

Revisiting the link between corporate social responsibility and financial performance: the role of conformity versus differentiation

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1 INTRODUCTION

There has been a long academic debate about whether corporate social responsibility (CSR) and corporate financial performance (CFP) have a positive link (Zhao & Murrell, 2016). The inquiry embedded in this research tradition asks if firms with successful engagement in social and environmental issues are also capable of achieve financial success due to their CSR practices (Rodrigo et al., 2016).

Nevertheless, the relationship between CSR and CFP is still controversial due to divergent results obtained by different empirical models (Schnippering, 2020). Addressing this problem, McWilliams and Siegel (2000) suggested that these ambiguous results may be a reflection of misspecified research models that lack significant variables to explain the CSR-CFP relationship.

In this sense, many researchers have aimed to introduce new constructs to better explain the relationship that may exist between CSR and CFP. O'Higgins and Thevissen (2017), for example, added to the debate the existence of contingencies like industry context and adverse market environment to explain the CSR-CFP link. In a similar fashion, Cavaco and Crifo (2009) argued that there may be an optimal set of CSR practices that would lead to superior CFP. Schnippering (2020) defends that firms with higher investments in R&D are more likely to develop a positive relationship between CSR and CFP.

Despite the lack of strong evidence to support a positive link between CSR and CFP, the adoption of CSR practices has grown into a widely accepted concept in the past decades (Brower & Dacin, 2020). Such phenomenon has led to an emergence of a largely voluntary CSR infrastructure, encouraged, in some extent, by the increasing presence of CSR ratings agencies (Avetisyan & Ferrary, 2013). This evolution was progressed by a set of institutions driving new practices representing shifts in the way firms must act in order to sustain their legitimacy, or the perceived well-suitedness of an organization in a social system in terms of rules, values, norms, and definitions (Deephouse et al., 2017).

However, Zhao et al. (2017) explain that pressures over a company's behavior can be competing. They argue that firms are simultaneously pressured to be "like" and "different from" their peers. In this sense, Zhang et al. (2020) argue that there is a limited understanding about variation across firms in their demands for conformity versus differentiation, and also in their effectiveness of conformity versus differentiation efforts and how it influences their responses to market, such as the adoption of CSR practices.

Considering this context, we aim to shed some light in the CSR-CFP relationship debate, by addressing how the level of CSR conformity or differentiation of a company may affect its financial performance in the Brazilian context.

In order to do that, we have assembled a sample of 110 Brazilian companies that span from 2011 to 2019 and totalize 774 firm-year observations. We used twelve different CSR practices assembled in four dimensions: community, employees, environment, and governance. And we investigated the effect of differentiation in these four dimensions over financial performance.

Our work contributes to the literature regarding CSR-CFP link, in several ways. First, we adopted a novel approach by using the conformity versus differentiation dilemma. Secondly, the use of specific dimensions of CSR practices answer calls to treat CSR construct more broadly, instead of a single variable (Fransen, 2013). One can argue that the lack of consensus

in the CSR-CFP link may be due to the use of single variables to represent a more complex construct (Salvi et al., 2018).

Our study is divided in five parts. The first part is this introduction, in which we presented a contextualization of our research and our goal. Then, in the second part we elaborated our hypotheses. In the third part we describe our methodological steps. In the fourth part we employed these steps and analyzed the results. Lastly, we draw the main conclusions of our research, as well as stated our main limitations and a research agenda.

2 THEORETICAL BACKGROUND

The concern with CSR has existed for decades. Berle (1930), in an essay entitled *Corporate Powers as Powers in Trust*, expresses his concern with the growth of corporate power, and the consequent need for society to adapt to this hitherto recent phenomenon. The book *Social Responsibilities of the Businessman*, published by Bowen in 1953 is considered as the starting point for the modern theory about CSR (Crane et al., 2008). In this work, the author seeks to answer questions such as what responsibilities must companies have so that they can contribute positively to society, or what measures could be taken to encourage companies to attach greater importance to the consequences of their decisions (Beal , 2013).

