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CSR discrepancies, firm visibility and performance: a mediated moderation analysis

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Abstract

Purpose – The purpose of the current study is to revisit the relationship between CSR and firm market performance. The authors examine whether a gap between the firm's internal and external CSR moderates the CSR-firm market performance relationship. Additionally, the authors propose that the moderating effect of the CSR gap on this relationship is mediated by firm visibility.

Design/methodology/approach – The initial sample is the Fortune 500 firms during the years 2004–2013. The final panel data sample consisted of 1,300 firms and 6,128 observations from 2004 to 2013. The authors obtained data from five different sources: Compustat North America Fundamental Annual, GMI Ratings, Execucomp, IBES and KLD Stats.

Findings – The results of this research find evidence that both internal CSR and external CSR were positively related to firm market performance, but that the relationship was stronger for firms with equal emphasis on external and internal CSR activities. Furthermore, the negative moderating effect of the CSR gap was mediated by the firm visibility.

Originality/value – The findings of the study advance our understanding of the CSR-FP relationship. First, the theoretical arguments and the empirical evidence highlight that the CSR-FP relationship exists and that its magnitude is contingent upon the gap between internal and external CSR investments. Second, the authors enhanced theoretical understanding of how and why CSR relates to firm performance by exploring firm visibility as a mediator. Specifically, the authors introduced firm visibility as a mechanism which explains the effect of the interaction of overall CSR with the CSR gap on firm performance.

Keywords Firm performance, CSR discrepancies, Firm visibility, Mediated moderation analysis

Paper type Research paper

1. Introduction

Despite the significant number of studies examining the link between corporate social responsibility (CSR) and firm performance (Bilbao-Terol *et al.*, 2020; Petrenko *et al.*, 2016; Tang *et al.*, 2012), most of this work treats all CSR activities as part of an overall CSR construct (Hawn and Ioannou, 2016; Wang *et al.*, 2016). Such approach overlooks the fact that firms undertake CSR actions targeted at distinct groups of stakeholders (Al-Shammari *et al.*, 2019; Ye and Li, 2020), and that any inconsistencies in such actions, if visible to stakeholders, may affect the extent to which firms benefit from their CSR investments. Internal CSR actions aim at members of the organization (e.g. employees) and include activities that promote diversity and employee well-being and limit self-serving behavior by managers (Tang *et al.*, 2012). External CSR focuses on external audiences, including customers, suppliers,

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financiers, the community, government and NGOs (Hawn and Ioannou, 2016). Additionally, firms that enjoy greater visibility and therefore higher status face increasing pressure from both internal and external stakeholders to engage in socially responsible initiatives (Crilly *et al.*, 2012) that equally consider all stakeholders groups. We argue that when these firms' actions do not equally consider all stakeholders, two fallouts are expected: stakeholders will perceive those actions negatively (Christensen *et al.*, 2020), and the firm's visibility to stakeholders will be the determinant factor that mediates their possible negative reactions.

Several authors (Hawn and Ioannou, 2016; Tang *et al.*, 2012) argue that firms should focus on internal CSR in early years and expand to external CSR later. Hawn and Ioannou (2016) examine how the dynamics of CSR might relate to firm performance. In addition to replicating findings of Tang *et al.* (2012), who introduce the idea of CSR processes (e.g. consistency, path and pace), and Wang and Choi (2013), who introduce the concept of temporal consistency and interdomain consistency. Hawn and Ioannou (2016) elaborate on how the discrepancy between actions a firm undertakes towards external stakeholders and those directed towards internal stakeholders may eradicate CSR's positive effects. Although Hawn and Ioannou (2016) work is informative, it stands at odds with the findings of prior research which asserts that even temporal consistency matters in the context of firm's CSR-CFP relationship (Wang *et al.*, 2015).

We build on past findings by exploring whether similar levels of internal and external CSR actions, when undertaken simultaneously, foster a stronger CSR-CFP relationship, for several reasons. First, many stakeholders access information about a firm's internal and external CSR actions through a common source – the popular media. Thus, they are likely to assess these internal and external CSR actions by a single firm using the accessible information from. Second, a perception of inconsistent CSR practices across stakeholders may damage a firm's reputation by portraying CSR investments the firm *does* make as disingenuous, weakening or eradicating the CSR-CFP relationship. Yet when firms invest in external and internal CSR simultaneously, synergies across CSR actions for different groups can improve firm financial performance (e.g. Tantalo and Priem, 2016). Therefore, all else equal we expect that a lower CSR gap (i.e. difference between the firm's internal and external CSR actions) strengthens the link between overall CSR and firm financial performance.

Recent studies assert that the how a company is perceived can largely influence the social expectations of the firm across the stakeholders' spectrum (Lee *et al.*, 2020; Liu *et al.*, 2021; McDonnell and King, 2018). Firm's consistency in its social behavior and equal considerations of all stakeholders' groups are perhaps among the most important factors that could contribute to how the firm is perceived by important constituencies. Therefore, the firm's ability to engage in consistent practices in the CSR domains can be of paramount importance to shape the salient perceptions of stakeholders about the firm's willingness and seriousness of attending to the various needs of its key stakeholders (Hawn and Ioannou, 2016; Hoffmann, 2018; Tang *et al.*, 2012; Wang and Choi, 2013). Additionally, the relationship between stakeholders' perspective and the RBV of the firm seem to have drawn an increasing attention in recent years (Barney, 2018; Jones *et al.*, 2018; Wang *et al.*, 2016). Scholars have stressed on the need that RBV of the firm must be able to explain two important and interrelated questions that cannot be separated: how profits are generated and how they can be distributed (Barney, 2018; Brandenburger and Stuart, 1996). While the prior work on the RBV has extensively addressed the question of how profits can be generated using prior work in economics theories, the question of how the wealth is distributed remain as an unexplored area of research (Barney, 2018). In this regard, the current study contributes to this line of inquiry by shedding an important light on the detrimental effects of neglecting one or more groups of stakeholders and emphasizing other groups.

Our study differs from prior studies (Hawn and Ioannou, 2016; Tang *et al.*, 2012) in that we give equal consideration to internal and external CSR actions, simultaneously. Considering a firm's commitments toward both internal and external stakeholders equally and simultaneously enable us to test propositions that the positive effects of CSR may be magnified when firms target both internal and external stakeholders equally (Al-Shammari, 2015; Bingham *et al.*, 2011). We thereby extend the findings of Hawn and Ioannou (2016) – that a wider gap between firm's current external CSR and prior internal CSR leads to lower performance – by adding examination of the internal-external CSR gap at a single point in time. We also provide some insights as to how the CSR gap evolves and comes into existence.

Additionally, we propose and test the notion that firm's visibility is a mediating mechanism through which the gap-performance effect occurs. Given that the number of financial analysts following a particular firm is largely reflective of how prestigious their position within their peers is (Harrison *et al.*, 2018), such position captures the extent to which firm's actions in its relevant environment are visible to the various groups of its stakeholders. In the context of our paper, we propose that firm's visibility to stakeholders will mediate the negative moderating effect of the CSR gap for several reasons: prior research finds visibility to be likely associated with greater scrutiny and better performance expectations across the stakeholders spectrum (Pan *et al.*, 2020; Zavyalova *et al.*, 2016; Zhang *et al.*, 2020). Firm's inconsistent CSR actions towards stakeholders cannot affect the financial returns unless stakeholders become aware of such inconsistency. Once they become aware of such unreliable practices they can then react in various ways (boycotting, negative reviews) which may result in a significant downgrade in their reputation (Harrison *et al.*, 2018). Moreover, several scholars argue that a firm's optimal distinctiveness in any single policy practices is contingent on a continuous interaction between the actions of the firm and the assessments of the key external audiences including key stakeholders. When firms make efforts to hide the gaps and flaws of either their internal or external CSR policies through well-performed communication and public relation approach, they may succeed in hiding key issues that may relate to internal diversity practices, governance problems, employee treatments and other internal issues, which may help the firm avoiding penalties from stakeholders. Although prior research considers firm reputation as either an antecedent or an intervening mechanism, we argue that reputation is an outcome of firm actions that if unnoticed and not communicated to the wider society, it is unlikely to initiate any reactions. Therefore, we assert that firm visibility affects financial performance through reputation, customer satisfaction and attractiveness (Lai *et al.*, 2010; Pham and Tran, 2020; Saeidi *et al.*, 2015). And when the firm engages in decoupling and inconsistent CSR practices, all of these outcomes are likely to be negatively affected if and only when such practices are visible to the public and stakeholders. As such, we build on the work by Hawn and Ioannou (2016) and introduce firm visibility as an important intervening mechanism that mediates the gap effect on the CSR-performance relationship.

