

The influence of firm, industry and network on the corporate social performance of Japanese firms

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Abstract We develop and test the thesis that corporate social performance (CSP) constitutes a socially constructed and *shared* strategic asset, which is not only influenced by factors specific to a firm, but also by the social performance of firms in its industry and inter-corporate network. Using variance decomposition, we analyze data from 130 large Japanese firms and find that both firm-specific and industry-level factors account for significant variance in CSP, but network-level factors do not.

Keywords Corporate social performance · Japan · Variance decomposition · *Keiretsu* · Networks · Industry-effects · Resource based view

Over the past two decades, corporate social performance (CSP) has been the focus of significant attention from policy makers and the public at large and much theorizing and empirical investigation from the academic community. Wood (1991) defines CSP as the responsiveness a firm has towards its stakeholders. Similarly, Hillman and Keim (2001) consider CSP to combine a firm's attention to the needs of its stakeholders with its efforts to address social issues. Research has shown that firms exhibiting stronger CSP may gain advantages in attracting consumers (Brown &

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Dacin, 1997), employees (Albinger & Freeman, 2000; Luce, Barber, & Hillman, 2001) and investors (Godfrey, 2005; Sparkes & Cowton, 2004).

Consistent with this body of evidence, we argue that good CSP can represent a valuable strategic asset through which a firm may enhance its corporate reputation and enjoy privileged access to factor and product markets since, all things equal, resource providers, customers and other stakeholders will prefer to affiliate with firms exhibiting strong CSP. At the same time, we propose that CSP is both a *socially constructed* and *shared* strategic asset. It is socially constructed because the reputation of a focal firm is largely formed by the attributions of its important stakeholders (Rao, 1994). It is shared, because these attributions are partially based on a firm's ties to others in its industry and inter-corporate network—two indicators of a firm's activities and practices that are salient from the perspective of its stakeholders (Hoffman & Ocasio, 2001).

We contend that a better understanding of the loci of CSP variance can meaningfully contribute to both theory development and practice. In terms of theory development, much work in CSP adopts the (often unstated) assumption that CSP is driven by firm specific factors and are the outcome of managerial decisions regarding corporate goals, strategies and resource allocation. As we discuss in the following section, while not denying the importance of firm-specific factors, there are many reasons to expect, on *ex ante*, theoretical grounds that a company's CSP may also be profoundly influenced by both its industrial context and the inter-organizational networks to which it is affiliated.

To test our core proposition that CSP is a shared strategic asset that may be materially influenced by factors at the level of a firm's industry and/or inter-corporate network, we employ a variance decomposition methodology previously used in the strategy and economics literatures to study (and debate) the sources and structure of corporate profitability (e.g. Furman, 2000; Khanna & Rivkin, 2001; McGahan & Porter, 1997, 2002; Rumelt, 1991; Schmalensee, 1985). The variance decomposition methodology is a statistical tool that assesses how much of the variability in a variable (in our case corporate performance) can be attributed to each independent variable (in our case membership in an inter-corporate network, industry membership and firm specific effects; Cohen, Cohen, West, & Aiken, 2003). Using this approach, we evaluate the extent to which observed variation in corporate social performance is attributable to influences found at firm, industry, and inter-corporate network levels of analysis. In order to identify some distinguishing characteristics of CSP and also to shed new light on how other corporate performance outcomes vary systematically across firms, industries, and inter-corporate networks, we also perform a variance decomposition analysis on measures of corporate financial performance and compare these findings to our CSP results.

With respect to the practical concerns of public policy-makers, investors, non-governmental organizations (NGOs) and managers, our implementation of the variance decomposition methodology permits us to shed light on the types and location of levers that may be applied to improve CSP. From a policy standpoint, the variance decomposition results provide an indication of how and at what levels CSP related regulation might most usefully be directed. Similarly, from the perspective of the growing number of NGOs (Heap, 2000) and socially responsible investment funds (Dawkins & Lewis, 2003) seeking to influence corporations, the variance

decomposition results can provide guidance regarding selection criteria for their investment portfolios and also can suggest means they may best use to promote improved CSP. Finally, to the extent that CSP can constitute a potentially valuable resource for a firm (Waddock & Graves, 1997), the decomposition analysis can indicate the relative value of alternative means of building this asset such as creating firm-specific attributes versus improving overall industry CSP or, alternatively, by influencing the behavior of the business partners with whom they share inter-corporate networks.

In this paper, we examine CSP in the context of Japan, the world's second largest economy and a major source of global foreign direct investment. Our focus on Japanese companies is primarily motivated by three reasons. First, our focus on Japan facilitates the consideration of network-level effects on CSP because of Japan's well-delineated *keiretsu* networks. In this regard, there is much research suggesting that inter-organizational networks function as a conduit for the creation and dissemination of norms and values (Fukuyama, 1995; Gerlach, 1992), but surprisingly little is known about the influence of such networks on CSP. This study's focus on Japan allows us to begin to examine and evaluate the importance of this gap in the CSP literature.

A second motivating factor is that Japan is a major economy with global significance, but little is known about the antecedent causes of CSP of Japanese corporations (Lewin, Sakano, Stephens, & Victor, 1995). Since values, norms and authority relations are known to differ widely across national contexts (Hamilton & Biggart, 1988; Hofstede, 1979) this study fills a theoretically meaningful and practically important gap in the CSP literature. On this point, we note some survey results comparing CSP attitudes among one Japanese stakeholder group (i.e. financial investors) to their counterparts in other industrialized nations which found that they share an interest in CSP, but differ in the attributions they make regarding the importance of specific criteria such as stability of employment, contribution to community, and equal opportunity (Ministry of Environment Japan, 2003).

