Do Do-Gooders Do Well? Corporate Social Responsibility, Business Models and IPO Performance

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Despite the scholarly enthusiasm, most previous studies have explored corporate social responsibility (CSR) and its performance implications within the context of large mature firms, while ignoring CSR implications for young entrepreneurial firms. By drawing on the insights from stakeholder theory and business model we develop theoretical arguments that justify shared value creation by entrepreneurial ventures.

Keywords: corporate social responsibility (CSR), stakeholder theory, business models, social media

INTRODUCTION

Firms across the world have increasingly placed emphasis on activities that can be described as Corporate Social Responsibility (CSR). CSR may include, but is not limited to, charitable giving or fundraising, environmentally friendly business activities, building a company's business model around helping certain disadvantaged or impoverished groups, etc. Over 8,000 companies from more than 150 countries are signatories to the United Nations' Global Compact, which addresses societal issues on human rights, labor standards, the environment, and anti-corruption (Wang, Tong, Tekuchi & George, 2016). Owing to businesses initiating such actions, the study of why and how CSR takes place has become an important topic for strategic management research (Kaul & Luo, 2018). Most past and current research suggests that the pursuit of CSR as a strategic initiative occurs primarily within large firms (Porter & Kramer, 2002; Peloza, 2009). Our study will continue within this stream of literature, yet we will focus on how young entrepreneurial ventures create a case for CSR.

We conceptually explore CSR implications for young entrepreneurial ventures by drawing on insights from stakeholder theory that suggest that attention to stakeholder interests is critical to organizational success (Berman, Wicks, Kotha, & Jones, 1999; Choi & Shepard, 2005). In doing so, we answer the call within the entrepreneurship literature to examine shared value creation generated from business activities (Donaldson & Walsh, 2015; Wang et al., 2016). Such an argument rests on the notion that the closer the alignment of CSR activities with a firm's business activities, the greater opportunity the firm has to create benefits for the society (Porter & Kramer, 2006).

However due to liability of newness (Stinchcombe, 1965) stakeholders and outsiders of new ventures with CSR aligned business models may not comprehend the future that these ventures aim to create, i.e.

benefit for others through their ventures. This is especially true when a business model is projected to be significantly different from past business models in their market, thereby leading to a lack of new venture legitimacy. Sharing information about the venture may result in the stakeholders' willingness to commit to the organization (Choi & Shepard, 2005). Contributing to an understanding of new venture legitimacy, we propose that social media presence, may help new ventures with CSR aligned business models in setting future expectations that are comprehensible and plausible to stakeholders. So, we ask, *can young entrepreneurial ventures generate benefits for others while generating financial returns for itself?* Additionally, we ask, *will the firm's social media presence influence that relationship?*

CSR AND STAKEHOLDER THEORY

Corporate social responsibility (CSR) is defined as context-specific organizational actions and policies that consider stakeholders' expectations and the triple bottom line of economic, social, and environmental performance (Auguinis & Glaves, 2011). Therefore, CSR encompasses multiple avenues for businesses to create a positive impact. The primary theoretical lens applied to understand the link between CSR and firm value is stakeholder theory, which explains how multiple groups of stakeholders have the ability to impact a firm's financial value (Mitchell, Agle, & Wood, 1997). Stakeholders are jointly committed to the success of the firm, such that they contribute specific forms of capital, including financial, human, and social capital (Kochan & Rubinstein, 2000). Stakeholders may be individuals or constituents that participate, either voluntarily or involuntarily, to a venture's wealth creating capacity and activities (Post, Preston, & Sachs, 2002) and whom the firm needs in order to exist (Dunham, Freeman, & Liedtka, 2006). According to stakeholder theory, in addition to shareholders, a firm's stakeholders may include customers, suppliers, employees, local communities, regulators, the society and the natural environment.