Our study contributes to the literature on CSR-performance relationship in three distinctive ways. First, we affirm the emerging notion that CSR characteristics may affect their intended financial effects by proposing and empirically testing the moderating effect of CSR gap. Second, we propose that firm's visibility will be the mediating mechanism through which firm's CSR gap affect the financial returns of the firm's CSR actions. Third, we contribute to the literature on firm visibility and suggest that rather than considering reputation as an intervening mechanism, firm visibility may be a more appropriate device through which the reputational consequences of firm actions occur.

2. Theory development and hypotheses

2.1 CSR and financial performance

Despite a plethora of research on the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP), the relationship between these two constructs remains a divisive issue among researchers (Kim *et al.*, 2018; McWilliams and Siegel, 2000, 2002; Petrenko *et al.*, 2016; Tang *et al.*, 2012). Research on the CSR-performance relationship uses stakeholder theory and the instrumental perspective to explain how CSR improves firm financial performance (Cheng *et al.*, 2014). Advocates of these approaches propose several mechanisms through which CSR improves performance. For example, CSR can enhance firm reputation (Arendt and Brettel, 2010; Herremans *et al.*, 1993; Sun *et al.*, 2020), improve a firm's external linkages and access to external resources (Campbell, 2007; Tuzzolino and Armandi, 1981), and improve a firm's credit rating and reduce cost of capital (Ye and Zhang, 2011).

Firms engage in CSR activities to address the concerns and demands of key stakeholders (Weaver *et al.*, 1999). Stakeholders can be grouped under two main categories: external stakeholders and internal stakeholders (Freeman, 1984). External stakeholders are those located beyond firm boundaries such as customers, suppliers and the community (Cruz *et al.*, 2014). Internal stakeholders are those within the firm such as managers, employees, board members and shareholders (Brickson, 2007). CSR actions that aim at external stakeholders include philanthropic contributions, community engagement and partnership programs. CSR actions that aim at internal stakeholders include board composition, employee training and healthcare, governance mechanisms and diversity efforts.

As most studies use composite measures of CSR (Hawn and Ioannou, 2016), what remains largely ambiguous are the implications of CSR activities that aim at different stakeholders for the CSR-CFP relationship (Gosselt *et al.*, 2019; Wang and Choi, 2013; Wang *et al.*, 2016). This is an important oversight as it neglects the fact that external and internal stakeholders differ in their immediacy to the firm, their relative impact and size, and that such variation can affect how firms allocate CSR resources (Tang *et al.*, 2012; Thorne *et al.*, 2017; Wang and Choi, 2013).

The popular press provides many examples of firms that engage in CSR targeting one stakeholder while violating accepted moral or ethical standards with respect to another stakeholder. For example, in 2013, Walmart Stores settled a decade-long investigation into hazardous waste practices, pleaded guilty to criminal charges and agreed to pay $81 million (O'Donnell, 2013). That same year Walmart and the Walmart Foundation announced that they gave more than $1 billion in cash and in-kind philanthropic contributions, claiming largest contribution any US retailer has achieved (Bentonville, 2013). These kinds of gaps in the treatment of different stakeholders might damage a firm's reputation by making the CSR they do engage in appear disingenuous. Other examples exist where firms engage in extensive external CSR but have internally oriented CSR practices that are controversial. Google, for example, made $255 million in charitable contributions in 2017 (Greenwood, 2018), despite major criticism of how they managed diversity and inclusion, raising questions about their internal CSR practices (Fiegerman and O'Brien, 2018).

In the present study, we build on past research (Hawn and Ioannou, 2016; Tang *et al.*, 2012) and respond to calls to examine the effects of various types of CSR actions on firm performance (Wang *et al.*, 2016) to examine whether the CSR gap attenuates the positive CSR-CFP relationship. This is important for several reasons. First, most firms undertake CSR actions directed towards both external and internal audiences (Weaver *et al.*, 1999). Second, the extent to which internally and externally focused actions are consistent varies significantly across firms (Kiron *et al.*, 2013). Third, there is growing consensus that an aggregate CSR score is not a precise measure of firm social performance, given the many ways a firm could obtain the same score (Wang *et al.*, 2016). For example, a firm with good community performance that does little to improve employee working conditions can have the same aggregate score as a firm with low community performance that makes significant commitments to employee well-being. By disaggregating social performance, scholars and analysts are better able to assess tradeoffs in social performance. Lastly, each group of stakeholders is important. Different stakeholder groups may gain or lose power over time and firm failures to attend to any stakeholder demand may result in undesirable outcomes. While we build on the arguments of other scholars (Hawn and Ioannou, 2016; Tang *et al.*, 2012), our study argues that neither path (Tang *et al.*, 2012) nor the temporal evolution of CSR (Hawn and Ioannou, 2016) are theoretically solid. As for the path, a firm that focuses on internal CSR actions and disregards external duties for 3 years (Tang *et al.*, 2012) could jeopardize their reputation. Although Hawn and Ioannou (2016) indicate that a temporally gradual focus on external CSR is more appropriate and that the gap should be measured as the difference between firm's prior year's internal CSR score and current year external CSR score, we argue that both internal and external CSR actions should be treated as equally important, simultaneously. We expect the gap to moderate the relationship between firm CSR and financial performance such that a larger gap between internal and external CSR will attenuate the positive CSR-FP relationship.

2.2 The moderating effect of CSR gap

Stakeholders who push firms to engage in CSR vary in power, legitimacy and salience (Aguinis and Glavas, 2012). They also differ in size and perceived importance in the eyes of a firm decision-makers (Wang and Choi, 2013). Such variation among stakeholders can lead to varying levels of a firm's internal and external CSR actions. Some firms may engage heavily in externally oriented CSR due to continued pressure from external stakeholders (Neubaum and Zahra, 2006; Crilly *et al.*, 2012). Other firms may focus more on internal CSR. These variations in firms' external and internal CSR actions lead to a CSR gap in which a firm emphasizes one type of CSR (e.g. external CSR) at the expense of other types (e.g. internal CSR). Such a gap may induce internal or external stakeholders and the market to withhold or reduce their support.

When studying CSR performance effects, researchers often fail to distinguish between firms with high scores on CSR in one area that fail significantly in another category and firms with equal commitment across stakeholders. When a firm engages in highly visible external CSR actions to enhance reputation, but pays little attention to internal policies and practices, it may be seen as hypocritical (Arli *et al.*, 2017; Scheidler *et al.*, 2019). Such corporate hypocrite relates to greater emotional exhaustion and intentions to quit among employees (Scheidler *et al.*, 2019). In fact, when firms with a positive reputation for overall CSR engage in controversial actions, they are seen as hypocritical and are harshly sanctioned (Janney and Gove, 2011).

Perceptions of corporate hypocrite are particularly salient and likely to trigger damaging responses when stakeholders detect organizational decoupling in socially valued practices, such as uncorroborated claims about product quality, employee health and safety, or environmental protection (Babu *et al.*, 2019; Fassin and Buelens, 2011; Shim and Yang, 2016). Following these arguments, Strand (1983) asserts that to realize the synergistic effects of CSR, firms must be perceived as socially responsive by both internal and external stakeholders. A combination of external and internal CSR initiatives can lead to synergistic effects on employee satisfaction, engagement and commitment (Luo and Bhattacharya, 2006; Sims and Kroeck, 1994; Zhou *et al.*, 2008).