These concerns caused the relationship between company and society to be reexamined during the 1960s and 1970s, giving rise to new theories related to the responsibility of companies to society (Roberts, 1992). Steiner (1972) and Davis (1973), for example, argue that, despite the fact that the company is a fundamentally economic entity, as these institutions grow, they begin to exert an ever greater influence over society, thus taking on the responsibility to make use of part of its resources in order to allow social goals to be achieved.

During the 1990s, the concept of CSR became almost universally accepted, being promoted by constituent bodies of society from governments to companies, through non-governmental entities and even consumers. Many international organizations such as the United Nations (UN), the World Bank and the International Labor Organization (ILO) have come to endorse CSR practices. In 1977, less than half of the Fortune 500 companies mentioned CSR in their annual reports, a figure that rose to almost 90% in the late 1990s, not only mentioning it in their reports, but recognizing such practices as an essential element for organizational objectives (Lee, 2008). More recently A KPMG report published in 2018 states that around 75% of the N100 group published social and environmental reports in 2017, as against only 12% in 1993. The N100 group represents the 100 largest companies by revenue from 49 countries. In the same report it is also stated that 93% of the 250 largest companies also issued a sustainability report, while only 35% did so in 1999.

Du et al. (2010) comment that companies have, increasingly, dedicated resources to various social initiatives, from raising awareness of the community in which they operate, through environmental protection, and socially responsible business practices. To illustrate, the authors cite two cases: that of the company Target, which in 2007 dedicated 5% of its profit, about 150 million dollars, only to programs to encourage education and art, and to promote the safety of the community; similarly, General Electric, as part of the *Healthymagination Program*, invested billions of dollars in 2009 to improve healthcare technologies, with the aim of reducing medical errors and improving patients' quality of life.

This development in CSR adoption by companies globally has led to an interest in the literature to build a business case for embracing socially responsible behavior. In this sense, Donaldson and Preston (1995) suggest that, under an instrumental view of stakeholder theory CSR practices can add to the bottom line of a firm, thanks to a positive influence on the relationships with stakeholders.

Barnett (2007) argues that the main idea is behind this is that when stakeholders observe a firm's responsible behavior, they will consider it a better party to have operate and make transactions with. Misani (2010) explains that this "stakeholder goodwill" may allow to a firm easier access to strategic resources, lower transaction costs and better reputation among its peers. He continues and defends that this idea implies that responsible firms should compete for this stakeholder goodwill and try to differentiate themselves from competitors, as is usually the case when firms want to achieve a competitive advantage.

However, many scholars observe that firms that engage in CSR practices, do not actively differentiate their behaviors from the ones adopted by its peers. Instead, these firms seem to converge to a set of practices. These organizations establish or join voluntary in associations that can certify and endorse their business practices and subscribe to initiatives such Global Reporting Initiatives for disclosure practices (Fifka et al., 2018), and ISO 14001 for environmental management practices (Bocean et al., 2014).

Regarding this dichotomy of convergence to a set of practices together, due to legitimacy issues, confronted with the need to differentiate, in order to achieve competitive advantage, Lee (2020) highlight that this can take two perspectives. In an institutional perspective, firms engage in CSR activities to meet stakeholders' expectations and conform to socially constructed values and norms. This way, these firms may find it necessary to adopt and retain institutionalized CSR structures, procedures, or personnel to signal normativity, credibility, and legitimacy.

On the other hand, from a strategic perspective, what is important is to adopt unique social practices, with the aim of ultimately achieving positive financial outcomes for the firm. Following this perspective, instead of conforming to institutional pressure and becoming like their peers, firms benefit most by differentiating themselves from them through different social activities based on unique firm strategies and operations. This would allow the company to more effectively address the needs of its customers and other stakeholders (Lee, 2020).

