The Fordham Environmental Law Review presents

Corporate Sustainability in the Era of Shifting Federal Priorities

CLE MATERIALS

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Table of Contents

CLE Materials

Panel 1
The Rise of CSR & the Role of Lawyers as CSR Advisors

Panel 2
Sustainability & Big Business
Higher Highs and Lower Lows: The Role of Corporate Social Responsibility in CEO Dismissal

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Research summary: Investing a firm’s resources in corporate social responsibility (CSR) initiatives remains a contentious issue. While research suggests firm financial performance is the primary driver of CEO dismissal, we propose that CSR will provide important additional context when interpreting a firm’s financial performance. Consistent with this prediction, our results suggest that past CSR decisions amplify the negative relationship between financial performance and CEO dismissal. Specifically, we find that greater prior investments in CSR appear to expose CEOs of firms with poor financial performance to a greater risk of dismissal. In contrast, greater past investments in CSR appear to help shield CEOs of firms with good financial performance from dismissal. These findings provide novel insight into how CEOs’ career outcomes may be affected by earlier CSR decisions.

Managerial summary: In this study, we examined a potential personal consequence for CEOs related to corporate social responsibility (CSR). We explored the role prior investments in CSR play when a board evaluates the firm’s financial performance and considers whether or not to fire the CEO. Our results suggest that while financial performance sets the overall tone of a CEO’s evaluation, CSR amplifies that baseline evaluation. Specifically, our results suggest that greater past investments in CSR appear to (a) greatly increase the likelihood of CEO dismissal when financial performance is poor, and (b) somewhat reduce the likelihood of CEO dismissal when financial performance is good. Thus, striving to deliver profits in a socially responsible manner may have both positive and negative personal consequences. Copyright © 2017 John Wiley & Sons, Ltd.

Introduction

A CEO’s primary objective is to generate economic returns for shareholders (Quigley & Hambrick, 2015). Consistent with this idea, firm financial performance is the primary metric by which CEOs are evaluated (Graffin, Boivie, & Carpenter, 2013) and it is also the strongest predictor of CEO termination (Finkelstein, Hambrick, & Cannella, 2009). Some argue, however, that these economic returns should be pursued in a socially responsible manner (Freeman, 1984), thereby suggesting that corporate social responsibility (CSR) is a secondary objective on which CEOs should focus. As a result, some CEOs have begun supporting CSR initiatives, committing significant corporate resources (e.g., money, time, attention) to help address social and environmental problems.

Whether or not CSR activities are in the best interest of the firm, however, remains a contentious issue. Proponents of CSR suggest it can help
increase shareholder value and build support among stakeholders, such as employees, customers, and community members (Hillman & Keim, 2001). In contrast, critics of CSR suggest it benefits these stakeholders at the expense of shareholders, which conflicts with meeting the primary goal of increasing shareholder value (e.g., Friedman, 1970; Margolis & Walsh, 2003; Petrenko, Aime, Ridge, & Hill, 2016). This controversy is aggravated by the fact that research has been unable to provide a clear, consistent link between CSR and firm financial performance (e.g., McWilliams & Siegel, 2000; Waddock & Graves, 1997; Wright & Ferris, 1997). These inconclusive findings on the financial benefits of CSR thus provide no clear guidance regarding how CSR may influence a CEO’s evaluation. Given such controversies and our limited knowledge of the personal consequences CEOs face as a result of engaging in CSR, we explore the role prior investments in CSR play when a board evaluates the firm’s financial performance and considers whether or not to fire the CEO.

While firm financial performance is of primary importance in evaluating a CEO, we theorize CSR is an important secondary objective that will influence how those financial returns are interpreted by board members. Our focus on CSR as a secondary goal stems from its unique characteristics, particularly its visibility, its likelihood of attracting scrutiny by outside groups, and its contestability. In terms of its visibility and scrutiny, CSR is widely tracked and interpreted by third-party rating agencies, such as MSCI (i.e., KLD), and over 4 trillion dollars are invested in socially responsible investment funds (Social Investment Forum, 2014). Corporate social responsibility initiatives also receive global attention, as over 8,000 firms from more than 160 countries have signed onto the United Nations Global Compact, which commits firms to incorporating CSR into their business practices (UN Global Compact, 2014). In response to greater demand for CSR information, firms now often issue standalone reports on their CSR performance (Christensen, 2016). Despite this visibility and scrutiny, CSR initiatives are more complex to evaluate than other types of corporate initiatives (e.g., R&D or capital investments) because CSR may be motivated by concerns unrelated to enhancing shareholder value (Wang, Tong, Takeuchi, & George, 2016). These other concerns may include reducing carbon output, promoting diversity, or building support among stakeholders beyond shareholders. Measuring CSR initiatives’ overall benefit is thus difficult, making CSR more contestable than more traditional investments, which are motivated almost exclusively by economic concerns. We suggest that the visibility and scrutiny of CSR will make it an important component in assessing a CEO, while its contestability means that its association with CEO dismissal will likely be more nuanced than direct.

We thus suggest that prior investments in CSR will influence how financial performance is interpreted, and thereby moderate the effect of financial performance on CEO dismissal. Specifically, we argue that while financial performance sets the overall tone of a CEO’s evaluation, CSR amplifies that baseline evaluation. On the one hand, a high level of prior investments in CSR can amplify the positive framing of good financial performance and make it appear that the CEO can not only achieve the primary goal of generating economic returns, but can also do so in a socially responsible manner that is salient to multiple stakeholders. On the other hand, such investments may amplify the negative framing of poor financial performance and make the CEO appear to have dedicated too much of the firm’s resources to the secondary goal of CSR and supporting other stakeholders, and not enough to the primary goal of generating economic returns for shareholders. Consistent with this prediction, our results suggest that greater past investments in CSR amplify the likelihood that CEOs of poorly performing firms are dismissed, whereas greater past investments in CSR appear to reduce the likelihood of dismissal for CEOs of well-performing firms. This article thus contributes to the literature by providing a better understanding of how CSR may be associated with CEO career outcomes. Specifically, our results suggest that prior investments in CSR amplify the most well-documented relationship in this literature—firm financial performance and CEO dismissal.

Theory and Hypothesis Development

A firm’s financial performance is the primary metric by which its board assesses the CEO. The tendency to attribute firm performance primarily to the quality of a CEO results in the CEO’s continuing employment prospects being heavily dependent upon firm performance (Finkelstein et al., 2009). Indeed, the influence of firm financial performance on CEO dismissal has been found
in multiple samples across decades of research (Finkelstein et al., 2009).

While this conclusion has garnered consistent support over time, it explains only a small portion of the variance in CEO dismissals (Finkelstein et al., 2009). To help provide a better understanding of when CEOs are more or less likely to be dismissed, we suggest that prior investments in CSR may moderate the well-established relationship between firm financial performance and CEO dismissal due to its visibility, scrutiny, and contestability. The visibility and scrutiny associated with CSR ensure that such initiatives will be well known and thoroughly analyzed, while its contestability suggests that the value of CSR is open to interpretation.

In recent years, the visibility of CSR has increased substantially (Wang et al., 2016). Socially responsible investment funds now hold trillions of dollars (Social Investment Forum, 2014) and various stakeholders have increased their focus on CSR (UN Global Compact-Accenture, 2010). The increasing visibility of CSR is thought to be driven by growing mass media coverage of CSR initiatives, the rise of advocacy groups, and increased investments in CSR by large corporations (Wagner, Lutz, & Weitz, 2009). Further increasing its visibility is a recent spike in disclosures by firms; roughly three-quarters of all S&P 500 firms in the United States now publish an annual CSR report (Governance and Accountability Institute, 2015).

CSR has also been increasingly scrutinized and assessed by multiple stakeholders. Third-party rating agencies, such as MSCI (i.e., KLD), RobecoSAM (i.e., Dow Jones), and Thomson Reuters (i.e., Asset4), evaluate CSR regularly. Negative ratings by these agencies can lead to strong investor reactions, such as TIAA-CREF selling off over 50 million shares of Coca-Cola stock following concerns raised by KLD (Chatterji, Levine, & Toffel, 2009). Advocacy groups are also increasing their scrutiny of CSR. For instance, nearly 40% of shareholder proposals now focus on social and environmental issues (Ernst & Young, 2013). Such actions suggest that board members are quite aware of the degree to which nonfinancial stakeholders are pleased or frustrated with the firm’s prior investments in CSR. Governmental agencies have also increased their oversight of CSR. For example, India now mandates that corporations must invest at least 2% of their net profit in CSR, while other countries such as China, Denmark, Malaysia, and South Africa require some level of CSR reporting (Wang et al., 2016). Thus, investors, activist groups, and governmental agencies collectively ensure that CSR is highly scrutinized and, beyond shareholders, these other stakeholder groups can and do influence organizational outcomes in a visible manner.

Further, the value of CSR is contestable and open to interpretation by stakeholders because the overall impact of CSR on firms is often difficult to quantify. Despite the fact that the relationship between CSR and financial performance has been widely studied, research has yielded conflicting results without a clear consensus. Some research suggests CSR has a positive influence on firm financial performance because it can generate stronger relationships with stakeholders, increase customer loyalty, and positively influence corporate reputation (Choi & Wang, 2009; Hillman & Keim, 2001). Other research, however, suggests that CSR initiatives hinder financial performance (Aupperle, Carroll, & Hatfield, 1985; Jensen, 2002) and come at the expense of shareholders (Brammer & Millington, 2008; Navarro, 1988). Still other research finds no relationship between CSR and firm financial performance (e.g., McWilliams & Siegel, 2000). One potential cause for these disparate findings may be that quantifying the financial returns of CSR is more difficult than quantifying the returns from other forms of investments, such as capital expenditures, because the outcomes from CSR may simply be more diffuse (Wang et al., 2016). As we noted earlier, the motivations for engaging in CSR go beyond exclusively economic considerations. While there may be positive economic returns to CSR, other benefits, such as a positive impact on employees’ dignity, are more difficult to quantify. Thus, these complex motivations and more diffuse benefits make CSR a more contestable form of investment than those that are purely economically motivated.

**Financial Performance, Corporate Social Responsibility, and CEO Dismissal**

Given its unique characteristics, we argue that prior investments in CSR will not directly influence CEO dismissal. Rather, we suggest that financial performance—a major determinant of CEO dismissal (Finkelstein et al., 2009) and a key reference point for decision makers (Greve, 1998)—will be interpreted in light of the firm’s level of prior investments in CSR. Specifically, we argue that financial performance will set the overall tone of
how the CEO is evaluated, and that CSR, due to its contestable nature, will amplify that baseline evaluation.

On one hand, good financial performance supports the perception that the CEO is of high quality. When this is combined with high levels of prior investment in CSR, this suggests that, not only was the CEO able to achieve the primary goal of generating economic returns, but was also able to meet the secondary objective of accomplishing this in a socially responsible manner that benefitted other, nonfinancial stakeholders. We suggest that by supporting these other stakeholders (e.g., employees, community activists, customers) through prior investments in CSR, these groups will view the sitting CEO more positively. In turn, due to the visibility of such stakeholders and their influence on firm outcomes (e.g., Briscoe & Safford, 2008; Choi & Wang, 2009; Freeman, 1984; Hillman & Keim, 2001), board members who are charged with retaining or dismissing the CEO, will evaluate the CEO even more positively as a result of the approval of these nonfinancial stakeholders.

On the other hand, when a firm displays poor financial performance compared to other firms, this negatively influences perceptions of the CEO’s quality. We suggest that such negative perceptions will be amplified if the CEO has previously dedicated significant resources to CSR. Specifically, we suggest that poor financial performance, when combined with high levels of prior investment in CSR, will lead the board to believe that the CEO has invested too much of the firm’s resources on the secondary objective of CSR rather than on the firm’s primary mission—generating economic returns for shareholders. Thus, this may lead board members to conclude that the CEO focused too much on satisfying these other stakeholder groups at the expense of shareholders. We thus suggest:

Hypothesis 1: CSR will moderate the negative relationship between firm financial performance and CEO dismissal, such that CSR amplifies this relationship.

Methods

Sample

Our sample consisted of Fortune 500 firms spanning the years 2003–2008. We obtained financial information from COMPUSTAT; executive characteristics, ownership, and pay from ExecuComp; CEO dismissal from an analysis of media collected from LexisNexis; Corporate Social Responsibility data from Kinder, Lydenberg, and Domini (KLD); governance measures from Risk Metrics and Thomson Reuters; and stock returns from the Center for Research in Security Prices (CRSP). Private firms and missing data reduced our sample to 441 firms and 2,298 firm-year observations.

Dependent Variable

Our dependent variable, CEO dismissal, equals 1 if the CEO was fired, 0 otherwise. It was measured using Shen and Cannella’s (2002) method to code involuntary turnover. We evaluated 339 successions using media articles from major U.S. newspapers in LexisNexis covering 1 year before to 1 year after the transition. First, we eliminated successions in which CEOs died, had health issues, were interim CEOs, accepted similar positions at other firms, or left due to a merger or acquisition. From the remaining successions, we identified dismissals when CEOs were reported to have (a) been fired or forced out; (b) resigned immediately or unexpectedly due to poor performance, undisclosed personal reasons, or a desire to pursue other interests; (c) retired early amidst performance problems; or (d) left before age 64 and also gave up their board seat. This method identified 104 CEO dismissals. After requiring control variables, our final sample included 98 CEO dismissals occurring at 90 different companies.1

Independent Variable

Our independent variable is the interaction of industry-adjusted returns and CSR. We calculated industry-adjusted returns as the firm’s industry-adjusted annual stock return (including dividends), where industries were classified based on two-digit SIC codes; we found substantively similar results with three-digit SIC codes. We calculated CSR as the net strength and weakness rankings of five dimensions from KLD: employee, community, diversity, environment, and product (Choi & Wang, 2009; Hillman & Keim, 2001; Kang, 2013; Tang, Qian, Chen, & Shen, 2015).2

1 In our sample, no individual firm-year had more than one CEO dismissal.
2 Similar to prior research, we assume that observable CSR ratings are positively correlated with CSR investment, which is
We used KLD ratings as they are “broadly regarded as the most comprehensive data available to measure CSR” (Petrenko et al., 2016).