There are several reasons why such a CSR gap exists. For one, firms use certain CSR actions in response to competitive pressures from rivals in their industry (Dupire, 2018; Kim *et al.*, 2018). In competitive environments, firms may perceive certain stakeholders as more salient and important, so they devote more CSR resources to them, resulting in inconsistent CSR practices directed at different groups of stakeholders (Babu *et al.*, 2019). Additionally, some firms may perceive primary stakeholders (e.g. employees, suppliers, customers) as more important than secondary stakeholders (e.g. community, NGOs) (Flammer, 2018). Such a perception may lead to an emphasis on primary over secondary groups of stakeholders, leading to a CSR gap. Another reason for a CSR gap may be that personal needs of the CEO drive CSR engagements rather than firm interests. Recent literature finds that firms led by narcissistic CEOs engage in attention-gathering CSR actions that may not be optimal for the firm (Al-Shammari *et al.*, 2019; Tang *et al.*, 2012; Petrenko *et al.*, 2016). Knowing that not all CSR actions may generate equal amounts of attention, and that narcissistic CEOs tend to devalue those under their immediate authority, some firms will have unequal emphases in their CSR strategies which may diminish perceptions of goodwill typically associated with CSR.

Firms that emphasize one group of stakeholders over others may face negative reactions even from groups who benefit from CSR actions. For example, when firms emphasize external CSR activities but have a weak governance system, a negative culture around diversity, a hostile work environment, and poor reward systems, they may face negative reactions from external stakeholders. External stakeholders who initially have a positive impression of a firm due to external CSR who learn of bad treatment of employees may reevaluate firm's actions as impression management rather than genuinely prosocial actions (Berman *et al.*, 1999). As such, to maximize the performance effects of CSR, firms should address concerns of all stakeholders equally (Orlitzky *et al.*, 2003) to avoid the loss of corporate legitimacy in the eyes of both internal members and external constituencies (Crilly *et al.*, 2012; Graafland and Smid, 2019; Marquis and Qian, 2014). This evidence leads to the development of our first hypothesis:

H1. The greater the gap between the firm's external CSR and internal CSR (or vice versa), the weaker the positive relationship between overall CSR score and firm performance.

2.3 The mediating effect of firm visibility

Firm visibility is important because it directly affects firm reputation and thus financial performance (Aouadi and Marsat, 2018; Williams and Barrett, 2000). Such effect can be either negative or positive depending on whether or not it meets the expectations of its various stakeholders and whether any inconsistencies are visible to those stakeholders (Lai *et al.*, 2010; Pham and Tran, 2020; Saeidi *et al.*, 2015). For instance, visibility is the result of how firm's actions affect customer loyalty (Rindova *et al.*, 2005), a firm's attractiveness to applicants (Helm, 2013) and evaluation by financial analysts (Vilanova *et al.*, 2009), all of which can affect a firm's financial performance. Stated differently, when firm's visibility is high, both positive and negative firm's actions will be noticed. Firms will be rewarded or penalized by stakeholders based on the types of actions they engage in (Chiu and Sharfman, 2011; Matten and Moon, 2008). Firms with higher visibility face stronger stakeholder activism and external pressures (Eesley and Lenox, 2006; Gomez-Carrasco and Michelon, 2017). Stakeholders' awareness of an organization's actions affects their choices (Rindova *et al.*, 2005).

Recent studies show that highly visible firms are concerned with their reputation and devote significant organizational resources to enhance the firm's reputation (Carter, 2006). Reputation, especially for large and highly visible firms, is an important source of competitive advantage and therefore economic rents (Rindova *et al.*, 2005). Several studies explore the interplay between firm's visibility and corporate social responsibility (Chiu and Sharfman, 2011; Oh *et al.*, 2016). For example, Aouadi and Marsat (2018) find that corporate social responsibility positively impacts the firm's market value only for high-attention firms. This indicates that firm visibility has an intervening impact on the relationship between CSR and firm performance.

Carter (2006) finds that firms facing amplified visibility among different stakeholder groups will increase corporate reputation management actions directed to those groups and decrease activities towards other groups. Carter's (2006) study provides evidence on the importance of firm visibility to top managers and how they design their market and non-market strategies to address the concerns of the more salient group of stakeholders.

Visibility of firm's actions depends largely on the attention given to these actions, which in turn depends on whether these actions are noticed by the firm's stakeholders (Heikkurinen and Ketola, 2012). For instance, we do not expect that every internal practice of the firm will be whistled to the public. On the other hand, a firm's external practices can be easily watched and reported to the larger stakeholders' base.

The evaluation of firm's actions by stakeholders depends on how accessible the information about the company is (Pham and Tran, 2020). Stakeholders assess the quality, consistency and impact of firm's actions in the social domain using the available data and information on the company from various sources (e.g. financial analysts report, annual reports, popular media) (Schnackenberg and Tomlinson, 2016; She and Michelon, 2019). To reach the desired perceived position with stakeholders, firms go through three inter-related stages: being known, being known for something and generalized favorability (Lange *et al.*, 2011). The generalized favorability has been proposed as the most direct mechanism through which the perceptions of stakeholders affect the firm whether positively or negatively (Harrison *et al.*, 2018; Pham and Tran, 2020). Thus, when the firm engages positive, consistent, value-adding actions, the extent to which stakeholders are aware of these actions and the levels of details about their impact and quality will determine the expected outcome of such actions (Lai *et al.*, 2010; McDonnell and King, 2018; Pham and Tran, 2020; Saeidi *et al.*, 2015).

In the context of the present study, CSR gap results from an emphasis on one group of stakeholders (external vs internal) at the expense of the other groups (Al-Shammari *et al.*, 2019). Perceptions of the firm's CSR depends largely on the firm's actions visibility and therefore stakeholder's awareness of the focus of these actions, and the levels of quality/inconsistency in these actions (Lai *et al.*, 2010; Pham and Tran, 2020; Saeidi *et al.*, 2015). Glavas and Godwin (2013) argue that there is a high chance for incongruity between "perception and reality either because of lack of awareness regarding firms' CSR activities, companies trying to 'oversell' their CSR activities or sometimes suspicion of the intentions of organizations of their CSR activities" (Galvas and Godwin, 2013, p. 16).

The effect of this gap cannot occur on its own to the extent that would affect the firm performance unless the public at large is aware of the firm's inconsistent practices and their implications. The underlying notion here is then whether there is a gap becomes less important so long as the company engages in cover-up and its inconsistent actions are not being explicitly known.

In sum, the effect incongruency in the firm's CSR actions directed towards internal vs external stakeholders should affect firm performance through customers' dissatisfaction, lower attractiveness, and negative reputation (Lai *et al.*, 2010; Pham and Tran, 2020; Saeidi *et al.*, 2015). These are mainly dependent on how visible these actions are to the public and the key groups of stakeholders (Pham and Tran, 2020). Moreover, financial analysts are more detailed in reporting any CSR decoupling practices. Those analysts are more likely to integrate all the firm's practices when conducting their assessments (Harrison *et al.*, 2018). Thus, we argue that the effect of the CSR gap on firm's performance is mediated at least partially by the firm's visibility to stakeholders. In other words, the negative effect of the CSR gap will at least partly be mediated by the extent to which the wider society is aware of firm's decoupling, inconsistent CSR practices. Based upon these arguments, we hypothesize:

H2. The moderating effect of CSR gap on the relationship between firm's overall CSR and firm financial performance will be mediated by the firm visibility.

3. Methodology

3.1 Sample

Our initial sample start with Compustat North America Fundamental Annual. We drop firms with missing, zero, or negative book values of total assets, sales or employment. We merge remaining data with Execucomp based on gvkey and financial year. Afterward, we also merge GMI Ratings, IBES, and KLD Stats using ticker and year. Following previous studies (e.g. Peters and Taylor, 2017), we drop data from firms in several industries: electric, gas, and sanitary services (SIC codes 4900–4999); finance, insurance and real estate (SIC codes 6000–6999); and public administration (SIC codes 9000+). As highlighted by Peters and Taylor (2017), some of our control variables (i.e. share of intangible assets) are not suitable for firms in these industries. To remain included in the final sample, the firm must pass the following screening process further. Any firm with just a year of information and/or missing information on any variables is dropped. Partially, it is necessary because of lagged nature of our empirical models. For each year, only industries with at least five firms are included in the sample to represent the competitive nature of the industries properly and generate some primary variables that used industry information. Our final panel data sample consists of 1,300 firms and 6,128 observations from 2004 to 2013. Some of the board and CSR variables are only available for this time period. We use two-digit Standard Industrial Classification (SIC) codes to identify industries. We also use the lead (by one period) values of the dependent variables as the relationship between the financial performance and our main variables of interest may work with a lag. The inclusion of the lead values also helps mitigate the potential endogeneity of these variables. Year fixed effects (year dummies) are included in all our models to control for the firm-invariant unobservable factors, such as business cycles or other aggregate time effects. Industry fixed effects are utilized to control for time-invariant, industry-specific, unobservable factors, such as the differences in the use of technology or production methods.

