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BOARD-LEVEL COMMITMENT TO SUSTAINABILITY, BUSINESS STRATEGY, & CSR PERFORMANCE

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Abstract

Built on the organizational theory and the theoretical framework under which board-level sustainability committees are motivated by shared value creation, we posit that firms' business strategies and the stakeholder focus of their sustainability committees have a joint effect on their CSR performance.

Using hand-collected information on sustainability committees for a sample of S&P500 firms, we find that firms with a prospector business strategy are associated with better stakeholder-related CSR performance. In contrast, firms following a defender strategy are associated with worse third-party related CSR performance. Firms with a third-party focused sustainability committee have better CSR performance, while firms with a stakeholder focused sustainability committee have worse CSR performance. In addition, the presence of a board-level sustainability committee focused on third-party interests and issues increases CSR strength for both prospectors and defenders. It mitigates CSR concerns for defenders and increased their overall socially responsible performance.

Keywords

Sustainability Committees, Business Strategy, CSR Performance

1. Introduction

Corporate social responsibility (CSR) and board-level sustainability committees have become an important part of US firms' operation and a mainstream practice in the business world (Burke et al., 2019; Y.-C. Chen et al., 2018; Cheng et al., 2014; Ding et al., 2016; Esteban & López-de-Foronda, n.d.; Gamerschlag et al., 2011). Prior CSR literature investigates the antecedents of firms' CSR practices by exploring firm-level, market-level, and individual factors and finds that management characteristics (Chin et al., 2013), governance (Amir Barnea & Amir Rubin, 2010; Borghesi et al., 2014; Harjoto & Jo, 2011; McGuinness et al., 2017), and firms' stakeholders (Bae et al., 2011; Deng et al., 2013) impact companies' engagement in CSR. Practitioner publications have examined the prevalence of sustainability-related committees, reporting that nearly one-fifth of the Russell 1000 have such a committee (The Corporate Library 2010). Many firms have increased their investment in CSR either voluntarily as part of their mission and vision or passively due to pressure from stakeholders. They publish annual CSR reports or devote a section of their annual reports to a description of their CSR activities.

One important CSR initiative or investment is to establish a board-level sustainability committee. Recent literature has shown a link between the presence of these sustainability committees and firms' CSR engagement. However, because committee duties span from a general focus on overall sustainability

policies and procedures to specific foci on particular stakeholder groups, e.g., employees or consumers/suppliers, or the whole society, e.g., communities, environment or human rights (Servaes and Tamayo 2013), a board can dictate which interest groups they focus on. If firms' sustainability committees focus on stakeholders (e.g., employees, consumers, or suppliers) or third-party groups (e.g., communities or environment) that directly affect their value creation, their CSR engagement should reflect the same groups' foci.

This study relies on an interpretation of the standard agency theory that management has discretion in firm decision-making such as business strategy types and resource allocation and corporate boards, as a governance mechanism, are in place to control managers' behaviors. As such, how companies' business strategies and sustainability committees affect CSR activities depend on the ability of both strategies and board committees to influence various impacted groups of the firm. We also use organizational strategy typology (Miles et al., 1978; Miles & Snow, 2003) and business strategy variable (Bentley et al., 2013) to explore whether sustainability committee foci of companies that follow different business strategies exhibit differences in performance regarding their CSR activities.

This study comprises three distinct but interrelated hypotheses. We first examine the relationship between a firm's "intended" (Bentley et al., 2013; Miles et al., 1978) business strategy and their impact on two classes of CSR activities: third-party (e.g., community or environment) and stakeholder (e.g. employees or consumers/suppliers) CSR. We cluster these strategic business typologies based on which of the three alternative business strategies the firm follows for the former. Additionally, we measure CSR performance for firms comprising each strategic group by using the categorization of CSR to cluster firms that exhibit similar corporate social activities into distinct groups. Next, we investigate the association between strategic sustainability committee orientations within the firm's board, and the firm's third-party and stakeholder CSR activities. We cluster these board committee orientations based on which stakeholder they appear to represent most closely following (Burke et al., 2019). Last, we investigate the association between sustainability committee foci of firms that exhibit different business strategies and the extent to which they affect third-party and stakeholder CSR performance. Overall, we examine how sustainability committees of different business strategy typologies affect their CSR performance.

This research is important. First, there is not enough research on the ripple effect of board-level sustainability committees on companies' behavior and activities. Second, it helps provide a better understanding of the factors that affect a firm's engagement in more socially responsible activities, reduction, or nonparticipation in socially irresponsible activities, and CSR performance. Using hand-collected information on sustainability committees for a sample of S&P 500 firms from 2002 to 2012, we find that firms closer to the prospector strategy pursue socially responsible activities that positively impact stakeholders (e.g., employees or consumers/suppliers). In contrast, defender firms engage in more socially irresponsible activities that affect the whole society or third parties (e.g., communities or the environment). We also find that sustainability-related committees are more effective at improving firms' social activity performance when these committees focus on social issues or third-party interests, rather than more direct stakeholders. Moreover, defender firms with sustainability committees that focus on third parties have better third-party CSR performance in terms of improved third-party CSR activity strength and reduced third-party CSR activity concerns.

For prospectors, having third-party focused sustainability committees is effective at improving relevant third-party CSR activity strengths but does not mitigate relevant third-party CSR activity concerns. More perplexing, prospectors and defenders with sustainability committees focused on stakeholders generally are not significantly associated with stakeholders' CSR performance, although such sustainability committees effectively mitigate stakeholder-related CSR concerns. One explanation is that when the economic cost of mitigating business activity concerns exceeds the cost associated with these negative activities, boards may adopt these sustainability committee's committee foci in reaction to CSR concerns that already exist or are inherent to the business.

This paper makes several contributions. First, we contribute to the research on the impact of firm business strategy. Prior literature shows that a firm's business strategy impacts its financial reporting quality, firms' audit fees, internal control quality, earnings guidance practices, and analyst following (e.g., Bentley et al, 2013; Bentley-Goode, et al., 2017; Bentley-Goode, et al., 2019). Next, we contribute to the research on board-level sustainability committees. The literature has shown that there is a stronger association between sustainability committees and performance when the committee foci and performance outcome of the firm are aligned. While some recent studies explore how corporate social responsibility (CSR) performance is affected by business strategy (Yuan et al., 2020), this current research implications

are at the board level: how the controlling and "watchdog" role of the board align managerial incentives with shareholders' interests such that factors capturing specific types of firms' operational strategy affect firms' sustainability performance.

The remainder of the paper is organized as follows. Section 2 reviews previous literature and develops the hypotheses. The research methods and data are described in Section 3. We present our main empirical results in Section 4. Section 5 provides discussions and concluding remarks.

2. Related Literature and Hypothesis Development

2.1 Business Strategy and Corporate Social Responsibility

The field of strategic management research has shown a noticeable shift away from the atomistic view of business strategy that treats each firm as a unique entity in all aspects toward a new view that supports the recognition of commonalities that exist among firms in their industry. This newer strand of management literature provides and demonstrates the viability of several classifications of business strategy that define how firms compete with their industry peers. For instance, Porter (1980) posits that two central questions (the attractiveness of industries for long-term profitability, and the determinants of relative competitive position within an industry) underlie the choice of competitive strategy, and comes up with three generic business strategies by which firms in an industry may attempt to gain a competitive advantage over their rivals.

The proposed theoretical framework by Miles et al. (1978) is composed of a model of the adaptive process and classify organizations product-market domains (strategy), structures and processes into four strategic typologies: prospectors, defenders, analyzers, and reactors. First, prospectors are innovative companies seeking to identify and exploit new products and market opportunities. Second, defenders are companies focused on efficient production and distribution of goods and services. Third, analyzers are hybrid that uniquely combine prospectors and defenders' characteristics and represent a viable, albeit difficult to pursue, alternative to these other strategies. In other words, analyzers attempt to minimize risk while maximizing the opportunity for profit. Lastly, reactors are firms that try to adapt to their competitive environment by exhibiting a pattern of continual adjustments (from one typology to the other), which can be both inconsistent and unstable. As such, reactor is a "residual" strategy of the improper use of the other three strategies. The Reactor's "adaptive" cycle makes this a non-viable strategy. March (1991) categorizes business strategies in terms of new opportunity exploration and old practice exploitation. The study considers the relation and complication of resource allocation among firms that focus on exploring new or alternative possibilities and those that exploit old certainties in organizational learning. Treacy & Wiersema (1995) synthesize business core competencies, and present a framework that groups firms' business strategies in three operational models: operational excellence, product leadership, and customer intimacy. A firm achieves operational excellence through taking a low-cost position on product and service support; product leadership is achieved through building a better product that customers will be willing to pay a premium price for; customer intimacy firms focus on solving their customers' broader problem and take in the benefit.