Control Variables
We included several control variables to capture other factors that may influence the likelihood of dismissal. First, we included firm size, measured as the natural log of firm assets, to account for greater expectations for CEOs at larger firms (Shen & Cannella, 2002). Second, we controlled for CEO characteristics that could influence the likelihood of dismissal. CEO tenure and CEO duality help capture the power and influence the CEO has in the boardroom (Shen & Cannella, 2002). CEO pay helps capture the likelihood that the CEO will attract greater outside scrutiny and pressure as pay increases, which is measured as the natural log of total current compensation (Cai, Jo, & Pan, 2011). Third, we controlled for corporate governance characteristics using institutional ownership, calculated as the percentage of the firm’s shares owned by institutional investors (Parrino, Sias, & Starks, 2003), and the number of blockholders, measured as the count of owners with at least 5% of the firm’s shares. Finally, we controlled for the firm’s R&D intensity, capital intensity, and market-to-book ratio, to capture differences in the firm’s operating strategies (Ioannou & Serafeim, 2015; McWilliams & Siegel, 2000).

Estimation
We used random-effects probit regression with standard errors clustered by firm to estimate our binary CEO dismissal model.3 All regressions included year fixed-effects, and all independent and control variables have been lagged by 1 year.

Results
Table 1 provides descriptive statistics and correlations for the variables in our models. We also calculated variance inflation factors and found that all values were less than two, indicating that multicollinearity was not an issue (Kennedy, 2008).

Table 2 reports the results of our random-effects probit regressions predicting CEO dismissal. Model 1 presents the results with only the control variables, while Model 2 includes both components of our interaction term, and Model 3 presents the full model with the interaction term. Hypothesis 1 predicted that CSR would moderate the relation between financial performance and CEO dismissal. The results of Model 3 show that the coefficient on the interaction term is negative with a high likelihood that its value differs from zero (β = −0.174, p = .002). We plot the interaction and provide simple slopes in Figure 1.

At low levels of financial performance (one standard deviation below the mean), increasing prior investments in CSR from one standard deviation below the mean to one standard deviation above the mean is associated with an increased likelihood of dismissal by 84% (from 4.15 to 7.64%, p = .040). At extremely low levels of financial performance (two standard deviations below the mean) increasing prior investments in CSR from one standard deviation below the mean to one standard deviation above the mean is associated with a 206% increase in the likelihood of dismissal (from 4.82 to 14.7%, p = .015).

At high levels of financial performance (one standard deviation above the mean), increasing prior investments in CSR from one standard deviation below the mean to one standard deviation above the mean is associated with a 53% reduction in the likelihood of a CEO’s dismissal (from 3.05% down above the mean is associated with a 206% increase in the likelihood of dismissal (from 4.82 to 14.7%, p = .015).

Indistinguishable results and conclusions are drawn using random-effects logistic regression. Moreover, mean-centering industry-adjusted returns and CSR does not substantively change the results.

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3 Indistinguishable results and conclusions are drawn using random-effects logistic regression. Moreover, mean-centering industry-adjusted returns and CSR does not substantively change the results.
### Table 1: Descriptive Statistics and Correlations

<table>
<thead>
<tr>
<th>Variable</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO dismissal</td>
<td>0.043</td>
<td>0.202</td>
<td>0.398</td>
<td>3.161</td>
<td>−0.036</td>
<td>0.033</td>
<td>0.938</td>
<td>0.282</td>
<td>−0.075</td>
<td>0.038</td>
<td>0.146</td>
<td>0.033</td>
<td>0.146</td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>0.036</td>
<td>0.038</td>
<td>0.006</td>
<td>0.025</td>
<td>−0.132</td>
<td>0.043</td>
<td>0.033</td>
<td>0.025</td>
<td>−0.132</td>
<td>0.043</td>
<td>0.033</td>
<td>0.025</td>
<td>−0.132</td>
<td></td>
</tr>
<tr>
<td>Industry-adjusted returns</td>
<td>1.371</td>
<td>0.752</td>
<td>0.340</td>
<td>0.232</td>
<td>−0.174</td>
<td>0.125</td>
<td>0.467</td>
<td>0.331</td>
<td>−0.212</td>
<td>0.174</td>
<td>0.467</td>
<td>0.331</td>
<td>−0.212</td>
<td></td>
</tr>
<tr>
<td>CSR × Industry-adjusted returns</td>
<td>−0.069</td>
<td>0.018</td>
<td>0.038</td>
<td>0.026</td>
<td>−0.054</td>
<td>0.038</td>
<td>0.026</td>
<td>−0.054</td>
<td>0.038</td>
<td>0.026</td>
<td>−0.054</td>
<td>0.038</td>
<td>0.026</td>
<td></td>
</tr>
<tr>
<td>Firm size</td>
<td>1.695</td>
<td>0.069</td>
<td>0.312</td>
<td>0.218</td>
<td>−0.206</td>
<td>0.135</td>
<td>0.547</td>
<td>0.321</td>
<td>−0.246</td>
<td>0.184</td>
<td>0.557</td>
<td>0.321</td>
<td>−0.246</td>
<td></td>
</tr>
<tr>
<td>Capital intensity</td>
<td>0.078</td>
<td>0.025</td>
<td>0.025</td>
<td>0.012</td>
<td>−0.025</td>
<td>0.012</td>
<td>0.025</td>
<td>0.012</td>
<td>−0.025</td>
<td>0.012</td>
<td>0.025</td>
<td>0.012</td>
<td>−0.025</td>
<td></td>
</tr>
<tr>
<td>Market-to-book</td>
<td>0.925</td>
<td>0.001</td>
<td>0.124</td>
<td>0.018</td>
<td>−0.041</td>
<td>0.088</td>
<td>0.307</td>
<td>0.042</td>
<td>−0.030</td>
<td>0.012</td>
<td>0.313</td>
<td>0.042</td>
<td>−0.030</td>
<td></td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.002</td>
<td>0.028</td>
<td>0.009</td>
<td>0.010</td>
<td>−0.009</td>
<td>0.010</td>
<td>0.009</td>
<td>0.010</td>
<td>−0.009</td>
<td>0.010</td>
<td>0.009</td>
<td>0.010</td>
<td>−0.009</td>
<td></td>
</tr>
<tr>
<td>CEO duality</td>
<td>0.450</td>
<td>0.025</td>
<td>0.140</td>
<td>0.040</td>
<td>−0.040</td>
<td>0.084</td>
<td>0.334</td>
<td>0.005</td>
<td>−0.030</td>
<td>0.018</td>
<td>0.346</td>
<td>0.005</td>
<td>−0.030</td>
<td></td>
</tr>
<tr>
<td>Number of blockholders</td>
<td>1.454</td>
<td>0.001</td>
<td>0.133</td>
<td>0.016</td>
<td>−0.016</td>
<td>0.038</td>
<td>0.066</td>
<td>0.006</td>
<td>−0.005</td>
<td>0.027</td>
<td>0.111</td>
<td>0.006</td>
<td>−0.005</td>
<td></td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>0.162</td>
<td>0.002</td>
<td>0.001</td>
<td>0.001</td>
<td>−0.001</td>
<td>0.001</td>
<td>0.018</td>
<td>0.006</td>
<td>−0.005</td>
<td>0.027</td>
<td>0.111</td>
<td>0.006</td>
<td>−0.005</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>0.184</td>
<td>0.088</td>
<td>0.557</td>
<td>0.321</td>
<td>−0.246</td>
<td>0.184</td>
<td>0.557</td>
<td>0.321</td>
<td>−0.246</td>
<td>0.184</td>
<td>0.557</td>
<td>0.321</td>
<td>−0.246</td>
<td></td>
</tr>
</tbody>
</table>

We conducted several supplemental analyses:
## Table 2
Results of Regressions Predicting CEO Dismissal

<table>
<thead>
<tr>
<th>Variables</th>
<th>Random-effects probit</th>
<th>Conditional logit</th>
<th>Linear probability model</th>
<th>Survival model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 3</td>
<td>Model 4</td>
<td>Model 5</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.110 (0.012)</td>
<td>0.100 (0.019)</td>
<td>0.102 (0.016)</td>
<td>0.114 (0.053)</td>
</tr>
<tr>
<td>Capex intensity</td>
<td>−0.788 (0.208)</td>
<td>−0.923 (0.153)</td>
<td>−0.949 (0.140)</td>
<td>−0.266 (0.794)</td>
</tr>
<tr>
<td>R&amp;D intensity</td>
<td>0.837 (0.432)</td>
<td>1.468 (0.977)</td>
<td>−2.847 (0.746)</td>
<td>0.008 (0.854)</td>
</tr>
<tr>
<td>Market-to-book</td>
<td>0.005 (0.732)</td>
<td>0.004 (0.660)</td>
<td>0.005 (0.746)</td>
<td>0.050 (0.613)</td>
</tr>
<tr>
<td>CEO pay</td>
<td>−0.046 (0.348)</td>
<td>−0.048 (0.354)</td>
<td>−0.048 (0.361)</td>
<td>−0.026 (0.678)</td>
</tr>
<tr>
<td>CEO duality</td>
<td>−0.205 (0.054)</td>
<td>−0.206 (0.055)</td>
<td>−0.206 (0.054)</td>
<td>−0.194 (0.120)</td>
</tr>
<tr>
<td>Number of blockholders</td>
<td>0.028 (0.489)</td>
<td>0.013 (0.724)</td>
<td>−0.013 (0.753)</td>
<td>−0.071 (0.598)</td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>0.184 (0.678)</td>
<td>0.250 (0.556)</td>
<td>0.260 (0.570)</td>
<td>0.595 (0.237)</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>0.007 (0.311)</td>
<td>0.008 (0.312)</td>
<td>0.008 (0.288)</td>
<td>0.009 (0.291)</td>
</tr>
<tr>
<td>Industry-adjusted returns</td>
<td>−0.791 (0.001)</td>
<td>−0.730 (0.001)</td>
<td>−0.722 (0.001)</td>
<td>−0.803 (0.000)</td>
</tr>
<tr>
<td>CSR</td>
<td>0.013 (0.457)</td>
<td>−0.015 (0.750)</td>
<td>−0.010 (0.627)</td>
<td>−0.015 (0.460)</td>
</tr>
<tr>
<td>Industry-adjusted returns × CSR (H1)</td>
<td>−0.174 (0.002)</td>
<td>−0.163 (0.006)</td>
<td>−0.180 (0.003)</td>
<td>−0.259 (0.041)</td>
</tr>
<tr>
<td>Year fixed-effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Industry-adjusted CSR</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Firm fixed-effects</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Constant</td>
<td>−2.453 (0.000)</td>
<td>−2.437 (0.000)</td>
<td>−2.428 (0.000)</td>
<td>−2.600 (0.004)</td>
</tr>
<tr>
<td>Pseudo-R²/Adj. R²</td>
<td>0.038 (0.000)</td>
<td>0.093 (0.000)</td>
<td>0.163 (0.004)</td>
<td>0.152 (0.809)</td>
</tr>
<tr>
<td>Observations</td>
<td>2.298 (2.98)</td>
<td>2.298 (2.98)</td>
<td>2.298 (2.98)</td>
<td>499 (2.98)</td>
</tr>
<tr>
<td># of unique firms/CEOs</td>
<td>441</td>
<td>441</td>
<td>441</td>
<td>375 (441)</td>
</tr>
</tbody>
</table>

Two-tailed p values are shown in parentheses below coefficient estimates. All models use robust standard errors clustered by firm. The survival model incorporates the variable of interest is shown in bold font.
be driving our results. First, we reran our analyses with additional controls: stock return volatility, return on assets (ROA), strategic change and strategic deviation, board independence, CEO age, CEO ownership, the entrenchment index, firm age, and leverage. Our conclusions remained unchanged.  

Next, we wanted to assess how strong a correlated omitted variable would have to be to overturn our results, so we calculated the impact threshold of a confounding variable (ITCV) for our interaction term (Frank, 2000). The results show an ITCV of −0.011, which implies that partial correlations between Industry-adjusted returns*CSR and CEO dismissal with an omitted confounding variable would have to be about 0.104 (\(\sqrt{0.011}\)) to overturn the results. To put this in perspective, it would take a correlated omitted variable with an impact nearly as large as the strongest variable in this model to overturn the results. Assuming that we have a reasonable set of control variables, this suggests that the results are not likely driven by a correlated omitted variable.

Fourth, we evaluated the potential endogenous nature of our two independent variables by assessing whether (a) prior investments in CSR led to industry-adjusted returns or (b) industry-adjusted returns led to CSR in our sample. We ran two linear fixed-effects models—one using CSR to predict industry-adjusted returns and one using industry-adjusted returns to predict CSR—including clustered robust standard errors and the same control variables as our main models. The results suggest that CSR did not help explain industry-adjusted returns (\(\beta = -0.002, \ p = .777\)), nor did industry-adjusted returns help explain CSR (\(\beta = 0.130, \ p = .318\)).

Fifth, we considered if the hypothesized product term—Industry-adjusted returns × CSR—is endogenous by using a two-stage least squares instrumental variables method proposed by Wooldridge (2003), which accounts for endogenous product terms. We used the political leanings of the state where the firm is headquartered, measured as whether the state voted for a Democrat in the prior presidential election, as the instrument. While no instrument is perfect, we suggest that firms in these states are likely to have higher levels of CSR, while it is not clear why the local political views would influence CEO dismissal, making it a potentially valid instrument. Further, it is predictive of CSR (\(\beta = 1.136, \ p = .000\)), but not of CEO dismissal (\(\beta = -0.012, \ p = .909\)). Results from the second stage of this test show that the coefficient on the interaction term is consistent with our primary findings (\(\beta = -0.032, \ p = .008\)).