The third factor motivating our focus on Japan is the existence of a good source of data on Japanese CSP that has recently become available. As we discuss below, the data we use come from the Japanese *Institute for Corporate Citizenship* (ICC) and its scope overlaps with that of the widely used *Kinder, Lydenberg and Domini* (KLD) and *Council of Economic Priorities* (CEP) surveys of US based firms. Further, we note that the ICC data has been collected and compiled through a rigorous process, something that, as noted by others (e.g. Waddock & Graves, 1997; Wood, 1991) cannot be said about other sources of CSP data.

Firm, industry & network antecedents of corporate social performance

The concept of corporate social responsibility is based on the idea that corporations, as social actors, have responsibilities to stakeholders that extend past the interests of shareholders (Frederick, 1994). As Wood (1991: 693) states, CSP is "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships." Further, as Carroll (1979: 500) points out, "the

social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” Although a single definitive list of which actions constitute social responsibility and which stakeholders the organization should consider is not available (nor possible), a prevailing theme in the corporate social responsibility literature is that a firm has the responsibility to consider how its actions impact the well-being of various stakeholders as well as society at large.

Although still an open question, Orlitzky, Schmidt, and Rynes' (2003) meta-analysis reflects a growing body of research indicating that CSP has a positive influence on both corporate *financial* performance (e.g. He, Tian, & Chen, 2007; Roman, Hayibor, & Agle, 1999; Waddock & Graves, 1997) and the sustainability of above average profitability (Roberts & Dowling, 2002). This result is, however, equivocal. In a review of 95 studies published between 1972 and 2000 that examine the relationship between CSP and financial performance, Margolis and Walsh (2001) report that although the majority of studies substantiate the predicted relationship between CSP and financial performance, there is a small, but important minority of studies that find either no relationship between CSP and financial performance or the reverse causality to that predicted.

From the perspective of the Resource Based View of the firm, positive CSP may result in a favourable corporate reputation (Podolny & Phillips, 1996) that is capable of producing rents (Barney, 1991), because, at least under *ceteris paribus* conditions, a variety of stakeholders will prefer to interact with organizations that evince better CSP. In this regard, weak CSP may lead key stakeholders to avoid making relationship-specific investments in resources and processes and/or may lead them to withhold required capital, effort and valuable information (Adams, 1963). For instance, employees and suppliers may prefer to be associated with strong social performers and be hesitant to affiliate themselves with weak social performers (Godfrey, 2005; Greening & Turban, 2000). Similarly, customers may prefer to purchase and use the products or services of companies that are known to be strong social performers particularly when their use of that product or service is visible (Brown & Dacin, 1997). Additionally, suppliers of capital may prefer to do business with companies exhibiting strong social performance because their cash flows may be perceived to be less risky and less prone to be negatively affected by scandal (Godfrey, 2005; Graves & Waddock, 1994).

Consistent with these findings, we argue that strong CSP may yield benefits stemming from the fact that it provides a firm with privileged access to labor, capital and supplier factor markets and also because it can provide the basis for differentiation in markets for its products and services. Thus, we reason that, all things equal, firms characterized by strong CSP will interact with both resource providers and customers on more favorable terms than firms perceived to be weak social performers and that such differences may result in a competitive advantage (or disadvantage). Moreover, given that a firm's reputation for CSP is socially constructed (Hoffman & Ocasio, 2001; Rao, 1994), built over time and is socially complex (Hoffman & Ocasio, 2001; King, Lenox, & Barnett, 2002), such a strategic asset may very well be the source of a sustainable competitive (dis)advantage (Barney, 1991; Dierickx & Cool, 1989).

While the benefits a firm derives from its strong CSP represents a strategic asset, we propose that it differs from many other types of strategic assets in one important respect—its value is determined not only by the CSP of the focal organization, but also by the CSP of other firms in its industry and in its inter-corporate network. For example, this would occur if key stakeholders withheld valued resources to an industry, or became reluctant to make specialized investments in resources or processes for dealing with members affiliated with a particular inter-corporate network. Similarly, public awareness of the poor CSP of one or a few firms in an industry can expose all of its members to stricter scrutiny from regulators or NGOs (Hoffman & Ocasio, 2001). Conversely, stakeholders may make positive attributions regarding the CSP of an industry based upon the performance of one or a few highly visible firms.

Since the reputation of a firm is largely socially constructed (Hoffman & Ocasio, 2001; Rao, 1994) and because industry and network ties are highly visible, the actions of its industrial and network cohorts may weigh heavily on the attributions stakeholders make regarding a firm's CSP. King et al. (2002) refer to this phenomenon as the "reputation commons problem," and King and Lenox (2000) describe how members of the same industry are often "tarred by the same brush" as a consequence of the misdeeds of one of its members. For instance, Rees (1997) describes how the Union Carbide's Bhopal incident significantly damaged the reputation of the entire chemical industry and the Three Mile Island accident had the same effect on the US nuclear industry. Similarly, the Exxon Valdez Oil Spill harmed the reputation of the petroleum industry (Hoffman & Ocasio, 2001) and recent scandals regarding market timing and after hours trading involving a number (but not all) of mutual fund companies have had a deleterious effect on the public reputation of that industry (Houge & Wellman, 2005). In recognition that the actions of one firm can seriously affect the reputations of others in the same industry, many industry groups have embarked upon strict self-regulation programs in order to prevent reputation damaging activities (King & Lenox, 2000).