Unfortunately, most of the heterogenous measurements of strategy used to develop the strategic group concept have relied almost only on subjectivity such as surveys and measures of implemented strategy. The fundamental problem with these existing typologies has been that few of the propositions regarding the types of strategies a firm may follow in its market were empirically testable. These methodological limitations led to results that lack generalizability. Recent studies operationalized organizational strategy typology in earlier studies (Miles et al., 1978; Miles & Snow, 2003) by constructing a discrete STRATEGY composite score to proxy for firms' business strategy (Bentley et al., 2013; Bentley-Goode et al., 2017, 2019). They show that companies following a prospector strategy are more likely than companies following a defender strategy to experience financial reporting irregularities.

Corporate social responsibility (CSR) has become an important part of US firms' operation over the past decade. Many of the US firms have increased their investment in CSR either voluntarily or as part of their mission and vision or as a result of pressure from activist shareholders. In addition, many firms regularly publish annual CSR reports or devote a section of their annual reports to a description of their CSR activities. Prior research has documented the significant association between CSR and firms' characteristics, including business strategy, information environment, and reporting quality. For example, Yuan et al., (2020) find that firms following an innovation-oriented strategy are associated with better CSR performance, and fewer socially irresponsible activities than those following an efficiency-oriented

strategy. Lys et al., (2015) find that there is a positive relationship between CSR activity and management forecast accuracy because managers of CSR firms are motivated to be more transparent when it comes to disclosing financial information than that of non-CSR firms. Cui et al., (2018) document that there is a negative relation between CSR activities and information asymmetry. Kim et al. (2012) find that firms with higher corporate social responsibility are less likely to manage earnings. Clearly, the literature suggests that business strategy, information environment, and reporting quality are an important determinant of CSR performance.

2.2 Sustainability Committee and Corporate Social Responsibility.

Studies that explore the impact of sustainability committees focus on organizational processes and performance. For instance, Berrone & Gomez-Mejia, (2009) found no association between these committees and environmental performance. Eccles et al., (2014) explore the effect of corporate sustainability on organization structural operations and find that firms that voluntarily adopted sustainability policies in the early 90s, show distinct operations by 2009 compared to a match sample of firms that did not adopt these policies. These sustainability policies represent a comprehensive set of corporate policies related to the environment, employees, community, products, and customers; for instance, whether companies have policies to decrease emissions, use environmental criteria to screen members of its supply chain, and whether the company seeks to improve its energy or water efficiency. In effect, boards of these companies were more likely to have a formal sustainability committee, have executive compensation linked to sustainability metrics, be long-term oriented, disclose nonfinancial information. Burke et al., (2019) propose a framework, a disaggregated analysis, in which firms with board-level sustainability are motivated by creating value for and satisfy a distinct group of stakeholders and achieve enough profit. They find that there is a stronger association between sustainability committees and performance when the committee foci and performance outcome of the firm are aligned. Firms with sustainability committees with a focus on specific stakeholders are associated with more strengths relative to firms with non-focused committees and relative to firms without a sustainability committee. However, Burke et al., (2019) show that by separating sustainable committee into stakeholder focus, sustainability committees with a focus on specific stakeholders are associated with more strengths relative to firms with non-focused committees and relative to firms without a sustainability committee. Zhang et al., (2013) explore two important aspects of board composition: the presence of outside directors and women directors regarding firms' CSR performance in the post-SOX. They find that board composition (independence) and characteristics (diversity) are linked to better CSR performance within a firm's industry. Peters & Romi, (2015) show that sustainability-oriented corporate governance mechanisms have a positive impact on the demand for voluntary assurance of sustainability reporting. In addition, they show that sustainability committee formed by independent directors with CSR knowledge is positively associated with the use of high-quality sustainability report assurance services. Precisely, their evaluation reveals that committees comprising environmental experts, along with the presence of a Chief Sustainability Officer, show a positive association with and an increased demand for the sustainability report assurance.

2.3. The links among Business Strategy, Sustainability Committee and Corporate Social Responsibility.

Research on business strategy and corporate social responsibility have recently puzzled over the differences in firms' behavior and CSR performance across firm, industry, and market level factors. These research studies have based their premises on traditional theories of corporate decision making: the neoclassical view. The neoclassical view states that managers are homogeneous (i.e., perfect substitute), and corporate boards do not affect the performance of firms. One corollary of the neoclassical view is that top managers simply do not matter for the day-to-day corporate operation as far as the executive team well defines the general firm strategy. This implies that firms with same business strategy are also homogenous. Prior literature following the neoclassical view finds that firms' executive team may play a big role in setting the foundation of a strategic plan by creating guiding organizational principles, articulating the strategic areas of focus, and creating the long-term goals that guide the organization to create aligned goals and actions to achieve its vision of success.

In contrast, the standard agency model states that the executive team matters in setting and monitoring the firm's business strategy as far as they have control on the board. Their impact is conditional on the strength of the board. In other words, when board monitoring and control are limited (e.g., director independence, CEO/Chairman duality), top executives can impose their style and influence corporate strategy. In this case, firms' strategy is heterogenous. A second explanation of the standard agency model

is when management control of the board is poor, top executives are hired because their skill and attributes align with the company strategy set by both the board and the executive team. In that case, managers cannot impose their style, and firms' strategy is a function of both managers' and boards' attributes. Overall, neoclassical views do not easily explain why firms with different strategic choices, have different corporate social responsibility performance. If the second interpretation of the standard agency model holds, and boards monitor the performance of firms' activities through different committees, then board committees and firms' business strategy typology have a significant impact of corporate activity performance. With the increasing prevalence of sustainability committees at the board level, coupled with the different CSR performance between defenders and prospectors (i.e., Yuan et al., (2020) show that firms following an innovation-oriented strategy (prospectors) are associated with better CSR performance than defender-types), it raises the empirical question of whether prospectors (defenders) with voluntary sustainability committees focus have better CSR performance. While prospectors and defenders have incentive to be perceived socially responsible, they have key differences, such as prospectors having lower internal control quality (Bentley-Goode et al., 2017), that might affect the performance of different CSR activities.

H_1: Firms with a prospector (defender) business strategy have different third-party and stakeholder CSR performance.

Even though there is little literature on the impact of sustainability committees on CSR performance, (Burke et al., 2019) find that there is a stronger association between sustainability committees and CSR strength when the committee focus and CSR performance outcome of the firm are aligned relative to firms with non-focused committees and relative to firms without a sustainability committee, although sustainability committees with certain focus might not necessarily mitigate the respective CSR concerns. Thus, our necessary second hypothesis:

H_2: Firms with third-party (stakeholder) sustainability committee focus are associated with third-party (stakeholder) CSR performance.

On one hand, prospectors are innovative firms that heavily invest in research and development and marketing to exploit new products and enter new markets. They have a decentralized organizational structure, take more risks, hire externally, and their management have shorter tenure. Prospectors' attributes appear to provide stronger incentives for their management to demonstrate more commitment to stakeholders than third parties. On the other hand, defenders focus on a narrow segment of the market, develop, and distribute closely related products and services (higher technological investment), and maintain a strict centralized organizational control to ensure stability and efficiency (lengthy employee tenure, internal promotion). Defenders' attributes appear to provide stronger incentives for their management to demonstrate commitment to third parties.

Furthermore, prospectors with sustainability committee focus on third parties or stakeholders, which conduct business on the basis of coordination, trust and ethics, will have better third-party (stakeholder) CSR performance than firms without sustainability committee. If prospectors take advantage of corporate social activities only to have more tolerance for the uncertainty, long time-horizon, and protect themselves against risk, then prospectors with sustainability committee focus on third parties (stakeholders) will have no or worse CSR performance. Defenders with sustainability committee focus on third parties (stakeholders), which conduct business on the basis of efficiency, risk averseness, and trust, will have better third-party (stakeholders) CSR performance. If defenders take advantage of corporate social activities for reputational or manager's self-interest (e.g., to cover up the impact of corporate misconduct (Hemingway & Maclagan, 2004) or the fact that they have more information asymmetry than prospectors (Bentley-Goode et al., 2019)), they will have no or worse third-party (stakeholders) CSR performance.

H_{3a}: Prospectors (defenders) with a sustainability committee focus on third parties will have better third-party CSR commitment.

H_{3b}: Prospectors (defenders) with a sustainability committee focus on stakeholder will have better stakeholder CSR commitment.