Sixth, because the likelihood of dismissal changes over CEO tenure, we reran our main analysis using a Cox proportional hazard event

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6 Results of all untabulated supplemental analyses can be obtained from the first author upon request.

7 To calculate the ITCV (Frank, 2000; Larcker & Rusticus, 2010), we used an expanded version of Model 7 in Table 2, which also included additional interaction terms (Maroulis & Gomez, 2008). Specifically, we interacted Industry-adjusted returns with all the control variables in the model (e.g., R&D intensity × Industry-adjusted returns) to provide a better benchmark against which to compare the ITCV. Using this model, we found similar results to those reported in Model 8 and calculated that the ITCV for Industry-adjusted returns*CSR is −0.011.
history model, which incorporates CEO tenure in the hazard function (Jenter & Kanaan, 2015; Singer & Willett, 2003). As shown in Model 9 of Table 1, we again found similar results ($\beta = -0.393$, $p = .001$).

Finally, as a placebo test, we considered voluntary CEO turnover as a dependent variable, as we would not expect to find any results in this setting. We coded for voluntary CEO turnover by excluding departures that were due to sickness, death, interim CEOs, or due to involuntary dismissal, which identified 141 voluntary turnovers. When we reran our primary analyses with this dependent variable, our results show the coefficient of *industry-adjusted returns* ($\beta = 0.24$, $p = .675$), CSR ($\beta = -0.01$, $p = .596$), and the interaction ($\beta = 0.006$, $p = .902$) all match our expectations that there is no meaningful effect. Thus, our combined main and supplemental analyses provide consistent evidence suggesting that CSR moderates the relationship between firm financial performance and CEO dismissal.

**Discussion and Summary**

In this study, we sought to explain the potential personal consequences for CEOs related to corporate social responsibility (CSR). Broadly, our findings suggest that prior investments in CSR amplify the relationship between firm financial performance and CEO dismissal. Specifically, if things are going poorly financially, greater prior investments in CSR appear to expose the CEO to an even higher risk of being fired. In contrast, if the firm is performing well financially, higher levels of CSR appear to help protect the CEO from dismissal. It thus appears that prior investments in CSR amplify directors’ assessments of financial performance and, in turn, the likelihood of CEO dismissal.

Our findings extend the direct linkage between financial performance and CEO dismissal (Finkelstein et al., 2009) by suggesting that prior investments in CSR subsequently frame the assessment of financial performance delivered during the CEO’s watch. Our results are consistent with prior research asserting the primary importance of firm financial performance on CEO assessment, but also suggest that earlier investments in CSR inform how financial performance is interpreted. Our results also suggest that investing or not investing in CSR influences career outcomes for CEOs, but that this influence is dependent upon how their firm is performing financially.

As with all studies, this article also has its limitations. One limitation is that we focused only on CEOs in the United States. Thus, our findings may not generalize to other countries due to differing cultural norms or governance practices. Also, since our sample was limited to Fortune 500 firms, the results may not generalize to smaller firms as they may not face the same level of scrutiny as larger firms. Additionally, although we employ numerous methods to address endogeneity, it is difficult to fully rule out its influence when conducting empirical research. Finally, there is still debate regarding how to properly measure CSR. Consistent with previous research (e.g., Barnett & Salomon, 2012; David, Bloom, & Hillman, 2007; Hillman & Keim, 2001; Hull & Rothenberg, 2008; Ioannou & Serafeim, 2015), we used KLD ratings as our proxy for earlier investments in CSR. While we recognize that measuring CSR is difficult, this measure is the most well-known and frequently studied measure of CSR. Thus, despite questions about its reliability (e.g., Chatterji, Durand, Levine, & Touboul, 2016), its widespread usage, among academics and in social investments funds, suggests it is a reasonable CSR proxy.

**Acknowledgements**

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IDEOLOGY AND THE MICRO-FOUNDATIONS OF CSR: WHY EXECUTIVES BELIEVE IN THE BUSINESS CASE FOR CSR AND HOW THIS AFFECTS THEIR CSR ENGAGEMENTS

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Existing research on executives’ belief in the business case for corporate social responsibility (CSR) is built on two premises. The first is that, in order to believe in the business case, executives need factual evidence that this business case indeed exists. The second premise is that those executives who do believe in the business case will readily invest in CSR-related activities. The results from our four studies tell a different story. We show that managers, rather than focusing on factual evidence, believe in the business case because they espouse a fair market ideology—the tendency to justify and idealize the market economy system. At the same time, even though managers espousing a fair market ideology believe in the business case for CSR, they are not more inclined to engage in CSR than managers who do not hold such an ideology, because they also experience weaker moral emotions when confronted with ethical problems. By drawing on system justification theory, we simultaneously explore antecedents and consequences of executives’ belief in the business case for CSR and of their moral emotions. In doing so, we help advance knowledge about the micro-foundations of CSR.

Why do executives invest in activities related to corporate social responsibility (CSR)? The literature provides a variety of explanations, ranging from external factors such as pressures from activists (Briscoe, Gupta, & Anner, 2015; de Bakker, den Hond, King, & Weber, 2013; Delmas & Toffel, 2008; McDonnell, King, & Soule, 2015), to idiosyncratic characteristics of executives such as their beliefs, values, and emotions (Agle, Mitchell, & Sonnenfeld, 1999; Chin, Hambrick, & Treviño, 2013; Muller & Kolk, 2010; Weaver, Reynolds, & Brown, 2014). A well-known proposition is that executives are more likely to invest in CSR activities when they believe in the business case for CSR or, in other words, in a positive relationship between corporate social performance (CSP) and corporate financial performance (CFP) (Bansal & Roth, 2000; Brønn & Vidaver-Cohen, 2009; Chin et al., 2013; Orlitzky, Schmidt, & Rynes, 2003). Yet, it has been asserted that many executives find it difficult to believe in such a positive link (Porter & Kramer, 2002, 2006; Stahl & De Luque, 2014). This has spurred the emergence of a large academic literature attempting to find out whether or not CSP and CFP are indeed related (Eccles, Ioannou, & Serafeim, 2014; Flammer, 2015; Margolis, Elfenbein, & Walsh, 2009; Van Beurden & Gössling, 2008). It is often implied that finding evidence of a positive link would persuade executives to believe in the business case and to ultimately invest more in CSR activities (Kang, Germann, & Grewal, 2016; Orlitzky et al., 2003; Waddock & Graves, 1997). Not surprisingly, the quest for evidence of a positive link between CSP and CFP has
This literature relies on the premise that because executives do not have factual evidence of a positive link, they also do not have a basis for believing in the business case for CSR. However, a long-standing stream of research in psychology has highlighted that individuals often form specific beliefs not so much on the basis of factual information and evidence, but rather on the basis of their more general belief systems, worldviews, and ideologies (Allport, 1954; Bobbio & Cameron, 1996; Converse, 1964; Knight, 2006). This psychological literature suggests that, in order to study executives’ beliefs about companies, we must account for executives’ more general views on the economic system in which these companies operate. Individuals’ general views on systemic arrangements—such as the economic system—are the focus of system justification theory (Jost, Banaji, & Nosek, 2004; Proudfoot & Kay, 2014). Therefore, we draw on system justification theory to explain the psychological origin of executives’ belief in the business case for CSR. Specifically, we hypothesize that the belief in the business case for CSR is grounded in executives’ fair market ideology—a positive ideological stance over the market economy system (Cichocka & Jost, 2014; Jost, Blount, Pfeffer, & Hunyady, 2003a). We find consistent support for this hypothesis in our four studies.

The finding that executives’ belief in the CSP–CFP link originates in fair market ideology reveals an important theoretical tension in our understanding of how the belief in the CSP–CFP link becomes materialized in CSR activities at the firm level. On the one hand, it is logical to expect that executives who believe in the CSP–CFP link enhance their companies’ CSR activities (Porter & Kramer, 2002, 2006; Vogel, 2005). On the other hand, prior research has shown that fair market ideology also affects people’s moral values and emotions. Specifically, it limits individuals’ potential to feel morally outraged by ethical problems stemming from corporate activities (Jost et al., 2003a; Wakslena, Jost, Tyler, & Chen, 2007). Such a lack of moral outrage should reduce executives’ tendency to engage in CSR: if their moral emotions are not making them aware of a problem, then they are unlikely to take action against it. Thus, the theoretical tension arises because two contradictory elements (belief in the CSP–CFP link and lack of moral outrage) have their origin in the same underlying belief system (fair market ideology). We explore this theoretical tension by analyzing how the belief in the CSP–CFP link and the lack of moral outrage concurrently impact executives’ tendency to engage in CSR activities. Our findings show that the negative impact of lacking moral outrage neutralizes the positive impact of the belief in the CSP–CFP link on executives’ CSR engagement.

The present paper makes several contributions. First, the existing literature argues that executives will engage in CSR if they believe in the business case (Chin et al., 2013; Kang et al., 2016; Orlitzky et al., 2003). Our findings lead us to caution against this assertion. We find that, even though they believe in the business case for CSR, managers who hold a fair market ideology will not readily engage in CSR because they experience weaker emotional reactions to ethical problems than managers who do not hold a fair market ideology.

Second, our studies illustrate the complex and interdependent nature of how executives’ idiosyncratic lenses impact their strategic choices. Specifically, our research underlines that it is not only executives’ beliefs and moral emotions that matter but also the psychological antecedents of these beliefs and moral emotions. By showing how both the belief in the business case and moral emotions originate in fair market ideology, we reveal the contradictory ways in which they are connected and impact managerial decisions. Uncovering these contradicting paths advances the literature, which has thus far conceptualized the belief in the business case and moral emotions or values as having either independent (Agle et al., 1999; Brønn & Vidaver-Cohen, 2009) or mutually reinforcing (Chin et al., 2013) effects on CSR engagement. Our results thereby illustrate how we can improve our understanding of CSR by investigating its microfoundations (Aguinis & Glavas, 2012; Christensen, Mackey, & Whetten, 2014; Kourula & Delalieux, 2016; Spiess, Mueller, & Lin-Hi, 2013) and also underscore the need for more research that heeds Hambrick’s (2007) call to investigate the psychological antecedents of executives’ idiosyncratic characteristics.

Third, we have developed an innovative method to measure the belief in the business case for CSR. No such measure existed previously and upper echelons theorists have so far relied on inferring this belief from rather distant biographical proxies (Chin et al., 2013), such as executives’ educational background. Such biographical proxies are problematic because we cannot be sure that the proxies correlate with organizational outcomes for the reasons we hypothesize (Carpenter, Geletkanycz, & Sanders, 2017).
2004; Hambrick, 2007; Lawrence, 1997). If we want to be able to make more grounded hypotheses, it is necessary to open the “black box” of executives’ idiosyncratic characteristics (Hambrick, Geletkanycz, & Fredrickson, 1993), and thus to measure the belief in the business case more directly than via biographical proxies. We do this in the present article by measuring this belief through an original prediction game.

The remainder of this article is structured as follows. In the next section, we develop our hypotheses on the relationships between fair market ideology, the belief in the business case for CSR, moral outrage, executives’ biographical proxies, and CSR engagement. We then report the methods and results from our four studies. We conclude by discussing the implications of our studies and possible avenues for future research.

THEORY AND HYPOTHESES
Executive Characteristics and CSR Engagement

As firms’ activities in the area of corporate social responsibility have expanded over the past decade (Etzioni & Ferraro, 2010; Scherer, Rasche, Palazzo, & Spicer, 2016), researchers have started examining the factors that lead companies to engage in CSR. Traditionally, the bulk of this research has emphasized the importance of environmental factors, such as pressures stemming from activists (de Bakker et al., 2013; McDonnell et al., 2015; Mena & Waeger, 2014), the general institutional environment (Ioannou & Serafeim, 2012; Roulet & Touboul, 2015), a company’s industry (Barley, 2007; Weber, Rao, & Thomas, 2009), or its peers (Campbell, 2006). The relative dearth of individual-level investigations into CSR has led to a call for increased efforts to understand the micro-foundations of CSR (Aguinis & Glavas, 2012; Christensen et al., 2014). Consequently, scholars have recently started to focus increasingly on firm-internal factors, such as individual-level managerial characteristics, that can explain why some executives are more likely to engage in CSR than others (Lewis, Walls, & Dowell, 2014; Maak, Pless, & Voegtlin, 2016; Petrenko, Aime, Ridge, & Hill, 2016). This is reflected in the emergence of the responsible and ethical leadership literature (Brown, Treviño, & Harrison, 2005; Waldman & Balven, 2014) and in the growing interest of upper echelons theorists in the topic of CSR (Deckop, Merriman, & Gupta, 2006; Slater & Dixon-Fowler, 2010).

At this individual level, the literature hints at two broad motives that drive executives’ CSR engagements. One part of the literature emphasizes executives’ belief in the business case for CSR (Oritzky et al., 2003; Porter & Kramer, 2002, 2006; Stahl & De Luque, 2014; Waddock & Graves, 1997). The other underlines their moral values and emotions (Agle et al., 1999; Weaver et al., 2014). These two broad motives have been mostly investigated as separate and independent drivers of CSR. The possibility that they may both be grounded in the same general worldview or ideology has not been considered thus far.

In the present article, we build on prior research in social psychology, which suggests that specific beliefs and moral orientations are embedded in and shaped by more general, relatively coherent belief systems or ideologies. Such belief systems or ideologies are the focus of system justification theory (Jost & Hunyady, 2005). Therefore, we draw on system justification theory to theorize how executives’ belief in the business case for CSR as well as their moral emotions are shaped. We start with executives’ belief in the business case for CSR to build our theoretical framework. Figure 1 provides an overview of the theoretical framework and the corresponding hypotheses.

