Creating Firm's Economic Value via CSR actions:

A Scenario-based Experiment

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Abstract

The strategy research on the relationship between Corporate Social Responsibility (CSR) investments and economic performance has its mainstream theoretical approach in stakeholder theory. This paper responds to some recent criticisms to this perspective by proposing a theoretical framework grounded on Social Identity Theory (SIT). The objective is understanding which types of CSR investments create value to a firm by establishing a strong identity-relationship between the corporation and focal stakeholders. We present empirical evidence consistent with the theory based on a scenario-based survey conducted with 996 participants' valid responses. We find that CSR that are geographically closer to the focal stakeholder and that are more proximate to the core business of the company have a more positive impact on standard measures of company employer and consumer brand value.

INTRODUCTION

In its 2020 Environmental Social Governance Report, Kraft Heinz, the multinational company specialized in food sauces, claims to generate Corporate Social Responsible (CSR) actions addressing all the 17 UN Sustainable Development Goals, with a consistent increase compared to the previous 8 goals targeted in the last 2017 report.

This strategy example is consistent with the mainstream stakeholder theory that conceives CSR activities as the ability of firm to respond with CSR to *all* pressures becomes a signal of goodwill and reputation for stakeholders, which helps to reinforce the connection between CSR and corporate economic value (Surroca & Tribo, 2008). In this respect, CSR assumes the meaning of a signaling mechanism that reduces the coordination costs by responding to the pressures of different stakeholders (Brown & Dacin, 1997; Lev, Petrovits, & Radhakrishnan, 2006), or that helps preserving corporate economic value in case of negative events (Godfrey 2005; Godfrey et al. 2009).

However, a recent debate spurred by the specialized press (*The Economist*, 2020) introduces some skepticism on this perspective, because of the “near impossibility” for companies of responding to all stakeholders’ pressures in a feasible way. Companies disperse their investments in a myriad of CSR actions passively driven by the anxiety of letting some pressures unsatisfied, with a final scarce impact not only on the society, but also on their economic value. Thus, the classical Friedman’s criticism that identifies social investments as value destroying actions that undermine shareholders’ interests (Friedman, 1984) remains thriving. To contribute to this discussion, we address the following question as substantial: is there heterogeneity in the impact of CSR investments for the economic value of companies? This question is also in line with the shared value creation approach by Porter & Kramer

(2011), which calls to have a more profound description of the mechanisms that link competitive advantage with CSR actions.

In this respect, a recent stream of works starts analyzing more in details the connection between CSR investments and firm's economic value focusing on specific channels of social actions. Typically anchored on the social identity theory (Tajfel & Turner, 1979), this line of research bases its reasoning on the ability of companies to create through CSR actions identity processes anchored to some social values, with the aim of participating or creating communities of stakeholders who attribute symbolic meaning to products and corporations (Fosfuri et al., 2016; 2011; Jayachandran, Kalaignanam, & Eilert 2013; Kang, German, & Grewal, 2016). In sum, while stakeholder theory is more centered on the economic benefits of CSR at a *general corporate* level, this second stream tries to understand how a *focal stakeholder* could create value by reacting to a company's CSR efforts. Moreover, the underlying mechanisms of value creation are different in the two cases: while stakeholder is considerably based on a transaction cost reasoning, social identity approach are intertwined with the concepts of identification, categorization/ salience and reciprocity (Fosfuri et al., 2016).

Given also its actual scarcity of micro-empirical evidence, this paper embraces social identity theory approaches with the objective of testing the corresponding mechanisms of CSR economic value creation. Precisely, this paper aims to put under better scrutiny the ability of social identity theory to elaborate logical sound hypotheses on the link between CSR and firm economic value, which will be then tested with some empirical evidence.

We draw from Cuyper et al. (2016) to differentiate CSR actions depending on their qualitative characteristics: namely, the paper focuses on social actions geographically closer or distant to the focal community, and the ones closely (or loosely) related to the core business of the company (Kaul & Luo, 2016). We claim that these qualitative differences convey clues of substantive vs. symbolic activities (Cuyper et al., 2016; Marquis & Qian, 2014) that in turn help to explain a possible social identity mechanism (Westphal & Zajac, 1994; 1998; Zajac & Westphal, 1995).

To achieve our purpose, we set up a lab experiment with a 2x2 between-subject design administered to 996 participants, where we manipulated the characteristics of the CSR activities (core business activities vs peripheral activities x geographical close activities vs geographical distant activities). We use employer and consumer brand value as measures of economic value; these two measures are directly generated by two main focal internal and external stakeholders - namely, customers and employees - so that we maintain in the empirical part an open link with a mainstream stakeholder setting. Our empirical evidence shows that CSR actions related to the core business of the firm increase customer and employer branding. The identical independent effect is given by geographical closer actions. Even more interestingly, the customer and employer branding value is maximum when both dimensions interact. Our results are robust to several robustness checks.

Our contributions read as follow. Although, existing studies have already highlighted the positive effects of CSR investments on financial performance (Wan & Qian, 2011; Wokutch & Spencer, 1987); this work complements the canonical stakeholder view of CSR (Godfrey, 2005; Wang et al., 2008) with a more micro-approach, showing that mechanisms in line with social identity theory could be also consistent to explain CSR impact on the economic value of a company (Fosfuri et al., 2016). Compared to the recent works that already used social identity theory in this realm (Jayachandran, et al., 2013; Kang, et al., 2016), this paper provides an enhanced fit between the theory development and the empirical evidence, focusing on two qualitative characteristics of CSR investments, namely the geographical and the business proximity, which can arise a symbolic or a substantive meaning and consequently, it makes focal stakeholders attribute a different value to the firm.

Precisely, given the novelty of this stream, most of the previous research was theoretical or based on case studies, while this is one of the first attempt to provide some identified causal evidence.

The paper is structured as follows. First, we review the literature, then we introduce our hypotheses. We then present our methodology and describe our experimental research design followed by the empirical results. Concluding, we discuss our findings and summarize the potential implications for practitioners and Chief Sustainability Officers when we move more our logic from a stakeholder to a social identity approach.