3. Research Method

3.1 Variables Construction

3.1.1. Measurement of Business Strategy

Organizational theory states that firms' business strategy is chosen early in their life cycle and suggests that there are seven important attributes that distinguish prospectors, and defenders, with analyzers sharing characteristics of both (Miles et al., 1978; Miles & Snow, 2003). These business characteristics are competitive advantage (innovation vs. efficiency), research and development (extensive vs. minimal), efficiency (defenders are more automated and efficient than prospectors), growth (fast vs. incremental), marketing (strong vs. weak focus), organizational structure and stability (decentralized vs. centralized), and capital intensity (low vs. high mechanization and routinization).

Consistent with prior literature (Bentley et al., 2013; Bentley-Goode et al., 2017, 2019; G.-Z. Chen & Keung, 2019; Higgins et al., 2015) that have employed an archival measure of business strategy typology developed by Bentley et al., (2013) and based of the organizational typology in (Miles et al., 1978; Miles & Snow, 2003) (i.e. business attributes), we construct a discrete STRATEGY composite measure, which is an aggregate of six individual measures that proxy for organization's business strategy score. Similar to (Bentley et al., 2013; Ittner et al., 1997), we use the following characteristics for the STRATEGY composite measure: (1) RDS is the ratio of research and development to sales, a proxy for firm's propensity to innovate (2) EMPS is the ratio of employees to sales, a proxy for companies' ability to produce and distribute products and services efficiently (3) REV is one-year percentage change in total sales, a proxy for company's focus on exploiting new market opportunity (4) SGA is the ratio of marketing expenses (SG&A) to sales, (5) r(EMP) is employees' fluctuations and measured as the standard deviation of total employees, representing firms' organizational structure and stability and (6) CAP is a measure of capital intensity measured as net PPE scaled by total assets, reflecting companies' commitment to automation of operations.

We first compute all variables using a rolling average over the prior five years: RDS5, EMPS5, REV5, SGA5, r(EMP)5, and CAP5 are RDS, EMPS, REV, SGA, r(EMP), and CAP computed over a rolling five-year average, respectively. In addition, each of the six individual variables is ranked by forming quintiles within each two-digit SIC industry-year. Next, for the six variables (except for capital intensity), each observation is assigned a score 1-5 with the ones in the highest quintile are given a score of 5 and the ones in the lowest quintile are given a score of 1. Since defenders have a higher commitment to automation of operations, the capital intensity component is reverse-scored and the observations in the highest (lowest) quintile are given a score of 1 (5). Then, for each firm-year, we sum the scores up across the six variables such that a firm could receive a minimum STRATEGY score of 6 (defender-type) and a maximum score of 30 (prospector-type). In other words, higher (lower) STRATEGY scores represent firms following prospector (defender) strategies. It is important to note that Miles et al., (1978) and Miles & Snow, (2003)'s theory proposes four business strategies (three of which are viable: prospector, defender, & analyzer), consistent with prior research in management and accounting. We focus our research on prospectors and defenders because they represent the two distinct strategies that comprise the endpoints of Miles and Snow's strategy continuum.

Following prior literature, we also use indicator variables for prospectors and defenders in place of our discrete STRATEGY measure. Since the STRATEGY measure ranges from 6 to 30. We use the top and bottom one third of this range as cut-off values (13 and 23 respectively) to define strategy-types. The prospector indicator variable is a dummy variable equal to 1 if a firm's STRATEGY score is greater than or equal to 23, and 0 otherwise. In contrast, the defender indicator variable is a dummy variable equal to 1 if a firm STRATEGY score is lower than or equal to 13, and 0 otherwise.[1]

3.1.2. Measurement of CSR performance

We use ratings from the MSCI ESG KLD STATS dataset to measure firms' CSR performance. MSCI dataset measures firm CSR performance in the key categories of environment, community, diversity, employee relations, product, human rights, and corporate governance. Each category contains performance

[1] Our main results are qualitatively unchanged when using 14 and 22 as cut-off values to define prospectors and defenders.

ratings along several subs-divisions, capturing both positive (strengths) and negative (concerns) performance. Similar to prior literature (Dhaliwal et al., 2011; Hong & Andersen, 2011), we measure a

firm's CSR performance based on six dimensions: environment, community, human rights, employee relations, diversity and products. To get our measure of CSR performance (CSP), we first sum up the CSR dimension strengths (concerns) across the six dimensions. Then, we subtract the scores of CSR concerns from the scores of CSR strengths to construct a firm's total CSP. In addition, following the literature (Servaes & Tamayo, 2013), we subdivide CSP, the CSR dimension strengths, and the CSR dimension concerns into third-party related CSR performance (TPCSRNET), CSR strengths (TPCSRSTR), and CSR concerns (TPCSRCON), and stakeholder-related CSR performance (STHCSRNET), CSR strengths (STHCSRSTR), and CSR concerns (STHCSRCON). Third-party CSR reflects a firm's performance in socially responsible (or irresponsible) activities that relate to third parties' expectations on firms such as the environment, community, and human rights. Stakeholder CSR covers CSR activities that focus on stakeholders' expectations on firms such as employees, consumers, and suppliers, who are more central to the value chain of the firm. We construct stakeholder CSR strengths (concerns) by summing employees, diversity, and consumer/products strengths (concerns).

3.1.3. Measurement of Sustainability Committee

We hand-collect board-level sustainability committee attributes and sustainability committee stakeholder focus information from firms' proxy filing DEF14. SCOM is an indicator variable equals to 1 if a firm has a board level sustainability committee and 0 otherwise. We follow Burke et al., (2019) to construct the focus variables by examining committee descriptions and focal point as stated in the company's annual proxy filing, and classifying them into community focus (community and human rights dimensions), employees focus (employee relations and diversity dimensions), environmental focus (environment dimension), and product (consumers and suppliers dimensions). Because company focus can change, we do the classification for each year of committee existence. Then, we create four indicator variables to represent committee foci on stakeholder groups, including Community focus, Employee focus, Environment focus, and Product focus. Community-focus is a dummy variable equal to 1 if the sustainability committee has a community focus and 0 otherwise. Employee-focus is a dummy variable equal to 1 if the sustainability committee has an employee focus and 0 otherwise. Environment-focus is a dummy variable equal to 1 if the sustainability committee has an environment focus and 0 otherwise. Product-focus is a dummy variable equal to 1 if the sustainability committee has a product focus and 0 otherwise. Lastly, we group the sustainability committee into two categories: third-party sustainability committee focus (TPSCOM), and stakeholder focus (STHSCOM). TPSCOM is comprised of environment-focus and community-focus. STHSCOM is comprised of employee-focus and product-focus.

3.1.4. Control variables

We include several other control variables identified in prior literature as determinants of CSR performance (Burke et al., 2019; Kim et al., 2012; McWilliams & Siegel, 2000). The control variables include the log value of the total number of directors in a board (LBDSIZE); board meeting frequency (MEET); the percentage of directors in the board that are independent directors (INDEP); firm size (SIZE) is log of total assets; firm liquidity (QUICK) is current assets/current liabilities; firm profitability (ROA) is income before extraordinary items divided by total assets at beginning of the year; leverage (LEV) is long-term debt divided by total assets from end-of-year; research and development investment (RD) is the ratio of research and development expense to sales; advertisement expense to sales (ATA) is the ratio of advertisement expense to sales; firm age (LAGE) is the natural logarithm of (1 + number of years since the firm first appears in the CRSP database). Lastly, all models include industry and year fixed effects and standard errors clustered at the firm level.

3.2 Models

3.2.1 Business Strategy and CSR Performance

To test our hypothesis, we examine the association between business strategy and CSR performance using the following baseline model:

$$CSR_{it} = \alpha_0 + \alpha_1 STRATEGY_{it} + \alpha_2 LBDSIZE_{it} + \alpha_3 INDEP_{it} + \alpha_4 SIZE_{it} + \alpha_5 QUICK_{it} + \alpha_6 ROA_{it} + \alpha_7 LEV_{it} + year\ \&\ industry\ FE + \varepsilon_{it}, \quad (1)$$

where *i* is firm and *t* is year. CSR stands for corporate social responsibility performance and indicates CSP, TPCSRNET, TPCSRSTR, TPCSRCON, STHCSRNET, STHCSRSTR, and STHCSRCON, respectively. STRATEGY is a discrete score with values ranging from 6 to 30, where high (low) values represent prospector (defender) firms. The other variables are as defined previously.

In the following analysis, we divide business strategies into prospector and defender to examine the relation between each strategy category and company's corporate social responsibility performance using the following model:

$$CSR_{it} = \beta_0 + \beta_1 PROSPECTOR_{it} + \beta_2 DEFENDER_{it} + \beta_3 LBDSIZE_{it} + \beta_4 INDEP_{it} + \beta_5 SIZE_{it} + \beta_6 QUICK_{it} + \beta_7 ROA_{it} + \beta_8 LEV_{it} + year\ \&\ industry + \varepsilon_{it} \quad (2)$$

where *i* is firm and *t* is year. Prospector is a dummy variable equal to 1 if a firm's STRATEGY score is greater than 24 and 0 otherwise. Defender is a dummy variable equal to 1 if a firm STRATEGY score is lower than 12 and 0 otherwise. The other variables are as defined in Eq. (1).