System Justification Theory and the Belief in the Business Case for CSR

System justification theory (Jost & Banaji, 1994; Jost et al., 2004) explores how individuals justify and idealize systemic social arrangements. Examples of such social systems include the Indian caste system and the institution of slavery (Jost, Liviatan, van der Toorn, Ledgerwood, Mandisodza, & Nosek, 2010), but also the more recently developed systems such as the modern democratic political system (Feygina, Jost, & Goldsmith, 2010) or the market economy system (Jost et al., 2003a). In the present article, we focus on how individuals justify and idealize this latter market economy system and the activities of the principal actors operating in this system—private companies. While most people have been found to engage in system justification (Feygina et al., 2010; Jost & Hunyady, 2005), research has shown that some individuals have a stronger tendency to do so than others (Jost et al., 2003a; Jost & Thompson, 2000). These individual differences are captured in the concept of fair market ideology, which is defined as the extent to which individuals justify and idealize the market economy system (Cichocka & Jost, 2014; Jost et al., 2003a).
The starting point for system justification theory is the commonplace assertion that powerful social systems exert great control over the lives of individuals, whereas individuals have little or no control over the systems. According to system justification theory, if individuals had to acknowledge that these powerful and hard-to-change systems are unstable, arbitrary, or flawed, they would experience psychological threat and anxiety (Jost & Hunyady, 2005; Proudfoot & Kay, 2014). Individuals strive to avoid such threat and anxiety in order to maintain a sense of psychological stability and safety—an existential human need (Jost et al., 2010; Jost, Glaser, Kruglanski, & Sulloway, 2003b; Jost & Hunyady, 2005; Lerner, 1980). To maintain this sense of psychological stability and safety, individuals are motivated to justify and idealize the status quo in the societal systems surrounding them. Conversely, they are motivated to oppose changes to the status quo, as such changes would be indicative of an unstable, arbitrary, or flawed system (Jost & Hunyady, 2005; Wakslen, et al., 2007).

This motivation to psychologically bolster the status quo (Jost et al., 2004; Proudfoot & Kay, 2014), in turn, systematically affects people’s reasoning. Motivated reasoning means that an individual relies on a “biased set of cognitive processes” (Kunda, 1990: 480) to reason in a way that allows him or her to conclude what he or she wanted to believe all along (Detert, Treviño, & Sweitzer, 2008; Paharia, Vohs, & Deshpandé, 2013). Hence, when engaging in motivated reasoning, people search for, pay more attention to, and put more emphasis on information that supports what they want to believe. At the same time, they avoid, discount, and discredit information that does not support what they want to believe (Paharia et al., 2013).

Individuals with a high fair market ideology want to uphold the belief that companies’ activities in the market economy system are not random, arbitrary, or illegitimate, but instead serve the system’s purpose of generating economic value (Boltanski & Thévenot, 2006; Cichocka & Jost, 2014; Friedland & Alford, 1991; Jost et al., 2003a). To uphold this belief, these individuals idealize companies’ activities by using “information about how things are currently done to inform their beliefs about how things should be done” (Proudfoot & Kay, 2014: 176 emphasis added; see also Kay et al., 2009). In other words, fair market ideologists idealize the activities that companies do pursue as activities that companies should pursue as actors operating in the market economy system. Thus, they search for, pay more attention to, and put more emphasis on information indicating that the activities companies do engage in have economic value, and they avoid, discount, and discredit information indicating that this is not the case (Elsbach & Kramer, 1996; Shepherd & Kay, 2012).

This reasoning is relevant to the present article when applied to companies’ activities related to CSR. Indeed, as more and more companies do engage in CSR activities (Etzion & Ferraro, 2010; Marquis & Qian, 2013; McDonnell et al., 2015), individuals who score high on fair market ideology are motivated to idealize these CSR activities as having economic value. Accordingly, they search for, pay more attention to, and put more emphasis on information indicating that CSR does indeed have economic value, and they avoid, discount, and discredit information indicating that CSR is not of economic value. As a result, individuals with high fair market ideology believe in the business case for CSR. By contrast, individuals who score low on fair market ideology believe that companies’ activities in the market economy system are not random, arbitrary, or illegitimate, but instead serve the system’s purpose of generating economic value (Boltanski & Thévenot, 2006; Cichocka & Jost, 2014; Friedland & Alford, 1991; Jost et al., 2003a). To uphold this belief, these individuals idealize companies’ activities by using “information about how things are currently done to inform their beliefs about how things should be done” (Proudfoot & Kay, 2014: 176 emphasis added; see also Kay et al., 2009). In other words, fair market ideologists idealize the activities that companies do pursue as activities that companies should pursue as actors operating in the market economy system. Thus, they search for, pay more attention to, and put more emphasis on information indicating that the activities companies do engage in have economic value, and they avoid, discount, and discredit information indicating that this is not the case (Elsbach & Kramer, 1996; Shepherd & Kay, 2012).

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ideology will be less likely to idealize companies’ CSR activities as having economic value and are therefore also less likely to believe in the business case for CSR. Stated formally:

**Hypothesis 1.** The higher individuals score on fair market ideology, the more strongly they believe in the business case for CSR.

Recent scholarship has emphasized that the tendency to engage in system justification is stronger under specific circumstances (Day, Kay, Holmes, & Napier, 2011; Kay et al., 2009; Shepherd, Kay, Landau, & Keefer, 2011). In particular, it has been found that individuals’ system justification motive is stronger the more they see the system in which they are living or operating as inescapable (Kay & Friesen, 2011). The intuition behind this finding is that the reason individuals engage in system justification in the first place—a need for psychological stability and safety—is enhanced under conditions of system inescapability. In other words, “when people find themselves in a system they cannot escape, it is particularly psychologically threatening for them to acknowledge that system’s flaws” (Proudfoot & Kay, 2014: 178). Therefore, individuals who perceive their system as inescapable would engage more strongly in system justification. Prior research has found evidence for this argument. For instance, in an experiment, Kay et al. (2009) manipulated participants’ perceptions that it had become more difficult (respectively less difficult) to emigrate from their home country. After this manipulation, participants were told that politicians in their home country were disproportionately wealthy. Participants in the inescapability condition were found to view this indication of inequality to be more justified than the other participants.

With regard to the market economy system, a natural way to explore the degree to which individuals are exposed to a feeling of system inescapability is by looking at their educational background. Upper echelons theorists also often use educational background as a proxy for underlying psychological orientations (Carpenter et al., 2004; Hambrick & Mason, 1984). More specifically, research in the upper echelons tradition has argued that individuals with an educational background in business, economics, and law hold similar attitudes when compared to individuals with other educational backgrounds (Barker & Mueller, 2002; Wiersema & Bantel, 1992). These similarities among business, economics, and law students have been found to be particularly strong with respect to general worldviews on the market economy and the role of corporations therein (Fiss & Zajac, 2004), which are the focal interest of the present article.

In all of these curricula, an important part of education is dedicated to teaching about firms as profit-seeking entities that operate within an economic system grounded in market-based exchanges. Such an emphasis on the market economy system is accompanied by a de-emphasis on other systems—or “orders of worth” (Boltanski & Thévenot, 2006; Patriotta, Gond, & Schultz, 2011). Thus, the inner logic of systems other than the market economy is less present and available to individuals with an educational background in business, economics, and law. This leads to a perception that the market economy system lacks alternatives. In turn, such a sense that there is a lack of alternatives enhances feelings of inescapability (Kay & Friesen, 2011). For upper echelons theorists, this is relevant because it indicates that educational background can be used as a biographical proxy for fair market ideology. And since we expect higher levels of fair market ideology to be associated with the belief in the business case for CSR (see Hypothesis 1 above), it follows that an educational background in business, economics, and law is associated with such a belief in the business case for CSR. In other words, there is a relationship between educational background and the belief in the business case for CSR; the mechanism that explains this relationship is fair market ideology. Stated formally:

**Hypothesis 2.** There is a positive indirect effect of educational background in business, economics, and law on the belief in the business case for CSR. This indirect effect is mediated by fair market ideology.

If we find evidence to support our first two hypotheses, then fair market ideology can explain why individuals believe in the business case for CSR. Such a finding, in turn, would enable us to draw inferences about how fair market ideology impacts individuals’ tendency to engage in CSR activities. Researchers looking into the determinants of companies’ CSR engagement have for a long time focused

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1 Note that our point does not depend on whether individuals who had stronger feelings of inescapability (or a higher fair market ideology) self-selected into studying business, economics, or law, or whether individuals who study these academic disciplines develop stronger feelings of inescapability (or a higher fair market ideology). Our point is that the consequence is always the same: an educational background in business, economics, and law is associated with higher levels of fair market ideology.
on macro-level factors, such as pressure from activists or industry affiliations (Durand & Vergne, 2015; Weber et al., 2009). However, recent scholarly interest has started exploring the more micro-level aspects or company-internal drivers of CSR (Bridoux, Stoberg, & Den Hartog, 2016; Crilly, Zollo, & Hansen, 2012; Maak et al., 2016; Muller & Kolk, 2010). Of particular relevance for our purposes in the present article is that researchers have proposed, but never tested, the intuition that managers would be more likely to lead their firms toward increased CSR engagements if they believed in a positive relationship between CSP and CFP (Chin et al., 2013; Orlitzky et al., 2003). Underlying this intuition is the acknowledgment that the managers of private companies feel pressured by various powerful stakeholders, such as investors and regulators, and by the notion of fiduciary responsibility, to focus squarely on financial performance (Margolis & Walsh, 2003; Porter & Kramer, 2006). Therefore, if managers perceive CSR activities as an opportunity to increase their firms’ financial performance—in other words, if they believe in the business case for CSR—they should be motivated to lead their firms toward engaging in CSR (Orlitzky et al., 2003).

Conversely, if managers see CSR engagements merely as a cost, and thus as potentially reducing financial performance, they will refrain from pursuing CSR activities. In line with this argument, academics have long viewed the presumed difficulty that executives have in believing in the business case for CSR as an important obstacle to increased engagement of their firms in CSR (Porter & Kramer, 2002; Stahl & De Luque, 2014; Waddock & Graves, 1997). However, this obstacle is lifted for executives who believe in the business case, which means they should have a comparatively stronger tendency to engage in CSR activities (Chin et al., 2013). As we proposed in our first two hypotheses, we expect fair market ideology to be predictive of executives’ belief in the business case for CSR. This implies an indirect relationship between fair market ideology and executives’ tendency to engage in CSR. If fair market ideology is predictive of the belief in the business case for CSR and this belief in the business case for CSR is predictive of executives’ tendency to engage in CSR activities, then fair market ideology should have a positive indirect effect on the tendency to engage in CSR. Stated formally:

Hypothesis 3. There is a positive indirect effect of fair market ideology on tendency to engage in CSR activities. This indirect effect is mediated by the belief in the business case for CSR.
business positions (information about how things currently are), individuals in the high system justifica-
tion condition were found to be more favorable to-
toward gender inequality (how things should be) than
individuals in the control condition.

When determining what is normatively justified
on the basis of what they observe in the status quo,
ystem justifiers guard themselves from using more
trinsic yardsticks of what should be, such as their
oral values, intuitions, or emotions. That does not
mean, of course, that high system justifiers cannot
ossess these moral values and emotions that prior
esearch associated with higher CSR engagements
(Brown & Treviño, 2006; Shao, Aquino, & Freeman,
008). Rather, it means that high system justifiers
rain from relying on their moral values and emo-
tions when assessing problems that occur in the
current status quo of doing business, as if they were
thically blind (Palazzo, Krings, & Hoffrage, 2012).
pecifically, Wakslak et al. (2007) showed that sys-
tem justification leads to a significant reduction in
both inward-focused moral emotions like guilt or
ratitude and in the outward-focused moral emo-
tion known as moral outrage (Montalta, Schmitt, &
Dalbert, 1986). Moral outrage is especially rele-
ent for the present article because it has been shown to
ict behavioral intentions (Wakslak et al., 2007)
and has already been studied in the context of CSR
(Antonetti & Maklan, 2014). Moral outrage is de-
termined primarily by the “perception that a moral
ardian or principle has been violated” (Batson,
Chao, & Givens, 2009: 155). Hence, when individuals
who are high in system justification guard them-
selves from feeling moral outrage, they limit their
potential to perceive and detect moral problems in
that system. For instance, using both correlational
and experimental designs, Tan, Liu, Huang, Zhao,
and Zheng (2016) found that lower levels of moral
outrage predicted lower awareness of corruption.
Such insensitivity to problems, in turn, leads in-
dividuals to be less supportive of activities and
practices that aim to address these problems. Ac-
ordingly, Wakslak et al. (2007) showed that in-
dividuals who lack moral outrage are less supportive
of helping disadvantaged segments of the pop-
ulation. CSR activities of companies are often con-
ceived of as addressing social, environmental, or
other moral problems in the market economy system
(Carroll, 1999; Garriga & Melé, 2004). As individuals
experiencing lower levels of moral outrage are less
likely to acknowledge the existence of such prob-
lems, we expect these individuals to be less sup-
portive of CSR engagements.

In sum, research has shown that system justifica-
tion limits individuals’ potential to feel outrage to-
ward moral problems (Wakslak et al., 2007). On this
basis, we argue that individuals with higher levels of
fair market ideology will experience less outrage to-
ward social, environmental, or other moral problems
in the market economy system. In turn, lower levels
of moral outrage imply that individuals are less
sensitive to these problems and are therefore also less
motivated to solve them via CSR engagements. In
other words, if fair market ideology is predictive of
a lack of moral outrage and this lack of moral outrage
decreases individuals’ tendency to engage in CSR
activities, then fair market ideology should have an
indirect negative effect on the tendency to engage in
CSR. Stated formally:

Hypothesis 4. There is a negative indirect effect
of fair market ideology on tendency to engage in
CSR activities. This indirect effect is mediated
by moral outrage.