3.2 Variables and measures

3.2.1 Dependent variable. Following studies of the CSR-CFP linkage (e.g. Mackey *et al.*, 2007), we use the Tobin's Q of the firm as a proxy for firm financial performance. It is computed by taking the ratio of the market value of assets to the book value of assets: (total assets (at) −book equity(ceq) + market value of equity (csho*prcc_f))/total assets (at). These variables are from the Compustat North America Fundamental Annual database.

3.2.2Independent variables of interest. 3.2.2.1 Overall CSR. Following several studies (Graves and Waddock, 1994; Le Breton-Miller and Miller, 2009; Petrenko *et al.*, 2016; Waddock and Graves, 1997; Wang and Choi, 2013), we use the Kinder, Lydenberg, Domini Research and Analytics (KLD) data, which includes indexes that represent companies' strengths and concerns regarding corporate social performance. We operationalize overall CSR as the sum of strengths in four dimensions (employee relations, community relations, environment and diversity) minus the sum of concerns in these same dimensions for each year. We then compute our final proxy for firms overall CSR (CSR2) by subtracting the mean CSR of the other firms (i.e. for firms $i \neq j$) in each two-digit industry and year from firm i's CSR. In other words, CSR2 is the difference between the focal firm's overall CSR in year t and the mean overall CSR of the other firms (excluding the focal firm) in its industry in each year. In so doing, we control for any particular factors that may influence the firm's emphases on certain CSR aspects in its respective industry.

3.2.2.2 External CSR. External CSR is measured as the average sum of all scores of strengths minus the sum of all concerns reported by the KLD data concerning the two forms of CSR directed toward external stakeholders (community relations and environmental policies and practices). This measure is used in various studies (see Berrone *et al.*, 2010; Cennamo *et al.*, 2012; Cruz *et al.*, 2014). Previous research measures this variable as the average sum of strengths minus concerns (ECSR). Our proxy for external CSR (ECSR2) is the difference between firm i's external CSR (ECSR) in each year and the average ECSR of the other firms (excluding the focal firm i) in each industry and year.

3.2.2.3 Internal CSR. Two dimensions are used to measure a firm's internal CSR: employee relations and diversity practices. These indices directly assess how firms treat their employees. Following others (Cennamo *et al.*, 2012; Cruz *et al.*, 2014), internal CSR is the average sum of strengths minus concerns for each firm and year (ICSR). Our proxy for internal CSR (ICSR2) is the difference between firm *i*'s internal CSR in each year and the average ICSR of the other firms (excluding the focal firm *i*) in each industry and year. Using this measure allows for robustness in controlling for industry emphases on CSR and its two components. These variables are obtained from the KLD Stats.

3.2.2.4 CSR gap. Our proxy for the CSR gap (CSR2 gap) is the absolute value of the difference between ECSR2 and ICSR2. We calculate this value for each year and firm. This measure is different from Hawn and Ioannou (2016) in that we compute the difference in the same year to examine the gap. We, however, utilize the specification in Hawn and Ioannou (2016). They use the lag value (by one period) of the internal CSR when computing their proxy for the CSR gap. They also use the Asset 4 database, while we use the KLD database. Including the lags can be useful since the relationship between the firm performance and CSR activities may work with a lag.

3.2.2.5 Firm visibility (visibility). Prior literature use firm size as a proxy for firm visibility. However, firm size captures additional elements and thus may not be a strong proxy for firm visibility (Puck *et al.*, 2013). Recent literature use various proxies for firm visibility, such as institutional ownership, number of analysts following the firm, news mentions (Brockman *et al.*, 2017; Chiu and Sharfman, 2018) and marketing spending (Oh *et al.*, 2016). In this study, we use number of analysts following the firm as a proxy for firm visibility, following past literature (Chiu and Sharfman, 2011; Oh *et al.*, 2016) [1]. This variable is obtained from the IBES summary database. We also control for firm size.

3.2.2.6 Control variables. We control for several CEO, board and firm-level variables. CEO tenure is featured in several studies that address the effect of CEO characteristics on firm performance. We measure CEO tenure as the natural log of the number of years the CEO spent at the focal firm (CEO tenure). CEO age is the natural logarithm of a CEO's age in years. CEO ownership share is the percentage of total shares owned (options excluded) by the CEO. These variables are obtained from the Execucomp database. Furthermore, we control for several board characteristics. Among these board variables, CEO duality (Duality) is a dummy variable where 1 indicates duality (i.e. individual is both a Chair and CEO of a firm) and 0 indicates no duality. We control for the proportion of outside directors, which is measured as the number of outside directors divided by the total number of directors on the board (Outsider). We also control for the proportion of women on the board and measure it as the number of women on the board divided by the total number of board members (Women share). Family is a dummy variable coded as 1 if a family member holds voting power greater than 20% of the total voting power. Founder is a dummy variable with value equal to 1 if the CEO or Chairman is a founder of the company and zero otherwise. These board variables are obtained from the GMI Ratings database. We also control for the share of the replacement cost of the firm's intangible capital in total capital (Intangible share). The replacement cost of intangible capital is computed as follows: the replacement cost of research and development expenditures (R&D), which is a proxy for firms' knowledge capital (the XRD variable in the Compustat database) plus the replacement cost of the organizational capital of the firms (the part of the intangible capital that comes from selling, general, and administrative capital (SG&A variable in Compustat database)) plus intangible assets. This variable is obtained from Peter and Taylor (2017). We also control for firm size, leverage and ROA. Firm size (Size) is measured as the natural log of the firm's number of employees (Wright *et al.*, 2002). Leverage is the ratio of the book value of total debt to the book value of total assets. ROA is the ratio of earnings to total assets. These variables are from the Compustat North America Fundamental Annual database.

4. Analyses and results

Table 1 presents descriptive statistics and Table 2 shows pairwise correlation coefficients among study variables. The mean of overall CSR2 score is −0.09 with SD value of 2.55. The

Variable	*M*	SD	Min	Max
Tobin's Q (ln)	0.55	0.46	−0.91	2.74
CSR2	−0.09	2.55	−7.68	17.6
ECSR2	0.00	0.57	−3.02	3.49
ICSR2	−0.05	0.91	−2.73	5.37
CSR2 gap	0.62	0.54	0.00	3.66
Visibility (ln)	1.20	0.52	0.00	2.82
Outsider	0.71	0.16	0.00	1.00
Family	0.09	0.29	0.00	1.00
Founder	0.10	0.30	0.00	1.00
Women share	0.10	0.10	0.00	0.57
CEO tenure (ln)	1.94	0.81	0.00	4.13
CEO age (ln)	4.01	0.13	3.33	4.56
Duality	0.46	0.50	0.00	1.00
Ownership	2.64	6.29	0.00	87.6
Firm age (ln)	3.09	0.61	1.10	4.14
Size (ln)	1.56	1.60	−4.96	7.70
Leverage	0.20	0.21	0.00	3.68
ROA	0.05	0.11	−1.65	1.63
Intangible share	0.58	0.26	0.00	1.00

Note(s): ln = natural logarithm

Table 1. Descriptive statistics for the full sample [N = 6,128]

mean of ECSR2 is 0 and SD equals 0.57. The mean value of ICSR2 is −0.05 and the SD value is 0.91. The mean value for our dependent variable (Tobin's Q) is 0.55 with an SD value of 0.46. The mean value for our visibility measure (Visibility) is 1.20 with an SD value of 0.52. The correlation matrix in Table 2 shows the correlations at conventional significant levels. Our main variables of interest (CSR2, ECSR2, ICSR2, and Visibility) are all positively and significantly correlated with Tobin's Q at 0.1% significance level. The rule of thumb in the literature is that a Variance Inflation Factors (VIF) >10 or a tolerance level <0.1 indicate severe multicollinearity problems. For all variables, the mean value of VIF is 1.49, and the value of VIF for all variables range from 1.05 to 3.36. Thus, multicollinearity is not a threat to the results.