BACKGROUND LITERATURE

CSR to respond to Stakeholders

Corporate Social Responsibility (CSR) encompasses those voluntary corporate actions designed to improve social conditions (Mackey, Mackey, & Barney, 2007). They are not required by law, and they attempt to promote social aims beyond the explicit profit-seeking interests of competitive firms (McWilliams & Siegel, 2000). Nowadays the business environment shows a raising attention to corporate initiatives with widespread social impact; not only new social-oriented startups' movements, like the one of B-corporations (Moroz et al., 2018), but also an increasing numbers of large and consolidated companies– such as Unilever, General Electric, IBM, Google, Nestle, and Johnson & Johnson engage in highly visible CSR initiatives including charity or environmental programs, or donations, education inclusion, or equality projects. Thus, especially after the Friedman's argument about the value destroying proprieties of CSR initiatives (Friedman, 1984), strategy studies have been interested in the relationship between CSR and its economic results for almost fifty years now (Aguinis & Glavas, 2012). Their ambition is to show whether and how CSR could be strategically justified by their positive performance implications on the firms which are undertaking those (Vishwanathan et al., 2020).

Accordingly, a huge number of studies correlate CSR and its impact on economic performance; however, findings are sometimes conflicting and still inconclusive (e.g., Blacconiere & Patten, 1994; Blacconiere & Northcutt, 1997; Flammer, 2015a; Freedman & Stagliano, 1991; Orlitzky & Benjamin, 2001; Schnietz & Epstein, 2005; Surroca & Tribo, 2008; Williams & Barrett, 2000). To conclude, also two meta-analysis studies by Margolis et al. (2007) and Orlitzky et al. (2003) reckon that the positive but small association between CSR and corporate financial performance.

Theoretically, the studies have investigated the mechanism that could make CSR as strategic, disentangling how shared value creation from CSR investments can lead to a competitive advantage (Porter & Kramer, 2011). Accordingly, CSR impact on firms' economic performance is twofold: on the one hand, CSR can *preserve* economic value (Godfrey, 2005; Godfrey et al, 2009); ii) but on the other hand, CSR can *generate* economic value. The first approach is the mainstream view rooted in the stakeholder theory (Godfrey, 2005). It grounds on the presence of different stakeholders who could influence with their behaviors the performance of a company. Companies should coordinate the actions of stakeholders in order to maximize its economic value and under this logic, CSR tends to reduce transaction costs of different kind among stakeholders dealing with contrasting interests (Jones, 1995). In this respect, throughout their CSR activities firms signal their reputation, trust, and social capital to stakeholders through advertising or via external 'infomediaries' (Deephouse & Heugens, 2009; McWilliams & Siegel, 2001; Schuler & Cording, 2006) to act altruistically (Kennett, 1980, Godfrey, 2005; Godfrey et al., 2009). Hence, CSR *preserves* value by acting like an insurance when negative events occur, because the insurance shield generated at corporate level by CSR creates a reputational capital to the firm (Godfrey et al., 2009; Gardberg & Fombrun, 2006). At the same time, this intangible capital reduces the overall transaction costs (like for example need of monitoring), and it allows an easier coordination and alignment of different stakeholders. From an empirical standpoint, this approach focuses on the the CSR-corporate financial performance relationship at the corporate level. In this respect, they are usually characterized by firm-based regressions of financial or accounting performance (Tobin's Q, return on assets, etc.) on measures of CSR scores or events (e.g., KDL, the Kinder, Lydenberg, and Domini index of social performance) (e.g. Surroca et al., 2010; Vishwanathan et al., 2020).

The second approach moves away from a perspective that sees CSR as a tool to respond to stakeholders' pressures (Gond & Crane, 2010; Vishwanathan et al., 2020). Theoretically, these scholars do not adopt the logic of the stakeholder/transaction cost framework, and they adopt a more micro perspective, by focusing on the presence of synergies between CSR and economic goals, such that they reinforce each other (Battilana & Lee, 2014, Fosfuri et al., 2016). These studies introduce an element of 'reciprocity' (McWilliams & Siegel, 2001; Fosfuri et al., 2016) or reciprocation (Vishwanathan et al., 2020) as a basic mechanism of value creation. This means that CSR tends to improve an individual's salience, loyalty, sense of belonging to a community in which the focal firm is a member or a founder (Fosfuri et al., 2011; 2014; Brown & Dacin, 1997; Porter & Kramer 2006, 2011; Flammer 2015b). The level of analysis is narrower, considering specific types of CSR activities and their indirect effect on firm economic value (Flammer, 2013; King & Lenox, 2002; Wang & Qian, 2011). For example, an employee can reciprocate a firm CSR actions with a greater job productivity (De Roeck et al., 2016), or higher levels of organizational commitment (Ali et al., 2010; Brammer et al., 2007; Bode et al., 2015; Hansen et al., 2011), and decrease knowledge leakages to protect internal innovation informally (Flammer & Kacperczyk, 2019). Also customers seem more attracted to derive satisfaction from purchasing products or services from firms active in CSR (Luo & Bhattacharya, 2006; Sen & Bhattacharya, 2001), which increases their purchasing intention (Sen et al.,2006), as well as their willingness to pay premium prices (Homburg et al., 2005; Marín et al., 2012).

In contrast with the insurance-like mechanism of CSR at the corporate level, this path highlights that CSR activities must generate particular identity based mechanisms at the base of an economic value creation. The stakeholder theory could come short in explaining some micro-mechanisms of shared value creation (Porter & Kramer, 2011), while social-psychology approaches like the social identity theory (Tajfel & Turner, 1979) can reconcile under its umbrella some of these stylized facts. Companies that invest in CSR actions might activate processes of identity formation and reciprocity in focal groups of stakeholders who reciprocate by attributing more economic value to the company. In the case of customers, for instance, CSR investments could turn products and services into symbols of social values for some individuals' identities (Fosfuri et al., 2015), which translated into more loyalty and willingness to pay. Compared to stakeholder approaches, this perspective depicts a more proactive corporate role, less sensitive to external pressures, and whose economic value generation, is less dependent on transaction cost savings rather it covers importance the customers' willingness to pay or more consumption or the employees' higher productivity (Bode et al., 2015; Hansen et al., 2011, Sen & Bhattacharya 2001).