While examples of corporate scandal brings into sharp relief the shared nature of the CSP strategic asset, we reason that CSP is influenced, more generally, by factors such as the competitive forces (Porter, 1980), institutional norms (DiMaggio & Powell, 1983) and environmental conditions (Dess & Beard, 1984) facing firms, which define how and on what terms corporations within an industry interact with their stakeholders (Wood, 1991). Along these lines, a recent line of research based on institutional theory (DiMaggio & Powell, 1983) suggests that the ecological environmental policies of firms are in large part constructed by the influences of their industry business environments (Hoffman, 1997; Sharfman, Shaft, & Tihanyi, 2004; Sharma, 2000). Thus, we reason that the influence of industry-level factors on CSP stem not only from exceptional occurrences such as high-profile scandals, but also from more mundane market, institutional and environmental forces that shape the industrial context. As a consequence, we expect that a significant portion of the variability in corporate CSP is attributable to industry-level factors.

On *ex ante* theoretical grounds, we also expect that a firm's CSP may also be significantly influenced by the CSP of other firms sharing the same inter-corporate network. On this point, a significant body of empirical evidence in the Strategy and

International Business literatures indicate that members of business groups benefit from their affiliation because their network affiliation signals to stakeholders that contracts will be honored, property rights respected and product quality will be acceptable (Khanna & Palepu, 2000a, 2000b; Khanna & Rivkin, 2001). More generally, Todeva and Knoke (2005: 126) suggest that corporate social capital can be shared by inter-organizational networks as "... organizational prestige, reputation, status, and brand name recognition."

Keiretsu inter-corporate networks are a particularly salient feature of the Japanese enterprise system from which our sample of firms is drawn. Caves and Uekusa (1976: 56) describe these networks as "a thick and complex skein of relations matched in no other industrial country" and Gerlach (1992: 105) describes them as "an elaborate structure of industrial arrangements that have organized its companies within complex patterns of cooperation and competition." Much research examining the Japanese enterprise and governance systems indicates that *keiretsu* members pool risk, share norms regarding what constitutes appropriate behavior and profit levels and treat firms with whom they share ties differently than others (Gerlach, 1992; Lincoln, Gerlach, & Ahmadjian, 1996; Yoshikawa & Gedajlovic, 2002).

Interestingly, though much has been written about other norms embodied in Japanese networks, the literature is silent on the matter of CSP. We reason, however, that a significant portion of variability of the CSP of Japanese firms may be attributable to network-level factors for two primary reasons.

First, we reason that observed norms regarding financial performance (Gedajlovic & Shapiro, 2002; Lincoln et al., 1996) are likely to be manifest through institutionalized practices regarding the treatment of stakeholders such as employees, suppliers and creditors. Second, we also expect that due to the visible nature of *keiretsu* ties, firms in a network will perceive CSP to be a shared strategic asset that needs to be safeguarded from opportunistic actions by affiliated firms. On this point, there exists significant evidence in the literature that the "main bank" system employed by *keiretsu* facilitates group monitoring of business practices (Berglöf, & Perotti, 1994; Gedajlovic & Shapiro, 2002; Lincoln et al., 1996). In this system, a common main bank has an ownership stake in network firms, and also provides loans and commercial services to those same firms (Miyajima, 1995; Sheard, 1994). Through similar ties to other network firms who also often cross-hold equity, exchange trade credit and are major buyers and suppliers, both a firm's industrial partners and its main banks are exceptionally well-positioned to monitor and enforce group norms on other firms within their network (Berglöf & Perotti, 1994; Hoshi, Kashyap, & Scharfstein, 1990; Sheard, 1994). In such an information rich context, individual firms have more limited discretion with which to pursue their own interests at the expense of their shareholders, or stakeholders (Eisenhardt, 1989). Further, any such behavior is likely to be detected early because of the dense web of equity, debt, and commercial ties that characterize such networks.

In summary, in this section, we note an emerging body of theory and a decided balance of the empirical evidence indicating that CSP influences corporate financial performance (e.g. Orlitzky et al., 2003). As a consequence, we reason that strong CSP is both desirable and may constitute a valuable strategic asset. We have also drawn on extant research to advance the notion that CSP is a shared strategic asset insofar as the CSP of a focal firm may be augmented or debased by the actions of

firms it is associated with. Lastly, we have also advanced the idea that a firm's CSP is socially constructed through the attributions made by its important stakeholders and that such attributions may be materially partially influenced by the behavior of other firms in its industry and inter-corporate network. As a consequence, we propose that CSP is a shared strategic asset that may be materially influenced by factors at the level of a firm's industry and/or inter-corporate network. In the remainder of this paper we evaluate and explore this proposition.