In the sample, firm-level observations (level 1) are nested within industries (level 2). The presence of nested structures calls for a multilevel specification that can examine firm-level and industry-level sources of variation in a firm-level performance (Hair and Favero, 2019). Hence, we choose multi-level mixed effects model (MLM) (Feaster *et al.*, 2011). The advantages of MLM are unbiased standard errors due to within group dependency recognition, accommodation of multilevel impacts, flexibility, higher efficiency over several other traditional methods used in analyzing changes (e.g. ANOVA, GLM and GEE) (Holden *et al.*, 2008).

Table 3 shows the results of a multi-level mixed effects model (MLM) that allows the intercept and the slopes for our proxies of CSR to vary across industries (Snijders, 1996). Specifically, we use a random coefficient model that contains a fixed intercept, a random intercept, industry-level random slopes of CSR variables, year fixed effects and our control variables []. We use an unstructured correlation structure that does not assume the variances of the random coefficients to be equal. We also obtain robust standard errors.

The results in Table 3 provide support for the positive relationship between internal CSR (ICSR2), external CSR (ECSR2), and overall CSR (CSR2) and firm performance. The coefficients on ICSR2, ECSR2 and CSR2 are all positive and statistically significant. Hypothesis 1 specifies a negative interaction between firm CSR and CSR gap such that the positive effect of CSR on Tobin's Qt+1 is weaker for the firms with a higher CSR gap. As illustrated in the last column of Table 3, the coefficients on overall CSR (CSR2) and CSR gap

Table 2.
Pearson correlations coefficients table [N = 6,128]

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Tobin's Q																		
2. CSR2	0.05***																	
3. ECSR2	0.05***	0.78***																
4. ICSR2	0.05***	0.92***	0.46***															
5. CSR2 gap	0.00	0.23***	0.14***	0.23***														
6. Visibility	0.23***	0.33***	0.27***	0.29***	0.12***													
7. Outsider	−0.02	0.13***	0.08***	0.14***	0.08***	0.03*												
8. Family	−0.09***	−0.05***	−0.03*	−0.04***	−0.01	−0.11***	−0.20***											
9. Founder	0.12***	−0.02	−0.01	−0.02	−0.02	0.08***	−0.09***	−0.11***										
10. Women share	−0.02	0.36***	0.20***	0.39***	0.07***	0.12***	0.15***	0.03*	−0.09***									
11. CEO tenure	0.05***	−0.07***	−0.03*	−0.07***	−0.02	0.02	−0.04***	0.07***	0.13***	−0.16***								
12. CEO age	−0.10***	0.00	0.00	0.00	0.02	−0.02	−0.05***	0.05***	−0.05***	−0.01	0.37***							
13. Duality	−0.04***	0.05***	0.04**	0.04***	0.06***	0.04***	0.12***	−0.01	0.02	0.06***	0.30***	0.22***						
14. Ownership	0.08***	−0.09***	−0.06***	−0.09***	−0.02	−0.10***	−0.14***	0.25***	0.24***	−0.07***	0.32***	0.15***	0.16***					
15. Firm age	−0.19***	0.20***	0.16***	0.18***	0.11***	−0.07***	0.11***	0.07***	−0.19***	0.18***	−0.05***	0.18***	0.10***	−0.10***				
16. Size	−0.17***	0.35***	0.29***	0.31***	0.19***	0.32***	0.06***	0.04***	−0.10***	0.34***	−0.07***	0.15***	0.11***	−0.07***	0.40***			
17. Leverage	−0.15***	0.04**	0.03**	0.03*	−0.01	−0.02	−0.03*	0.03*	−0.12***	0.10***	−0.05***	0.05***	0.04**	−0.10***	0.07***	0.16***		
18. ROA	0.38***	0.06***	0.04***	0.05***	0.02	0.08***	−0.01	−0.01	−0.03**	0.04**	0.03*	0.01	0.02	0.05***	0.02	0.09***	−0.15***	
19. Intangible share	0.19***	0.05***	0.06***	0.03*	−0.05***	0.05***	0.04**	−0.05***	0.08***	0.03*	0.00	−0.13***	−0.07***	−0.01	−0.15***	−0.18***	−0.12***	−0.02

Note(s): * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 3. MLM analysis: The effects of external and internal CSR on firm performance and the moderating effects of CSR gap

Variables	(1) Tobin's Qt+1	(2) Tobin's Qt+1	(3) Tobin's Qt+1	(4) Tobin's Qt+1	(5) Tobin's Qt+1	(6) Tobin's Qt+1
ECSR2		0.0619^{***} (0.0146)		0.0412^{**} (0.0136)		
ICSR2			0.0449^{***} (0.0113)	0.0356^{**} (0.0117)		
CSR2					0.0185^{***} (0.00388)	0.0241^{***} (0.00537)
CSR2gap						0.0310^{**} (0.00983)
CSR2 X CSR2gap						-0.00683^{*} (0.00320)
Outsider	0.00179 (0.0489)	−0.00840 (0.0490)	−0.0178 (0.0489)	−0.0196 (0.0488)	−0.0184 (0.0492)	−0.0211 (0.0494)
Family	-0.0905^{***} (0.0136)	-0.0868^{***} (0.0137)	-0.0868^{***} (0.0145)	-0.0852^{***} (0.0144)	-0.0860^{***} (0.0144)	-0.0869^{***} (0.0144)
Founder	0.0860^{*} (0.0335)	0.0770^{*} (0.0320)	0.0773^{*} (0.0322)	0.0737^{*} (0.0312)	0.0743^{*} (0.0319)	0.0744^{*} (0.0316)
Women share	0.0269 (0.0867)	−0.0178 (0.0910)	−0.118 (0.0993)	−0.112 (0.0978)	−0.118 (0.0985)	−0.107 (0.0960)
CEO tenure	0.0233^{*} (0.00990)	0.0225^{*} (0.00934)	0.0230^{*} (0.00957)	0.0228^{*} (0.00928)	0.0226^{*} (0.00938)	0.0225^{*} (0.00938)
CEO age	-0.222^{*} (0.106)	-0.212^{*} (0.105)	-0.224^{*} (0.105)	-0.217^{*} (0.105)	-0.218^{*} (0.105)	-0.218^{*} (0.104)
Duality	−0.0129 (0.0302)	−0.0107 (0.0302)	−0.0117 (0.0309)	−0.0119 (0.0308)	−0.0107 (0.0307)	−0.0116 (0.0304)
Ownership	0.00299^{*} (0.00151)	0.00312^{*} (0.00152)	0.00335^{*} (0.00154)	0.00334^{*} (0.00152)	0.00337^{*} (0.00155)	0.00338^{*} (0.00155)
Firm age	−0.0240 (0.0186)	−0.0256 (0.0178)	−0.0256 (0.0180)	−0.0270 (0.0176)	−0.0262 (0.0177)	−0.0256 (0.0177)
Size	-0.0365^{***} (0.00694)	-0.0455^{***} (0.00720)	-0.0433^{***} (0.00818)	-0.0475^{***} (0.00799)	-0.0468^{***} (0.00817)	-0.0490^{***} (0.00820)
Leverage	0.0141 (0.0840)	0.0186 (0.0836)	0.0167 (0.0820)	0.0180 (0.0830)	0.0191 (0.0819)	0.0210 (0.0819)
ROA	1.088^{***} (0.277)	1.069^{***} (0.272)	1.063^{***} (0.277)	1.055^{***} (0.274)	1.061^{***} (0.274)	1.062^{***} (0.274)
Intangible share	0.201 (0.108)	0.178 (0.104)	0.189 (0.103)	0.177 (0.102)	0.178 (0.101)	0.178 (0.102)
Constant	1.400^{**} (0.461)	1.402^{**} (0.456)	1.462^{**} (0.454)	1.453^{**} (0.451)	1.451^{**} (0.453)	1.436^{**} (0.446)
Year dummy	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,128	6,128	6,128	6,128	6,128	6,128
Wald χ^2	1839.94^{***}	1780.45^{***}	2115.34^{***}	1940.38^{***}	2024.59^{***}	2273.08^{***}
Snijders/Bosker R^2 Level 1	0.184	0.187	0.187	0.188	0.188	0.189
Snijders/Bosker R^2 Level 2	0.311	0.299	0.291	0.287	0.286	0.281

Note(s): Robust standard errors in parentheses; $^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$

are both positive and statistically significant. The coefficient on the interaction term between overall CSR2 and CSR2gap (CSR2 X CSR2gap), however, is negative and statistically significant at 5% significance level. The statistically significant negative coefficient of the interaction term indicates that CSR's effect on firm performance is positive, albeit less so for firms with a higher CSR gap. The greater the firm's CSR gap, the smaller the positive effect of CSR on the focal firm's performance (Tobin's Q). This supports hypothesis 1.