Deepening this debate Brower and Dacin (2020) defend that a differentiation strategy of building and defending a competitive advantage only makes sense if imitation, diffusion, and adoption are low, or for a gradual, difficult, or uncertain process, as any resultant performance benefits will persist only as long as competitors lack the ability or motivation to imitate it.

This is also observed by Makadok (1999) who argues that while the benefits of differentiation may be important in the early phases of the formation of the organizational field, diffusion, adoption, and increased isomorphism tend to level the playing field and, as this occurs, the positive impacts of firm differentiation strategies on its performance declines. As Lacey et al. (2015) observes, hence diffusion and adoption increase with more firms engaging in CSR practices, it gradually becomes more difficult for firms to stand out for acts of ethical business principles and the value of doing it will also become gradually lower.

Considering the Brazilian context, Zou et al. (2020) observe that, even though it seems that its investors are aware of socially responsible issues, the country is in its early stages of CSR development. In the same vein, Carvalho et al. (2010), based on a survey of 400 Brazilian customers, note that CSR initiatives are better perceived if they are associated with price fairness and personal satisfaction. This implies that CSR activities of companies operating in such context, must comply with those aspects in order to be successful.

Therefore, based on the theoretical discussion of conformity versus differentiation of CSR practices, and considering the early stage of development of such practices in the Brazilian context, we argue that Brazilian companies that differentiate their CSR activities in a positive way, may bear positive financial effects.

3 METHOD

3.1 Data

We assembled a sample of 110 Brazilian companies listed in B3 was constituted, totaling 774 observations, related to the period 2011-2019. As a way of representing CSR practices, we used data provided by CSRHub. Kreft (2019) comments that CSRHub is the largest global company for analyzing and evaluating CSR practices. The scores generated by the company cover several constructs, such as the environment, community, corporate governance, and employee relations. Such scores are generated from the compilation of information in databases such as Carbon Corporate Library, Carbon Disclosure Project, EIRIS, Impact Monitor, IW Financial, Risk Metrics IVA, Thompson Reuters, Trucost and Vigeo.

Each of the four constructs of CSRHub are composed by three subcategories. The *Community* dimension covers the company's commitment and effectiveness within the local, national and global community in which it does business. It is composed by Community Development & Philanthropy (CDP), Human Rights and Supply Chain (HRSC), and Product (PR) scores.

The *Employee* dimension includes disclosure of policies, programs, and performance in diversity, labor relations and labor rights, compensation, benefits, and employee training, health and safety. It is composed by Compensation and Benefits (CB), Diversity and Labor Rights (DLR), and Training, Safety and Health (TSH) scores.

The *Environment* dimension covers a company's interactions with the environment at large, including use of natural resources, and a company's impact on the Earth's ecosystems. It is composed by Energy and Climate Change (ECC), Environmental Policy and Reporting (EPR), and Resource Management (RMA) scores.

The *Governance* dimension covers disclosure of policies and procedures, board independence and diversity, executive compensation, attention to stakeholder concerns, and evaluation of a company's culture of ethical leadership and compliance. It is composed by Board (BD), Leadership Ethics (LE), and Transparency and Reporting (TR) scores.

Besides data from CSRHub, we also used financial data collected using the R package GetDFPData (Perlin et al., 2019), in order to compute our financial performance indicator and other control variables. The construction of all research variables is described in the next section.

3.2 Variables

Given the use of regression models in this research, the data collected was used to compute dependent, independent and control variables. First, our dependent variable, is *Return on Assets* (ROA), which is computed as the ratio between Earnings Before Interest and Taxes and Total Assets. Our independent variables aim to represent differentiation in the adoption of practices in the four CSR dimensions. In order to do that, we used the Mahalanobis distance. The idea behind is to compute distances based on each score that compose each CSR dimension, generating a distance score for each company. Maesschalck et al. (2000) clarifies that, in order to compute distances, Euclidean distance and Mahalanobis distance are the most commonly used method. However, Kostova et al. (2020) explains that Mahalanobis distance takes into account interdependence among the variables.

