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The Impacts of Strategic Partners' Corporate Social Responsibilities

Abstract

Although a large body of research demonstrates a positive relationship between a focal firm's corporate social responsibility (CSR) activities and its performance, some research suggests otherwise. Drawing on signaling theory and the reputation and knowledge spillover literature, this study attempts to offer new insights by investigating the role of CSR engagement in a strategic alliance setting using two studies. In Study 1, we test whether alliance announcements would generate higher abnormal returns when such announcements involve strategic partners with higher CSR. This study aims at testing the short-term financial gains from partnering with high CSR firms at a single alliance level. In Study 2, we test the long-term financial gains of the same concern at an alliance portfolio level.

Results show that that strategic partners' CSR engagements positively influence the focal firm's short- and long-term financial performance. Increasingly, we find strong evidence in both studies that the financial impacts of the partners' CSR engagements on the focal firm display a diminishing rate of return as the focal firm's own CSR engagement increases. In addition, we examine multiple portfolio and network structural factors and find that the average partners size positively moderates the relationship between the partners' CSR engagements and the focal firm's long-term financial performance. Finally, the results show conflicting roles for two types of centrality measures (i.e., betweenness and degree) in which betweenness increases the impacts of the partners' CSR engagements on the focal firm's long-term financial performance, while degree centrality decreases those impacts.

This study contributes to the literature by integrating the CSR and the alliances streams of research to resolve some of the previous inconsistent findings in the CSR literature. This study also contributes to practice. By simultaneously investigating the focal firm's and its partners' CSR engagements, the current research uncovers their substituting effects, suggesting managers taking into account not only the strategic partners' tangible assets or technology, but also their CSR. Our findings further establish the important roles of multiple portfolio and network structural factors, helping managers understand how and when to navigate their strategic partners to enhance their firms' financial performance.

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