Figure 1 depicts the interaction between CSR2 and CSR2gap in predicting firm performance based on first and third quantiles of CSR2gap. A rise in CSR increases the Tobin's Q for firms irrespective of the size of CSR gap. The firm's CSR impact on Tobin's Q, however, is weaker for firms with a higher CSR gap (third quantile). Specifically, the marginal effect of overall CSR is 0.026 for the firms with low CSR gaps (first quantile) and 0.015 for the firms with high CSR gaps. Figure 2 shows that the slope for CSR decreases as a function of CSR gap. The marginal effects (slopes) for CSR are 0.026 and 0.015 for low and high CSR gap firms, respectively. The slopes are all statistically significant.

We also hypothesize in hypothesis 2 that the moderating effect of the CSR gap on the relationship between the firm's overall CSR and its financial performance will be mediated by firm visibility. We estimate the following models to test this prediction:

$$Visibility_{it+1} = \beta_0 + \beta_1 CSR2_{it} + \beta_2 CSR2gap_{it} + \beta_3 CSR2\ X\ CSR2gap_{it} + X'\delta + u_{it}, \quad (1)$$

$$Tobin's\ Q_{it+1} = \alpha_0 + \alpha_1 CSR2_{it} + \alpha_2 CSR2gap_{it} + \alpha_3 CSR2\ X\ CSR2gap_{it} + X'\theta + v_{it}, \quad (2)$$

and

$$\begin{aligned} Tobin's\ Q_{it+1} = \gamma_0 + \gamma_1 Visibility_{it} + \gamma_2 CSR2_{it} + \gamma_3 CSR2gap_{it} \\ + \gamma_4 CSR2\ X\ CSR2gap_{it} + X'\theta + e_{it} \end{aligned} \quad (3)$$

Visibility is the natural logarithm of the number of analysts following the firm, which we use as a proxy for firm visibility. This variable is from the IBES summary file. The vector of control variables is represented by X, and these vectors are explained in the data section; and u, v, and e are the error terms. As highlighted before, we run the lead (by one period) values of the dependent variables on the independent variables, since the relationship may work with a lag. This would also mitigate the endogeneity problem.

We estimate these three equations by using a multi-level mixed effect model (MLM). We use a nonparametric bootstrapping method with 500 replications to compute the standard errors of the direct and indirect effects [].

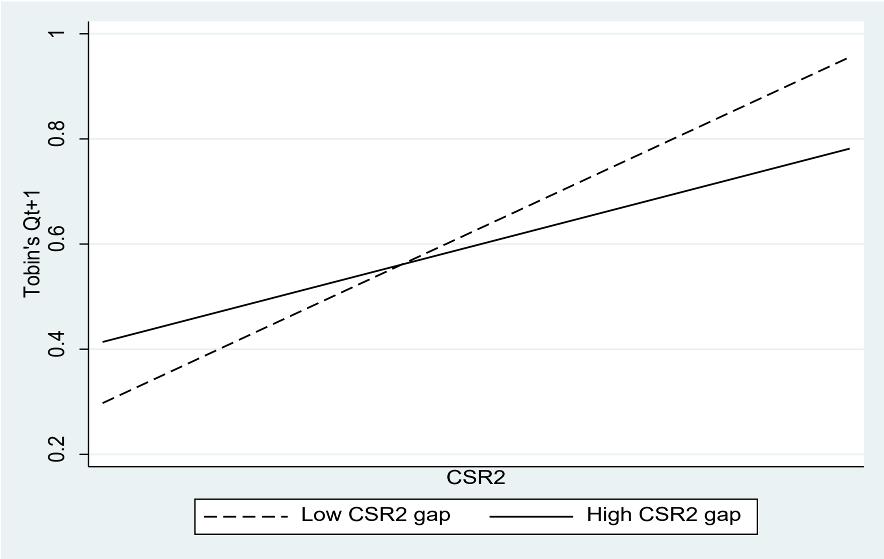
As highlighted in Hayes (2013), Muller *et al.* (2005) and Preacher *et al.* (2007); for the mediated moderation to hold, β_3, α_3 and γ_1 are expected to be significant and γ_4 is expected to be insignificant and/or smaller than α_3. As illustrated in Table 4, all these conditions hold, indicating that the performance impact of CSR and CSR gap interaction is mediated by the firm visibility. The indirect effect of overall CSR on firm performance through visibility is calculated as follows:

$$INDEF = \beta_1 + \beta_3(CSR2gap_{it}) * \gamma_1.$$

The direct effect of overall CSR on firm performance through visibility is computed as follows:

$$DEF = \gamma_2 + \gamma_4(CSR2gap_{it}).$$

Both indirect effects and direct effects are reported in the last two rows of Table 4. They are both statistically significant at 0.01% significance level. The indirect impact is 0.014 and the direct impact is 0.011. The statistically significant indirect effect indicates that the interaction between the overall CSR and CSR gap in our main equation is mediated by firm visibility. Thus, our last hypothesis is also supported.



Note(s): Low CSR2 gap is the first quantile and high CSR2 gap is the third quantile. Minimum and maximum CSR2 values are used. The results show that the CSR2 slope (the impact of CSR2 on firm performance) is larger for firms with a relatively low CSR2 gap0. More specifically, the rise in CSR2 increases the Tobin's Qt+1 for the firms with lower CSR2 gaps more than for the firms with higher CSR2 gaps

Figure 1. Effect of CSR2 gap on the CSR2-CFP relationship

As we mentioned earlier, prior studies have not provided any insights on the possible mediating channels through which the CSR gap may in fact affect the relationship between CSR and firm performance. We stated that the stakeholders' judgment of the firm's non-market actions depends on the visibility of these actions to them (Pham and Tran, 2020). Stakeholders use the available information (e.g. financial analysts report, annual reports, popular media) to evaluate the quality, consistency and impact of firm's actions in the social domain (Schnackenberg and Tomlinson, 2016; She and Michelon, 2019). To reach the desired perceived position with stakeholders, firms go through three inter-related stages: being known, being known for something and generalized favorability (Lange *et al.*, 2011). The generalized favorability has been proposed as the most direct mechanism through which the perceptions of stakeholders affect the firm whether positively or negatively (Harrison *et al.*, 2018; Pham and Tran, 2020). Thus, the results in Table 4 supports the notion that the effect of the CSR gap as an undesired characteristic of the firm's CSR practices will be at least partially mediated by the firm's visibility to stakeholders.

Further, we create Str2gap proxying for the gap between external CSR strengths and internal CSR strengths. Similarly, Con2gap captures the gap in external CSR concerns and internal CSR concerns. Then, we check the moderating roles of the variables in the CSR strengths (CSRstr2)-Tobin's Qt+1 and CSR concerns (CSRcon2)-Tobin's Qt+1 relationships, respectively. Table 5 presents the results. As anticipated, CSRstr2 X Str2gap and CSRcon2 X Con2gap yield statistically significant negative and positive coefficients in Model 1 and Model 2, respectively, implying higher the magnitude of Str2gap (Con2gap) the lower the positive (negative) impact of CSRstr2 (CSRcon2) is on Tobin's Qt+1.