3.2.2 Sustainability Committee Foci and CSR Performance

We focus on companies with sustainability committee foci to investigate the effect of CSR performance (overall, third-party, and stakeholders) on the corresponding third-party or direct stakeholders' sustainability committee foci. Specifically, we estimate the following regression:

$$CSR_{it} = \gamma_0 + \gamma_1 SCOM_{it} + \gamma_2 LBDSIZE_{it} + \gamma_3 INDEP_{it} + \gamma_4 MEET_{it} + \gamma_5 SIZE_{it} + \gamma_6 \mathrm{CGOVSTR}_{it} + \gamma_7 \mathrm{CGOVCON}_{it} + \gamma_8 LAGE_{it} + \gamma_9 QUICK_{it} + \gamma_{10} ROA_{it} + \gamma_{11} LEV_{it} + \gamma_{12} RD_{it} + \gamma_{13} ATA_{it} + year\ \&\ industry\ FE + \varepsilon_{it} \quad (3)$$

where *i* is firm and *t* is year. SCOM indicates firms with a sustainability committee either focus on third-party (TPSCOM) or stakeholders (STHSCOM). We expect firms with a third-party sustainability committee focus to be significantly positively associated with third-party CSR activity and significantly and negatively associated with third-party socially irresponsible activities (TPCSRCON). Conversely, we expect firms with a stakeholder sustainability committee focus to be significantly positively associated with stakeholder CSR activity and significantly and negatively associated with stakeholder socially irresponsible activities (STHCSRCON). The other variables are as defined in Eq. (1) and Eq. (2). We do not control for research and development investment (RD), and advertisement (ATA) in eq. (1), eq. (2), and any equation using a business strategy because our business strategy variables already include RD and ATA in their construction.

3.2.3 Business Strategy, Sustainability Committee Foci and CSR Performance

We use the regression model of eq. (4) to examine the association between business strategy, sustainability committee foci, and corporate social responsibility performance. To test for third-party activities in Equation 4, we interact our business strategy variable with third-party focus sustainability committee as follows:

$$TPCSR_{it}\ (or\ STHCSR_{it}) = \delta_0 + \delta_1 Business\ Strategy_{it} + \delta_2 TPSCOM_{it}(or\ STHSCOM_{it}) + \delta_3 Business\ Strategy * TPSCOM_{it}(or\ STHSCOM_{it}) + \delta_4 LBDSIZE_{it} + \delta_5 INDEP_{it} + \delta_6 SIZE_{it} + \delta_7 QUICK_{it} + \delta_8 ROA_{it} + \delta_9 LEV_{it} + year\ \&\ industry\ FE + \varepsilon_{it} \quad (4)$$

where *i* is firm and *t* is year. The business strategy variable stands for either prospector or defender. TPCSR is third-party related corporate social responsibility and irresponsibility performance. TPSCOM is a firm with a sustainability committee focus on external stakeholders. STHCSR is direct stakeholder related corporate social responsibility and irresponsibility performance. STHSCOM is a firm with a sustainability committee focus on internal or direct stakeholders. The other variables are as previously defined.

3.3. Data and sample

Table 1 presents the sample selection procedure. As previously mentioned, we hand-collected information on board-level sustainability committees for S&P 500 firms during the period of 2002-2012. After removing firm-years with missing information in the KLD database and COMPUSTAT or CRSP datasets. We have 2,597 firm-year observations for the sustainability committee sample. To construct the business strategy variables, we start from all firm-years in the COMPUSTAT in 1980-2012. We delete firm-years with zero or negative sales and assets, with missing historical SIC codes, and in the utilities and financial industries (SIC 4900-99 and 6000-99). We require 5-year rolling average data for STRATEGY measure and remove observations with missing values for all 6 STRATEGY component variables per firm-year. Our sample for STRATEGY composite score has 40,492 firm-years for the period of 2002-2012. Finally, we merge two samples and get a final sample of 2,298 firm-years for analysis.

Table 1: Sample selection

Description	Firm-years
Panel A	
S&P 500 firms in the period 2002-2012 with available DEF 14A filings	4,883
Less: firm-years with missing CSR data in the KLD database	(562)
firm-years with missing COMPUSTAT or CRSP data	(1,713)
firm-years in the financial industries (6000-6999)	(11)
Sustainability committee sample	2,597
Panel B: Strategy composite score construction	
COMPUSTAT data for years between 1980 and 2012	414,265
Less: Utilities and Financial Industries (SIC 4900–99 and 6000–99)	(53,663)
zero negative sales and assets and missing historical SIC codes	(165,480)
required 5-year rolling average data for STRATEGY measure	(83,291)
missing values for all 6 STRATEGY component variables per company-year	(70,839)
Total observations for STRATEGY composite score data set (2002–2012)	40,492
Panel C: Final sample	
Sustainability committee sample in panel A	2,597
Merge STRATEGY composite score dataset in Panel B	40,492
Final sample	**2,298**

Table 2 presents descriptive statistics. Panel A compares 369 firm-years which are classified as prospectors (STRATEGY score>=13) with 243 firm-years which are classified as defenders (STRATEGY score<=23). The main dependent variable, Corporate Social Responsibility Performance (CSP), was operationalized as the difference between CSR category strengths (i.e., environmental, community, human rights, employee, diversity, and product) less CSR category concerns, for each firm, each year t. We find that the CSR performance of prospectors is better, primarily due to less CSR concerns. Especially, they have better third-party related CSR performance due to less third-party related CSR concerns. Prospectors have significantly fewer sustainability committees than defenders do, with 16.8% against 32.6%. Especially, they are less likely to have a sustainability committee with a third-party focus (8.9% vs. 22.3%), however, they are more likely to have a sustainability committee with a stakeholder focus (5.1% vs. 2.21%). These statistics provide preliminary evidence that a firm forms board-level sustainability committee to address existing CSR concerns.

Prospectors and Defenders also show significant differences in means and median values across the various control variables used in our equations. On average, prospectors have smaller boards (2.258 vs. 2.309), less independent boards (81.7% vs. 85.2%) and sustainability committees (8.1% vs. 95.4%) than defenders. Their boards and sustainability committees less frequently (0.152 vs. 0.296; 0.222 vs. 0.469). Consistent with prior literature, prospectors and defenders show significant differences in mean and median values ($p < 0.05$) across all other control variables except for profitability (ROA). Prospectors are smaller (8.692 vs. 8.937), younger (3.142 vs. 3.331), and more liquid than defenders (1.978 vs. 1.584).

Prospectors are also significantly less reliant on leverage (0.169 vs. 0.247) and invest more in research & development (0.074 vs.0.019), and advertising (0.022 vs. 0.011).

Table 2: Descriptive statistics
Panel A: Comparison between Prospectors and Defenders

	Prospector (N=369)			Defender (N= 243)					
Variable	**Mean**	**Median**	**Std. dev.**	**Mean**	**Median**	**Std. dev.**	**Difference in mean**	**T-value**	
STRATEGY	23.211	23.000	1.375	12.987	13.000	1.112	10.224	95.490	***
CSP	1.515	1.000	3.668	0.373	0.000	3.345	1.142	3.930	***
CSPSTR	3.626	2.000	3.724	3.485	3.000	3.322	0.141	0.470	
CSPCON	2.111	1.000	2.190	3.112	3.000	2.266	-1.001	-5.390	***
TPCSRNET	0.591	0.000	1.739	-0.172	0.000	1.982	0.763	4.960	***
TPCSRSTR	1.252	1.000	1.702	1.309	1.000	1.570	-0.057	-0.420	
TPCSRCON	0.661	0.000	1.243	1.481	1.000	1.489	-0.820	-7.290	***
STHCSRNET	0.924	0.000	2.557	0.545	0.000	2.391	0.379	1.840	
STHCSRSTR	2.374	2.000	2.345	2.176	2.000	2.232	0.198	1.030	
STHCSRCON	1.450	1.000	1.375	1.631	1.000	1.362	-0.181	1.580	
SCOM	0.168	0.000	0.374	0.326	0.000	0.470	-0.158	-4.570	***
TPSCOM	0.089	0.000	0.286	0.223	0.000	0.417	-0.134	-4.660	***
STHSCOM	0.051	0.000	0.221	0.021	0.000	0.145	0.030	2.010	*
LBDSIZE	2.258	2.303	0.235	2.309	2.303	0.240	-0.051	-2.580	**
INDEP	0.817	0.846	0.095	0.852	0.875	0.093	-0.035	-4.420	***
MEET	0.152	0.000	0.359	0.296	0.000	0.458	-0.144	-4.310	***
CGOVSTR	0.222	0.000	0.505	0.236	0.000	0.455	-0.014	-0.340	
CGOVCON	0.702	1.000	0.628	0.639	1.000	0.718	0.063	1.120	
SIZE	8.692	8.582	1.146	8.937	8.784	1.126	-0.245	-2.570	**
LAGE	3.142	3.091	0.831	3.331	3.651	0.776	-0.189	-2.820	**
QUICK	1.978	1.746	1.084	1.584	1.361	0.764	0.394	4.840	***
ROA	0.082	0.086	0.084	0.084	0.073	0.070	-0.002	0.280	
LEV	0.169	0.151	0.131	0.247	0.233	0.128	-0.078	-7.220	***
RD	0.074	0.016	0.160	0.019	0.010	0.037	0.055	5.140	***
ATA	0.022	0.007	0.031	0.011	0.000	0.029	0.011	4.380	***

