description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proximity</td>
<td>Local</td>
<td>To a large extent, the opportunity is…</td>
</tr>
<tr>
<td></td>
<td>Non-local</td>
<td>…a local problem</td>
</tr>
<tr>
<td></td>
<td></td>
<td>…not a local problem</td>
</tr>
<tr>
<td>Scope</td>
<td>Low</td>
<td>A … are affected by the problem</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>…small number of people…</td>
</tr>
<tr>
<td></td>
<td></td>
<td>…large number of people…</td>
</tr>
<tr>
<td>Efficacy (impact)</td>
<td>Low</td>
<td>It is probable that these activities will create a…</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>… small improvement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>… large improvement</td>
</tr>
<tr>
<td>Financial return</td>
<td>Low</td>
<td>It is probable that the opportunity would generate…</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>… a small financial return</td>
</tr>
<tr>
<td></td>
<td></td>
<td>… a large financial return</td>
</tr>
<tr>
<td>Opportunity Cost</td>
<td>Low</td>
<td>If you applied the same skills to a fully commercial</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>venture, you could make…</td>
</tr>
<tr>
<td></td>
<td></td>
<td>… somewhat more</td>
</tr>
<tr>
<td></td>
<td></td>
<td>… significantly more</td>
</tr>
</tbody>
</table>

Further, to account for variations in opportunity rating based on the age and prior experience of the entrepreneur; these variables were included in the analysis as controls.

**Research Design**

A fully crossed factorial design (each subject rating all possible combinations of scenarios) would require participants to evaluate 32 ($2^5$) scenarios. Coupled with a test-retest component, this increases the risk of respondent fatigue thus threatening the validity of results (Green & Srinivasan, 1990). To mitigate this concern, a fractional factorial design was adopted (Gunst & Mason, 2009), which allows for the testing of all main effects and two-way interactions using 16 profiles. Four profiles were replicated throughout the survey as a means to establish test-retest reliability. Additionally, 1 practice profile was issued at the start of the
instrument in order to familiarize the participants with the process. This brings the total profiles assessed by each participant to 21.

**Pre-Test**

The aim of the current research is to test both a commonly held belief about social entrepreneurs and opportunity attributes already described in the extant literature. Despite this, the researchers still felt it was prudent to conduct a pre-test in order to verify the appropriateness of the selected attributes.

A series of interviews were conducted with self-described practicing social entrepreneurs in a major metropolitan area. Interviews followed a structured format in which each SE was asked to describe the opportunity they pursued and their motivation for doing so. The conversations were recorded and reviewed for mentions of key attributes such as the following: “We realized that by going forward… we could help a lot of people,” and “I kind of fell into it, I saw a lot of women in the area that needed assistance.” After the initial series of questions, the SEs were shown the proposed opportunity attributes and invited to provide feedback. The SEs responded favorably and rated the attributes as major factors in the decision process.

Given the feedback, the researchers were reasonably confident that the opportunity attributes selected represented important factors in the decision process and decided to continue with the conjoint analysis.

**Sample**

The survey sample was drawn from individuals who indicated they had an interest in starting a for-profit social venture. Participants were recruited from the online web service,
Amazon Turk (MTurk). MTurk is an online labor market where recruiters can post jobs and surveys to be completed by a variety of people. Initial research suggests that the sample characteristics obtained from Mturk are very similar to samples obtained through more traditional means (Paolacci, Chandler, & Ipeirotis, 2010). The initial sample pool consisted of 189 people who were compensated $2 for their time. Due to the unique source and the self-selection method of enrolling in the survey, the researchers felt it was necessary to include some basic filters to ensure sample individuals were the participants of interest. A short comprehension check was included to verify respondents read and understood instructions. Of the initial 189 people, 15 were dropped for spurious answers on the comprehension check. To ensure that sampled individuals were, in fact, interested in new ventures, participants completed a 10 item, 7-point likert scale for entrepreneurial intent (Thompson, 2009). The lowest quartile of scores for entrepreneurial intent were dropped (34 subjects), resulting in a final sample size of 140. This exceeds other published entrepreneur conjoint studies utilizing final sample sizes of between 50 and 100 individuals (e.g. Choi & Shepherd, 2004; DeTienne, Shepherd, & De Castro, 2008; Haynie, et al., 2009).