Overview of Studies

This series of hypotheses converges in the theo-
retical framework depicted in Figure 1. The center-
piece is Path B, which connects fair market ideology
and the belief in the CSP–CFP link, as proposed in
Hypothesis 1. In Study 1, we first test this path with
a sample of executives. We then test this path ex-
perimentally in Study 2 in order to rule out concerns
about reverse causality or omitted variables. Path A
connects educational background, a proxy often
used in upper echelons research, to fair market
ideology. Paths A and B combined describe the in-
direct effect of educational background on the belief
in the CSP–CFP link via fair market ideology, which
we propose in Hypothesis 2. We test this indirect
path in Study 3, exploiting the natural variation in
educational backgrounds in a student sample. Paths
C, D, and E bring the tendency for CSR engagement
into the picture. Path C connects the belief in the
CSP–CFP link to CSR engagement. Together, Paths C
and B illustrate the indirect positive effect of fair
market ideology on CSR engagement via the belief in
the CSP–CFP link proposed in Hypothesis 3. Path D
leads from fair market ideology to moral outrage.
Path E describes the positive link between moral
outrage and CSR engagement. Together, Paths D and
E constitute the negative effect of fair market ideol-
ogy on CSR engagement via moral outrage, as pro-
posed in Hypothesis 4. In Study 4, we investigate
these two indirect effects (Paths B + C and Paths D + E)
concurrently with a sample of executives.
STUDY 1: EXECUTIVES’ BELIEF IN THE CSP–CFP LINK AND FAIR MARKET IDEOLOGY

The purpose of Study 1 is to test Hypothesis 1 and to investigate the link between fair market ideology and executives’ belief in the CSP–CFP link. To establish the relevance of fair market ideology for decision makers who could potentially influence their company’s policies, we followed Hambrick’s (2007) suggestion to use executive MBAs (EMBAs).

Sample

We recruited 59 executives from an EMBA class at a large Swiss university. We excluded 12 participants because they did not complete the questionnaire, respectively did not understand the instructions or the incentive structure of their task (i.e., they failed to correctly answer comprehension check questions). This resulted in a final sample of 47 participants, 12 of whom (26%) were women and 35 (74%) were men. On average, the executives were 37 years of age (SD = 5.1) and had 11 (SD = 4.8) years of managerial experience. Twenty percent worked for small companies (1–50 employees), 23% for medium-sized companies (51–500 employees), and 57% for large companies (more than 500 employees).

Measures

Belief about the link between CSP and CFP. In order to measure our subjects’ belief about the link between CSP and CFP, we developed a prediction game. Participants predicted CFP based on information about prior financial performance and prior social performance. Using a prediction game enabled us to set incentives for participants to make their judgments according to their actual and true beliefs and thereby avoid social desirability bias. Appendix 1 provides an example of how the predictions were made.

In the prediction game, participants were given information about the social and financial performance of a company at one point in time (time T). Based on these two pieces of information, participants had to predict the financial performance of this company two years later (time T + 2).

All the information we presented to the respondents was based on real data. To operationalize social performance, we used data from Covalence EthicalQuote (www.ethicalquote.com) for the years 2002–2006 for a total of 183 companies taken from the Dow Jones Sector Titans Index, an index of the largest companies in important industries. Covalence EthicalQuote is a rating agency based in Geneva, Switzerland that specializes in assessing external information about the social and environmental performance of companies. The rating agency’s methodology is based on the difference between all positive and all negative pieces of information about the social and environmental consequences of the companies’ activities reported in the news media worldwide (in English, Spanish, French, and German). As a measure of financial performance, we obtained the return on equity (ROE) for the previous 12 months from the COMPUSTAT database. ROE is an accounting-based measure from corporations’ balance sheets that is obtained by dividing net income after tax by shareholder equity. ROE expresses a firm’s efficiency in generating profits and is therefore generally used as an indication of how profitably a company has operated over a year. Participants were informed in detail about the measures for social and financial performance.

To make the prediction task as intuitive as possible for our participants, the financial performance and the social performance were given as a rank among the entire set of 183 companies. A low number indicated a good rank (1st was the best) and a high number indicated a poor rank (183rd was the worst). Ranks are indicative of how good a company is compared to the other companies. This enabled our participants to consider the relationship between social performance and financial performance independently from factors that affected the economy as a whole. To underline this point, we did not indicate the precise years for which the participants were making their predictions.

We selected seven of the 183 companies for the prediction game. The selection procedure for the seven companies was as follows: we chose companies based on their social and financial performance at time T. To avoid a “regression to the mean” effect,2 we chose companies whose rank was closest to the middle rank for financial performance—the

2 This effect describes a situation in which a variable is measured multiple times. When the first measurement of the variable returns an extreme value, the second measurement will tend to be closer to the variable’s true mean. As a consequence, had we given our participants companies with extreme ranks at time T (i.e., close to 1 or 183) for the dimension they had to predict (i.e., financial performance), and had they predicted a rank closer to the mean rank at time T + 2, then we would not have been able to separate two possible explanations for such predictions: (1) beliefs concerning the link between CSP and CFP that allow us to test our hypotheses, and (2) correct intuitions concerning statistical regression toward the mean.
dimension that participants had to predict. At the same time, these companies should be as extreme as possible on social performance—the dimension that participants did not have to predict. We selected seven companies that matched our criteria. Their financial performance ranks were in the middle (between 78 and 111), and their social performance ranks were split: four of the companies had a high rank (between 168 and 183) and three of the companies had a low rank (between 1 and 17). This procedure enabled us to investigate if, and in which way, the information about social performance influenced the prediction of financial performance.

Participants were given the rank for financial performance and the rank for social performance at time $T$, and they predicted the financial performance at time $T+2$ (two years later). We calculated our main dependent variable by estimating how the given social performance ranks influenced the predicted financial performance ranks across all seven predictions, while controlling for the influence of the given financial performance ranks. More specifically, we fitted a linear regression for each participant separately, with the predicted financial performance rank as the dependent variable and the given social performance rank as the independent variable, while the given financial performance rank was used as the control variable. A participant’s coefficient for the effect of the given social performance rank on the predicted financial performance rank is our measure of this participant’s belief in the CSP–CFP link. This coefficient measures the expected change in the predicted financial performance rank when the given social performance changes by one rank. A positive coefficient indicates that the participant predicted a positive association between social performance at $T$ and financial performance at $T+2$, whereas a negative coefficient indicates that the participant predicted a negative association.

Participants predicted the financial performance of the companies at point $T+2$, which was between 2004 and 2006. We evaluated the accuracy of their predictions by comparing their predicted rank with the actual ranks at that point in time. The ten most accurate participants were each awarded 50 Swiss francs (approximately USD 46.50 at the time of the study). We introduced this incentive to increase participants’ motivation and to counteract potential social desirability biases—that is, that the participants would predict a stronger link between social and financial performance than they believed to actually exist. In this incentive scheme, participants maximize their chances of winning the 50 Swiss francs by stating their true beliefs about how social performance impacts future financial performance.

**Fair market ideology.** To measure the extent to which participants engage in justification and idealization of the market economy system, we used the systemic fair market ideology scale. This scale was developed and tested by Jost et al. (2003a), who aimed to measure individual differences regarding the ideological tendency “to believe that the existing free market system is fair, ethical and legitimate” (Jost et al., 2003a: 66). Example items are “In many markets, there is no such thing as a true ‘fair’ market price” (reverse-coded) and “In free market systems, people tend to get the outcomes that they deserve.” This scale has been shown to strongly correlate with other general and economic system justification scales (Jost et al., 2003a). Participants answered on an 11-point scale ranging from $-5$ (completely disagree) through 0 (neither agree nor disagree) to $+5$ (completely agree). The 15 items were averaged into a fair market ideology score (Cronbach’s $\alpha$ in this sample = 0.69, $M = -0.2$, $SEM = 0.16$).

**Demographics and additional measures.** Prior research has found a relationship between the political orientation of CEOs and their companies’ CSR engagement and has explained this finding by arguing that it is driven by CEOs’ belief in the business case for CSR (Chin et al., 2013). Therefore, we included executives’ political orientation as the control variable (on two seven-point scales, one ranging from liberal to conservative and one ranging from left-wing to right-wing).

We were also interested in exploring whether the beliefs about the CSP–CFP link differed systematically between executives with different demographic characteristics. Therefore, we included several demographic control variables that are regularly included in behavioral research in management, such as upper echelons research. In addition to gender and age, these demographic variables were the number of years of work experience, level of education (with the categories: primary school, secondary school, completed high school, undergraduate degree, graduate degree, PhD), and rank in the organizational hierarchy (in terms of number of hierarchy levels below the CEO). For ease of interpretation, we coded both the level of education and the hierarchy level as continuous, although all results are robust to using a dummy variable for each level of these variables.

**Results and Discussion Study 1**

Table 1 summarizes the descriptive statistics and correlations for Study 1. Participants’ belief in the CSP–CFP link is significantly correlated with participants’ fair market ideology ($r = 0.36$, $p = 0.01$). As can
be seen in Table 2, when regressing fair market ideology on the belief in the CSP–CFP link, the coefficient of fair market ideology remains significant (b = 0.06, SEM = 0.02, t = 3.07, p = 0.004), even after controlling for gender, age, education level, political orientation, work experience, and the hierarchy distance to the CEO. This analysis is also robust to the exclusion of the control variables. Thus, we find support for Hypothesis 1: individuals’ belief in a positive link between CSP and CFP is correlated with their ideological tendency to justify the market economy system.

**STUDY 2: EXPERIMENTALLY ESTABLISHING THE CAUSAL LINK BETWEEN FAIR MARKET IDEOLOGY AND THE BELIEF IN THE CSP–CFP LINK**

The purpose of Study 2 is to establish that the link between system justification of the market economy system and the beliefs about the CSP–CFP link is causal and in the proposed direction. Specifically, we hypothesized that we could prompt participants to believe in a stronger (weaker) link between CSP and CFP by making fair market ideology more (less) salient. Experimentally manipulating the accessibility of fair market ideology and measuring the effect of this manipulation on the belief in the CSP–CFP link enables us to exclude alternative explanations, such as reverse causality or omitted variables.

**Sample**

We recruited 95 business and economics students from a large Swiss university. Twenty participants were excluded because they did not complete the questionnaire, respectively did not understand the instructions or the incentive structure (i.e., they failed to correctly answer comprehension check questions). Sixty of the participants were women (81%), 14 (19%) were men, and one participant did not

**TABLE 1**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Belief in the CSP–CFP link</td>
<td>0.08</td>
<td>0.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Fair market ideology</td>
<td>–0.20</td>
<td>1.12</td>
<td>0.36*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Gender</td>
<td>0.74</td>
<td>0.44</td>
<td>0.14</td>
<td>0.12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Age</td>
<td>36.87</td>
<td>5.08</td>
<td>–0.09</td>
<td>–0.19</td>
<td>–0.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Political orientation (liberal–conservative)</td>
<td>–1.23</td>
<td>1.13</td>
<td>0.16</td>
<td>–0.02</td>
<td>–0.12</td>
<td>0.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Political orientation (left–right)</td>
<td>0.17</td>
<td>1.27</td>
<td>–0.07</td>
<td>0.27</td>
<td>0.27</td>
<td>–0.11</td>
<td>–0.14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Work experience</td>
<td>11.26</td>
<td>4.82</td>
<td>–0.07</td>
<td>–0.17</td>
<td>–0.07</td>
<td>0.83***</td>
<td></td>
<td>0.00</td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>8. Level of education</td>
<td>4.96</td>
<td>0.91</td>
<td>–0.04</td>
<td>0.11</td>
<td>–0.03</td>
<td>–0.05</td>
<td>–0.20</td>
<td>0.04</td>
<td>–0.16</td>
<td></td>
</tr>
<tr>
<td>9. Hierarchical distance to CEO</td>
<td>2.64</td>
<td>1.90</td>
<td>–0.23</td>
<td>0.14</td>
<td>–0.42**</td>
<td>0.07</td>
<td>0.07</td>
<td>–0.07</td>
<td>–0.03</td>
<td>0.07</td>
</tr>
</tbody>
</table>

*Notes: N = 47.*

* p < 0.05

**p < 0.01

***p < 0.001

**TABLE 2**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.13</td>
<td>0.13</td>
</tr>
<tr>
<td></td>
<td>(0.25)</td>
<td>(0.23)</td>
</tr>
<tr>
<td>Gender</td>
<td>0.03</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>(0.06)</td>
<td>(0.06)</td>
</tr>
<tr>
<td>Age</td>
<td>0.002</td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.008)</td>
</tr>
<tr>
<td>Political orientation (liberal–conservative)</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Political orientation (left–right)</td>
<td>–0.009</td>
<td>–0.02</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Work experience</td>
<td>–0.006</td>
<td>–0.006</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.008)</td>
</tr>
<tr>
<td>Level of education</td>
<td>–0.02</td>
<td>–0.03</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Hierarchical distance to CEO</td>
<td>–0.001</td>
<td>–0.008</td>
</tr>
<tr>
<td></td>
<td>(0.03)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Fair market ideology</td>
<td>0.06**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td></td>
</tr>
<tr>
<td>R-Squared</td>
<td>0.11</td>
<td>0.29</td>
</tr>
</tbody>
</table>

*Notes: SEM in parentheses; N = 47.*

* p < 0.05

**p < 0.01

***p < 0.001
provide gender information. The average age was 21.04 (SD = 1.70) years, and all participants were in the second year of their bachelor studies.