Table 2 panel B provides the distribution of our sample across industries. The majority of the sample firms come from the Manufacturing industry (35.8%), followed by the Services industry (14.5%) and the Retail industry (14.1%). Generally, the industry distribution of our sample is similar to prior studies (Bentley et al. 2013). Panel C presents the descriptive statistics of the STRATEGY composite score as well as its components. STRATEGY has a mean of 17.945 and a median value of 18. Regarding its components, the mean values of the 5-year rolling average of R&D to sales ratio (RDS5), employee to sales ratio (EMPS5), change in total revenues (REV5), marketing to sales (SGA5), employee fluctuation (r(EMP5)) and capital intensity (CAP5) are 0.237, 0.009, 54,981, 0.906 1.606 and 0.263 respectively. These statistics are consistent with Bentley et al. (2013).

Panel B: Industry affiliations (company-years)

			Full Sample (*N* = 2,298)		**Prospectors (*N* = 369)**		**Defenders (*N* = 243)**	
	Two-digit SIC code	**Industry affiliation**	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
1	01–09	Agriculture,	37	1.6%	7	1.9%	5	2.1%

		Forestry and Fishing						
2	10–14	Mining	168	7.3%	23	6.2%	27	11.1%
3	15–17	Construction	245	10.7%	9	2.4%	11	4.5%
4	20–39	Manufacturing	822	35.8%	198	53.7%	115	47.3%
5	40–48	Transportation and Communications						
		Services	87	3.8%	19	5.1%	10	4.1%
6	50–51	Wholesale Trade	248	10.8%	44	11.9%	22	9.1%
7	52–59	Retail Trade	325	14.1%	52	14.1%	10	4.1%
8	70–89	Services	333	14.5%	5	1.4%	38	15.6%
9	99	Other	33	1.4%	12	3.3%	5	2.1%
	Total		2,298	100.0%	369	100.0%	243	100.0%

Panel C: Composite and component STRATEGY

Full sample			**(N = 40,992)**				
Variable	**Mean**	**Median**	**Std Dev**	**Min**	**Q1**	**Q3**	**Max**
STRATEGY	17.945	18.000	3.575	6.000	16.000	20.000	30.000
STRATEGY component variables:							
RDS5	0.237	0.004	9.716	0.000	0.000	0.070	1088
EMPS5	0.009	0.005	0.043	0.000	0.003	0.008	4.820
REV5	54.981	0.097	1033	-0.575	0.022	0.214	20867
SGA5	0.906	0.255	19.997	-0.034	0.142	0.429	1936
r(EMP5)	1.606	0.215	6.130	0.000	0.045	0.948	231.381
CAP5	0.263	0.194	0.220	0.000	0.092	0.374	0.987

Table 3 presents the correlations among dependent and main independent variables. On one hand, TPSCOM is negatively correlated with STRATEGY and positively correlated with CSP. On the other hand, STHSCOM is positively correlated with STRATEGY, and negatively correlated with CSP. None of the correlations among the control variables are high enough to cause multicollinearity concerns.

Table 3: Pearson Correlations

	STRAT	**CSP**	**CSPSTR**	**CSPCON**	**TPCSR-NET**	**TPCSR-STR**	**TPCSR-CON**	**STHCSR-NET**	**STHCSR-STR**	**STHCSR-CON**	**SCOM**	**TPSCOM**
CSP	0.053											
	0.013											
CSPSTR	-0.029	0.789										
	0.167	<.0001										
CSPCON	-0.125	-0.306	0.343									
	<.0001	<.0001	<.0001									
TPCSR-NET	0.060	0.788	0.565	-0.329								
	0.004	<.0001	<.0001	<.0001								
TPCSR-STR	-0.057	0.663	0.866	0.328	0.690							
	0.006	<.0001	<.0001	<.0001	<.0001							
TPCSR-CON	-0.148	-0.260	0.277	0.826	-0.510	0.271						
	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001						
STHCSR-NET	0.030	0.869	0.731	-0.196	0.380	0.442	0.020					
	0.149	<.0001	<.0001	<.0001	<.0001	<.0001	0.352					
STHCSR-STR	-0.003	0.748	0.929	0.296	0.377	0.619	0.234	0.820				
	0.882	<.0001	<.0001	<.0001	<.0001	<.0001	<.000	<.000				

							1	1				
STHCSR-CON	-0.057	-0.244	0.287	0.818	-0.025	0.268	0.351	-0.346	0.253			
	0.007	<.0001	<.0001	<.0001	0.240	<.0001	<.0001	<.0001	<.0001			
SCOM	-0.104	-0.065	0.023	0.135	-0.066	0.045	0.142	-0.045	0.002	0.080		
	<.0001	0.002	0.285	<.0001	0.002	0.032	<.0001	0.032	0.929	0.000		
TPSCOM	-0.079	0.029	0.044	0.024	0.012	0.043	0.036	0.034	0.037	0.003	0.716	
	0.000	0.171	0.037	0.253	0.584	0.040	0.086	0.105	0.079	0.885	<.0001	
STHSCOM	0.002	-0.101	-0.011	0.136	-0.087	0.010	0.128	-0.081	-0.025	0.095	0.397	-0.094
	0.938	<.0001	0.590	<.0001	<.0001	0.628	<.0001	0.000	0.228	<.0001	<.0001	<.0001

4. Empirical results

4. 1. The role of business strategy in firms' third-party and stakeholder CSR activities

We first examine the association between business strategy and a firm's CSR performance. Following (Servaes & Tamayo, 2013), we subdivide CSR into two components: third-party CSR and stakeholder CSR. Third-party CSR covers CSR activities that relate to third parties' expectations on firms such as the environment and community. Stakeholder CSR covers CSR activities that focus on direct stakeholders' expectations on firms such as employee, consumer, and supplier, which are more central to the value creation mission of the firm. Therefore, we examine the role of business strategy in firms' positive and negative third-party and stakeholder CSR activities, respectively.

Table 4, panel A, reports the regression results for Eq. (1) using STRATEGY as the measure of a firm's business strategy. Column (1) use the overall CSR performance, CSP, as the dependent variable. As expected, the coefficient on STRATEGY is positive and significant (0.118, p<0.01). Column (2)-(7) examine the association between STRATEGY and third-party CSR performance versus stakeholder CSR performance respectively. The coefficients of STRATEGY are positive and significant in the regressions of third-party CSR (0.037, p<0.01), and stakeholder CSR (0.081, p<0.01), indicating that the positive association between STRATEGY and CSP is driven by firms closer to the prospector strategy cutoff point investing more in both third-party and stakeholder social activities than firms closer to the defender strategy cutoff. By decomposing CSR performance into CSR strengths versus CSR concerns, we find that STRATEGY is negatively associated with both third-party CSR (-0.048, p<0.01) and stakeholder CSR (-0.046, p<0.01), suggesting that firms closer to the prospector strategy engage in both fewer third-party related and stakeholder-related social irresponsible activities. Additionally, STRATEGY is positively and significantly associated with stakeholder CSR strengths (-0.046, p<0.01), suggesting that firms closer to the prospector strategy engage in more stakeholder-related socially responsible activities than defender-types do.