Following Maesschalck et al. (2000), the Mahalanobis distance for an observation $\mathbf{x} = (x_1, x_2, \dots, x_n)^T$, that is draw from a set of observations with a vector of means $\boldsymbol{\mu} = (\mu_1, \mu_2, \dots, \mu_n)^T$, and covariance matrix \mathbf{C}_x , it is defined by

$$MD(\mathbf{x}) = \sqrt{(\mathbf{x} - \boldsymbol{\mu})\mathbf{C}_x^{-1}(\mathbf{x} - \boldsymbol{\mu})^T}$$

which we used to compute distance values among all observations considering the three scores for each CSR dimension separately. Therefore, we have distance values for Community, Employee, Environment, and Governance dimensions. In order to compute a differentiation score for each observation, we calculated the average of the distances for each company in each year.

We recognize that evaluating only the distances as a measure of differentiation it is not enough to capture the phenomenon we desire. Because of that, we included a set of dummy variables that indicate when a company is above the industry median in each CSR dimension. This way, we can imply that a company with greater differentiation score that is above the median, differentiates in a positive way. On the other way around a company with a greater differentiation score that is below the median, can be seen as a negative differentiation.

We also included several control variables in our research. First, we included the leverage, as Kartikasari and Merianti (2016) highlight that a high debt ratio leads to higher levels of uncertainty of gaining returns. The size of a company is another aspect that may affect its profitability, since large companies are capable of benefiting from economies of scale (Dahmash, 2015). Two profitability measures, EBIT margin and sales growth were also included to explain financial performance. We present the description of all dependent, independent, and control variables in Table 1.

Table 1
Research variables

Type	Construct	Variable	Code
Dependent	Financial Performance	Return on Assets	ROA
Independent	Differentiation in <i>Community</i> practices	Average Mahalanobis distances for the <i>Community</i> dimension scores	ADCom
	Differentiation in <i>Employee</i> practices	Average Mahalanobis distances for the <i>Employee</i> dimension scores	ADEmp
	Differentiation in <i>Environment</i> practices	Average Mahalanobis distances for the <i>Environment</i> dimension scores	ADEnv
	Differentiation in <i>Governance</i> practices	Average Mahalanobis distances for the <i>Governance</i> dimension scores	ADGov
	Positive versus negative differentiation in <i>Community</i> practices	Dummy variable that identifies companies that are above the industry median in <i>Community</i> practices (1) or below it (0)	AbvComMedian
	Positive versus negative differentiation in <i>Employee</i> practices	Dummy variable that identifies companies that are above the industry median in <i>Employee</i> practices (1) or below it (0)	AbvEmpMedian
	Positive versus negative differentiation in <i>Environment</i> practices	Dummy variable that identifies companies that are above the industry median in <i>Environment</i> practices (1) or below it (0)	AbvEnvMedian
	Positive versus negative differentiation in <i>Governance</i> practices	Dummy variable that identifies companies that are above the industry median in <i>Governance</i> practices (1) or below it (0)	AbvGovMedian
Control	Leverage	Total liabilities to Total assets ratio	Leverage
	Size	Ln(Total Assets)	Size
	Ebit Margin	EBIT to Sales Revenue	EbitMargin
	Sales Growth	Yearly percentual variation of revenue	SalesGrowth

3.3 Statistical analysis

We used the variables in Table 1 in a series of statistical analyzes. Initially, we used descriptive statistics to understand the behavior of dependent and independent variables, as well as the four CSR dimensions in our research. Since all variables in this analysis are quantitative, we employed summary measures like mean, standard deviation, and quantiles.