Results

To determine the consistency of ratings, participants rated 4 repeated profiles throughout the survey allowing researchers to determine test-retest reliability. The intra-class correlation statistic was favored over the standard Pearson correlation due to the non-linear relationship between items. An ICC of .73 indicates acceptable levels of agreement within raters across items.
Hierarchical regression analysis was used to explore the relationships found in the base model (control), the main effects model, and the full model (controls, main effects and interactions). The results of the analysis are displayed in table 2.

With regards to the main effects model, proximity exhibited a significant negative relationship to opportunity evaluation ($\beta = -.52; p > .001$), indicating that opportunities which address social issues closer to the entrepreneur’s home community are more likely be rated higher by entrepreneurs. Both pervasiveness ($\beta = .718; p > .001$) and impact ($\beta = .735; p > .001$) had a significant effect on opportunity evaluation. This demonstrates that opportunities which address more pervasive needs and opportunities which are perceived to have greater potential for ameliorating a social concern were rated more favorably. Finally, both financial returns and opportunity cost exhibited a significant effect on opportunity rating. Together, these results provide support for H1, H2, H3, H4 and H6 respectively. Figure 1 displays the mean attribute utilities across all participants.
### Table 3.2
Summary of Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Controls</th>
<th></th>
<th>Main Effects</th>
<th></th>
<th>Full Model</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>S.E.</td>
<td>β</td>
<td>S.E.</td>
<td>β</td>
<td>S.E.</td>
</tr>
<tr>
<td>Age</td>
<td>0.001</td>
<td>0.011</td>
<td>0.001</td>
<td>0.01</td>
<td>0.001</td>
<td>0.01</td>
</tr>
<tr>
<td>Experience</td>
<td>-0.032</td>
<td>.013*</td>
<td>-0.032</td>
<td>.01*</td>
<td>-0.032</td>
<td>.01*</td>
</tr>
<tr>
<td>Proximity</td>
<td>-0.52</td>
<td>.156***</td>
<td>-0.716</td>
<td>.188***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pervasiveness</td>
<td>0.718</td>
<td>.155***</td>
<td>0.29</td>
<td>0.156</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact</td>
<td>0.735</td>
<td>.192***</td>
<td>1.044</td>
<td>.232***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returns</td>
<td>1.67</td>
<td>.19***</td>
<td>1.69</td>
<td>.334***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opp. Cost</td>
<td>-0.687</td>
<td>.156***</td>
<td>-0.35</td>
<td>0.23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returns x Proximity</td>
<td></td>
<td></td>
<td>0.391</td>
<td>0.273</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returns x Pervasive.</td>
<td></td>
<td></td>
<td>0.777</td>
<td>.298**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returns x Impact</td>
<td></td>
<td></td>
<td>-0.474</td>
<td>0.325</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returns x Opp. Cost</td>
<td></td>
<td></td>
<td>-0.592</td>
<td>0.283*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Model**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Within-level variance</td>
<td>.051</td>
<td>.115</td>
<td>.118</td>
</tr>
<tr>
<td>Change</td>
<td>.064</td>
<td>.003</td>
<td></td>
</tr>
<tr>
<td>Between-level variance</td>
<td>.939</td>
<td>.939</td>
<td>.94</td>
</tr>
<tr>
<td>Change</td>
<td>0</td>
<td>.01</td>
<td></td>
</tr>
</tbody>
</table>

p > .05  *
p > .01  **
p > .001  ***
As shown in table 2, one of the three tested interactions was statistically significant; specifically, the interaction between potential financial returns and the pervasiveness of the social problem. The interactions between both financial returns and proximity and financial returns and pervasiveness were insignificant leading to the rejection of hypotheses H4a and H4b.

The interaction between financial returns and impact is displayed visually in figure 2.
In figure 2, social problem pervasiveness is plotted on the x-axis and the dependent variable, opportunity rating, is indicated on the y-axis. The plot indicates that opportunity rating is magnified when the potential business opportunity provides a large financial return and addresses a widespread problem. These results lend support to H4b.