Table 4 Business strategy and third-party versus stakeholder CSR performance
Panel A. Business strategy score and third-party versus stakeholder CSR performance

VARIABLES	(1) CSP	(2) TPCSRNET	(3) TPCSRSTR	(4) TPCSRCON	(5) STHCSRNET	(6) STHCSRSTR	(7) STHCSRCON
STRATEGY	**0.118*** **	**0.037*** **	**-0.011**	**-0.048*** **	**0.081*** **	**0.034** **	**-0.046*** **
	[0.026]	[0.013]	[0.011]	[0.008]	[0.018]	[0.015]	[0.010]
LBDSIZE	0.037	0.047	-0.229**	-0.276***	-0.010	-0.307*	-0.298***
	[0.284]	[0.139]	[0.117]	[0.084]	[0.197]	[0.164]	[0.103]
INDEP	1.259*	0.564*	0.303	-0.260	0.695	0.741*	0.046
	[0.695]	[0.340]	[0.286]	[0.205]	[0.482]	[0.403]	[0.253]
SIZE	0.832**	0.179***	0.675***	0.496***	0.653***	1.168***	0.515***

	*						
	[0.065]	[0.032]	[0.027]	[0.019]	[0.045]	[0.038]	[0.024]
QUICK	-0.101	-0.033	-0.051	-0.018	-0.067	-0.049	0.018
	[0.078]	[0.038]	[0.032]	[0.023]	[0.054]	[0.045]	[0.028]
ROA	4.128**	1.323***	1.186***	-0.137	2.805***	2.661***	-0.144
	*						
	[0.962]	[0.471]	[0.395]	[0.283]	[0.667]	[0.558]	[0.350]
LEV	-	-0.134	-0.913***	-0.778***	-1.678***	-1.179***	0.498**
	1.812**						
	*						
	[0.641]	[0.314]	[0.263]	[0.189]	[0.444]	[0.372]	[0.233]
Year FE & Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,298	2,298	2,298	2,298	2,298	2,298	2,298
Adj R^2	0.170	0.222	0.397	0.261	0.127	0.336	0.241

*, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

Table 4, panel B, reports the regression results for Eq. (2) using PROSPECTOR and DEFENDER as proxies for two different types of business strategy. Column (1) confirms that firms with a prospectors strategy engage in more CSR activities, and defenders engage in fewer CSR activities (coefficients=0.625 and -0.696 respectively, p<0.01). By examining third-party CSR and stakeholder CSR separately, we find that PROSPECTOR is insignificantly associated with third-party CSR but is significantly associated with stakeholder CSR. Specifically, PROSPECTOR is positively associated with stakeholder-related social responsible activities (0.233, p<0.1) and negatively associated with stakeholder related social irresponsible activities (-0.297, p<0.01).

Conversely, DEFENDER is negatively associated with third-party CSR performance (-0.534, p<0.01) but insignificantly associated with stakeholder CSR performance. Especially, the negative association between DEFENDER and third-party CSR performance is due to more third-party social irresponsible activities engaged by defenders (0.417, p<0.01). Together, the results of Table 4 confirm the findings in prior studies (Yuan et al. 2020) and reveal that prospector firms pursue socially responsible activities that positively impact stakeholders (employee, consumers/suppliers), whereas defender firms engage in more socially irresponsible activities that affect the whole society's interests (environment, communities, and human rights). The results in table 4 support Hypothesis 1.

Panel B. Business strategy type and third-party versus stakeholder CSR performance

VARIABLES	(1) CSP	(2) TPCSRNET	(3) TPCSRSTR	(4) TPCSRCON	(5) STHCSRNET	(6) STHCSRSTR	(7) STHCSRCON
PROSPECTOR	**0.625*** **	**0.096**	**0.019**	**-0.076**	**0.529*** **	**0.233***	**-0.297*** **
	[0.210]	**[0.103]**	**[0.086]**	**[0.062]**	**[0.146]**	**[0.122]**	**[0.077]**
DEFENDER	**-0.696*** **	**-0.534*** **	**-0.116**	**0.417*** **	**-0.162**	**-0.176**	**-0.014**
	[0.245]	[0.120]	[0.101]	[0.072]	[0.170]	[0.142]	[0.089]
LBDSIZE	0.021	0.027	-0.226*	-0.254***	-0.007	-0.308*	-0.301***
	[0.284]	[0.139]	[0.117]	[0.084]	[0.197]	[0.165]	[0.104]
INDEP	1.323*	0.612*	0.340	-0.272	0.711	0.765*	0.054
	[0.696]	[0.340]	[0.286]	[0.205]	[0.483]	[0.404]	[0.254]
SIZE	0.835***	0.171***	0.671***	0.500***	0.664***	1.170***	0.506***
	[0.065]	[0.032]	[0.027]	[0.019]	[0.045]	[0.038]	[0.024]
QUICK	-0.088	-0.040	-0.060*	-0.020	-0.048	-0.045	0.002
	[0.078]	[0.038]	[0.032]	[0.023]	[0.054]	[0.045]	[0.028]
ROA	4.059***	1.306***	1.241***	-0.065	2.753***	2.654***	-0.099
	[0.962]	[0.470]	[0.395]	[0.283]	[0.667]	[0.558]	[0.351]
LEV	-	-0.068	-0.786***	-0.718***	-1.888***	-1.216***	0.672***
	1.956***						
	[0.636]	[0.310]	[0.261]	[0.187]	[0.441]	[0.369]	[0.232]
N	2,298	2,298	2,298	2,298	2,298	2,298	2,298

Year FE & Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R^2	0.169	0.226	0.396	0.260	0.125	0.336	0.238

*, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

4.2. The role of sustainability committees in firms' third-party and stakeholder CSR activities

Next, we differentiate third-party sustainability committee (TPSCOM) from stakeholder sustainability committee (STHSCOM). Table 5 reports the regression results for Eq. (3). The sample size reduces to 2,257 firm-years due to the inclusion of additional control variables. Column (1) and (5) show that sustainability committees with a focus of third parties are positively associated with CSR performance (0.975, p<0.01) while sustainability committees with a focus of stakeholders are negatively associated with CSR performance (-1.580, p<0.01). Further, sustainability committees with a focus of third parties are positively associated with third-party CSR performance (0.411, p<0.01) while sustainability committees with a focus of stakeholders are negatively associated with CSR performance (-1.057, p<0.01). By examining socially responsible activities and social irresponsible activities separately, we find that TPSCOM is positively associated with TPCSRSTR (0.211, p<0.05) and negatively associated with TPCSRCON (-0.200, p<0.05). Conversely, STHSCOM is negatively associated with STHCSRSTR (-0.492, p<0.05) and positively associated with STHCSRCON (0.565, p<0.01).

Since sustainability committees are voluntary, and board of directors dictate which stakeholder groups to focus on, table 5 results indicate that sustainability-related committees are more effective at improving firms' social activity performance when these committee focus on third parties (e.g., communities, environment and human rights) rather than stakeholders (employees, consumers and suppliers). In addition, firms are more likely to adopt sustainability committees with a focus on stakeholders to address stakeholder-related CSR concerns, such as employee or project issues. The results in table 5 support Hypothesis 2.

Table 5. Sustainability committee focus and third-party versus stakeholder CSR performance

VARIABLES	(1) CSP	(2) TPCSRNET	(3) TPCSRSTR	(4) TPCSRCON	(5) CSP	(6) STHCSRNET	(7) STHCSRSTR	(8) STHCSRCON
TPSCOM	**0.975*** [0.262]**	**0.411*** [0.130]**	**0.211** [0.105]**	**-0.200** [0.083]**				
STHSCOM					**-1.580*** [0.325]**	**-1.057*** [0.232]**	**-0.492** [0.193]**	**0.565*** [0.127]**
LBDSIZE	0.473* [0.274]	0.240* [0.136]	-0.032 [0.110]	-0.272*** [0.087]	0.614** [0.276]	0.333* [0.198]	-0.017 [0.164]	-0.351*** [0.108]
INDEP	1.331** [0.650]	0.622* [0.322]	0.390 [0.260]	-0.232 [0.206]	1.186* [0.649]	0.605 [0.464]	0.831** [0.386]	0.226 [0.254]
MEET	-0.464** [0.228]	-0.091 [0.113]	-0.001 [0.091]	0.090 [0.072]	0.322* [0.180]	0.103 [0.129]	0.134 [0.107]	0.031 [0.070]
SIZE	0.553*** [0.074]	0.064* [0.037]	0.445*** [0.030]	0.381*** [0.023]	0.552*** [0.074]	0.488*** [0.053]	0.903*** [0.044]	0.415*** [0.029]
CGOVSTR	1.992*** [0.138]	1.045*** [0.069]	1.214*** [0.055]	0.169*** [0.044]	2.009*** [0.138]	0.956*** [0.098]	1.050*** [0.082]	0.094* [0.054]
CGOVCON	-0.395*** [0.102]	-0.196*** [0.051]	-0.046 [0.041]	0.150*** [0.032]	-0.423*** [0.102]	-0.215*** [0.073]	0.040 [0.060]	0.255*** [0.040]
LAGE	-0.020 [0.109]	-0.087 [0.054]	0.136*** [0.044]	0.223*** [0.035]	0.037 [0.110]	0.105 [0.079]	0.217*** [0.065]	0.112*** [0.043]
QUICK	-0.190** [0.074]	-0.067* [0.037]	-0.057* [0.030]	0.010 [0.023]	-0.192*** [0.074]	-0.124** [0.053]	-0.100** [0.044]	0.024 [0.029]
ROA	6.358*** [0.975]	1.810*** [0.484]	1.026*** [0.390]	-0.783** [0.308]	6.234*** [0.973]	4.448*** [0.696]	3.911*** [0.579]	-0.537 [0.380]
LEV	-0.479 [0.590]	0.391 [0.293]	-0.302 [0.236]	-0.694*** [0.187]	-0.649 [0.589]	-0.984** [0.421]	-0.348 [0.350]	0.635*** [0.230]
RD	8.004*** [0.862]	2.543*** [0.428]	0.763** [0.345]	-1.779*** [0.273]	8.080*** [0.859]	5.496*** [0.615]	4.026*** [0.511]	-1.471*** [0.336]
ATA	22.017*** [2.504]	8.684*** [1.243]	5.135*** [1.001]	-3.550*** [0.792]	21.977*** [2.496]	13.356*** [1.785]	9.860*** [1.484]	-3.496*** [0.975]
N	2,257	2,257	2,257	2,257	2,257	2,257	2,257	2,257
Year FE &	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Industry FE								
Adj R^2	0.294	0.326	0.516	0.290	0.297	0.211	0.410	0.268

*, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

4.3. The role of sustainability committees of prospector and defender firms' third-party and stakeholder CSR activities

We explore how the interplay between business strategy and sustainability committees affect CSR performance. Table 6, panel A, presents the regression results for Eq. (4). For prospector firms, the coefficient of the interaction between PROSPECTOR and TPSCOM is insignificant in column (1), and positive and significant in column (2) and column (3) (Coefficient=0.974 and 0.664, p<0.01). Specifically, for prospectors, having third-party focused sustainability committees is effective at improving relevant third-party CSR activity strengths but does not mitigate relevant third-party CSR activity concerns. The finding that prospectors with sustainability committees focused on third-party stakeholders are positively associated with third-party CSR concerns may seem perplexing, since the selection of these sustainability foci is a voluntary dedication of resources to sustainability issues. However, as (Burke et al., 2019) posit, mitigating concerns does not generate value. Said differently, when the economic cost of mitigating business activity concerns exceeds the cost associated with these negative activities, boards may adopt these sustainability committee foci in reaction to CSP concerns that already exist or are inherent to the business. Consistent with our hypothesis, the coefficient of the interaction between DEFENDER and TPSCOM is positive and significant in column (4) and column (5) (Coefficient=1.058 and 0.494, p<0.001) and negative and significant in column (6) (-0.563, p<0.01) for defender firms. In other words, defender firms with sustainability committees that focus on third-party stakeholders have better third-party CSR performance in terms of improved third-party CSR activity strength and reduced third-party CSR activity concerns. Thus, the results in table 6 panel A partially support the Hypothesis 3a for defenders.

Table 6. Business strategy type, sustainability committee and CSR performance

Panel A. Business strategy type, sustainability committee with a third-party focus and third-party CSR performance

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	TPCSRNET	TPCSRSTR	TPCSRCON	TPCSRNET	TPCSRSTR	TPCSRCON
PROSPECTOR	0.129	-0.047	-0.177***			
	[0.106]	[0.089]	[0.064]			
TPSCOM	0.366***	0.170*	-0.196***	0.262**	0.207**	-0.055
	[0.110]	[0.092]	[0.066]	[0.111]	[0.094]	[0.067]
PROSPECTOR ×TPSCOM	**0.310**	**0.974*** **	**0.664*** **			
	[0.314]	**[0.262]**	**[0.190]**			
DEFENDER				-0.791***	-0.240**	0.551***
				[0.131]	[0.111]	[0.079]
DEFENDER ×TPSCOM				**1.058*** **	**0.494** **	**-0.563*** **
				[0.272]	[0.230]	[0.165]
LBDSIZE	-0.028	-0.279**	-0.251***	-0.031	-0.266**	-0.235***
	[0.140]	[0.117]	[0.085]	[0.139]	[0.117]	[0.084]
INDEP	0.465	0.266	-0.199	0.563*	0.307	-0.256
	[0.341]	[0.285]	[0.206]	[0.338]	[0.285]	[0.205]
SIZE	0.186***	0.674***	0.488***	0.179***	0.676***	0.497***
	[0.032]	[0.027]	[0.019]	[0.032]	[0.027]	[0.019]
QUICK	-0.023	-0.061*	-0.038*	-0.047	-0.064**	-0.017
	[0.038]	[0.032]	[0.023]	[0.038]	[0.032]	[0.023]
ROA	1.264***	1.230***	-0.034	1.369***	1.281***	-0.088
	[0.470]	[0.393]	[0.284]	[0.466]	[0.393]	[0.282]
LEV	-0.296	-0.832***	-0.536***	-0.071	-0.777***	-0.706***
	[0.306]	[0.256]	[0.185]	[0.307]	[0.259]	[0.186]
N	2,298	2,298	2,298	2,298	2,298	2,298
Year FE & Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj R^2	0.224	0.402	0.254	0.236	0.400	0.264

*, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

Table 6, panel B shows that prospector and defender firms with sustainability committees focus on stakeholders are not effective at impacting relevant stakeholder related CSR performance. However, in column 3, we detect a negative and significant association between the interaction of PROSPECTOR and STHSCOM and stakeholder related CSR concerns (STHCSRCON), meaning that prospector firms with sustainability committees focus on stakeholders are effective at mitigating their stakeholder related CSR concerns. Equally important, we detect a positive and significant association between the interaction of DEFENDER and STHSCOM and stakeholder related CSR concerns (STHCSRCON) in column (6). This result leads us to conclude that defenders with stakeholder-related CSR concerns are more likely to adopt sustainability committees with a focus on stakeholders to address the existing issues. Although our hypothesis 3b is not fully supported, the results in table 6 panel B suggesting that having a sustainability committee focusing on stakeholders significantly affect stakeholder-related CSR concerns for both prospectors and defenders.

Generally, we find that having a sustainability committee with a focus on third-party groups could effectively improve third-party related CSR performance for both prospectors and defenders. However, prospectors and defenders with sustainability committees focused on stakeholders generally are significantly associated with only stakeholder-related CSR concerns.

Panel B. Business strategy type, sustainability committee with a stakeholder focus and stakeholder CSR performance

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	STHCSRNET	STHCSRSTR	STHCSRCON	STHCSRNET	STHCSRSTR	STHCSRCON
PROSPECTOR	0.531***	0.255**	-0.276***			
	[0.146]	[0.123]	[0.077]			
STHSCOM	-1.181***	-0.416**	0.764***	-1.043***	-0.435**	0.609***
	[0.253]	[0.212]	[0.133]	[0.242]	[0.202]	[0.127]
PROSPECTOR ×STHSCOM	**0.548**	**-0.093**	**-0.640****			
	[0.595]	**[0.499]**	**[0.312]**			
DEFENDER				-0.249	-0.219	0.030
				[0.172]	[0.144]	[0.090]
DEFENDER ×STHSCOM				**-1.325**	**-0.306**	**1.019***
				[1.047]	**[0.877]**	**[0.550]**
LBDSIZE	0.199	-0.221	-0.419***	0.163	-0.241	-0.404***
	[0.201]	[0.169]	[0.105]	[0.201]	[0.168]	[0.106]
INDEP	0.564	0.695*	0.130	0.499	0.677*	0.177
	[0.481]	[0.404]	[0.252]	[0.482]	[0.404]	[0.253]
SIZE	0.684***	1.180***	0.497***	0.672***	1.173***	0.501***
	[0.045]	[0.038]	[0.024]	[0.045]	[0.038]	[0.024]
QUICK	-0.043	-0.040	0.003	-0.047	-0.045	0.002
	[0.053]	[0.045]	[0.028]	[0.054]	[0.045]	[0.028]
ROA	2.551***	2.565***	0.014	2.415***	2.509***	0.094
	[0.665]	[0.558]	[0.349]	[0.665]	[0.557]	[0.349]
LEV	-2.040***	-1.332***	0.708***	-2.085***	-1.307***	0.778***
	[0.433]	[0.364]	[0.227]	[0.439]	[0.367]	[0.230]
N	2,298	2,298	2,298	2,298	2,298	2,298
Year FE & Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj R^2	0.133	0.337	0.249	0.128	0.336	0.243

*, **, and *** indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

4.4. Additional analyses

The results of table 5 might be driven by simultaneity bias, i.e., CSR activities or sustainability committee foci are determined in equilibrium such that either sustainability committee foci cause CSR activities or CSR activities cause sustainability committee foci. To rule out this possibility, we reevaluate eq (3) with five-year lagged sustainability committee foci. We use five-year lagged to match the required five-year rolling average data for our STRATEGY measure. Table 7 presents the regression results. We find all lagged third-party sustainability committee variables remain significant and positively correlated

with third party CSR activities, while all lagged stakeholders' sustainability committee variables remain significant and negatively correlated with stakeholders' CSR activity.