Materials and methods

Model specification

The primary goal of this study is to determine the relative importance of industry-level, network (*keiretsu*)-level, and firm-level factors on corporate social performance in Japanese firms. In order to do so, we employ a variance decomposition methodology. We model our study after the research investigating the relative importance of industry, corporate, and firm-effects on earnings. These studies use various forms of variance decomposition methods (e.g. Brush, Bromiley, & Hendrickx, 1999; Hawawini, Subramanian, & Verdin, 2003; Hough, 2006; Mauri & Michaels, 1998; McGahan & Porter, 1997, 2002; Rumelt, 1991; Schmalensee, 1985). Early studies in the earnings variance decomposition literature employed nested ANOVA techniques (Rumelt, 1991; Schmalensee, 1985). Due to advances in computational power more recent studies have used OLS-based ANOVA (Furman, 2000; Khanna & Rivkin, 2001; McGahan & Porter, 1997, 2002) or the VARCOMPS routine in SAS (Hawawini et al., 2003). The benefit of the OLS-based ANOVA over the nested ANOVA is that it does not require the assumption that there is no covariance among the effects in the model.

There remains controversy concerning whether to use the simultaneous ANOVA described above or variance components analysis (VCA) to most efficiently decompose variance. VCA requires an assumption that the variances are independent which has the impact of understating small effects (Brush et al., 1999). ANOVA based decomposition requires that when each effect is added to the progressively fuller models at least one of the fixed-effects dummy variables must be dropped thus making it impossible to fully specify the complete model which is possible with VCA.

Following other studies that have sought to decompose variance in corporate performance (Chang & Hong, 2002; Hawawini et al., 2003; Mauri & Michaels, 1998; Roquebert, Phillips, & Westfall, 1996) we use the VCA methodology as this random effects model better matches our data than the fixed effects, OLS-based ANOVA model. The model we estimate is:

$$R_{ijt} = \mu + \alpha_i + \beta_j + \gamma_t + \varepsilon_{ijt}$$

In this equation, the dependent variable, R_{ijt} , is the composite corporate social responsibility (or in the case of our examination of the elements of corporate social responsibility, it is the element of CSP) for industry i , in year t , in *keiretsu* j (if a member of a *keiretsu*). μ is a constant equal to the overall mean. α_i is the average deviation from the overall mean for the firms in industry i . β_j is the average

deviation for the firms in *keiretsu* j . We estimate a year-effect γ_t to control for the average deviation from the mean-effect in each year. ε_{ijt} captures the firm specific error term. The variance in performance σ_R^2 is decomposed as follows:

$$\sigma_R^2 = \sigma_\alpha^2 + \sigma_\beta^2 + \sigma_\gamma^2 + \sigma_\varepsilon^2$$

It is important to note that our data includes firms that are members of *keiretsu* and firms that are not. The decision to keep the non-*keiretsu* firms in the analysis is similar to keeping single business firms in the analysis that investigates the relative importance of corporate-effects. Roquebert et al. (1996) exclude single business firms which has the effect of overestimating the size of the corporate effect (Hawawini et al., 2003). Since we are interested in generalizing our results across both the *keiretsu* and non-*keiretsu* portions of the Japanese economy we chose to include the complete set of firms in our analysis.

As described below, we consider nine different measures of CSP as well as a composite measure. As a consequence of concerns regarding the validity of single item measures of CSP and the likely multi-dimensionality of the construct (Hillman & Keim, 2001; Orlitzky & Benjamin, 2001) we analyze each element separately and then construct and evaluate a composite measure. Consistent with Hillman and Keim (2001), we sum the component measures of CSP to create the composite CSP variable.

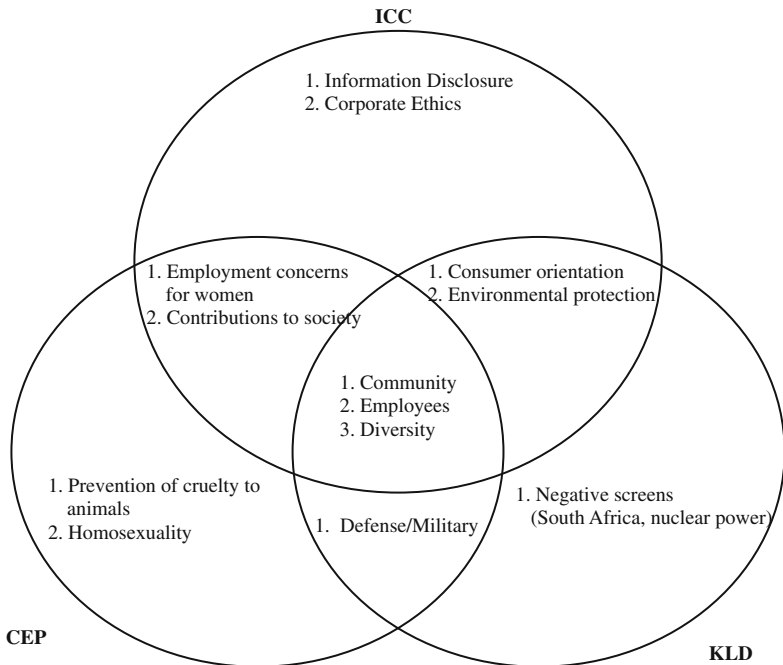
Sample

Our sample was taken from the *Institute for Corporate Citizenship* (ICC) annual survey of CSP for the years 1997–2000. The ICC is an NGO, closely linked with the Asahi Shimbun Foundations Awards for Corporate Social Contributions established in 1990, one of the earliest “initiatives for the promotion of the principles of corporate governance” (ASrIA, 2003). Each year ICC surveys over 300 listed companies based in Japan included in the Topix Core 30 and Topic Large 70 and the Nikkei 225 index of firms listed in Tokyo. For the years in our sample the response rates ranged from 40 to 47%. We included in our sample any firms for which responses were available for at least 2 years. One hundred thirty firms passed this screen. The sample we analyzed includes 443 firm-years.