Experimental Design

The experiment consisted of two parts. In the first part, we manipulated the salience of system justification by inducing participants to conceive of the market economy as either fair or unfair. In the second part, participants played the same prediction game as in Study 1. To manipulate the salience of system justification, we adopted an unscramble sentences procedure from Feinberg and Willer (2011). We presented participants with a set of scrambled sentences and instructed them to unscramble these sets of words to form coherent sentences. Participants were randomly assigned to three conditions in which they were presented different sets of sentences. In the high system justification condition, eight unscrambled sentences described the market economy system as just and fair. These sentences were taken from the systemic fair market ideology scale by Jost et al. (2003a). Example items include “The free market system is a just system” and “In free market systems, people tend to get what they deserve.” These scrambled sentences were mixed with six filler sentences, which were not associated with the topic. In the low system justification condition, participants were presented with eight scrambled sentences that described the market economy system as unjust and unfair (e.g., “The free market system is an unjust system,” “A free market does not guarantee that people get what they deserve”) and the six filler items. In the control condition, participants had to unscramble only the six filler items.

Measures

**Belief about the link between CSP and CFP.** Participants played a prediction game similar to the one in Study 1 (described above); the only difference was that participants made ten predictions instead of seven. We calculated the variable measuring the belief in the CSP–CFP link in the same way as in Study 1.

**Fair market ideology.** As a manipulation check, participants completed the systemic fair market ideology scale at the end of the questionnaire (Cronbach’s α in this sample = 0.66, M = −0.68, SEM = 0.13). An ANOVA with experimental condition as the independent variable and fair market ideology as the dependent variable reveals the main effect of the experimental condition on fair market ideology ($F(2,72) = 4.81, p = 0.01$), implying that the manipulation did indeed work.

Results and Discussion Study 2

The results, detailed in Figure 2, provide additional support for Hypothesis 1. An ANOVA with experimental condition as the independent variable and the belief in the CSP–CFP link as the dependent variable

![Figure 2](image-url)
reveals that there is a main effect of the experimental condition on the belief in the CSP–CFP link \((F(2,72) = 3.13, p = 0.0499)\). The belief in the CSP–CFP link for participants in the high system justification condition is significantly higher than for participants in the low system justification condition (high system justification condition: \(M = 0.257, SEM = 0.039\); low system justification condition: \(M = 0.133, SEM = 0.035, t(49) = 2.35, p = 0.023\)). Thus, we find additional support for Hypothesis 1; namely, that there is a link between fair market ideology and the belief in a positive link between CSP and CFP. The belief in the CSP–CFP link for participants in the control condition containing only the filler sentences is not significantly different from the belief in the CSP–CFP link for participants in the high system justification condition (control condition: \(M = 0.241, SEM = 0.042, t(46) = 0.27, p = 0.79\)) and is only marginally significantly different from participants in the low system justification condition (\(t(49) = 1.98, p = 0.054\)). This indicates that being assigned to the low system justification condition had a larger effect than being assigned to the high system justification condition. A possible explanation for this could be that our sample for Study 2 consisted solely of business and economics students. As our results from Study 3 (see below) indicate, business and economics students justify the market economy to a higher degree than other samples, which means it might be more difficult to increase their levels of system justification even further.

**STUDY 3: EDUCATIONAL BACKGROUND, FAIR MARKET IDEOLOGY, AND BELIEFS ABOUT THE CSP–CFP LINK**

The purpose of Study 3 is to test Hypothesis 2 and to investigate the role of educational background for individuals’ fair market ideology and, ultimately, for individuals’ beliefs in the CSP–CFP link. Educational background is often used in upper echelons research as a proxy for the individualized lenses of executives, and specifically to explain their beliefs.

**Sample**

We chose a student sample for Study 3 in order to exploit the natural variation in exposure to reasoning about the market economy system in different educational backgrounds, which allows us to test Hypothesis 2. We recruited 124 students from a large Swiss university. Twenty-two participants were excluded because they did not complete the questionnaire, respectively did not understand the instructions or the incentive structure (i.e., they failed to correctly answer comprehension check questions). We targeted students from two groups: (a) business, economics, and law; and (b) sociology, psychology, and philosophy. Forty-eight of the participants were women (47.6%), 53 (50.5%) were men, and one participant did not give gender information. The average age was 22.54 (\(SD = 2.35\)) years, and the participants had studied for an average of 3.33 (\(SD = 0.97\)) years.

**Measures**

**Belief about the link between CSP and CFP.** Participants played the same prediction game as in Study 2 (described above). We calculated the variable measuring the belief in the CSP–CFP link in the same way as in Studies 1 and 2.

**Robustness check for the way financial performance is measured.** In the prediction game, we randomly assigned two different measures of financial performance to participants. The goal of this manipulation was to test whether our results would be sensitive to the type of financial performance used to determine the companies’ financial performance ranks. Approximately half of the students \((n = 53)\) received rank information based on ROE (as in Studies 1 and 2). The remaining students \((n = 49)\) received rank information based on the relative change in share price over the past 12 months. Contrary to ROE, this measure is based on the valuation of the company on the stock market. We expected similar results from both groups.

**Educational background.** To measure participants’ exposure to reasoning about the market economy system, participants reported their field of study. We created a dummy variable that was coded 1 for business, economics, and law students, and 0 for sociology, psychology, and philosophy students. Because participants’ belief in the CSP–CFP link could potentially also be influenced by knowledge about the CSP–CFP link acquired in a business ethics or an ethics course, we also asked participants whether they had taken such a course.

**Fair market ideology.** As in Study 1, participants completed the systemic fair market ideology scale developed and tested by Jost and colleagues (2003a) (Cronbach’s \(\alpha\) in this sample = 0.70, \(M = -0.21, SEM = 0.11\)).

**Results and Discussion Study 3**

Table 3 summarizes the descriptive statistics and correlations. Table 4 summarizes the results from
our mediation analysis, and Figure 3 illustrates these results graphically. For the direct path, studying business, economics, or law is positively associated with the belief in the CSP–CFP link (c = 0.105, p = 0.016). In the indirect path, fair market ideology is significantly greater for participants studying business, economics, or law (a = 1.02, p < 0.001) than for other participants. Holding the academic field constant, fair market ideology significantly increases the belief in the CSP–CFP link (b = 0.043, p = 0.02).

To test for the hypothesized mediation, we followed the bootstrap procedure proposed by Preacher and Hayes (Preacher & Hayes, 2004, 2008; see also, Zhao, Lynch, & Chen, 2010). The mean indirect effect is positive and significant (a × b = 0.044; the bootstrapped bias corrected 95% confidence interval [0.0102, 0.1013] does not include 0, which indicates a significant effect). When the mediator is included in the regression, the direct effect is no longer significant (c’ = 0.061, p = 0.187). Since a × b is significant and c’ is not, the effect can be categorized as an indirect-only mediation. The results from this mediation analysis support Hypothesis 2, namely that fair market ideology mediates the relationship between participants’ educational background and their belief in the CSP–CFP link.

Our results are not sensitive to the way financial performance is defined. We did not find a significant effect of the experimental manipulation of the financial performance measure (ROE versus relative change in the share price), either overall or as a control variable in all the reported results. Also, our results are not sensitive to age or gender or whether participants have taken a course in ethics or business ethics as control variables. Thus, knowledge about the CSP–CFP link that participants could have acquired during these courses does not seem to affect our results.

### Table 3
Descriptive Statistics and Correlations from Study 3

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Belief in the CSP–CFP link</td>
<td>0.12</td>
<td>0.17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Fair market ideology</td>
<td>-0.21</td>
<td>1.09</td>
<td>0.31**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Educational background</td>
<td>0.75</td>
<td>0.44</td>
<td>0.22*</td>
<td>0.49***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Age</td>
<td>22.54</td>
<td>2.35</td>
<td>0.04</td>
<td>0.16</td>
<td>0.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Gender</td>
<td>0.52</td>
<td>0.50</td>
<td>0.04</td>
<td>0.32***</td>
<td>0.34***</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Course in business ethics</td>
<td>0.24</td>
<td>0.43</td>
<td>-0.04</td>
<td>0.11</td>
<td>0.32***</td>
<td>-0.16</td>
<td>0.21*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Course in ethics</td>
<td>0.14</td>
<td>0.35</td>
<td>0.18</td>
<td>0.02</td>
<td>0.04</td>
<td>-0.01</td>
<td>0.16</td>
<td>0.25*</td>
<td></td>
</tr>
<tr>
<td>8. Financial performance given in ROE or share price</td>
<td>0.48</td>
<td>0.50</td>
<td>-0.05</td>
<td>-0.13</td>
<td>-0.07</td>
<td>0.16</td>
<td>-0.02</td>
<td>-0.21*</td>
<td>-0.21*</td>
</tr>
</tbody>
</table>

Notes: N = 102.  
* p < 0.05  
** p < 0.01  
*** p < 0.001

### Table 4
Mediation Analysis from Study 3

<table>
<thead>
<tr>
<th>Regression paths</th>
<th>B</th>
<th>SE</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediation a path (Educational background on Fair market ideology)</td>
<td>1.020</td>
<td>0.24</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Mediation b path (Fair market ideology on Belief in the CSP–CFP link)</td>
<td>0.043</td>
<td>0.18</td>
<td>0.020</td>
</tr>
<tr>
<td>Total effect, c path (Educational background on Belief in the CSP–CFP link; No mediator)</td>
<td>0.105</td>
<td>0.43</td>
<td>0.016</td>
</tr>
<tr>
<td>Direct effect c’ (Educational background on Belief in the CSP–CFP link including Fair market ideology as mediator)</td>
<td>0.061</td>
<td>0.046</td>
<td>0.187</td>
</tr>
<tr>
<td>Indirect effect (c – c’) with bootstrapped bias-corrected 95% CI</td>
<td>0.044</td>
<td>[0.0102, 0.1013]</td>
<td></td>
</tr>
</tbody>
</table>

Notes: N = 102, B = unstandardized coefficient; CI = confidence interval.  
Because the indirect effect may not be normally distributed, the CI is derived by a bootstrap procedure (here 10,000 resamples).  
As the CI does not include zero, the criterion for mediation has been meet (Preacher & Hayes, 2004).
Study 4 was designed to investigate the effect of both the belief in the CSP–CFP link and fair market ideology on CSR engagement. While we expect that fair market ideology has a positive indirect effect on CSR engagement via the belief in the CSP–CFP link (Hypothesis 3), we also hypothesized that fair market ideology has a negative indirect effect on CSR engagement via moral outrage (Hypothesis 4). The purpose of Study 4 was to test these hypotheses.

Sample

For study 4, we recruited managers and executives in class settings. Specifically, we recruited 83 MBAs from a large Swiss business school, 32 EMBAs from a large Swiss university, as well as 12 EMBAs from a large Dutch university. We excluded 22 participants because they did not complete the questionnaire, respectively did not understand the instructions or the incentive structure of their task (i.e., they failed to correctly answer comprehension check questions). In addition to using the exact same exclusion criteria that we used in Studies 1–3, we excluded four participants who only submitted their questionnaires after the debriefing, and five participants who took multiple days between starting and finishing the questionnaire. (All our results are robust to the inclusion of excluded participants.) This resulted in a final sample of 96 participants, 30 of whom (31%) were women and 66 (69%) were men. They had an average age of 34 (SD = 5.7) and an average of 10 (SD = 5.0) years of managerial experience. Twelve percent worked for small companies (1–50 employees), 18% for medium-sized companies (51–500 employees), and 70% for large companies (more than 500 employees).

Measures

Moral outrage. To measure participants’ potential to feel outraged by injustices or violations of moral principles, we used the moral outrage scale developed by Montada et al. (1986), which was linked to system justification by prior research (Waksalak et al., 2007). Example items include “I feel morally outraged by social injustice” and “I rarely feel burdened by the unfairness of this world” (reverse-coded). Participants answered on a seven-point scale ranging from −3 (“That is not at all what I am thinking or feeling”) to +3 (“That is exactly what I am thinking or feeling”). The ten items were averaged into a moral outrage score (Cronbach’s $\alpha$ in this sample = 0.82, $M = 1.16$, $SEM = 0.09$).

Tendency for CSR engagement. To measure participants’ tendency for CSR engagement, we relied on the corporate stakeholder responsibility scale developed by El Akremi, Gond, Swaen, De Roeck, and Igalens (2015). The items on this scale describe various “actions and policies designed to enhance the welfare of various stakeholder groups” (El Akremi et al., 2015: 2). We instructed participants to imagine that they were the CEO of a large company and then asked them to what extent they would ensure that their company engaged in the actions and policies described in the items of El Akremi et al.’s (2015) scale. Specifically, we selected the three items with the highest factor loadings, as reported by El Akremi et al. (2015), for the domains of community-oriented CSR, natural environment-oriented CSR, and...
employee-oriented CSR, and supplier-oriented CSR, and averaged these 12 items into a CSR engagement score (Cronbach’s α in this sample = 0.85, M = 2.95, SEM = 0.11). Example items are “As the CEO, I will ensure that my company invests in humanitarian projects in poor countries,” “As the CEO, I will ensure that my company makes investments to improve the ecological quality of its products and services,” “As the CEO, I will ensure that my company promotes the safety and health of its employees,” and “As the CEO, I will ensure that my company makes sure that its suppliers (and subcontractors) respect justice rules in their own workplaces.” Participants responded on a scale ranging from −5 (completely disagree) through 0 (neither agree nor disagree) to +5 (completely agree).

Belief about the link between CSP and CFP. Participants played the same prediction game as in Studies 2 and 3 (making ten predictions). As in the other studies, we incentivized participants to make accurate decisions. Specifically, the 10% of the participants who made the most accurate predictions received 50 Swiss francs each (for the EMBAs and MBAs recruited in Switzerland), or 50 euros (approximately USD 50 at the time of the study) (for the EMBAs recruited in the Netherlands). To confirm the validity of our prediction game, we also included a direct question for what participants believe is the effect of social performance on future financial performance, with answers ranging from −3 (“strong negative influence”) through 0 (“no influence”) to +3 (“strong positive influence”). The answer to this question is significantly correlated with our measure of the CSP–CFP belief based on the prediction game (r = 0.33, p = 0.011).