Table 7. Lag-year sustainability committee focus and third-party versus stakeholder CSR performance

VARIABLES	(1) TPCSRNET	(2) TPCSRNET	(3) TPCSRNET	(4) TPCSRNET	(5) TPCSRNET	(6) STHCSR-NET	(7) STHCSR-NET	(8) STHCSR-NET	(9) STHCSR-NET	(10) STHCSR-NET
TPSCOM	0.393***									
	[0.104]									
$TPSCOM_{t-1}$		0.394***								
		[0.104]								
$TPSCOM_{t-2}$			0.395***							
			[0.104]							
$TPSCOM_{t-3}$				0.394***						
				[0.104]						
$TPSCOM_{t-4}$					0.397***					
					[0.105]					
STHSCOM						-1.079***				
						[0.235]				
$STHSCOM_{t-1}$							-1.062***			
							[0.236]			
$STHSCOM_{t-2}$								-1.048***		
								[0.237]		
$STHSCOM_{t-3}$									-1.078***	
									[0.238]	
$STHSCOM_{t-4}$										-1.056***
										[0.239]
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE & Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R^2	0.224	0.223	0.222	0.222	0.222	0.127	0.128	0.128	0.128	0.129

Standard errors in brackets*** p<0.01, ** p<0.05, * p<0.1

Similarly, to alleviate the possible simultaneity concerns between CSR and sustainability committee variables in Table 6 and to investigate the potential non-contemporaneous effect of sustainability committee foci on CSR activity, we re-evaluate equation (4) with five-year lagged values of the predictor variables to control for all time-invariant variables, whether or not observed. Table 8 panel A provides the results for third-party sustainability committees, whereas panel B provides the ones for stakeholders' sustainability committees. These results are consistent with table 6 panel A and panel B. On one hand, the interactions of PROSPECTOR and lagged values of TPSCOM are insignificantly related to TPCSRNET, and the interactions of DEFENDER and lagged values of TPSCOM are significant and positively associated with TPCSRNET. On the other hand, the interactions of PROSPECTOR and lagged

values of STHCOM are insignificantly related to STHCSRNET, and the interactions of DEFENDER and lagged values of TPSCOM are insignificantly associated with TPCSRNET.

Table 8. Business strategy type, lag-year sustainability committee and CSR performance
Panel A. Business strategy type, lag-year sustainability committee with a third-party focus and third-party CSR performance

VARIABLES	(1) TPCSRNET	(2) TPCSRNET	(3) TPCSRNET	(4) TPCSRNET	(5) TPCSRNET	(6) TPCSRNET	(7) TPCSRNET	(8) TPCSRNET
PROSPECTOR	0.131	0.131	0.131	0.131				
	[0.106]	[0.106]	[0.106]	[0.106]				
TPSCOM $_{t-1}$	0.367***				0.263**			
	[0.110]				[0.111]			
PROSPECTOR ×TPSCOM $_{t-1}$	0.308							
	[0.314]							
TPSCOM $_{t-2}$		0.368***				0.265**		
		[0.110]				[0.111]		
PROSPECTOR ×TPSCOM $_{t-2}$		0.309						
		[0.314]						
TPSCOM $_{t-3}$			0.367***				0.265**	
			[0.110]				[0.111]	
PROSPECTOR ×TPSCOM $_{t-3}$			0.309					
			[0.314]					
TPSCOM $_{t-4}$				0.371***				0.265**
				[0.110]				[0.111]
PROSPECTOR ×TPSCOM $_{t-4}$				0.306				
				[0.314]				
DEFENDER					-0.787***	-0.784***	-0.783***	-0.787***
					[0.131]	[0.131]	[0.131]	[0.131]
DEFENDER ×TPSCOM $_{t-1}$					1.061***			
					[0.274]			
DEFENDER ×TPSCOM $_{t-2}$						1.063***		
						[0.276]		
DEFENDER ×TPSCOM $_{t-3}$							1.067***	
							[0.278]	
DEFENDER ×TPSCOM $_{t-4}$								1.100***
								[0.280]
Year FE & Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R^2	0.224	0.223	0.223	0.223	0.236	0.235	0.235	0.235

Standard errors in brackets *** p<0.01, ** p<0.05, * p<0.1

Panel B. Business strategy type, lag-year sustainability committee with a stakeholder focus and stakeholder CSR performance

VARIABLES	(1) STHCSR -NET	(2) STHCSR -NET	(3) STHCSR -NET	(4) STHCSR -NET	(5) STHCSR -NET	(6) STHCSR -NET	(7) STHCSR -NET	(8) STHCSR -NET
PROSPECTOR	0.532***	0.531***	0.533***	0.532***				
	[0.147]	[0.146]	[0.146]	[0.146]				
$STHSCOM_{t-1}$	-1.163***				-1.025***			
	[0.254]				[0.243]			
PROSPECTOR ×$STHSCOM_{t-1}$	0.533							
	[0.595]							
$STHSCOM_{t-2}$		-1.149***				-1.010***		
		[0.255]				[0.244]		
PROSPECTOR ×$STHSCOM_{t-2}$		0.520						
		[0.596]						
$STHSCOM_{t-3}$			-1.185***				-1.039***	
			[0.257]				[0.245]	
PROSPECTOR ×$STHSCOM_{t-3}$			0.554					
			[0.596]					
$STHSCOM_{t-4}$				-1.161***				-1.015***
				[0.258]				[0.245]
PROSPECTOR ×$STHSCOM_{t-4}$				0.527				
				[0.596]				
DEFENDER					-0.250	-0.249	-0.245	-0.241
					[0.172]	[0.172]	[0.172]	[0.172]
DEFENDER ×$STHSCOM_{t-1}$					-1.341			
					[1.048]			
DEFENDER ×$STHSCOM_{t-2}$						-1.355		
						[1.048]		
DEFENDER ×$STHSCOM_{t-3}$							-1.325	
							[1.048]	
DEFENDER ×$STHSCOM_{t-4}$								-1.346
								[1.046]
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE & Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R^2	0.133	0.133	0.133	0.135	0.129	0.129	0.129	0.130

Standard errors in brackets*** p<0.01, ** p<0.05, * p<0.1

5. Discussions and conclusions

Using the measure of business strategy in prior studies (Miles & Snow 1978, 2003; Bentley et al., 2013), and the theoretical framework under which board-level sustainability committees are motivated by shared value creation (Burke et al., 2019), we provide a link between organizational theory and firms' CSR performance. We examine whether board-level sustainability engagement and performance vary between firms following different business strategies. We find evidence that positive association between the prospector-type business strategy and CSR performance is driven by their involvement in the stakeholder-related (e.g. employees, consumers/suppliers) CSR activities, whereas the negative association between the defender-type business strategy and CSR performance is because of their worse third-party related (e.g.

communities, environment and human rights) CSR activities. We additionally find that firms with a third-party focused sustainability committee have better overall (and third-party related) CSR performance, while firms with a stakeholder focused sustainability committee have worse overall (and stakeholder related) CSR performance. These results imply that firms with different strategy types have different organizational structures, risk-taking orientations, and managerial incentives, etc., which could affect their involvement in CSR activities. Further, board-level sustainability committees are constructed to serve different purposes. While a third-party focused sustainability committee is established with a purpose to improve third-party CSR performance, a stakeholder focused sustainability committee is in place to address the existing stakeholder related CSR concerns.

By investigating the effect of interplay between a firm's business strategy and its sustainability committee on CSR performance, we find that while defenders are less likely to invest in CSR activities than prospectors, defenders with third-party focused sustainability committees are characterized by improvements in CSR and less socially irresponsible activities. Overall, our results suggest that a firm's board-level sustainability engagement and business strategy are significant determinants of firms' CSR performance. Future research in corporate social responsibilities should take the interplay between a firm's business strategy type and its corporate governance structure regarding CSR commitment into consideration.

Our research is subject to limitations. On one hand, we did not examine the company's decision to adopt a particular sustainability focus or a specific business strategy. In effect, Miles et al., (1978)'s organizational theory states that firms' business strategy is chosen early in their life cycle and remains relatively stable over time. Equally important, Burke et al., (2019) posits that firms' sustainability committee focus is sticky over time, thus, the frequency of change is very low. On the other hand, (Miles et al., 1978) strategy typology measure is structurally assessed with noise.

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