Creating Identity between Firm and Focal Stakeholders

The processes and mechanisms by which a firm can connect with a focal stakeholder to develop a common identity, with mutual meaning and a sense of belonging, are well addressed by social identity theory (Tajfel & Turner, 1979). This theory identifies social groups and interactions as central to sociology research (Reed, 2002) and has spurred multiple applications in social science, because its holistic approach is relevant to various phenomena, including social movements, religious affiliation, ethnocentrism, altruism, and reciprocity (Turner & Tajfel, 1986). The theory is rooted in social psychology studies; originally it applied mainly to intergroup dynamics, designed to understand a person's sense of who they are, based on their group membership and over time has been employed in human relations (e.g., Graf et al. 2012; Ndofor et al. 2015; Rico et al. 2007; Spoelma and Ellis 2017; Wei and Wu 2013), organization studies (e.g., Furnari 2018; Hatch and Schultz 2002; Leavitt and Sluss 2015; Nilsson 2015), marketing and consumer behavior (e.g., Brough et al. 2016; De Bock et al. 2013; Fine and Rush 2018; Johnstone and Tan 2015, Van de Ven et al. 2010), and strategic human capital (e.g., Avery et al. 2007; Buttner and Lowe 2017; Payne and Webber 2006; Walker et al. 2012; Wu et al. 2016). However in the pure strategy field, SIT is underused to the exception of a few works on community-focused strategies (Fosfuri, Giarratana, & Roca, 2011; 2014; 2016).

According to Tajfel & Turner (1979) and Stets & Burke (2000), identity construction could be created when individuals see "the self as an embodiment of the in-group prototype" (Stets and Burke 2000: 231). There are three main steps that support the identity formation; namely, categorization, identification, and comparison. First, identity forms through categorization, such that the subject selects a social group to join, according to some perceived alignment in subject- and group-related prototypical social values (Hogg & Terry 2000). The second step, is through identification: the individual progressively develops a social identity through continued participation in and interaction with group members (Cohen, 1985). Finally, comparison helps the member reinforce this social identity, by assigning in-group and out-group membership to others (Stets & Burke 2000). By establishing the boundaries of a community, symbols and behaviors reinforce the identification process by enabling differentiation from other communities (Ashforth & Mael 1989; Hogg & Terry 2000; Rowley & Moldoveanu 2003). Thus, symbols also are critical to the comparison step, because they reinforce a sense of belonging among members of a community, as opposed to non-members. Reciprocity guarantees community survival; to reciprocate, members engage in non-stipulated actions that mutually reinforce the community identity (Ashforth & Mael 1989; Turner & Tajfel 1986). Thus our premises is that companies that are "not truly walking the talk" with CSR actions, which could be classified as decoupling or greenwashing, will have a difficult position in triggering social identity mechanisms (Walker & Wan, 2012).

All in all, this theory can explain how corporate actions with social impacts can establish an identity-based mechanism between the firm and focal stakeholders (in our work we consider customers), which affects the perception that these stakeholders have about the economic value of the firm in terms of employer and consumer branding (Bellou et al., 2015; Ajitha & Sivakumar, 2017).

The Table 1 below summarizes the main contrasting cues of the two approaches.

Insert Table 1 about here

HYPOTHESES DEVELOPMENT

The following theorizing and our analysis is at a micro-level. Precisely, we identify a focal stakeholder, such as customers and employees, and we attempt to connect his or her behavior to the CSR firm investments by elaborating two hypotheses grounded on social identity theory (Tajfel & Turner, 1979; Stets & Burke 2000). Thus, we are focusing on the economic value that a focal stakeholder could attribute to a firm given its CSR actions, rather than the general relationship between corporate CSR and the transaction costs due to the sum of the pressures of all different stakeholders. In so doing, we embrace the idea that CSR can be treated as a multifaceted construct, composed by independent actions such as *environment*, *corporate governance*, *community*, each one with idiosyncratic consequences on different stakeholders (Jayachandran, Kalaignanam, & Eilert, 2013; Kang, German, & Grewal, 2016). Hence, we move away from a classical approach of whole CSR on the overall corporate financial performance. We focus on different spontaneous programs social actions – heterogeneous from a qualitative standpoint - to study how they can create different economic value for the company.

Evidence shows with consensus that firms highly committed to community-based actions, charitable giving, and support to volunteer programs, can stimulate a favorable image in the broader community (File & Prince 1998; Wang, Choi, & Li 2008); however, very little is known about how their heterogeneity might be more beneficial for firms' economic value. Along these lines, we draw from the works by Cuypers et al. (2016) who classify CSR investments not only restricting to their quantitative aspects, namely the amount of giving, rather using qualitative characteristics, namely the type of giving. Clearly, on the one hand, the amount of CSR investments could be a key measure to recognize their impact since there exists a high variance across donations: there are firms engaging in small cash donations to aid local civic causes (Porter & Kramer 2002), while others donate consistently high amount to charitable causes. Cuypers et al. (2016) label this aspect as "generous" programs. On the other hand, also qualitative attributes of CSR investments could be key to consider consequences of such investments and the effects on focal stakeholders, community of references, and indirectly on the firm's value. Cuypers et al. (2016) refer to this dimension as "innovating" programs indicating how firms opt for different levels of engagement and through their philanthropic activities, regardless of the that they invest.

The innovative programs are more likely to be associated with effort and positive long-term social impacts on the recipients. On this line, also Kaul & Luo (2017) show formally that whether CSR is socially beneficial depends on how the firm compares to a non-profit serving the same cause. In other words CSR activities that are non-overlapping with non-profit efforts can create higher impact from a societal standpoint, especially when undertaken by high-performing firms.

Such qualitative differences of CSR actions are linked to recipients' perception as substantive or symbolic activities (Westphal & Zajac, 1994; Zajac & Westphal, 1995). Symbolic actions are usually employed at improving a firm's legitimacy to comply with external pressures stakeholders. For example, Weaver et al. (1999) showed that some firms form ethics committees as a pure symbolic action for external signal without any real substance. In contrast, substantive actions imply a more long-term investment and plan, usually detached to ad-hoc, temporary environmental pressures (Zajac & Westphal 1995). This distinction of symbolic vis-à-vis substantive actions has been applied to the contexts of bankruptcies (e.g., McDonnell et al. 2011), entrepreneurial firms (e.g., Zott & Huy 2007), and general CSR (e.g., Short & Toffel 2010).

Qualitative heterogeneity is particularly important under the SIT process because products' cues are shown to arouse both cognitive and emotional identification (Bergami & Bagozzi, 2000; Johnson et al., 2012) and consequently also affect consumers' judgments and behaviors (McGowan, Shiu, & Hassan, 2017) such as purchase intention for instance (Forehand et al., 2002; White & Dahl, 2007). The identity-association principle (Reed et al., 2012) predicts that when a stimulus becomes associated with a social identity held by a consumer, a transfer takes place from the social identity to the product. The transfer results in a more favorable evaluation of and positive response to the product (Reed et al., 2012). In this sense, we employ SIT to explore more adequately which cues of CSR strategies enhance better this identity-association to be perceive as substantive. The main reason is that substantive actions are key in the formation of social identity, because the long-term commitment to particular social value are crucial to the formation of a social identity.