Consequently, DTI (2004), state that CSR is comprised of a business case and voluntary action. The business case for CSR occurs when a firm's CSR initiatives lead to better financial performance and this relies on the economic argument for the pursuit and sustainability of these initiatives. Theoretically, economic instrumentality of CSR occurs when its impact depends on the relatedness of the CSR activities to the firm's core business activities (Kaul & Luo, 2018). In other words, companies will initiate CSR activities when they believe it aligns with their company's core business activities which will result in greater financial returns due to stakeholders' benefit accrual. Stakeholder theory also argues that, different stakeholders may value different CSR aspects and may reward the firms accordingly (Lev, Petrovits, & Radhakrishnan, 2010). The business case argument for CSR is based on leveraging better utilization of resources in improving long-run firm level competitiveness in terms of profitability and growth (Margolis & Walsh, 2003). Prior research suggests that such alignment has resulted in the growth of new industry categories such as renewable energy (Bolinger & Wiser, 2009), natural foods (Lee, 2009), and green building (Furlow, 2010). Despite the relevance of CSR alignment with business activities, adopting new CSR undertakings in response to internal and external stakeholder pressure can be complex and risky for large firms, as it may require development of new firm level routines and practices and close coordination across multiple relevant functions (Westley & Vredenburg, 1996). In contrast, CSR alignment with business activities may be less complex and easier to implement within new ventures. The early focus on CSR, with the aim to complement CSR activities with business practices, therefore creates a high interdependency with multiple organizational elements boosting business performance. One such mechanism to create the business case for CSR for new ventures is through innovative business models.

NEW VENTURE BUSINESS MODELS

Massa, Tuchi, and Afuah (2017) state that the business model is a description of an organization and how that organization functions in achieving its goals (e.g., profitability, growth, social impact, etc.). In other words, business models exemplify mechanisms through which firms create and capture value. The extent to which a firm's business model can value capture and value create, determines its competitive advantage and firm performance (Zott, Amit, & Massa, 2011). Innovative business models recombine

existing resources in a different way and build new resources with them (Zott & Amit, 2007). In that sense, for new ventures, business models can represent avenues for innovation which can be combined and complemented with product, process, and organizational innovation (Casadesus-Masanell & Zhu, 2013)

One way that entrepreneurial ventures create business cases for CSR is through innovative business models such as Toms Shoes' "Buy one, give one" business model. The for-profit company donates a pair of shoes to impoverished people around the world for each pair of shoes purchased by its customers. The support of a noble societal cause is equally attractive to a diverse group of stakeholders, including customers and investors and provides future growth potential for the firm (New York Times, Nov. 30, 2018). Another instance is Tesla Motors' business model that functions with the intention to "accelerate the advent of sustainable transportation" (Elon Musk; Forbes Apr 6, 2016) by mass marketing luxury electric cars, benefiting multiple stakeholder groups (e.g. customers, suppliers and environment) and drawing interest from numerous investors. Despite several instances of anecdotal evidence of the economic instrumentality of CSR for young entrepreneurial firms, to our knowledge, no research has examined how markets react when young entrepreneurial ventures build a business case for CSR through innovative business models.

Opportunities exist for new ventures to develop business models aimed towards creation and capture of shared value, i.e. realigning organizations' search for profits with innovations that also benefit the environment and society (Halme & Laurila, 2009). Entrepreneurial ventures can integrate stakeholders' demands and expectations into the firm's operations, structures, and processes (Crilly, Zollo, & Hansen, 2012). This type of business model can be characterized by actions like ensuring product longevity (Bocken, Short, Rana & Evans, 2014) and enhancing employee welfare (Farooq, Rupp, & Farooq, 2017). Thus, new ventures can take an environmental or a social problem as a source of business innovation, ideate and build new products or services that provide a solution to the problem. For instance, Grameen Bank (Yunus, Moingeon, & Lehmann-Orteg, 2010) pioneered the microfinance industry by challenging the conventional way of thinking about loan financing by making small loans sufficient to finance income generating small businesses. What started as an experimental initiative, has found legitimacy as a major industry (Zhao, Isihara, & Lounsbury, 2013), aimed towards creating shared value as a mechanism for poverty alleviation as well as financial value maximization for shareholders (Kent & Dacin, 2013). Therefore, the idea of CSR alignment with business functions adopted by new ventures can originate from doing good for stakeholders, either by conducting business responsibly or by finding unique solutions to grand societal challenges, both fulfilling the purpose of creating shared value for firm and stakeholders.

Consequently, for decades researchers have looked for answers that establish a resounding positive link between CSR activities and firm financial performance (Wang et al., 2016). Consistent with this, research has shown empirical evidence of such benefits that stakeholders have accorded to the firm such as consumers (e.g., Fosfuri & Giarratana, 2014), employees (e.g., Turban & Greening, 1997), suppliers (e.g., Hillman & Keim, 2001), and investors (e.g., Hawn, Chatterji, & Mitchell, 2017). However, given the heterogeneity of CSR initiatives, the extent to which the interests of stakeholders and shareholders converge depends on the efficacy of the CSR activity. While there is extensive research that supports the view that investors respond favorably when firms adopt CSR (Doh, Howton, Howton, & Siegel, 2010), there are limited studies that have explored the business case for CSR within new ventures, i.e. the relationship between new ventures' CSR aligned business models and financial performance (Wang & Bansal, 2012).