Measures

Dependent variables The main dependent variable CSP is a composite of nine items developed by the ICC (i.e. concern for employees, concern for families, employment conditions for women, international diversity, consumer orientation, community relations, contributions to society, protection of the environment, information disclosure). The ICC data set also includes items for corporate ethics and employment conditions for the handicapped. However, because these were not measured for all of the years in our sample we are unable to use them in our study.

As depicted in Figure 1, the ICC items share many common elements with the Kinder, Lydenberg, Domini (KLD) and Council of Economic Priorities (CEP) data sets that have been used extensively to study the CSP of US based firms (Orlitzky et al., 2003). The common items shared by all three data sources (community,



^aStudies Employing CEP or KLD Data:
 CEP: Blackburn, Doran, & Shrader (1994); Chen & Metcalf (1980); Fogler & Nutt (1975); Roberts (1992); Spicer (1978)
 KLD: Graves & Waddock (1994); Hillman & Keim (2001); Luce, Barber & Hillman (2001); Sharfman (1996); Turban & Greening (1997); Waddock & Graves (1997)

Figure 1 A comparison of ICC, CEP, and KLD Measures. Studies Employing CEP or KLD Data: CEP: Blackburn, Doran, and Shrader (1994); Chen and Metcalf (1980); Fogler and Nutt (1975); Roberts (1992); Spicer (1978), KLD: Graves and Waddock (1994); Hillman and Keim (2001); Luce et al. (2001); Sharfman (1996); Turban and Greening (1997); Waddock and Graves (1997)

concern for employees, and diversity) are shown as the shared space in the Venn diagram in Figure 1. The ICC data used here also shares consumer orientation and protection of the environment items with the KLD and employment conditions for women and contributions to society with the CEP. Perhaps reflecting the demilitarization of the post-WWII Japanese economy, Military/Defense activities represent the only element missing from the ICC survey that is present in both US data sets. Additionally as reflected in Figure 1, the ICC data set does not contain items pertaining to cruelty to animals and homosexuality issues present in the CEP data or negative screens for doing business in South Africa/Nuclear Power industry present in the KLD.

The ICC uses an independent panel of Japanese experts from academia, the media and the business world. The expert panel first reviews the responses to the questionnaire sent by the firms, then the panel evaluates CSP using a 5-point scale based on a consistent set of criteria relating to “transparency” and “progressiveness.” Thus, more transparent and progressive policies receive a stronger CSP rating. The rating occurs in an interactive process. Two iterations of data gathering and evaluation precede an assessment and intermediate report. Additional information

gathering and the final assessment complete the process. This interactive process of reporting corporate social performance allows for in-depth interpretation of relevant firm activities and helps avoid misunderstandings of questions or responses (Dierkes & Antal, 1985). The variables (see Appendix) were constructed through the panel's assessment of a number of items for each variable. Through this process, the panel reaches a consensus score.

Principal axis factor analysis was conducted resulting in one factor returning an eigenvalue greater than 1.0. We also checked Velicer's MAP test which confirmed that only one factor was present in the data. All of the measures loaded on this factor greater than 0.4. Following the suggestion of Russell (2002) we summed the unweighted measures to create the overall measure CSP.

We calculated Cronbach's alpha to assess the validity of our CSP data. For the composite CSP measure the $\alpha=0.86$. This suggests that taken together the individual CSP items appear to relate to the same underlying construct. For each of the components of CSP the Cronbach alphas (listed in Appendix) are generally over 0.60. Although only two items show an alpha value greater than 0.70 (which is the commonly used cutoff for sufficient reliability) there is some belief that alphas above 0.60 are reasonable (Murphy & Davidshofer, 1998). The alpha scores for these items suggest that our results for the individual items should be interpreted with caution. This is particularly true for the items "fairness to employees" and "consideration for women" which have low alphas. It is clear from the intercorrelations within these items (Table 1) that the individual items that constitute these factors do not pick up a common measure. Again, the result is that we need to be very careful interpreting the results for these measures.

Although the alphas for many of the sub-measures included in our analysis fall below the 0.70 cutoff value, the alpha for the overall composite measure ($=0.86$) is much higher than some of the commonly used measures of CSP in the literature. Orlitzky et al. (2003) meta-analysis of the CSP-financial performance literature shows

Table 1 Descriptive statistics and correlations.