Differently, from a stakeholders' approach (Clarkson, 1995; Freeman, 1984) the qualitative heterogeneity among CSR actions does not represent a conscious identification principle, rather it represents a less noisy signal to the external environment to gain legitimacy and reduce conflicting interests coming from external stakeholders (Chen & Roberts, 2010). From a legitimacy perspective (Lindblom, 1994; Suchman, 1995) the implementation of such CSR strategies is a process of isomorphism whose main scope is to gain legitimacy (Chen & Roberts, 2010) in a particular environment to reduce transaction costs or to build an insurance shield.

Our first qualitative feature that generates a substantive meaning is the geographical location of the investments. Here we distinguish between CSR investments with a geographical proximity to the focal stakeholder compared to some social actions that are not located in the same geographical area. To the best of our knowledge, few studies address the geographical location and its effects on CSR (Husted, Jamali, & Saffar, 2016). As exception, the findings by Husted et al. (2016) find that firms located in areas with high levels of local CSR density engage more in social actions as well as the ones located close to major cities and financial centers because they can benefit from positive spillovers of such actions.

Geographical proximity is a booster for social community processes, because it allows the identification process (Tajfer & Turner 1979) via the diffusion of behaviors consistent with values, stereotypes, or characteristics associated with the community's identity (Shih et al., 1999). Thus, a firm that orchestrates CSR actions targeted to particular geographical community enacts some social identity processes and canalizes its position. Second, geographical closeness of CSR actions can have a more immediate impact on a focal stakeholders and this can create directly faultiness line (e.g., Ndofor et al. 2015; Rico et al. 2007; Spoelma & Ellis 2017) between the firm's community and focal stakeholders with respect to other stakeholders (i.e. categorization process). Thus, such CSR actions' closeness identifies a salient identity of the focal stakeholder vis-á-vis all the external ones. Direct and visible investments to a community - where the stakeholder is part of - increase the probability that the same stakeholder will engage in non-stipulated actions to reciprocate the community's identity provision (Heckathorn, 1996; Turner & Tajfel, 1986). For example, customers in a particular geographical area affected by a firm CSR actions could interpret such actions as a higher level of customers' care (Adams & Hardwick, 1998) increasing both their demand for a firm's products or services and their willingness to pay premium prices (e.g., Sen & Bhattacharya 2001, Lev et al. 2010, Fosfuri et al., 2015). Hence, we can hypothesize that:

Hypothesis 1: CSR actions that are more geographically closer to a focal stakeholder generates higher economic value for a firm.

The second qualitative dimension is the relatedness of CSR actions to the core business of the firm. Here, with the term relatedness or proximity to the core business we indicate those CRS initiatives that are directed to specific components of the product or phases of the product process (i.e., production of sustainable cotton for clothing), or it is targeted to a group of stakeholders which is specific for this particular business (sport activities for children with disabilities for a sport shoes company, for instance). When CSR actions are more related to the firm's core business and they match with a particular cause, the firm starts to symbolize the values associated to the caused sponsored and such values becomes signal of its identity (Ashforth & Mael, 1989; Sen & Bhattacharya, 2001). In this sense, the higher business proximity of a CSR acquire a higher component of substantive meaning (Marquis & Qian, 2014), because in this way the firm creates a committed and specialized identity, more authentic. In this vein, prior marketing studies support the idea that the compatibility of company and cause supported can influence the consumer's choice through associative learning (Shimp *et al.*, 1991; Till & Nowak, 2000) and this will translate into a more positive consumer attitude towards the company (Gupta & Pirsch, 2006), fuelling a cognitive and affective components which translate into a greater stakeholder's identification (Bergami & Bagozzi, 2000). On the contrary, any misalignment with social values - central in the identification process - will destroy the reciprocity mechanism between the corporation and its identified stakeholders, and the firm would incur in higher losses, the more they are the higher the backlash will affect the main firm's business (Aaker, 2004; Breen, 1988). Second, the core business of the company is imbued by a symbolic meaning derived from CSR. Consuming the flagship product or being an employee of a company in a particular sector will be used as a demarcation symbol between in-group and out-group communities (Turner & Tjfel, 1986; Ashforth, & Mael, 1989). Thus, CSR actions with a more direct link with the core business are the ones that will show more coherence and adherence with the behaviours and stereotypes associated with identity created (Shih et al., 1999), infusing a higher sense of authenticity (Marquis & Qian, 2014; Cuypers et al., 2016). Thus, they will be the one more able to create synergies between the social actions and the economic returns. Symbolic meaning (Maurer et al., 2011) is a key mechanisms to understand how the social identity process triggered by CSR could be translated into economic returns, because stakeholders who share common values (e.g., caring for environmental sustainability, water preservation for example) often identify themselves with the same behaviour that flags out the membership in a social group (Turner & Tajfel, 1986). Naturally, this symbolic meaning will have stronger effect, the more is attached to the core business of the company because we can safely assume that at the margin, the most productive resources and assets are associated with the firm core business. With this argument, we could state that:

Hypothesis 2: CSR actions that are more related to the core business of the company create higher economic value for a firm.

It is worth noting that under a stakeholder perspective, geographical and business proximity would create a narrower visibility, and consequently a more limited legitimacy. In this respect, if CSR actions are aimed to respond to pressures from diverse stakeholders, a narrow legitimacy can generate a lower savings of corporate transaction cost, and thus, a less powerful insurance shield again negative events. For example, a drink company, which focuses its CSR on business related actions (i.e., clean water preservation, glass and aluminum recycling) and it excludes from its investments the ones that are unrelated to its business (gender equality, inequality, education), could be at disadvantages in responding to several pressures under this logic.

METHODOLOGY

Data, Sample, and Procedure

In order to test our hypotheses with an identification of casual effects (Di Stefano, King, & Verona, 2014; Flammer, 2015), we set up a scenario-based experiment. We adopted a 2x2 between-subjects design in which we manipulated two factors: i) the *geographical proximity* of the CSR actions with respect to the focal stakeholders, and ii) the *relatedness with the core business* of the firm of these actions. We assigned the manipulations randomly to each participant who participates in the experiment individually. Finally, we enrolled 960 participants selected through the Qualtrics platform, distributed equally across the four scenarios, namely n= 240 participants each one. We chose the beverage industry as the setting of our experiment because it sells products easily recognizable and consumed across cultures and generations. To construct an accurate experiment scenario, we consulted experienced practitioners of the industry for gathering insights and feedbacks. Manipulations of our independent variables are summarized in Table 2.