Fair market ideology. As in studies 1, 2, and 3, participants completed the systemic fair market ideology scale developed and tested by Jost and colleagues (2003a) (Cronbach’s α in this sample = 0.70, M = 0.21, SEM = 0.12).

Demographics and additional measures. Participants were asked to indicate their gender and age. As a control variable for any potential effect of social desirability, we asked participants to complete the three items of the sincerity subscale from the honesty–humility scale, which is part of the HEXACO inventory, developed by Ashton and Lee (2009). (Cronbach’s α in this sample = 0.60, M = 1.40, SEM = 0.23.) As in Study 1, we also included participants’ political orientation as a control variable (on two seven-point scales, one ranging from liberal to conservative, and one ranging from left-wing to right-wing); their level of education (with the following categories: primary school, secondary school, completed high school, undergraduate degree, graduate degree, PhD); the number of years of work experience; and their rank in the organizational hierarchy (in terms of whether they considered themselves non-managerial, lower-, middle-, or upper-management). For the ease of interpretation, we coded both the level of education and the hierarchy level as continuous variables, but all results are robust to using a dummy variable for each level of these variables.

Results and Discussion Study 4

Table 5 summarizes the descriptive statistics and correlations for Study 4.

We tested Hypotheses 3 and 4 following the recommendations from Preacher and Hayes (2008) for mediation analysis with multiple mediators. In line with these recommendations, we estimated three regression equations simultaneously, using the seemingly unrelated regression method (Zellner & Huang, 1962). In all regressions, we include gender, age, political orientation, work experience, level of education, hierarchy level, and social desirability, as well as a dummy variable for each of the different courses from which we recruited participants as control variables. All the results reported below are robust to the exclusion of these control variables. Figure 4 illustrates the different paths in the mediation analysis, while Table 6 summarizes its results.

First, we regressed the independent variable, fair market ideology, on the first mediator, belief in the CSP–CFP link (α1 = 0.04, p = 0.015). Thus, we replicate the effect of fair market ideology on the belief in the CSP–CFP link that we established in Studies 1–3. Second, we regressed the independent variable, fair market ideology, on the second mediator, moral outrage. Fair market ideology significantly decreases moral outrage (α2 = −0.18, p = 0.011). Third, we regressed both mediators and the independent variable on the dependent variable, tendency for CSR engagement (paths b1 and b2). The belief in the CSP–CFP link (b1 = 1.68, p = 0.001) and moral outrage (b2 = 0.52, p < 0.001) significantly affect the tendency for CSR engagement.

The bootstrap analysis reveals that the indirect effect of fair market ideology on tendency for CSR engagement mediated by the belief in the CSP–CFP link is positive and significant (indirect path a1b1 = 0.070; bootstrapped bias-corrected 95% CI: [0.007, 0.195]), thereby supporting Hypothesis 3. The bootstrap analysis also reveals that the indirect effect of
### TABLE 5
Descriptive Statistics and Correlations from Study 4

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Belief in the CSP–CFP link</td>
<td>0.19</td>
<td>0.21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Fair market ideology</td>
<td>0.21</td>
<td>1.15</td>
<td>0.25*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Moral outrage</td>
<td>1.16</td>
<td>0.91</td>
<td>0.13</td>
<td>−0.18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Tendency for CSR engagement</td>
<td>2.95</td>
<td>1.13</td>
<td>0.31**</td>
<td>−0.08</td>
<td>0.54***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Gender</td>
<td>0.69</td>
<td>0.47</td>
<td>0.11</td>
<td>0.18</td>
<td>−0.16</td>
<td>−0.21*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Age</td>
<td>33.60</td>
<td>5.70</td>
<td>−0.05</td>
<td>−0.14</td>
<td>−0.02</td>
<td>0.01</td>
<td>−0.16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Political orientation (liberal–conservative)</td>
<td>−0.55</td>
<td>1.39</td>
<td>0.13</td>
<td>−0.07</td>
<td>0.02</td>
<td>0.06</td>
<td>0.01</td>
<td>0.19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Political orientation (left–right)</td>
<td>−0.07</td>
<td>1.24</td>
<td>−0.13</td>
<td>0.22*</td>
<td>0.03</td>
<td>−0.05</td>
<td>0.07</td>
<td>−0.12</td>
<td>0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Work experience</td>
<td>9.56</td>
<td>5.03</td>
<td>0.08</td>
<td>−0.07</td>
<td>0.03</td>
<td>0.08</td>
<td>−0.14</td>
<td>0.86***</td>
<td>0.29**</td>
<td>−0.15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Level of education</td>
<td>4.51</td>
<td>1.18</td>
<td>0.13</td>
<td>−0.01</td>
<td>0.22*</td>
<td>0.07</td>
<td>−0.11</td>
<td>0.16</td>
<td>0.05</td>
<td>−0.07</td>
<td>0.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Hierarchy level</td>
<td>2.30</td>
<td>1.00</td>
<td>0.01</td>
<td>0.04</td>
<td>−0.12</td>
<td>−0.04</td>
<td>−0.04</td>
<td>0.33***</td>
<td>0.15</td>
<td>0.19</td>
<td>0.37***</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>12. Social desirability</td>
<td>1.40</td>
<td>2.29</td>
<td>0.00</td>
<td>0.03</td>
<td>0.36***</td>
<td>0.36***</td>
<td>−0.37***</td>
<td>0.14</td>
<td>−0.02</td>
<td>−0.16</td>
<td>0.23*</td>
<td>−0.03</td>
<td>0.06</td>
</tr>
</tbody>
</table>

**Notes:** N = 96.

* p < 0.05  
** p < 0.01  
*** p < 0.001
fair market ideology on tendency for CSR engagement mediated by moral outrage is negative and significant (indirect path $a_2 b_2 = -0.096$; bootstrapped bias-corrected 95% CI: $[-0.200, -0.026]$), thereby supporting Hypothesis 4.

The total indirect effect of fair market ideology on tendency for CSR engagement (the sum of the two indirect effects reported above) is negative and does not reach statistical significance (total indirect effect $= -0.025$; bootstrapped bias-corrected 95% CI: $[-0.150, 0.123]$). This means that the positive indirect effect on tendency for CSR engagement, which stems from the path via the belief in the CSP–CFP link, is neutralized by the negative indirect effect on tendency for CSR engagement, which stems from the path via decreased moral outrage.

**GENERAL DISCUSSION**

Recent literature has focused on the individual characteristics of company executives that influence these executives’ tendency to invest in CSR-related activities. One characteristic that has received much attention is the extent to which executives believe in the business case for CSR. Two premises are pervasive in existing research on the belief in the business case. First, to believe in the business case, executives need factual evidence that this business case actually exists (Kang et al., 2016; Margolis et al., 2009; Orlitzky et al., 2003; Waddock & Graves, 1997). And second, those executives who do believe in the business case will readily invest in CSR-related activities (e.g., Bansal & Roth, 2000; Brønn & Vidaver-Cohen, 2009; Chin et al., 2013). The results from our four studies tell a different story. On the one hand, rather than focusing on factual evidence, we show that managers believe in the business case because they espouse a fair market ideology. On the other hand, even though managers who espouse a fair market ideology believe in the business case for CSR, they are not more inclined to engage in CSR because they also experience weaker emotional reactions to ethical problems than managers who do not hold such an ideology.

We developed a theoretical framework with the central contention that the belief in the business case for CSR is grounded in fair market ideology; that is, individuals’ tendency to justify and idealize the market economy system. While this contention might seem like an inconspicuous departure from prior research, our four studies show that it carries important implications. In Study 1, we demonstrated that executives’ belief in the business case is indeed grounded in fair market ideology; we confirmed this finding in Study 2 with an experimental design. In Study 3, we found a relationship between individuals’ educational background and their belief in the business case for CSR and that this relationship is mediated by fair market ideology. In Study 4, we showed that even...
though managers espousing a fair market ideology believe in the business case for CSR, they are not more prone to engage in CSR because they also experience weaker emotional reactions to ethical problems than managers who do not hold such an ideology.

Contributions to the Micro-foundations of CSR

Existing research on the micro-foundations of CSR has argued that both managers’ belief in the business case for CSR and their moral inclinations can explain why managers are prone to engage in CSR (Chin et al., 2013). However, this existing research has treated the belief in the business case and moral inclinations as independent factors (Agle et al., 1999; Brenn & Vidaver-Cohen, 2009). In our theoretical framework, we propose that the two are linked together by a common antecedent, fair market ideology. Figure 1 above summarizes the hypotheses of our theoretical framework, for which we found support in our four studies. Specifically, Figure 1 illustrates that we would draw highly misleading conclusions if we did not study fair market ideology as a psychological antecedent to both the belief in the business case for CSR and to moral outrage. For instance, if our knowledge was restricted to the relationships among the three boxes in the upper part of Figure 1, we would contend that selecting executives with an educational background in business, economics, or law would lead to higher CSR engagements because their educational background leads them to believe in the CSP–CFP link (which then leads to CSR engagement). It is only when we also consider fair market ideology that we can see that selecting executives with an educational background in business, economics, and law will not increase a firm’s CSR engagement—even though executives with such an educational background believe in the business case for CSR. This is so because the relationship between educational background and the belief in the CSP–CFP link is driven by fair market ideology. In turn, fair market ideology impacts executives’ tendency for CSR engagement via two competing paths. It has an indirect positive impact on the tendency for CSR engagement via the belief in the CSP–CFP link, but it also has an indirect negative impact on the tendency for CSR engagement via lack of moral outrage. Importantly, our findings from Study 4 show that the negative impact of a lack of moral outrage neutralizes the positive impact of the belief in the CSP–CFP link on executives’ CSR engagement.

These findings highlight the significant potential that lies in the study of micro-level foundations for advancing our knowledge about CSR (Aguinis & Glavas, 2012; Christensen et al., 2014; Kourula & Delalieux, 2016). They further underline the need for more research that heeds Hambrick’s (2007) call to investigate the psychological antecedents of executives’ beliefs, values, and emotions. Our studies also illustrate the importance of inferring executive characteristics, not only through biographical proxies, such as educational background, but also via more precise measures (Carpenter et al., 2004; Lawrence, 1997), because the rather distant biographical proxies upon which much of the research on upper echelons relies might not adequately capture the underlying hypothesized constructs (Hambrick, 2007; Hambrick et al., 1993). Indeed, it is only because we have developed a prediction game to measure the belief in the CSP–CFP link as precisely as possible that we could investigate the complex web of relationships illustrated in Figure 1.

Contributions to the Literature on the Business Case for CSR

Our results also have implications for the many studies that have aimed to answer the question of whether there is a link between CSP and CFP at the company level (Allouche & Laroche, 2005; Margolis et al., 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003). Much of the research in the area implies that, a priori, executives do not believe in the business case for CSR, but that scientific evidence of the existence of the business case could convince them to believe in it (Baird, Geylani, & Roberts, 2012; Margolis et al., 2009; Orlitzky et al., 2003; Van Beurden & Gössling, 2008). However, we show that, rather than waiting for scientific evidence, managers believe in the business case for CSR for ideological reasons. We also find that, rather than needing to be convinced, the majority of executives believes in this link. In fact, 80% of the executives who participated in our studies believe in the business case for CSR, as expressed in a positive coefficient in our measure for the belief in the business case.

The business case for CSR also occupies a central role among researchers advocating for an instrumental view on CSR (McWilliams & Siegel, 2001; Siegel, 2009; Sundaram & Inkpen, 2004). Scholars in this tradition suggest that executives should invest in CSR activities when such activities enhance a firm’s profitability. The underlying assumption in this argument is that executives are rational actors who
apply cost–benefit calculi to determine whether a business case exists. However, our results indicate that executives believe in the existence of the business case on the basis of ideological rather than rational considerations.

More critical scholars have noted that executives endorsing such an instrumental view would refrain from investing in CSR when they have difficulty seeing a business case for CSR (Banerjee, 2008; Crane, Palazzo, Spence, & Matten, 2014; Hahn, Preuss, Pinkse, & Figge, 2014; Marques & Mintzberg, 2015). However, under the premise that executives endorsing an instrumental view on CSR also hold a fair market ideology, the results from our four studies suggest that even though these executives believe in the business case, they nevertheless refrain from investing in CSR. It is thus not so much the difficulty of believing in the business case, but rather their lack of moral emotions that prevents executives with an instrumental view from investing in CSR. Hence, our results point toward a potential new micro-level explanation for why executives with an instrumental CSR orientation may refrain from investing in CSR activities.

Contributions to System Justification Theory

Our results show that those individuals who study business, economics, or law, and therefore have the highest level of formal knowledge about companies and the economic system, are also those with the highest level of ideology about the market economy system. Thereby, our results support system justification theorists’ proposition that more knowledge does not necessarily make ideologies obsolete, but can instead contribute to their continuing existence. For instance, Shepherd and Kay (2012) suggested that individuals closely tied to a system will increase their idealization of that system and subsequently avoid searching for information that could challenge this idealized view. This notion, that actors who are closely tied to an institutionalized system are unlikely to look for and perceive alternatives to that system, is in line with neo-institutionalists’ argument that change in highly institutionalized settings is less likely to come from actors deeply ingrained in an institution. Rather, change initiatives are more likely to originate from either peripheral actors (Faulconbridge & Muzio, 2016; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011) or from actors operating across multiple systems (Greenwood & Suddaby, 2006; Smith, Gonin, & Besharov, 2013). Institutional scholars argue that such actors are well positioned to initiate change efforts because they are less subject to institutional pressures for conformity or because they have access to prevalent ideas in multiple institutional orders. A system justification perspective would add that such actors have a lower tendency to idealize the existing order and thus be more open to alternative arrangements.