**DISCUSSION**

This paper seeks to test a framework for assessing the desirability of business opportunities that provide both financial and social benefits. A significant amount of entrepreneurship research has focused on opportunity exploitation decisions. So much in fact, scholars can be reasonably confident of the characteristics of opportunities that would drive an individual to prefer one vs. another. However, this research has concentrated almost exclusively
on purely commercial opportunities and, as a result, we have little knowledge of how selection occurs when the intended start-up seeks to generate both social and economic value. This lack of substantive decision models is indicative of the relative infancy of social entrepreneurship as an academic field. To progress with paradigm building and the establishment of the boundaries of social entrepreneurship, scholars should seek to move beyond anecdotal accounts and generic typologies and rigorously investigate both the characteristics and motivations of social entrepreneurs. This paper is a step towards achieving that end. By utilizing a conjoint methodology, the general importance of three opportunity social attributes was tested. Secondly, by including expected financial returns this paper tests the ‘white knight’ typology of social entrepreneurs by analyzing how both social and financial returns are weighed.

Previous theorizing regarding social opportunities suggests, among others, three major attributes which describe social problems and the businesses founded to correct them; namely, the characteristics of proximity, pervasiveness and potential impact. In line with theorizing, all three attributes carried significant weight regarding the rating of business opportunities. When assessing the value of each attribute independent of one another, participants preferred opportunities that addressed problems in the local community, carried a greater impact, and were directed towards social problems that were more pervasive. Regarding proximity, the result is in-line with identity theory which states that group members aspire first to aid in-group vs. out-group members. Membership in a community can create and enhance feelings of connectedness and dependency. Entrepreneurs whose personal history and self-concept are derived from group membership may first exert effort to correct problems experienced by proximal group members. It may also be the case that proximity enhances awareness of local social concerns. It can be
assumed that during a civic-minded individual’s normal interaction with the community, the presence of social problems such as poverty, homelessness or at-risk youth may become more readily apparent and visibility causes an SE to weight the social opportunities more heavily.

With regards to problem pervasiveness and potential impact, a value maximization model such as Zahra’s (2009) total wealth framework and rational economic theory may be valuable tools when assessing the desirability of social opportunities. When framing opportunities in terms of the potential social value to be produced it is assumed that social value is a function of the quantity of people helped (pervasiveness) and the resulting increase in individual well-being (impact). The results partially support the value maximizing model given that financial returns significantly interacted with problem pervasiveness to produce more desirable business opportunities. Despite this, sample participants were unaffected by financial returns when viewed with either proximity or impact. This suggests that social opportunity selection is more complex than previously understood. Previous typologies have described social entrepreneurs as social champions who, by virtue of their personal morality, eschew the profit motive in favor of social impact. While this may be the case when considering instances when social opportunities are defined by close proximity and perceived impact is high, in scenarios with high pervasiveness, financial returns were significantly valued in addition to social benefits. This means that social opportunity selection is more complex than previously thought. In some instances, SEs conform to previously held conceptualizations where financial returns appear to add no additional value to potential social opportunities. This was true when considering the proximity of the issue and the potential impact. In other instances, financial returns interacted significantly with social returns to produce more desirable opportunities, as was the case with
issue pervasiveness. Since both of these effects are a function of the opportunity’s social attributes future research will be needed to further delineate the relationship between financial and social returns.

**Limitations and Future Research**

The authors acknowledge that the preceding study is not without limitations. The analysis had participants rate SE opportunities in a context that was independent of resource considerations. It may be the case that the favorability of attributes would be altered depending on the resource constraints faced by a new venture. For example, a SE may be more influenced by financial returns during the critical (and often precarious) startup phase, but less influenced by returns as slack resources become more available.

Dees (1998) argues that SEs are not limited by organizational resource constraints, instead they creatively innovate around the resource constraints; using the constraint as an opportunity to focus on the social mission. However, Weerawardena and Mort (2006) found the opposite to be true. In their review of several SE case studies, the SEs understood resource constraints and altered their decision criteria of what constitutes a viable social opportunity. They “took the low hanging fruit” or less resource intensive social opportunities. Following this, Weerawardena and Mort proposed that social entrepreneurs actively engage in risk management, are aware of financial constraints, and seek to balance the social mission with economic concerns based on availability of resources. This argument is an example of classic rational choice theory in economics. In this instance, an actor would assess the costs of engaging in an activity vis-à-vis their ability to shoulder that burden; mitigating risks by ascertaining potential future income.
generated through the pursuit of the opportunity. Again, interviews in Weerawardena and Mort’s (2006) review of SE firms support this reasoning:

“So in an entrepreneurial term, we took the low apples. We took the ones that were worthwhile getting at the time and only after the first ten years in a sense did we take on board the really hard challenging positions. We had a mindset change to say, look, we now have some resources. We can go out and push boundaries a bit more.” (p. 31)

This excerpt highlights two important considerations: 1. Managers are aware of the constraints placed upon the organization and adjust their activities accordingly and 2. Resource constraints are evaluated in a dynamic context. It is possible that a social entrepreneur would place an emphasis on pursuing more financially lucrative opportunities at \( t_1 \), with the expectation that the funds generated would relax resource constraints and allow them to pursue a more socially oriented opportunity at \( t_2 \). Future research could investigate how a SE considers an opportunity’s ability to generate financial returns as a means of ensuring their ability to pursue social opportunities, or creating resource endowments which will enable them adopt a more socially oriented stance in the future.