Insert Table 2 about here

Variables and Measures

Independent Variables. Both two independent variables are dummies. Geographical proximity is represented by the dichotomy '*local* vs *wider national community'.* The variable takes value 1 if the social action is targeted to a local community, while it takes value 0 whether the CSR action targets a wider national community. Business proximity is represented by the dichotomy '*core* vs *not core business*'. The variable takes value 1 if the social action is might be associated to the core business of the firm, while it takes value 0 if it is loosely related or is peripheral to the firm's business. To build such 2x2 manipulation summarized in the Table 2, we administered a vignette-based scenario (Di Stefano et al., 2014) in which a company in the beverage industry is active with CSR actions. The corporate CSR activities are described as either addressing / sustaining *the local community* or *a wider national community*. At the same time, these activities could be related to *core business* of the company or not (e.g. spontaneous social activities related to water preservation versus schooling activities for underprivileged children). We adopted instructional sets from previous studies asking the participants to read and figure it out the story as they were living the scenario, in line with existing evidence that shows that this methodology make the enrolled participants answering with more truthfulness (e.g., Davis *et al*., 2004; Galinsky & Moskowitz, 2000; Galinsky *et al*., 2008).

To assess the effect of our manipulation on the dependent variables, we developed a post-treatment questionnaire. Before conducting the final version of the experiment, we ran a pilot study to test whether the questionnaire was fully understandable and whether it could be completed in the required time. We pre-tested the questionnaire on a random sample of 35 people who later were excluded from the final sample and analysis.

Dependent Variables. The questionnaire aimed at measuring our main dependent variables, namely employer branding and consumer branding, two proxies for the economic value coming from the two focal stakeholders, employees and customers. Brand value is a key measure of intangible economic value of the company, and several studies have shown its importance to predict the financial and economic results (Krasnikov, Mishra & Orozco, 2009; Bendle & Butt, 2008). Customers (Fosfuri et al., 2016) and employees (Flammer & Kacperczyk, 2019) are already spotted by literature having these two characteristics: they are stakeholders because their actions are influencing the economic results of the company; they are also group sensible to the CSR actions of a company. It is worth to note that we are focusing on the economic value created by a *focal* stakeholder thanks to CSR actions, and not at the relationship between the CSR actions and the corporate economic results.

We used the validated scale by Bellou et al. (2015) and Ajitha & Sivakumar (2017) to assess the variation of the two constructs. *Employer Branding* and *Consumer Branding* are estimated by using scales of 13 and 15 items respectively. Measures are self-reported using a scale from 1 (= absolutely disagree) to 7 (=absolutely agree). The two scales turn to be reliable and their corresponding Cronbach Alphas are equal to 0.97 and 0.96.

Control Variables. Although the randomization of the treatment reduces bias due to unobserved heterogeneity, we also collected additional variables such as that we used as control variables. First we introduce the *Age* of the respondent calculated in years, because age has a non-trivial impact on the consumers' and job preferences under a different generation perspective. We then introduce the actual *Wage* calculated in Euros per month. Again the actual stream of revenues of the single respondent could have an important effect both in terms of consumers and employee behavior. We control for the *Gender* of the respondent, with a dummy that takes value 1 in case of female and 0 otherwise. We add *Social Respondent*, which is a dummy that takes value 1 if for the respondent the social values are important factors to make decision on consumer and employee behaviors. We then introduce *Duration*, which represents the time needed by the respondent to finalize the scenario, counted in seconds. Finally, we introduce 21 regional dummies, according to the Spanish province of the respondent. Table 3 includes descriptive statistics and correlations.

Insert Table 3 about here

EMPIRICAL RESULTS

We start analyzing our data with a series of t-test. Table 4 shows the average, standard deviation, and number of observation inside the four cases generated by the interaction between *Local* and *Core*. With these data, t-tests are calculated in the lower part of the table, comparing all the six paired cases, i.e. 1 vs. 2, 2 vs. 3, 3 vs. 4, 1 vs. 4, 1 vs. 3, and 2 vs. 4. In terms of controls, we can note that there are not visible differences in the t-test across the different six paired cases, except for *Social Respondent* in just two cases. This evidence confirms that the random assignment of respondents across the scenarios is sufficiently high. In terms of our dependent variables, we can note that all the t-test are significantly different from zero, except one case out of 12. All in all, this initial evidence supports the presence of a significant effects across different scenarios.

Insert Table 4 about here

In Table 5 we reported regression analysis to test our hypotheses. We inserted two sets of regressions (Models 1-4 for *Employer Branding*, Models 5-8 for *Consumer Branding*) by introducing the main covariates progressively.

Insert Table 5 about here

We first analyze the results for *Employer Branding* (Models 1-4). *Core* and *Local* have an independent and direct positive and significant effect on the *Employer Branding* (both significant at 1% level), although the impact of *Local* is double compared to *Core.* In Model 4 the variables *Local* and *Core* are introduced simultaneously, the increase in the R-Square is considerable, more than 70%. From an empirical standpoint, the two covariates maintain their positive sign and significance but their multiplicative sign is negative ($p<0.01$). Furthermore, to check the joint effect of the two variables, we computed marginal effects. Moving from *Local*=0 and *Core*=1 to *Local*=*Core*=1, the marginal prediction increases from 4.97 (upper 5% bound 5.02) to 5.65 (lower 5% bound 5.76), corresponding to 22.8%. Moving from *Local*=1 and *Core*=0 to *Local*=*Core*=1, the marginal prediction increases from 5.64 (upper 5% bound 5.76) to 5.65 (lower 5% bound 5.76), with a no significant difference. Figure 1 depicts the distribution of predicted *Employer Branding* in the four cases. We can notice that the manipulations are all significantly different from the case *Local*=*Core*=0, but the case *Local*=*Core*=1 is not statistically different from the case *Local*=1 and *Core*=0. Overall, we can conclude that we have evidence for a positive effect on the joint effect *Core* and *Local* together, but with decreasing returns. In this set of regressions, significant controls are *Wage*, with an expected positive sign; and *Social Respondent* with a negative sign, that can interpreted as that that social conscious respondent tend to have a lower average in the employer branding score.