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. CSP	2.58	0.58											
2. Employees	2.43	0.68	0.39										
3. Society	2.08	1.12	0.85	0.25									
4. International Diversity	2.69	1.08	0.59	0.10	0.32								
5. Families	2.51	0.89	0.48	0.32	0.36	0.17							
6. Women	2.10	0.67	0.39	0.08	0.33	0.15	0.14						
7. Consumer	3.01	0.86	0.59	0.22	0.40	0.25	0.16	0.22					
8. Community Relations	3.13	1.09	0.73	0.12	0.55	0.34	0.23	0.15	0.41				
9. Environment	2.08	1.12	0.62	0.12	0.36	0.47	0.12	0.05	0.36	0.49			
10. Information Disclosure	2.87	0.62	0.60	0.16	0.44	0.35	0.13	0.19	0.30	0.46	0.33		
11. ROA	2.03	2.33	0.07	0.22	-0.02	0.02	0.07	0.05	0.09	-0.03	0.05	0.11	
12. Market to Book	0.91	0.59	0.14	0.25	0.07	0.06	0.15	0.10	0.05	-0.02	0.03	0.19	0.51

All correlations greater than or equal to 0.12 are significant at the 0.01 level

that the reliability of the KLD (Kinder, Lydenberg, Domini) measure of CSP is in the range of 0.23–0.35. We also performed a confirmatory factor analysis for the CSP measures and find that the factor loadings are all above 0.40, the normal cutoff.

The ICC survey offers several advantages. First, this is, as far as we know, the only attempt to measure CSP in Japan longitudinally. Second, the firms included present a broad cross section of firms on the Tokyo Stock Exchange. Third, the use of a panel of experts creates the opportunity for greater reliability than is possible with simpler survey methods.

In this study, in order compare our results to the earnings decomposition literature, we also employ two measures of corporate financial performance; an accounting-based measure—*return on assets* and a market-based measure—*market to book value*. The financial data were obtained from *Worldscope*. *ROA* (return on assets) was calculated as net income divided by total assets. *ROA* has been commonly used a financial performance measure in the strategy literature and in particular has been widely used in the earnings decomposition literature (Furman, 2000; Khanna & Rivkin, 2001; McGahan & Porter, 1997, 2002; Rumelt, 1991; Schmalensee, 1985). *Market to book value* was calculated as the market value of the firm (approximated as the market value of common stock plus the book value of debt) divided by the book value of the firm measured as total assets.

Independent variables Keiretsu membership was determined from several sources frequently used in the literature including the *Toyo Keizai Databank* for the years 1995 and 2000, *Industrial Groupings in Japan* published by Dodwell Marketing Consultants for the years 1988/89 and 1994/95, and the *Company Group and Industry Map 2002* published by the Career Development Center. Consistent with the literature, we considered membership in a *keiretsu*-based on participation in the *shacho-kai* (President's Club) (Gerlach, 1992; Lincoln et al., 1996). Sixty-six of the 140 firms for which we had complete data are members of one of the original six Japanese *Keiretsu* (i.e. Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa, and Ichikan).

We determined the *industry* grouping for each firm from the *Japan Company Handbook*. The industry groups included are (1) Food, (2) Textiles, (3) Cosmetics and Pharmaceuticals, (4) Electrical Goods, (5) Automotive, (6) Other Machines (7) Retailing, (8) Travel and Transport, (9) Communication, (10) Paper-Steel-Chemicals, (11) Real Estate and Construction, (12) Finance and Insurance, (13) Energy, (14) General Trading. These industry groupings are broader in scope than many variance decomposition studies based on US samples and aggregating industry-effects at a higher level results in a more conservative test of the importance of industry-effects. Chang and Singh (2000) show how a finer definition of industry increases industry-effects.

We also included dummy variables for *year* and *firm* in the models. Descriptive statistics for the variables are presented in Table 1.

Results

The results of our variance decomposition of the components of CSP in Japanese firms are presented in Table 2.

Table 2 Contribution to R^2 of each effect in the CSP component OLS regressions.

Model	Employees (%)	Families (%)	Women (%)	International diversity (%)	Consumer (%)	Community relations (%)	Society (%)	Environment (%)	Information disclosure (%)	CSP (%)
Year	0	0	0	0	0.0	0	0	0	0	1.2
Industry	2.2	12.7	14.0	34.9	25.6	9.1	19.1.0	35.8	4.4	25.6
<i>Keiretsu</i>	3.4	0.2	0	0.0	0.0	0.0	0	0.5	0	0
Firm	51.5	49.6	56	46.6	29.2	54.4	58.9	42.6	54.6	58.0
Full model	56.9	62.5	70	81.4	54.8	63.5	78.0	78.9	59.0	84.8

Table 3 Variance components of ROA, CSP, market to book.

Effect	ROA (%)	Market to book (%)	CSP (%)
Year	3.8	5.5	1.2
Industry	5.7	4.7	25.6
<i>Keiretsu</i>	1.7	0	0
Firm	47	48.1	58.0
Full model	58.2	58.3	84.8

In Table 2 we summarize the contribution of each of the effects to the variance of the dependent variable for each of the elements of CSP. For example, in the case of *employment consideration for women*, the year-effect contributes 0%, the industry-effect contributes 14%, the *keiretsu*-effect contributes 0% and the firm-effect contributes 56%.

The results show that across the CSP items the industry-effect ranges from 2.2 to 35.8%, the *keiretsu*-effect ranges from 0 to 3.4%, and firm-effects range from 29.2 to 58.9%. We note that across these measures the industry-effect is much larger than the *keiretsu*-effect. For the composite CSP measure we find industry-effects 25.6%, year-effects 1.2%, *keiretsu*-effects 0%, and firm-effects 58%.