Literature on new venture performance considers short-term investor reactions by measuring IPO performance, which is indicative of a firm's valuation based on its ability to raise capital (Gulati & Higgins, 2003). Initial public offering (IPO) enable firms to sell equity shares to public investors, and in the process ascertain its capital market standing via a successful IPO performance (Certo, Holcomb, & Holmes, 2009). The IPO event provides access to considerable financial resources that new ventures utilize to finance growth and reconcile current obligations (Brau & Fawcett, 2006). Hence, a favorable capital market reaction to the new venture business models will be significant to their eventual survival and success. In order to do so, the business model should reflect a unification of the multiple needs of the stakeholder groups, such as customers, suppliers, and shareholders. This may be possible by providing a differentiated product or service that raises revenue for the new venture and contributes to stakeholder welfare as well as raise shareholder profit. Furthermore, research suggests that CSR serves as a basis of differentiation

(McWilliams & Siegel, 2001) by drawing in revenue from consumers who support the CSR position (Du, Bhattacharya & Sen, 2011) and in turn amplifying its financial performance (Hull & Rothenburg, 2008). In other words, when new ventures align CSR activities with business functions they may capitalize on the "market for virtue" (Vogel, 2007) through which stakeholders and shareholders may reward firms for behaving responsibly toward others. Therefore, we propose,

Proposition 1: *New ventures that adopt a CSR aligned business model is likely to achieve IPO success.*

SOCIAL MEDIA AS A MECHANISM OF NEW VENTURE LEGITIMACY

Legitimation, which refers to 'the intentional engagement of social actors in specific practices that may lead to achieving [legitimacy]' (Drori & Honig, 2013, p.349), is a potential antidote to the liability of newness for entrepreneurial firms (Stinchcombe, 1965). Legitimacy is 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995, p. 574). Legitimacy is central to help stakeholders understand a new venture. Ventures become legitimate when its purpose for existence and its business model becomes comprehensible (Choi & Shepherd, 2005). Familiarity with its various elements and characteristics may make a new firm more legitimate to its stakeholders (Aldrich and Foil, 1994; Suchman, 1995). However, since knowledge about the activities of a new venture is not widespread (Wiklund, Baker, & Shepard, 2010), they are not likely to be seen as comprehensible by their multiple stakeholders (Rutherford & Buller, 2007). One way that a new venture can increase comprehension, is by spreading knowledge about itself (Aldrich & Fiol, 1994) that may help stakeholders understand the plausibility of the venture idea, its purpose, and its scope of operations (Suchman, 1995). Therefore, communication and engaging stakeholders can be valuable in building legitimacy.

For young entrepreneurial ventures, who suffer from lack of resources, asymmetric information and the liability of newness, social media presents opportunities to engage stakeholders on a broader scale. Through the exchange of information in social media networks such as Twitter and Facebook, new ventures can alter how investors develop judgements of product/service quality and how its operations are produced, disseminated and assessed in the public domain (Etter, Ravasi & Colleoni, 2019). The rise of social media presents vast opportunities for firms to increase public awareness (Kaplan & Haenlein, 2010, Mohr, 2013). Social media —new information and communication technologies that enable users to connect and publicly exchange experiences, opinions, and views on the Internet (Kaplan & Haenlein, 2010) —are changing how evaluations of the quality, competence, and/or character of organizations are produced, disseminated, and accessed in the public domain in a vertical, top-down, one-to-many diffusion pattern (Etter et al., 2019).

Social media has allowed firms to expand the range of participation on a wider scale of stakeholder management (Freeman & Moutchnik, 2013) and a novel opportunity to engage key stakeholders and the general public. For example, blogs and discussion forums allow users to create public awareness to organizational actions and to comment on them (Brodie, Ilic, Juric & Hollebeek, 2013), while virtual social networks allow users to exchange information, views, and experiences and to unite around topics through thousands of direct and indirect contacts (Arvidsson & Caliandro, 2015). In micro blogging sites such as Twitter, information about firms often comes in the form of "networked narratives" (Kozinets, De Valck, Wojnicki, & Wilner, 2010), which are threads of Tweets/posts, retweets, etc. where users comment on, add to, link, and/or "mash up" the content of existing narratives. For new ventures with CSR aligned business models, engaging key stakeholders such as current customers, suppliers, investors, and employees may result in more direct impact on organizational success through resource support. Social media may also provide an opportunity to engage the general population. The general population, comprised of thousands of current and potential customers, employees, or investors, may be encouraged or discouraged to buy from, work for, and invest in the organization by the evaluations they are exposed to on the social media platforms (Fombrun, 1996).