Insert Figure 1 about here

The results for *Consumer Branding* are reported in the Models 5-8. Similarly, in the Model 5 *Core* and *Local* have a positive and significant effect on Consumer Branding ($p <0.01$); *Local* has again a double impact than *Core.* In the Model 8, the increase in the R-Square when *Local* and *Core* are introduced is very impactful, namely higher than 100%. Finally, when inserted together in the specification, the two covariates maintain their respective positive sign and significance at 1% level but their interaction effect, is negative (but with a lower impact with respect the one on the *Employer Branding*). To check if the joint effect is negative or positive with decreasing returns, we computed marginal effects. Moving from *Local*=0 and *Core*=1 to *Local*=*Core*=1, the marginal prediction increases from 3.67 (upper 5% bound 3.84) to 4.70 (lower 5% bound 4.54), corresponding to 8.9%. Moving from *Local*=1 and *Core*=0 to *Local*=*Core*=1, the marginal prediction increases from 4.40 (upper 5% bound 4.59) to 4.70 (lower 5% bound 4.54), with an increase in the difference compared to *Employer Branding* regression. Figure 2 depicts the distribution of predicted *Consumer Branding* in the four cases; we can note how the manipulations are all significantly different from the case *Local*=*Core*=0, and also the case *Local*=*Core*=1 is statistically different from all the others. We can conclude that we have more compelling evidence for *Consumer Branding* that doing *Core* and *Local* is an effective strategy. In this set of regression the only significant control variable is *Wage*, with an expected positive sign.

Thus, to conclude, given our results, we can confirm that our two hypotheses are supported.

Insert Figure 2 about here

Robustness Checks

Endogeneity between Local and Core Variable: a Copula approach.

One of the main doubts from the regression results could be that respondents are interpreting similarly the *Local* and *Core* variables, generating spurious and unobservable correlations in the dataset. Even if the scenario setting should mitigate the problem, some concerns could be still present. To control for this issue, we estimate the regressions in Table 5 also using Gaussian copulas (Park & Gupta, 2012). The model is well suited when the focal variables are not normally distributed, and when endogeneity arises from a potential unobserved correlation between covariates. To check and solve the problem, Park & Gupta (2012) propose to add a correction term into the regressions as a new covariate, the so-called *copula*, which is the empirical inverse normal cumulative density function of the focal variables. The intuition is that this new variable should represent a well-behaved simulation of the core independent variables, which could highlight any potential problem that spurs from the link between non-normality and endogeneity. The copula model fits with our purpose, because we might suspect an unobserved correlation between *Local* and *Core* (e.g. dummy variables without a normal distribution). In so doing, we calculate the copula term for *Local* and *Core*, which we named *Copula Core* and *Copula Local*, and we ran again our regressions including these terms and the multiplication. Since the estimation is obtained from a bootstrapping method, we propose the results after 50 interactions. The Table 6 shows that the new regressions: coefficients obtained are statistically similar with the ones reported in the Table 5, and especially, the copula terms are not statistically significant. Therefore, this evidence is in favor of a minimal presence of endogeneity problems between *Local* and *Core*.

Insert Table 6 about here

External Validity Check.

Finally, to both increase external validity of the dependent variables' measures and to confirm that our two factor components capturing them are consistent with our theory, we introduce some additional questions in the survey. Precisely, on a scale from 1 to 7, we ask the respondent to specify given the corresponding scenario, his or her *Willingness to Buy* the product, and *Willingness to Work* for the company. These two variables represent a more direct behavior of the respondent, and they are not introduced in the factor composition of the two main variables *Employer* and *Consumer Branding*. We use these two variables as dependent variables and we introduce our *Employer* and *Consumer Branding* as main core covariates. In Table 7 , we show the regression results, which confirm a strong positive correlation between *Employer* and

Consumer Branding and *Willingness to Buy* and *Willingness to Work*. This evidence confirms the robustness of our dependent variables, at least in terms of consistency of self-respondent approach.

Insert Table 7 about here

CONCLUSIONS

This paper investigates the relationship between some qualitative difference (Marquis & Qian, 2014; Cuypers et al., 2016) in the CSR actions of a company and the impact on firm economic value. In so doing, we complement the mainstream stakeholder approach (Freeman, 1984; Godfrey, 2005; Godfrey et al, 2009), by defining a theory with mechanisms more in line with the social identity theory (Tajfer & Turner, 1979; 1986; Stets & Burke, 2000) and with the aim to explain how a single, focal stakeholder could create economic value for a company. Empirically, we set up a scenario experiment of about 1,000 respondents that finds that CSR actions more geographically near to the focal stakeholder and more proximate to the core business of the company have an higher effect in augment two measures of brand value related to two main stakeholders: consumers and employees.

Our results have implications for academics and practitioners. For academics, the use of social identity mechanisms in the realm of strategic studies of CSR is only a recent stream of analysis (Fosfuri et al., 2014; 2016). Compared to stakeholder approaches that emphasizes transaction costs and global corporate-level effects, social identity seems to be better fitted in analyzing the micro-factors that make a particular stakeholder generating economic value for the company. Moving the level of analysis from one company - N stakeholders, to one company-one stakeholder, this paper shows how a theory based on social identity could be consistent with empirical evidence, moving to central stage economic value creation mechanisms that are not directly linked to cost savings or insurance effects (Brown & Dacin, 1997; Lev, Petrovits, & Radhakrishnan, 2006). We were adamant that the aim of this paper is not to set a final word on competing theories, but to show at this stage that another theory approach could be logical consistent and empirically sustained.

This means that if mechanisms of social identity theory are present, their inclusion could help increasing the coherence between the micro- and macro-dynamics of CSR value creation. Clearly, further studies should directly test how much these diverse mechanisms (i.e., transaction costs vs. identity comparison) are substitute, complements or just coexisting, and under what conditions. Indeed, one of the main weaknesses in the CSR research based on social identity is the lack of a considerable bulk of empirical studies that could at least reach the quantity of results to build up a meta-analysis. Our work is one of the first attempts in this direction. Additionally, the effect that we find with a scenario experiment on the composited measures of two types of brand values could be tested against more classical financial measures of brand equity (e.g., Flammer, 2015a; 2015b; Surroca et al., 2010; Vishwanathan et al., 2020), especially for public companies. In this respect, we could have a more realistic monetary evaluation of the impact on the financial viability of a company.