In Table 3 we present the results of our analysis comparing the decomposition of CSP against the decomposition of two financial performance measures, ROA and Market to Book Value. The decomposition of ROA shows a large firm-effect (47%), a relatively small industry-effect (5.7%) and a small *keiretsu*-effect (1.7%). The results for the decomposition of Market to Book Value are very similar showing firm-effect (48.1%), industry-effect (4.7%) and *keiretsu*-effect (0%) in line with the ROA results. The only important difference between the ROA results and the Market to Book Value results is the absence of any *keiretsu*-effect for Market to Book compared to the small *keiretsu*-effect for ROA. Comparing the results for financial performance with the results for Corporate Social Performance shows that there is a substantially larger industry-effect for CSP (25.6%) compared to both financial performance measures (ROA 5.7%; Market to Book 4.7%) and the firm-effect for CSP is larger as well (58.0 vs. 47, 48.1%).

Discussion

In this paper we investigated the relative importance of firm, industry, and network-effects on CSP. We find large firm-level effects on CSP (over 50% of the variance in the composite measure). This result attests to the fact that firms retain considerable self-determinism regarding their CSP trajectories. In conjunction with the existing body of research indicating a positive association between CSP and financial performance (Orlitzky et al., 2003), our results suggest that CSP may be an important strategic asset capable of producing sustainable competitive advantage.

Despite using 14 broad industry groups, which undoubtedly results in a conservative estimate of the importance of industry-effects, we also find a large industry component to CSP. These results strongly support our core proposition that CSP represents a shared strategic asset. Similarly, the poor CSP of industry members

may have a deleterious effect on the CSP of other industry members. In this respect, industry cohorts may benefit from collective action designed to protect and enhance their shared strategic asset (King & Lennox, 2000). Although the results of our study show that stable differences exist across industries, many questions regarding how and when industry players co-ordinate their investments in CSP and which mechanisms underlie the development of industry wide CSP norms remain unanswered and warrant continued research.

Considered together, the results for firm and industry-effects imply that theories of CSP need to examine both levels of analysis simultaneously. As we find both firm-level and industry-level factors to be quite important to CSP, theories that seek to explain how these two levels interact could significantly add to our understanding of CSP. For example, the exploration of the CSP-financial performance link has not yet included an attempt to either propose or test why this linkage might be more (or less) profound in certain industries than in others.

The presence of significant and material industry-effects opens the door to an examination of how individual firms may exploit and compete over the industry-level shared asset—CSP. It is likely that in industries with strong positive CSP, individual firms can free ride on the CSP efforts of dominant firms. Similarly, it may be possible for firms with weak CSP to sabotage the industry-level CSP and perhaps influence the strategic position of industry leaders. Such intra-industry competitive dynamics pertaining to shared resources have received scant attention in the literature and deserve greater attention.

The industry results also suggest that an institutional theory perspective (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) may aid in understanding how Japanese firms develop their CSP strategies. Given the powerful influences to conform to social expectations on Japanese firms within industries, it is reasonable to expect to see large industry-effects on CSP. CSP has been linked to institutional forces (Campbell, 2006) and certainly expectations within Japanese industries would constitute significant institutional pressures. One interesting question this raises, however, is do the pressures to conform to social expectations lead Japanese firms to try to change their organizations or just create the appearance that they have changed (Trevino, Weaver, & Cochran, 1999)?

Contrary to our expectations, we found that network-level effects on CSP are quite small. This suggests either that shared resources are difficult to build in *keiretsu* networks or that these firms, while seemingly very interested in building their own CSP, do not see the value in investing in this type of shared strategic resource. This result is particularly surprising given the large body of research suggesting *keiretsu* members engage in serial and multiplicitous business relations, make investments in relationship-specific assets and share strong and diverse affiliative norms (Dyer, 1996; Gerlach, 1992).

Further research regarding how *keiretsu* firms view the option of developing shared CSP and why they are unable to perceive and/or reap the rewards that follow from advancing group-level CSP appears warranted. One possible explanation for the small *keiretsu*-effect is that the strategic value of shared strategic assets is relatively low in advanced economies such as Japan. This notion is consistent with the literature that points out that the reputation benefits of inter-corporate networks

are larger in emerging and developing economies than in developed economies (Khanna & Palepu, 2000b).

Viewed from the perspective that CSP is socially constructed through the attributions made by a firm's important stakeholders, we may deduce that these stakeholders do not factor in inter-corporate network ties into their assessments. Our expectation was that industry and network ties were both highly visible aspects of a firm's operations and activities and would both be considered as important cues by stakeholders. However, our results indicate that while industry matters a great deal, network affiliation matters very little. Such a result could stem either from ignorance of network ties on the part of stakeholders, or alternatively from stakeholders recognizing such ties, but not perceiving their importance. Further research evaluating how or whether various stakeholders perceive and interpret network ties appears needed.

Another possible explanation of this surprising result is that our conceptualization and measurement of the *keiretsu* concept is missing how these relationships influence CSP. We focused our attention on horizontal *keiretsu* only and did not consider the strength of *keiretsu* ties for individual firms. That the *keiretsu* ties we measured were more strongly associated with financial performance than with CSP still leads us to doubt that there is a substantial *keiretsu*-effect on CSP but our proxy for *keiretsu* does warrant further consideration in future studies of the network impacts on CSP.

Our analysis of the components of variance in CSP is interesting in comparison to the results we find for the decomposition of financial performance. The decomposition of ROA results we find appear quite similar to the results in Chang and Hong (2002) that examines group effects in Korean firms. The only major difference between our study and theirs is that group effects in Korean firms seem relatively larger than the *keiretsu*-effects we find. Once again, this could be interpreted as consistent with the argument that business groups become less important as economies become more advanced (Kock & Guillen, 2001).