In another vein, the survey instrument does not account for the amount of risk associated with pursuing a social venture. The literature is clear that all forms of entrepreneurship involve shouldering a certain degree of risk. However, there is evidence to support the argument that social entrepreneurs are faced with greater amounts of risk and uncertainty. Part of this stems from their focus on social returns as well as economic sustainability. By adopting a dual focus,
the mechanisms associated with founding and organizational survival become more complex (Moizer and Tracey, 2010). Unlike a traditional commercial venture, the demands of creating social value place a significant burden on social entrepreneurial firms, constraining their ability to generate funds and threatening their survival (Weerawardena & Mort, 2006). Another challenge is the market context in which SE firms operate. While traditional, commercial ventures purposefully seek out lucrative markets, SEs choose to locate in failing or inefficient markets (Di Domenico, Haugh, & Tracey, 2010), which may explain the increased difficulty SEs face securing startup capital (Zahra, Gedajlovic, Neubaum, & Shulman, 2009).

These challenges culminate in a decreased survival probability for SE firms. Indeed, Hoogendoorn (2011) analyzed numerous SE organizations across a variety of countries and found that a majority of SE firms did not make it out of the initial startup phase. Part of their analysis determined this was due to increased informational barriers and individual factors such as a higher fear of failure and another part was due to increased financial constraints.

Tan (2003) presents SEs along a continuum characterized by varying degrees of altruistic activity. At the lowest level, SEs create social benefits through their actions but do so out of a personal motivation to seek profits. At higher levels, SEs pursue more socially benevolent opportunities and personal profit seeking is marginalized. Tan argues that these different orientations produce two different forms of risk. At the lower end of the scale, by pursuing a social additive to their operations, SEs risk forgoing personal profit. At the other extreme, as SEs pursue purely social opportunities without regard for financial return they increase their risk of personal loss. This is confirmed by Shaw and Carter (2007), where a majority of SEs interviewed commented that the pursuit of social opportunities negatively impacted their
immediate and long-term financial well-being. Future research could include risk aversion as an entrepreneur-level variable as more risk averse SEs may value financial returns higher and be less willing to pursue complex and expensive solutions to social problems.

The preceding paper proposes that social entrepreneurs balance both social and economic potential value creation along with resource constraints when selecting social opportunities. It is hypothesized that while SEs may be attracted to opportunities that confer the most social utility they are mindful of more pragmatic concerns and will select opportunities that are financially satisfying given a level of resource constraints. Under a social identity framework, it is proposed that more proximal opportunities will be more attractive due to in-group effects. Additionally, it is proposed that, like commercial value maximizing opportunities, opportunities that maximize social value via scope and efficacy will have a higher probability of selection.

However, this presents a limitation to the study. While social identity theory offers an explanation for the apparent desire to engage in social entrepreneurship in local communities, it does not explain SE activities targeted to out-group populations. An example would be Kiva Microfinance, a lending organization based in San Francisco which, since its inception, has worked to promote economic growth in African villages (Flannery, 2007). A possible explanation could be the degree to which a social entrepreneur possesses a global or local identity. A global identity, or the degree to which an individual perceives national populations to be part of their in-group, has been shown to increase willingness to engage in cross-border philanthropy (Buchan, et al., 2011). Further research could explore how social entrepreneurs frame their identities with regard to selection of social endeavors.
References