For managers and practitioners, this paper shows that CSR actions implemented by companies could have an important effects on the economic returns, and that not all the actions have the same impact. If logics of identity salience and authenticity are at work, CSR strategic plans that are more the results of an ex-ante autonomous company decisions should be confronted with postures that are more a passively response of some stakeholders' pressures. More probably, companies should rethink about the structure of CSR action portfolio, which will tend to be more diversified if the logic is stakeholder-responsive compared to a more social identity-proactive one. Moreover, pressures tend to be often exogenous from company plans, implying an higher dynamic in the CSR investment portfolio, while processes of social identity formation ignited by companies are the bulk of consistent planned decisions, thus more stable.

We also show that doing simultaneously CSR actions that are geographically near to a focal stakeholder and proximate to the core business generates higher economic value, even if in a decreasing fashion. Our interpretation is that we have captures some additive effects, but we do not have any evidence of synergies between the two actions. This analysis asks for more detailed studies. For example, the presence of positive or negative externalities between two CSR actions could be influenced by how a CSR strategy is executed inside a company. An aspect that unfortunately we cannot tackle in the paper is the hierarchical position of the CSR division inside the organization structure. We suspect that the design of the organization structure could be key to reduce some diseconomies and increasing some synergies (Battilana and Lee, 2014). And we suspect even more that the position of the CSR division in an organization will be different if a company is acting more with a stakeholder vs. a social identity approach. For example, the impact on employer or consumer branding could be influenced by the organization proximity of the division to the marketing or the HR department.

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Table 1: Stakeholder theory vis-à-vis with Social Identity Theory

	Stakeholder Theory	**Social Identity Theory**
Main mechanisms	CSR helps responding stakeholders pressures and adapting environmental requests	CSR helps the process of identity formation of some key stakeholders
Economic effects	Less transactions costs, Insurances effects	Reciprocity to generate economic benefits
Firm actions	Investing to signal commitment, to build reputation, to respond ex-ante to potential stakeholder pressures.	Investing to create identity-based mechanisms (categorization and reciprocity), symbolism, long-term mutual commitment, between firm and focal stakeholders.

Table 2: 2x2 Between-subject Scenario Design

	Core Business	**Non-core Business**
Local Activity	Scenario I (Core & Local) (n= 249)	Scenario II (Non-core & Local) (n= 249)
Non-local Activity	Scenario III (Core & Non-local) (n= 249)	Scenario IV (Non-core & Non-local) (n= 249)

Table 3. Descriptive Statistics

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8
1. Employer Branding	3.81	1.6	1	7	1							
2. Consumer Branding	4.96	1.47	1	7	0.59	1						
3. Core	0.5	0.5	0	1	0.244	0.223	1					
4. Local	0.5	0.5	0	1	0.468	0.48	0.002	1				
5. Age	36.66	9.32	18	61	0.023	0.04	-0.029	0.101	1			
6. Gender	0.54	0.5	0	1	-0.004	0.057	0.012	0.074	-0.018	1		
7. Wage	2586.62	7519.84	1	100000	0.079	0.048	0.038	0.046	0.029	-0.132	1	
8. Duration	395.51	749.44	90	10651	-0.058	0.019	-0.021	-0.049	0.058	0.063	-0.02	1
9. Social Respondent	0.07	0.26	0	1	-0.093	-0.187	-0.072	-0.12	-0.02	-0.043	-0.003	0.0

Table 4. Descriptive statistics and t-tests among different scenarios

		Main Covariates		*Controls*				
		Consumer Branding	*Employer Branding*	*Age*	*Gender*	*Wage*	*Duration*	*Social Respondent*
1. Core = Local = 0	Mean	2.448	3.621	36.104	0.492	2032.537	430.916	0.124
	S.D.	1.205	1.695	8.699	0.501	5180.009	801.187	0.330
	Obs.	250	250	250	250	250	250	250
2. Core=1 / Local=0	Mean	3.682	4.884	35.320	0.518	2452.055	432.927	0.085
	S.D.	1.333	1.198	9.408	0.501	5941.708	992.698	0.279
	Obs.	247	247	247	247	247	247	247
3. Local=1 / Core=0	Mean	4.397	5.641	37.748	0.580	2565.256	391.884	0.060
	S.D.	1.551	0.981	9.327	0.495	8857.390	656.695	0.238
	Obs.	250	250	250	250	250	250	250
4. Core = Local =1	Mean	4.716	5.686	37.458	0.578	3297.875	326.486	0.024
	S.D.	1.241	0.801	9.670	0.495	9236.373	437.035	0.154
	Obs.	249	249	249	249	249	249	249
1 vs. 2	t-test	-10.824	-9.604	0.964	-0.584	-0.839	-0.025	1.421
	p-value	0.000	0.000	0.250	0.336	0.280	0.398	0.922
2 vs. 3	t-test	-5.510	-7.698	-2.889	-1.384	-0.167	0.543	1.074
	p-value	0.000	0.000	0.007	0.153	0.393	0.344	0.858
3 vs. 4	t-test	-2.537	-0.573	0.341	0.038	-0.904	1.310	2.003
	p-value	0.017	0.338	0.376	0.398	0.264	0.169	0.977
1 vs. 3	t-test	-15.688	-16.306	-2.038	-1.977	-0.821	0.596	2.486
	p-value	0.000	0.000	0.050	0.057	0.284	0.333	0.993
1 vs. 4	t-test	-20.706	-17.417	-1.644	-1.936	-1.886	1.808	4.335
	p-value	0.000	0.000	0.103	0.062	0.068	0.078	0.000
2 vs. 4	t-test	-8.934	-8.766	-2.496	-1.344	-1.214	1.543	3.005
	p-value	0.000	0.000	0.018	0.161	0.191	0.121	0.005