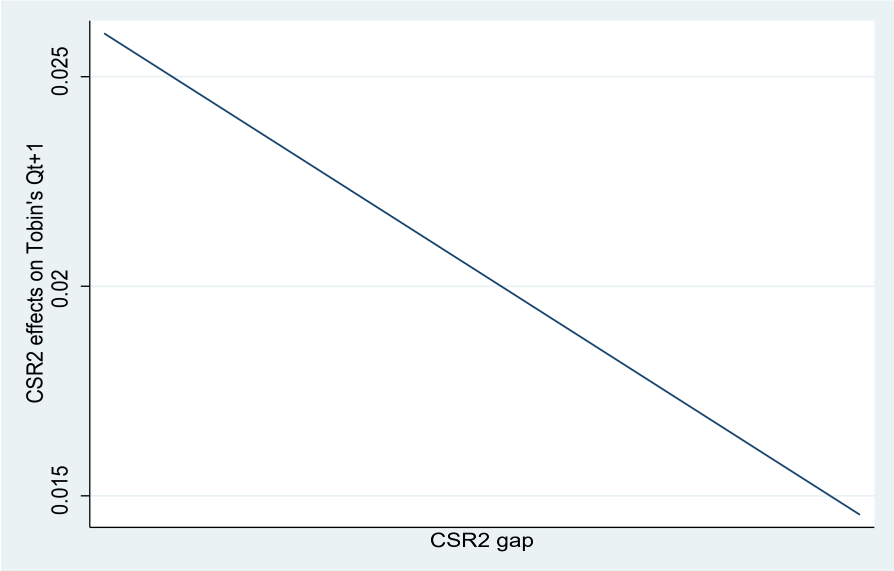


Figure 2.
CSR2 slope as a function of CSR2 gap

Note(s): The slope for CSR2 is decreasing as a function of CSR2 gap. The marginal effects (slopes) for CSR2 are 0.026 and 0.015 for low and high CSR2 gap firms, respectively. The slopes are all statistically significant

5. Discussion and conclusions

While extant literature provides moderate support for the positive effects of CSR on firm performance, there are still discrepancies to reconcile. While some studies find a positive relationship (Orlitzky *et al.*, 2003; Saeidi *et al.*, 2015; Wang and Choi, 2013), others report either a negative or null relationship (Smith *et al.*, 2007). Such mixed findings suggest that moderator variables may be an important consideration to explain the boundary conditions under which CSR is most positively linked to firm performance. Recently, scholars suggest that how CSR is operationalized may be a key variable that affects the strength of the link between overall CSR and firm performance (Hawn and Ioannou, 2016). Given that most studies of CSR use composite measures that do not distinguish between CSR directed towards internal versus external constituencies, research that explores the implications of external versus internal CSR for firm performance is not well developed. Our goal in the current study is to examine various stakeholders of CSR and determine whether a consistent strategy of placing equal emphasis on both external and internal stakeholders would enhance a firm's financial returns.

To better understand how CSR might influence firm performance, it is crucial to examine internal and external CSR as unique constructs, rather than treating CSR as a single composite. Recent studies suggest the importance of examining CSR activities directed towards different stakeholders (Wang *et al.*, 2016), and how specific form of CSR might moderate the relationship between CSR and CFP. In the current study, we focus on internal CSR, external CSR, and how the interplay between these two faces of CSR might affect firm performance. Specifically, we shed lights on the performance effects of both internal and external CSR and on how the gap between the two can affect firm's performance. Moreover, we propose that consistency in firm's CSR must be both temporal and across the stakeholders' spectrum in order for the firm to realize better financial returns. In so doing, we depart from previous studies (e.g. Hawn and Ioannou, 2016) by stressing on the importance of equally considering all stakeholders at all

Variables	(1) Tobin's Qt+1	(2) Tobin's Qt+1	(3) Visibilityt+1
Visibility		0.211*** (0.0287)	
CSR2	0.0241*** (0.00537)	0.0127** (0.00422)	0.0528*** (0.00800)
CSR2gap	0.0310** (0.00983)	0.0224* (0.0101)	0.0434** (0.0161)
CSR2 X CSR2gap	−0.00683* (0.00320)	−0.00437 (0.00275)	−0.0124*** (0.00347)
Outsider	−0.0211 (0.0494)	−0.0534 (0.0437)	0.150** (0.0439)
Family	−0.0869*** (0.0144)	−0.0656*** (0.0161)	−0.101* (0.0404)
Founder	0.0744* (0.0316)	0.0546 (0.0291)	0.0862* (0.0338)
Women share	−0.107 (0.0960)	−0.0582 (0.0878)	−0.291* (0.120)
CEO tenure	0.0225* (0.00938)	0.00955 (0.00820)	0.0589*** (0.0119)
CEO age	−0.218* (0.104)	−0.189* (0.0905)	−0.151 (0.103)
Duality	−0.0116 (0.0304)	−0.0103 (0.0270)	0.00509 (0.0309)
Ownership	0.00338* (0.00155)	0.00477** (0.00158)	−0.00796*** (0.00172)
Firm age	−0.0256 (0.0177)	0.0197 (0.0186)	−0.223*** (0.0215)
Size	−0.0490*** (0.00820)	−0.0760*** (0.00857)	0.136*** (0.0107)
Leverage	0.0210 (0.0819)	0.0436 (0.0820)	−0.0700 (0.0591)
ROA	1.062*** (0.274)	1.036*** (0.259)	0.313* (0.139)
Intangible share	0.178 (0.102)	0.114 (0.0828)	0.319* (0.126)
Constant	1.436** (0.446)	1.078** (0.388)	1.827*** (0.456)
Year dummy	Yes	Yes	Yes
Observations	6,128	6,128	6,128
Wald χ^2	2273.08***	2810.50***	4019.19***
Snijders/Bosker R^2 Level 1	0.189	0.230	0.284
Snijders/Bosker R^2 Level 2	0.281	0.329	0.069
Indirect effect of overall CSR		0.014*** (0.001)	
Direct effect of overall CSR		0.011*** (0.003)	

Note(s): Robust standard errors in parentheses; $^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$

Table 4. Mediated moderation results

times. Additionally, prior research provides no elaborations on mechanisms through which the gap in the firm's CSR practices may affect the firm's financial performance. Therefore, another major purpose of the study is to examine the firm visibility as a channel through which the negative moderating effect of the CSR gap occurs.

Our study makes several contributions to the literature. We shed new light on the joint positive effect of both external and internal CSR activities on firm performance. We also highlight the negative moderating effect of the CSR gap on the relationship between CSR and firm performance. We expect that while firms that engage in both internal and external CSR activities enjoy better financial performance, this relationship may be attenuated among firms that emphasize one type of CSR (e.g. external) at the expense of the other (e.g. internal). Such findings relate directly to recent studies (e.g. Barney, 2018) that stress on the necessity of equal considerations to all stakeholders groups. Moreover, the findings highlight the need for managers to carefully design their CSR policies, especially under greater visibility to stakeholders. Our findings extend Hawn and Ioannou (2016) who suggest that engaging in internal CSR actions at the expense of external CSR is detrimental to firm performance, by finding that the performance effects of CSR are more strongly positive when firms equally emphasize both the internal and external aspects of CSR.

Finally, we also enhance theoretical understanding of how and why CSR relates to firm performance by exploring firm visibility as a mediator. Specifically, we examine visibility as a mechanism which explains the effect of the interaction of overall CSR with the CSR gap on firm performance. Our results suggest that high levels of CSR, particularly when accompanied by equally high levels of both internal and external CSR, enhance firm performance by making the firm more visible to market analysts to follow the firm.