Appendix A
Service Failure Scenario Used in Paper 2, Study 1

<table>
<thead>
<tr>
<th>Core Scenario (Common to All Participants)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imagine you visit “The Coffee Bean,” a locally owned coffee shop that roasts and brews its own brand of coffee. You have some free time one afternoon, so you decide to go to the shop and order your favorite drink.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR Manipulation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control Condition</strong></td>
</tr>
<tr>
<td><em>No Additional information</em></td>
</tr>
<tr>
<td><strong>Low CSR Condition</strong></td>
</tr>
<tr>
<td>After arriving at the shop, you learn that the mission of “The Coffee Bean” is to help protect the environment. To accomplish this mission, “The Coffee Bean” donates 2% of their profits to local and national environmental organizations.</td>
</tr>
<tr>
<td><strong>High CSR Condition</strong></td>
</tr>
<tr>
<td>After arriving at the shop, you learn that the mission of “The Coffee Bean” is to help protect the environment. To accomplish this mission, “The Coffee Bean” donates 15% of their profits to local and national environmental organizations.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service Failure Manipulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>After placing your order you feel that you are made to wait an unreasonable amount of time for your drink. Additionally, when you receive your drink, you realize they got your order incorrect.</td>
</tr>
</tbody>
</table>
Appendix B

Scales used in Paper 2, Studies 1 and 2

CSR Manipulation Check
(1 = not committed, 7 = very committed)
Please rate how committed you feel the firm is to the environment…
…not committed… very committed

Negative word of Mouth
(1 = strongly disagree, 7 = strongly agree)
Because of this incident, I would...
...spread negative word-of-mouth about firm
...denigrate the firm to my friends
...tell my friends not to deal with firm

Anger
(1 = strongly disagree, 7 = strongly agree)
Because of this incident, I would feel...
not resentful at all… very resentful
not angry at all… very angry
not outraged at all… very outraged

Trait Environmental Concern (Study 1)
Participants completed the 16-item revised New Environmental Paradigm scale developed by Dunlap, Van Liere, Mertig, and Jones (2000)
(1 = strongly disagree, 5 = strongly agree)
Perceived Value Overlap

(1 = strongly disagree, 7 = strongly agree)

To what extent do you agree or disagree that the Coffee Bean shares the values of its customers?

To what extent do you agree or disagree that the coffee bean is concerned with the opinions of its customers?

Below you will see several sets of circles. Imagine that circle on the left your own values and the circle on the right represents ‘The Coffee Bean’s’ values. Please indicate which diagram (A, B, C, D, E, F, G, or H) best describes the level of overlap between your own values and The Coffee Bean’s values.

<table>
<thead>
<tr>
<th></th>
<th>Me</th>
<th>The Coffee Bean</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td>Far Apart</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td>Close Together but Separate</td>
</tr>
<tr>
<td>C</td>
<td></td>
<td>Very Small Overlap</td>
</tr>
<tr>
<td>D</td>
<td></td>
<td>Small Overlap</td>
</tr>
<tr>
<td>E</td>
<td></td>
<td>Moderate Overlap</td>
</tr>
<tr>
<td>F</td>
<td></td>
<td>Large Overlap</td>
</tr>
<tr>
<td>G</td>
<td></td>
<td>Very Large Overlap</td>
</tr>
<tr>
<td>H</td>
<td></td>
<td>Complete Overlap</td>
</tr>
</tbody>
</table>


## Appendix C

Service Failure Scenario Used in Paper 2, Study 2

<table>
<thead>
<tr>
<th>Core Scenario (Common to All Participants)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imagine you visit “The Coffee Bean,” a locally owned coffee shop that roasts and brews its own brand of coffee. You have some free time one afternoon, so you decide to go to the shop and order your favorite drink.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR Manipulation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control Condition</strong></td>
</tr>
<tr>
<td><em>No Additional information</em></td>
</tr>
<tr>
<td><strong>CSR Condition</strong></td>
</tr>
<tr>
<td>After entering the store, an employee asks you to complete a short survey about your preferences for corporate charity. The employee explains that the Coffee Bean donates 15% of its profits to charitable causes and wants to survey customers for their preferences. The employee also explains that the Coffee Bean will base its contributions on the preferences of its customers; so, if half of the customers select one cause, and the other half select another cause, the Coffee Bean would send 7.5% of its profits to each cause, for a total of 15%. The employee then asks you to indicate which cause you prefer. If asked to choose between the causes shown below, which one would you choose? (Environmental conservation, health initiatives, human rights campaigns, local community organizations)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service Failure Manipulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Now imagine that you get to the counter and place your drink order. However, you feel that you are made to wait an unreasonable amount of time for your drink. Additionally, when you receive your drink you realize they got your order wrong.</td>
</tr>
</tbody>
</table>