Table 5. Regression results

	Employer Branding				Consumer Branding			
	1	2	3	4	5	6	7	8
Core		0.609***		1.224***		0.740***		1.207*
		(0.0910)		(0.131)		(0.0986)		(0.11
Local			1.383***	1.988***			1.481***	1.938*
			(0.0864)	(0.127)			(0.0928)	(0.12
*Core * Local*				-1.206***				-0.908
				(0.154)				(0.17
Age	0.00597	0.00693	-0.00174	-0.000405	0.00418	0.00534	-0.00407	-0.002
	(0.00481)	(0.00474)	(0.00443)	(0.00417)	(0.00545)	(0.00532)	(0.00497)	(0.004
Gender	0.183*	0.170*	0.0657	0.0483	0.0433	0.0279	-0.0819	-0.10
	(0.0939)	(0.0915)	(0.0840)	(0.0790)	(0.103)	(0.100)	(0.0918)	(0.087
Wage	1.08e-05***	9.41e-06***	6.19e-06*	5.10e-06	1.70e-05***	1.52e-05***	1.20e-05***	1.05e-05**
	(3.75e-06)	(3.57e-06)	(3.62e-06)	(3.53e-06)	(4.80e-06)	(5.12e-06)	(4.64e-06)	(4.81e-
Duration	3.26e-05	4.12e-05	8.86e-05	8.80e-05	-0.000122**	-0.000111**	-6.18e-05	-5.81e
	(5.32e-05)	(5.76e-05)	(6.05e-05)	(6.70e-05)	(5.68e-05)	(5.57e-05)	(7.10e-05)	(6.97e-
Social Respondent	-1.032***	-0.942***	-0.720***	-0.628***	-0.550***	-0.440**	-0.216	-0.10
	(0.182)	(0.178)	(0.164)	(0.156)	(0.202)	(0.197)	(0.178)	(0.16
Dummy regions					yes			
Constant	4.714***	4.385***	4.319***	3.682***	3.820***	3.421***	3.397***	2.763*
	(0.208)	(0.215)	(0.191)	(0.200)	(0.233)	(0.235)	(0.211)	(0.20
Observations	996	996	996	996	996	996	996	996
R-squared	0.055	0.097	0.261	0.346	0.045	0.098	0.247	0.32

Notes: robust standard error in parentheses. * p-value=10%, ** p-value=5%, * p-value=1%

Table 6. Results from the Copula Corrections.

	Employer Branding					
	Core	*Local*	*Core*Local*	*Copula Core*	*Copula Local*	*Copula Core*Local*
Beta	1.218	1.977	-1.197	0.000	0.007	-0.003
S.D.	0.115	0.098	0.096	0.058	0.056	0.039
t-test	10.575	20.139	-12.484	-0.007	0.121	-0.085
p-value	0.000	0.000	0.000	0.399	0.396	0.398
	Differences with Results in Table 5					
Delta	-0.006	-0.011	0.009			
S.D.	0.017	0.014	0.014			
t-test	-0.376	-0.792	0.659			
p-value	0.372	0.291	0.321			
	Consumer Branding					
Beta	1.184	1.934	-0.902	0.013	0.000	-0.002
S.D.	0.138	0.143	0.123	0.079	0.085	0.049
t-test	8.563	13.561	-7.355	0.160	0.004	-0.036
p-value	0.000	0.000	0.000	0.390	0.395	0.395
	Differences with Results in Table 5					
Delta	-0.023	-0.004	0.006			
S.D.	0.020	0.021	0.018			
t-test	-1.160	-0.174	0.325			
p-value	0.204	0.393	0.378			

Notes: robust standard error. Regressions with all the controls and number of observations of Table 6.

Table 7. Employer and Consumer Branding validation. Regression results.

	Willingness to Buy	Willingness to Work
Consumer Branding	0.634***	
	(0.0280)	
Employer Branding		0.805***
		(0.0330)
Age	0.00908**	-0.00206
	(0.00445)	(0.00408)
Gender	0.340***	0.105
	(0.0867)	(0.0884)
Wage	2.31e-06	-2.39e-07
	(5.39e-06)	(3.41e-06)
Duration	0.000148**	-0.000133
	(7.55e-05)	(8.93e-05)
Social Respondent	-0.752***	-0.391**
	(0.169)	(0.180)
Dummy regions	*yes*	
Constant	2.010***	1.299***
	(0.227)	(0.254)
Observations	996	996
R-squared	0.398	0.469

Notes: robust standard error in parentheses. * pvalue=10%, ** pvalue=5%, * pvalue=1%

Figure 1. Predictions of *Employer Branding* for the four scenarios.

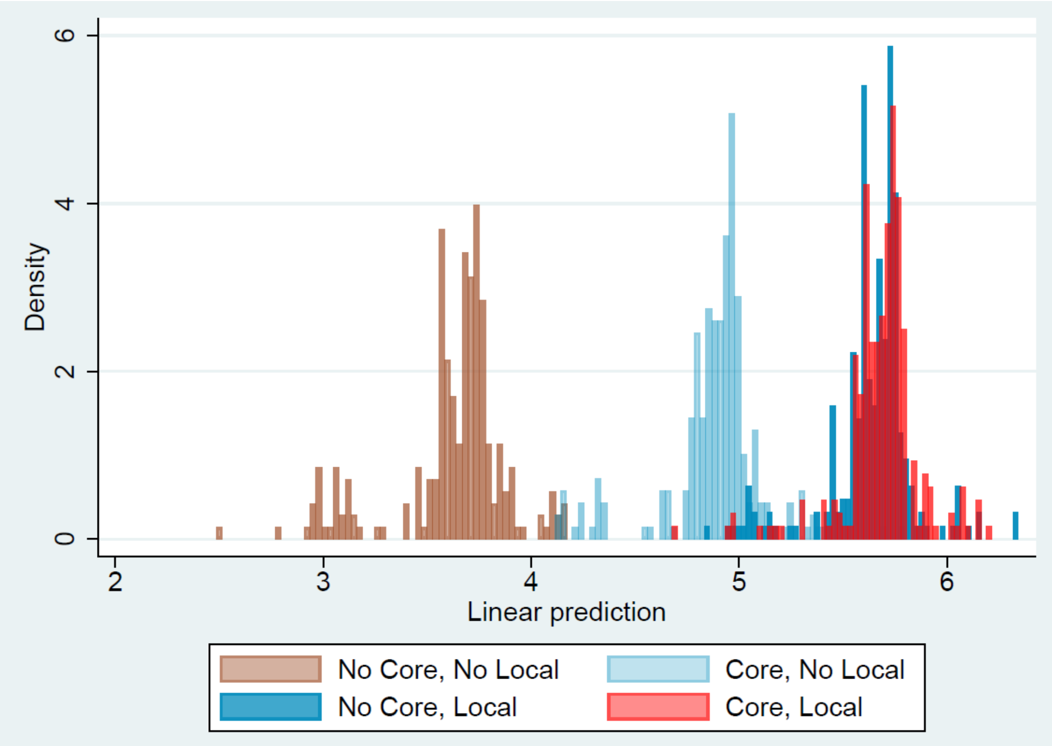

Figure 2. Prediction of *Consumer Branding* for the four scenarios.