Legitimacy for new ventures may result from the engagement of public constituencies in an informed discussion of social values, issues and strategy (Lee, Oh, & Kim, 2013). By engaging with stakeholders in

social media, new ventures with CSR aligned business models can show their many constituents the salience of their projected impact on society and the environment while at the same time preserving long-term profitability (Dahlsrud, 2008) and building public support, image, and reputation. From the stakeholder's point of view, the dialogue enhances the firm's accountability, public voice in the firm's operations, and satisfaction (Kent & Taylor, 2002). The more the stakeholders recognize the quality and salience of its CSR alignment with business functions, the faster the diffusion of knowledge will be, likely increasing new venture legitimacy.

Consequently, research suggests that investors value transparency when firms articulate responsibility for societal interest (Hawn & Ioannou, 2016). CSR literature suggests that disclosing information can foster a positive image for external stakeholders and help improve stakeholder engagement and strengthen firm-stakeholder relationships (Lee & Sweeney, 2015) and enhanced support from external stakeholders increases investors' valuation of the firm (Henisz, Dorobantu, & Nartey, 2014). The circulation of firm-initiated messages in social media, which subsequently receives favorable stakeholder responses, influences analyst stock recommendations leading to better financial returns (Fischer & Reuber, 2014). Therefore, we propose,

Proposition 2: *Social media presence is likely to influence IPO success of new ventures with CSR aligned business models.*

DISCUSSION & CONCLUSION

In this study we built on stakeholder theory and business models to shed light on shared value creation and venture performance during initial public offerings. The basic intuition is that the new ventures with business models that align CSR elements with core business activities help create value for different stakeholder groups while enhancing the likelihood of receiving favorable investor reactions during IPO. There has been limited exploration of CSR with entrepreneurial ventures and we remedy this gap by developing theoretical arguments that justify pursuit of CSR perspectives in young entrepreneurial ventures. We add to the ongoing conversation about stakeholder theory in young entrepreneurial ventures. We extend business model literature by exploring shared value creation through CSR related business models that take a social issue as a starting point of business. Decades of research support the view that "virtuous" firms are often rewarded in the marketplace for being socially responsible (Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003). However, due to heterogeneity of CSR undertakings, there is a considerable range of activities that fall under the purview of CSR. CSR activities may vary in the type of stakeholder groups being served and the way the activity is organized. The challenge remains for organizations to draw out the efficacy of CSR in forms that justify and merge stakeholder and shareholder interests.

Social responsibility theorists posit that firms should sometimes engage in activities that benefit employees, suppliers, customers, and society at large, even if those activities reduce the present value of cash flows generated by the firm. Consequently, research in CSR literature has found that CSR initiatives are costly endeavors that distract managers' attention and exacerbate relationships between principles and agents (Margolis & Walsh, 2003). As such, mapping the relationship between effectiveness of CSR and firm financial value has mainly been drawn research on large established firms. However, investigating such relationship is problematic due to multiple reasons. First, large firms often find it difficult to measure the efficacy of CSR efforts when justifying a short-term investment as the firms' internal systems may pose challenges in measuring, tracking, and optimizing the firms' sustainability impact (Wang et al., 2016). Multi-national corporations find it challenging to adopt CSR that will create a balance between responsible practices and competitive initiatives to maintain a robust position in challenging business environments (Lund-Thomsen & Lindgreen 2013). Second, CSR encompasses multiple dimensions involving different stakeholder groups, thus, conflicts of interest among stakeholder groups competing for financial resources and managerial attention may arise (Akremi, Gond, Swaen, De Roeck, & Igalens, 2018) Finally, for large firms, CSR initiatives are considered as peripheral activities, as a way to realize value from its externalities (Porter & Kramer, 2011) and not at the forefront of what they do. Therefore, though some CSR ("do good")

involves proactive strategies to create social value, many forms of CSR ("do no harm") seek to limit the social costs of business, ironically highlighting the negative consequences of corporate activity that are rarely entirely eliminated (Crilly, Ni, & Jiang, 2016).

In this study we explain that new ventures with CSR aligned business models have the ability to resolve the limitations that large established firms face with respect to creating shared value. We contend that adopting a shared value objective would grant long-term advantages, such as a basis of differentiation (McWilliams & Siegel, 2001), leading to support from stakeholders and shareholders alike. Furthermore, we developed arguments that explained social media as a mechanism to build firm legitimacy and maximize stakeholders' awareness of a firm's CSR objective.

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