Then, in the second step of our analysis, we employed a set of Pearson correlations, to ascertain preliminarily, how each CSR dimension and how each independent variable (i.e. differentiation measures) would relate to corporate financial performance. We also computed Pearson correlations segregating the sample in companies above the industry median and below it, in order to check the validity of our strategy to separate the differentiation measures in a positive group (above the industry median) and a negative group (below the industry median).

Finally, in the third step of our analysis, we employed a set of regression models to understand how differentiation strategies in the four CSR dimension would affect financial performance of the firms in our sample.

$$ROA_{i,t} = \beta_0 + \beta_1 ADCom_{i,t} + \beta_2 AbvComMedian + \beta_3 (ADCom_{i,t} \times AbvComMedian) + \beta_4 Leverage_{i,t} + \beta_5 Size_{i,t} + \beta_6 EbitMargin_{i,t} + \beta_7 SalesGrowth_{i,t} + \beta_{8:16} Year_t + \varepsilon_{i,t} \quad (A)$$

$$ROA_{i,t} = \beta_0 + \beta_1 ADEmp_{i,t} + \beta_2 AbvEmpMedian + \beta_3 (ADEmp_{i,t} \times AbvEmpMedian) + \beta_4 Leverage_{i,t} + \beta_5 Size_{i,t} + \beta_6 EbitMargin_{i,t} + \beta_7 SalesGrowth_{i,t} + \beta_{8:16} Year_t + \varepsilon_{i,t} \quad (B)$$

$$ROA_{i,t} = \beta_0 + \beta_1 ADEnv_{i,t} + \beta_2 AbvEnvMedian + \beta_3 (ADEnv_{i,t} \times AbvEnvMedian) + \beta_4 Leverage_{i,t} + \beta_5 Size_{i,t} + \beta_6 EbitMargin_{i,t} + \beta_7 SalesGrowth_{i,t} + \beta_{8:16} Year_t + \varepsilon_{i,t} \quad (C)$$

$$ROA_{i,t} = \beta_0 + \beta_1 ADGov_{i,t} + \beta_2 AbvGovMedian + \beta_3 (ADGov_{i,t} \times AbvGovMedian) + \beta_4 Leverage_{i,t} + \beta_5 Size_{i,t} + \beta_6 EbitMargin_{i,t} + \beta_7 SalesGrowth_{i,t} + \beta_{8:16} Year_t + \varepsilon_{i,t} \quad (D)$$

We chose to estimate four different models, one for each CSR dimension, so we would be able to assess the effect of differentiation in the dimensions independently. All models are composed by the differentiation variable (ADCom, ADEmp, ADEnv, and ADGov), as well as an interaction variable between differentiation and the grouping variable (e.g. ADCom \times AbvComMedian). We included this interaction variable in order to isolate the effect of positive differentiation on financial performance. We highlight that for all models, we used an OLS approach with fixed effect for the years ($\beta_{8:16} Year_t$). We did not include fixed effects for industries since this information is already considered in our independent variables (AbvComMedian, AbvEmpMedian, AbvEnvMedian, and AbvGovMedian). This way, we avoid multicollinearity problems.

4 RESULTS AND DISCUSSION

We first present our sample by year and industry (Table 2). There is an increase in the number of companies that compose the sample. It ranged from 56 companies in 2011 to 96 in 2019. We highlight that this reflects the increase in the number of companies monitored by CSRHub, and is not exclusive to Brazilian companies, given that the same behavior can be observed in all countries covered by CSRHub. Among the industries, six of them presented a percentage over 10% of participation in the sample: Consumer Discretionary (14.9%), Consumption Staples (10.1%), Financials (12.5%), Materials (13.7%), Utilities (17.3%), and Industrials (11,2%).