Variables	(1) Tobin's Qt+1	(2) Tobin's Qt+1
CSRstr2	0.0271*** (0.00512)	
CSRcon2		−0.0134 (0.0121)
Str2gap	0.0301+ (0.0173)	
Con2gap		0.00834 (0.0185)
CSRstr2 X Str2gap	−0.00769* (0.00337)	
CSRcon2 X Con2gap		0.0226+ (0.0132)
Outsider	−0.0298 (0.0485)	−0.00922 (0.0482)
Family	−0.0876*** (0.0148)	−0.0915*** (0.0135)
Founder	0.0689* (0.0309)	0.0821* (0.0329)
Women share	−0.0852 (0.0994)	0.0122 (0.0745)
CEO tenure	0.0231* (0.00913)	0.0217* (0.00921)
CEO age	−0.209* (0.103)	−0.226* (0.107)
Duality	−0.0123 (0.0304)	−0.00861 (0.0281)
Ownership	0.00345* (0.00158)	0.00311* (0.00145)
Firm age	−0.0284 (0.0177)	−0.0230 (0.0182)
Size	−0.0546*** (0.00841)	−0.0385*** (0.00676)
Leverage	0.0218 (0.0820)	0.0208 (0.0865)
ROA	1.060*** (0.271)	1.081*** (0.275)
Intangible share	0.180+ (0.108)	0.174+ (0.0975)
Constant	1.433** (0.451)	1.436** (0.459)
Year dummy	Yes	Yes
Observations	6,128	6,128
Wald χ^2	3642.72***	2304.64***
Snijders/Bosker R^2 Level 1	0.189	0.185
Snijders/Bosker R^2 Level 2	0.274	0.313

Note(s): Robust standard errors in parentheses; $^{+}p < 0.1$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$

Table 5. The moderating effect of external and internal CSR strengths gap on the CRS strengths-Tobin's Qt+1 relationship and the moderating effect of external and internal CSR concerns gap on the CSR concerns-Tobin's Qt+1 relationship

In short, our study suggests that engaging in CSR can be a source of competitive advantage for a firm. Firms that engage in CSR activities can and do attract the attention of analysts and this visibility is associated with better firm performance. However, these effects are attenuated when firms are inconsistent in terms of their treatment of different stakeholders. Firms that engage in CSR actions focused on a single stakeholder but neglect other stakeholders are likely to be seen as hypocritical and disingenuous in their intentions. In such cases, the visibility associated with CSR actions may be damaging to a firm's reputation and may even have negative effects on firm performance. Thus, while CSR can have positive effects on firm performance, such effects are most likely in the presence of strong CSR programs that consistently consider the needs of all their stakeholders.

In sum, our study highlights the need for more consistent CSR policies that equally and simultaneously consider all stakeholders. It also offers insights on how the visibility of the firm plays an important role in the interplay of CSR, CSR Gap and firm performance. Managers should be aware of the damaging effect of inconsistent CSR practices and therefore design their policies accordingly. Additionally, the mediating effect of firm visibility calls into attention the possibility that firms which enjoy lower visibility may get away with some controversial practices. Future studies may further explore the various dynamics of the firm visibility and firm's market and non-market strategies.

5.1 Limitations and future research directions

Like any other study, our study has its own limitations. First, the KLD database provides scores that covers the years up to 2013. Therefore, the findings of studies that use the KLD data may need to be revisited and reconfirmed using more up-to-date data. Data availability has always been a problem in strategy research and the dependence on archival data and its availability represents a major challenge. Future studies may consider surveying the customer base and various groups of stakeholders (internal and external) of the firm about their perceptions of firm's CSR practices. Second, while we test the moderating effect of firm's CSR gap, we believe that there are also several contingency factors that may contribute the existence of the firm's gap and affect how and to what extent it may affect the firm's financial performance. For instance, Hawn and Ioannou (2016) assert that firms must first focus on its internal CSR and gradually attend to external CSR policies. While our findings stress that firms need to equally and at all times attend to the needs of external and internal stakeholders, it may be possible that firms with differentiation strategy may have different temporal priorities than firms with low-cost strategy. Such difference may be attributed to each firm's customers' priorities and preferences. Thus, future studies may consider these dynamics as important research avenues that would better improve our understanding of the dynamics of CSR gap and its implications.

Third, CSR gap may change over time and it may either increase or decrease depending on other strategic priorities of the firm. In our supplementary analysis, we add a control variable of CSR growth. Future studies may consider testing the effect of the CSR gap growth and how would the market react to such time-varying CSR emphases by the firm.

Fourth, our study controls for various governance mechanisms and devices. However, testing the direct effect of different governance mechanism on the CSR gap itself rather than the effect of the gap on firm performance would be also another interesting area of research. Wang *et al.* (2016) and Tang *et al.* (2012) among others highlight how certain characteristics of the firm's CSR practices may affect the extent to which firms benefit from their CSR investments. Therefore, future studies may consider this line of research by focusing on how different governance settings and mechanisms may lead to greater or lower gap and inconsistencies in the firm's CSR practices.

Barney (2018) asserted that stakeholder management requires the equal consideration of all stakeholders in order for the firm's CSR investments to yield significant financial results at the long term. Moreover, how a firm is collectively perceived by all stakeholders' groups will largely depend on the firm's ability to address their concerns and meet their non-economic expectations. Such endeavor must hold over time and across the various groups of stakeholders (Tang *et al.*, 2012; Wang and Choi, 2013). However, some firms may overvalue certain groups and undervalue other groups, which may result in the firm being perceived as engaging in hypocritic CSR (Andersen and Høvring, 2020; Chen *et al.*, 2020; Christensen *et al.*, 2020; Scheidler *et al.*, 2019; She and Michelon, 2019). Thus, while some firms may be inclined to emphasize certain CSR activities and groups at certain times because of their salient power and activism, our study finds that this may not be the best course of action and that firms' consistency towards all groups may be of critical importance. The results of the paper also indicates that firms with greater prominence must view such status of visibility to stakeholders carefully. That is, when firms enjoy better status and visibility, it is likely that even the slightest perceived inconsistency may trigger negative and unintended consequences, which may affect the financial returns of firm's CSR.

Note

1. We also considered using the marketing spending as a proxy for firm visibility. But this variable is missing for many firms in the Compustat data.

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Appendix
Variable measures and sources

Variables	Measures	Sources
Tobin's Q	Market value of assets scaled by book value of assets	Compustat
CSR2	Difference between firm CSR (community plus environment plus diversity plus employee) minus average industry CSR (excluding the focal firm)	KLD
ECSR2	Difference between firm ECSR (average of community and environment) minus average industry ECSR (excluding focal firm)	KLD
ICSR2	Difference between firm ICSR (average of diversity and employee) minus average industry ICSR (excluding focal firm)	KLD
CSR2 gap	Absolute difference between ECSR2 and ICSR2	KLD
Visibility	Natural logarithm of number of analysts following the firm	IBES
Outsider	Number of outside directors scaled by the total number of directors	GMI
Family	1 if family owned; 0 otherwise	GMI
Founder	1 if CEO is the founder; 0 otherwise	GMI
Women share	The proportion of women board members	GMI
CEO tenure	Natural logarithm of number of years as the CEO at a firm	Execucomp
CEO age	Natural logarithm of CEO age in years	Execucomp
Duality	1 if duality; 0 if no duality	GMI
Ownership	Percentage of total shares owned (options excluded) by a CEO	Execucomp
Firm age	Natural logarithm of number of years since a firm's first appearance in Compustat	Compustat
Size	Natural logarithm of number of employees	Compustat
Leverage	Long-term debt plus debt in current liabilities scaled by total assets	Compustat
ROA	Earnings scaled by total assets	Compustat
Intangible share	Replacement cost of intangible capital scaled by total capital	Peter and Taylor (2017)
Industry	Two-digit SIC dummies	Compustat
Year	Year dummies from 2004–2013	KLD
CSRstr2	Difference between firm CSR strengths (community plus environment plus diversity plus employee) minus average industry CSR strengths (excluding the focal firm)	KLD
CSRcon2	Difference between firm CSR concerns (community plus environment plus diversity plus employee) minus average industry CSR concerns (excluding the focal firm)	KLD
ECSRstr2	Difference between firm ECSR strengths (average of community and environment) minus average industry ECSR strengths (excluding focal firm)	KLD
ICSRstr2	Difference between firm ICSR strengths (average of diversity and employee) minus average industry ICSR strengths (excluding focal firm)	KLD
ECSRcon2	Difference between firm ECSR concerns (average of community and environment) minus average industry ECSR concerns (excluding focal firm)	KLD
ICSRcon2	Difference between firm ICSR concerns (average of diversity and employee) minus average industry ICSR concerns (excluding focal firm)	KLD
Str2gap	Absolute difference between ECSRstr2 and ICSRstr2	KLD
Con2gap	Absolute difference between ECSRcon2 and ICSRcon2	KLD