Another interesting result that comes from the comparison of CSP and financial performance decomposition is that both firm-effects and industry-effects on CSP are considerably larger than the same effects on financial performance. Particularly noteworthy is the large industry-effect on CSP. Not only does this result suggest that the industry environment in which a firm operates has a substantially larger impact on its CSP than it has on its financial performance, but it also represents a positive indication regarding the reliability of our composite measure of CSP.

Our results have practical implications as well. From a policy viewpoint the results of our study suggest that those interested in influencing CSP should note the large amount of variance explained by industry-effects. This shows that there are stable differences between industries with regard to CSP, which present an opportunity to influence CSP choices. While the blunders of individual firms may be more visible, groups seeking to influence CSP can expect industry-level strategies to have a large impact on the CSP choices that firms make. Also important is the recognition that there are large stable differences in CSP among firms. This suggests to those wishing to influence CSP that firms retain considerable choice regarding CSP and can often be influenced by the efforts of stakeholder groups.

It is important to note that our study expands the reach of the CSP literature to a consideration of non-US CSP. Although some of the social activism in the US that drives firms to be socially responsible is relatively absent in Japanese society, it appears from our results that Japanese firms do respond to industry cues and do develop consistent CSP trajectories at the firm level. However, more research is clearly warranted to investigate what CSP means in different countries and to understand what differences exist in terms of the drivers of CSP in different countries.

Another consideration for future research is that the Japanese notion of CSP is still evolving. Although some research has considered CSP in Japan (Kolk, Walhain, & van de Weteringen, 2001; Lewin, et al., 1995; Tanimoto, 2004) and some recent surveys have included Japanese respondents (Environics, 1999), relatively little research has investigated how CSP is viewed by Japanese firms and their stakeholders. We believe that our research forwards this development by exploring the roots of CSP behavior by Japanese firms. Explorations of the attitudes and interests of stakeholder groups are still warranted.

Although our factor analysis findings point to a single construct of CSP, we acknowledge that future research should seek to understand whether or not there exists a more multi-dimensional concept of CSP. For example, some researchers have suggested a difference between CSP that is directed toward an external audience (community, suppliers, customers) from CSP that is directed toward an internal audience (shareholders, employees; Sirgy, 2002). Similarly, Johnson and Greening (1999) present a model that distinguishes between people-oriented social responsibility and product-oriented social responsibility. We believe that further research into the multi-dimensional nature of CSP is clearly warranted.

Similarly, future research can investigate the forces that drive Japanese CSP strategies. For example, it has been suggested that as Japanese industries expand globally they encounter foreign markets and institutions that set new expectations for these firms (Yoshikawa & Phan, 2001). The open question regarding the emergence of CSP in Japan in recent years is how much of the interest in CSP is driven by expectations from within Japanese society and how much is driven by expectations from global institutions and stakeholders.

Our research contains a few limitations. First, consistent with a great deal of prior research regarding *keiretsu* (e.g. Hundley & Jacobson, 1998; Kim, Hoskisson, & Wan, 2004; Lincoln et al., 1996; Weinstein & Yafeh, 1998) we only considered the traditional (horizontal) *keiretsu*. We tested our models with the addition of vertical *keiretsu* and found our results unchanged. Given the changes taking place within *keiretsu* and the broader Japanese economy (particularly the recent mergers of a few of the main banks) future research may consider how or whether such developments have influenced the importance of network and other effects on CSP. Similarly, we considered *keiretsu* membership as a dichotomous variable and suggest that future research may consider the strength of a firm's ties to the *keiretsu* (Kim et al., 2004). Also, the ICC survey we use only surveys the very largest firms in Japan. Our results, therefore, may not generalize to small and mid-size Japanese firms. Future research can address how, or whether corporate size materially effects the CSP of Japanese firms.

Appendix

CSR Measures

Table 4 Every company is rated annually on a scale of 1 to 5 with 1 being the highest evaluation and 5 the lowest. The following nine socially relevant categories are used in the rating.

Measure	Items used to construct the measure	Cronbach's alpha
1 Concern for employees	Employment effort; consensus style decision making; time availability; self-development support; protection of privacy; middle aged employees	0.30
2 Concern for families	Welfare leave; financial support; medical insurance, time consideration	0.60
3 Employment conditions for women	Employment and career; retention policy; child birth and rearing; policies to avoid sexual harassment; flexibility of the system	0.40
4 Globalization of employment	Time and timing of employment of foreigners; equality of employment; balance of opportunities; degree of localization; localization of foreign companies in Japan	0.70
5 Customer orientation	Efforts to systemize; efforts to provide information; problems (yes/no); protection of information of individual customers; universal design	0.62
6 Concern for community	Clarity of philosophy; information exchange; system adjustment; exchange activities; encouragement and support of employee activities	0.60
7 Concern for society	Clarity of philosophy; material support; welfare/support activities, employee development	0.62
8 Protection of the environment	Environment policy; implementation condition; action plan; management of objectives; involvement beyond the business boundaries; management by administrative section; management by division	0.83
9 Information disclosure	Disclosure policy; autonomy of PR department; information gathering effort; information disclosure effort; cooperation with the survey	0.52

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