Limitations and Future Research

There are certain limitations to this paper, which we suggest could be addressed in future research. First, our studies took place in a controlled environment (i.e., in the classroom). This allowed us to take clean measurements and to exploit random assignment to make causal claims, but it might limit the external validity of our findings. At the same time, as prior research already provided evidence for the external validity of the relationship between executive characteristics and CSR engagement (Chin et al., 2013; Lewis et al., 2014; Petenko et al., 2016), our explicit goal was to focus on understanding the psychological underpinnings of such executive characteristics and specifically of their beliefs and their moral emotions. Furthermore, we have established (Study 1) and replicated (Study 4) our main finding with different samples of experienced executives—the population that we want to generalize to—and have developed an innovative methodology to measure their beliefs reliably. Nevertheless, further investigations—using, for instance, field data to measure actual CSR engagement—would strengthen the generalizability of our results. An ideal study would follow executives and aim to detect changes in their fair market ideology, and then analyze whether such changes would manifest themselves in their belief about the business case for CSR, in their moral outrage about ethical problems, and ultimately in their companies’ CSR engagements.

Second, to make the belief in the business case for CSR measureable and to make our analysis feasible, we represented the belief within a single regression coefficient. Thus, we have assumed that executives conceive of the relationship between CSP and CFP as linear. While existing research on executives’ belief in the CSP–CFP link implies such linearity (e.g., Chin et al., 2013), it would be interesting to explicitly test this assumption in the future. For instance, executives might believe that there are diminishing returns to CSR engagements and assume that, while going from zero CSR engagements to moderate levels of CSR increases financial performance, going from very high levels of CSR to
even higher levels will at some point decrease financial performance (Flammer, 2015).

Third, the present article focused on beliefs that are, by definition, at the level of the individual executive. As executives usually make decisions in teams (Carpenter et al., 2004; Hambrick, 2007; Hambrick & Mason, 1984), team members might not only be diverse in terms of their beliefs but also in terms of their educational background, their fair market ideology, and their level of moral outrage. Potentially, such diversity could boost CSR engagement, as diverse teams might include both members who are sensitive to the ethical dimension of corporate activities because they feel outraged by moral problems and those who believe that it pays to engage in CSR.

Fourth, while we investigated the beliefs of executives with the goal of contributing to the micro-foundations of CSR, executives are not the only group whose decisions affect companies and the economic system. For instance, consumers often evaluate companies and their products. Such evaluations are not only based on the actions of the companies and the attributes of their products, but also on the underlying motivation that is assumed to have driven the companies’ actions. Specifically, consumers believe that products of companies with CSR engagements have better quality and functionality (Chernev & Blair, 2015), unless they believe that the company intentionally focused on the product’s social value (Newman, Gorlin, & Dhar, 2014). In this case, consumers assume that the company sacrificed product quality by directing limited resources toward making the product socially beneficial. Other research has shown that people evaluate companies less favorably when those companies benefit economically from investing in social or environmental initiatives, even compared to companies that do not engage in such initiatives at all (Makov & Newman, 2016; Newman & Cain, 2014). More generally, high profits are seen as indicators of low social value (Bhattacharjee, Dana, & Baron, in press). Linking these findings to our studies, it would be interesting to investigate whether people evaluate companies differently if they believe in the business case for CSR. Because evaluators are often unaware that there is a business case for CSR in a specific company, or where the company’s profits come from, it would be fruitful for future research to investigate the relationships between fair market ideology, the belief in the business case for CSR, and the evaluations of corporate activities by consumers, or other third parties such as investors, regulators, or the general public.

CONCLUSION

In this article, we focused on the ideological origin of executives’ belief in the business case for CSR and their emotional reactions to ethical problems. We found that executives holding a fair market ideology are more likely to believe in the business case but are less likely to be morally outraged by ethical problems. This ideological foundation has important consequences for executives’ tendency to engage in CSR activities. Indeed, our results show that even though they believe in the business case for CSR, executives who hold a fair market ideology will not readily engage in CSR because they experience weaker emotional reactions to ethical problems than executives who do not hold a fair market ideology. Hence, while existing research contends that executives will readily invest in CSR activities if they believe in the business case for CSR (Baird et al., 2012; Orlitzky et al., 2003), our findings lead us to caution against this assertion.

REFERENCES


Kay, A. C., & Friesen, J. 2011. On social stability and social change understanding when system justification does


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Daniel Waeger (dwaeger@wlu.ca) is an assistant professor at Wilfrid Laurier University. Before joining Wilfrid Laurier, Daniel was an assistant professor at the University of Amsterdam. He received his PhD from the University of Lausanne and conducted post-doctoral studies at Northwestern University. Daniel’s research interests include social movement theory and organization theory as well as empirical phenomena such as corporate responsibility and corporate governance.

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APPENDIX 1
EXAMPLE PREDICTION

<table>
<thead>
<tr>
<th>Company A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance:</td>
</tr>
<tr>
<td>Rank 95 out of 183</td>
</tr>
<tr>
<td>(among middle rank performers)</td>
</tr>
</tbody>
</table>

Your prediction for the financial performance two years later:
Rank _____ out of 183

---
Who Did This?

“XXXX Announces Goal to Eliminate 20 Million Metric Tons of Greenhouse Gas Emissions”

• February 25, 2010
• Exceeded reductions target by end of 2015
• Joint announcement with EDF
• New billion ton initiative in 2017
Private Climate Governance

• **Framing**: Climate beliefs and mitigation policy support are driven not just by the framing of the *problem*, but the framing of the *solution*.

• **Governance**: Private climate initiatives can contribute a billion tons per year of additional carbon dioxide emissions reductions per year over the next decade. This is not a complete response, but it will buy time, reduce total mitigation costs and reduce the risk of exceeding important thresholds.
Examples of Household Actions
U.S. Residential Electricity Consumption


Major Pollution Control Statutes 1970-2015
(Vandenbergh 2013, 2014)

Included:
- Clean Air Act
- National Environmental Policy Act
- Federal Water Pollution Control Act
- Coastal Zone Management Act
- Safe Drinking Water Act
- Resource Conservation and Recovery Act
- Toxic Substances Control Act
- Surface Mining Control and Reclamation Act
- Clean Air Act Amendments
- Clean Water Act
- Comprehensive Environmental Response, Compensation and Liability Act
- Hazardous and Solid Waste Amendments (to RCRA)
- Emergency Planning and Community Right-to-Know Act
- SARA Amendments (to CERCLA)
- Oil Pollution Act
- Clean Air Act Amendments

Excluded:
- SDWA Amendments
- Water Quality Act
- FIFRA Amendments
- FQPA, SDWA Amendments
- CERCLA Amendments
How Important is the Actor?
Polarization: 1970-2013

(McCright et al., 2014)

Note: Since 1970s, the LCV has tracked votes on bills relating to key environmental issues (ranging from air and water quality to wildlife and forest conservation to climate change) and has calculated an environmental voting score for each member of the House and the Senate. Briefly, a member’s score, which can range from 0 to 100, is the number of pro-environment votes cast divided by the total number of votes on key environmental issues.

Fig. 1. Average league of conservation voters environmental voting score for democrats and republicans in congress, 1970–2013.
Climate Science and Climate Mitigation
The Effect of Worldview

• Confirmation bias
  • People seek out and remember information that fits with their existing beliefs

• Motivated reasoning
  • Reasoning that is motivated by desire to maintain existing beliefs, rather than desire for accuracy
Worldview
Big Government


• “Record High in U.S. Say Big Government Greatest Threat” (Gallup, 2013)
• 72% of U.S. respondents said that big government was a greater threat to the future of the country than big business or big labor (Gallup 2013)
• 30 States do not have GHG Targets (49% of population/64% of GHG emissions)(RMI, 2017)
• Solution Aversion (Campbell & Kay, 2014)
Solution Aversion
Effect of Ideology or Worldview on Climate Beliefs

Campbell & Kay, 2014
Climate Change Influences on Climate Beliefs: Worldview

(Vandenbergh, Raimi & Gilligan 2014)

IPCC: Likelihood that Observed Climate Change is Mostly Anthropogenic
Private Environmental Governance Conceptual Shift
(Vandenbergh, 2013)

• Actor: Government → Private Organization
• Action: Law, Policy, Program → Private Initiative
• Examples
  • MSC, FSC
  • Target & Walmart Toxics Standards
  • Environmental Supply Chain Requirements
  • Climate Change
Private Climate Governance
Vandenbergh & Gilligan (2015, 2017)

- Bypass Solution Aversion with Private Sector Responses
- Buy Time -- ~ Gigaton of CO$_2$ Per Year
- Reduce Worldview-Based Resistance to Climate Science
- Examples of Household and Corporate Actions
- Theory: Drivers of Private Behavior
- New Initiatives
  - Corporations (~500 million tons)
  - Households (~500 million tons)
  - Other Actors and Actions
Buying Time

The Paris Gap: Best Case

Scenario
- Historical
- Business as usual
- INDC (best case)
- Limit warming to 2°C (best case)
- Paris gap (best case)

GHG emissions (billions of tons CO₂e/year)

Year

1990  2000  2010  2020  2025

Best case Paris gap = 33 GT CO₂e through 2025

Data Source: Den Elzen et al., http://infographics.pbl.nl/indc
Reducing Worldview-Based Resistance to Climate Science Prediction Market -- iPredict

<table>
<thead>
<tr>
<th>Sea Level Contract</th>
<th>Type</th>
<th>Condition</th>
<th>Trading At ($)</th>
<th>Last Trade</th>
<th>Average Daily Vol.</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Binary</td>
<td>&gt; 50 cm</td>
<td>1.00</td>
<td>12/15/2012</td>
<td>0.6</td>
<td>( p \text{ (rise} &gt; 50\text{cm}) = 1 )</td>
</tr>
<tr>
<td>2</td>
<td>Binary</td>
<td>&gt; 55 cm</td>
<td>0.85</td>
<td>1/7/2013</td>
<td>0.1</td>
<td>( p \text{ (rise} &gt; 55\text{cm}) = .85 )</td>
</tr>
<tr>
<td>3</td>
<td>Index</td>
<td>% of 1 m</td>
<td>0.65</td>
<td>4/29/2013</td>
<td>0.2</td>
<td>Sea level will rise 65cm.</td>
</tr>
</tbody>
</table>

Is the Corporate Sector Taking Major Steps?
Examples of Corporate Actions
(Sources: David Gardiner & Associates, 2017; Rocky Mountain Institute, 2017; Power Forward 3.0)

- **Targets** -- Nearly half of the companies in the Fortune 500 and 63 percent of the Fortune 100 have set targets to reduce GHG emissions, improve energy efficiency, and increase renewable energy.

- **Internal Carbon Taxes** – Over 400 companies have an internal price on carbon.

- **RE100** -- 111 companies have committed to 100% renewable power (e.g., GM, Mars, Unilever, VF Corporation, Nike, and Apple).

- **Corporate Renewable Energy Buyers’ Principles** -- 65 companies have signed on (over 48 million MWh of annual demand by 2020).

- **Corporate-NGO Initiatives** -- Over 2,700 Companies are involved in at least one of nine climate platforms.
Is Our Billion Ton Claim Plausible?
Theory: A Model of Private Climate Governance

Motivations for Emissions Reductions
• Self Interest
  • Financial Gains from Accelerating Efficiency
    • Market Failures (e.g., airlines, shipping, potato chips)
    • Behavioral Failures (e.g., idling)
  • Third Party Pressure
    • Organizations (e.g., investors, lenders, insurers)
    • Individuals (e.g., social norms)
• Beyond Self Interest (e.g., personal norms)
Theory
Drivers of Corporate Emissions Reductions

• Reduce Government Regulation
• Shape Government Regulation
• Raise Rivals’ Costs

• Accelerate Efficiency
• Brand Reputation
• Retail Customers
• Corporate Customers
• Investors
• Lenders
• Employee Morale
• Assure Supply
• Manager Norms
“Big tech companies like Google and Facebook are on the way to powering their data centers with renewable energy, but an obstacle stands in their path: the biggest utilities in Virginia and North Carolina, according to a new report from Greenpeace....”

Cross-Border Effects
Global Supply Chain Initiatives

Vandenbergh & Gilligan (2015, 2017)

- Profit Motive: Efficiencies
  - Market Failures
  - Behavioral Failures
- Climate Mitigation Motive
  - Managers
  - Employees
Theory of Private Climate Governance
Other Actors and Actions

• Examples
  • Religious Organizations
  • Insurers
  • Small Businesses
  • Universities
  • Rice Cultivation
  • Food Waste
  • Recycling
Private Climate Governance

• **Framing**: Climate beliefs and mitigation policy support are driven not just by the framing of the problem, but the framing of the solution.

• **Governance**: Private climate initiatives can contribute a billion tons per year of additional carbon dioxide emissions reductions per year over the next decade. This is not a complete response, but it will buy time, reduce total mitigation costs and reduce the risk of exceeding important thresholds.
Private Climate Governance Policy Gap

• Multi-Stakeholder Initiative
• Identify Overall Opportunity
• Prioritize Most Promising Immediate Opportunities
• Identify Private Actors to Address Them
• Identify Sources of Financial Support
• Identify Basic and Applied Areas Where Research is Needed
• Assess and Report on Outcomes
Beyond Politics

The Private Governance Response to Climate Change

MICHAEL P. VANDENBERGH
JONATHAN M. GILLIGAN
Private Climate Governance Project


- Behavioral Wedge Website at [https://my.vanderbilt.edu/behavioralwedge/](https://my.vanderbilt.edu/behavioralwedge/)

- Beyond Politics Website at [www.beyondpoliticsbook.com](http://www.beyondpoliticsbook.com)

- Buying Time TEDx Talk at [http://youtu.be/2bXNcEQ6QX0](http://youtu.be/2bXNcEQ6QX0)
Andrew Shakalis Supplemental Reading: Taken from Unilever’s public global website -

- https://www.unilever.com/
- https://www.unilever.com/sustainable-living/

https://www.unilever.com/sustainable-living/our-strategy/