Table 2
Sample description by industry and year

Industry	Year									Total
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Energy	2	3	4	3	3	4	4	4	4	31
Materials	12	12	12	12	12	12	12	11	11	106
Industrials	4	9	11	11	10	10	10	11	11	87
Consumer Discretionary	5	12	13	13	14	15	14	14	15	115
Consumer Staples	7	8	8	9	9	8	9	10	10	78
Health Care	3	4	4	4	4	4	5	5	6	39
Financials	8	10	10	12	12	13	10	11	11	97
Information Technology	3	3	3	3	3	2	2	2	2	23

Communication Services	2	4	5	5	5	5	5	5	4	40
Utilities	10	13	13	15	16	16	16	17	18	134
Real Estate	0	2	3	3	3	3	3	3	4	24
Total	56	80	86	90	91	92	90	93	96	774

We then present the descriptive statistics of the dependent, ROA, independent variables, ADCom, ADEmp, ADEnv, and ADGov, and the scores for each of the four CSR dimensions used. Results are shown in Table 3. Analyzing the summary measures, it is clear that among the four CSR dimensions, the practices of Governance have lowest average, median and standard deviation, while practices concerning Employees presented the greatest mean, median and standard deviation. Regarding the average distances, all four dimensions presented similar means (ranging from 2.19 to 2.22), similar medians (ranging from 2.05 to 2.11), and standard deviation (ranging from 0.49 to 0.56). This indicates a similar level of differentiation among all four dimensions of CSR being analyzed.

Table 3
Descriptive statistics

	ROA	Community	Employees	Environment	Governance	ADCom	ADEmp	ADEnv	ADGov
Mean	0.08	55.01	57.24	56.68	48.16	2.19	2.21	2.22	2.20
Standard Deviation	0.13	7.07	8.70	7.84	5.68	0.56	0.52	0.49	0.54
Q1	0.04	50.33	51.33	51.00	44.33	1.80	1.83	1.87	1.82
Q2	0.07	55.00	58.00	57.00	48.00	2.05	2.06	2.11	2.08
Q3	0.11	60.00	63.67	62.33	52.00	2.42	2.45	2.46	2.42

In order to better understand the relationship among our dependent and independent variables, as well as the four CSR dimensions we used a set of Pearson's correlation analysis. In Table 4 we show a correlation matrix for all variables and the CSR dimensions, while in Table 5, we explored the correlation of CSR dimensions and the average distances for each, with the financial performance.

Results in Table 4 show that, aside from the existence of significant correlations among most of the variables, there is not a great deal of high correlation, with the exception of correlations among the four CSR dimensions (Community, Employees, Environment, and Governance), and among the average distances (ADCom, ADEmp, ADEnv, and ADGov).

Table 4
Correlation matrix for dependent variable, independent variables, and the four CSR dimensions

	ROA	Comm.	Empl.	Envir.	Govern.	ADCom	ADEmp	ADEnv
Community	0.12***							
Employees	0.08**	0.69***						
Environment	0.04	0.46***	0.39***					
Governance	0.08**	0.59***	0.50***	0.49***				
ADCom	-0.05	-0.19***	-0.20***	-0.08**	-0.16***			
ADEmp	-0.04	-0.18***	-0.24***	-0.11***	-0.17***	0.43***		
ADEnv	-0.03	-0.04	-0.11***	-0.08**	-0.08***	0.30***	0.19***	
ADGov	-0.06*	-0.07*	-0.12***	-0.07*	0.04**	0.30***	0.24***	0.39***

Note: * – p-value < 0,10; ** – p-value < 0,05; *** – p-value < 0,01.

Concerning the financial performance, only Community (p-value < 0.01), Employees (p-value < 0.05), Governance (p-value < 0.05), and ADGov (p-value < 0.10) showed significant correlations with it. It is noteworthy that, while CSR dimensions showed positive correlations with ROA, our proxies for differentiation, aside from the lack of statistical significance, showed negative correlation coefficients. This may be due to fact that based on average distances, as

we do, it is not possible to differentiate companies which distance themselves by doing more, from the companies that distance themselves by doing less. Therefore, we split our sample in those above and below the median in each dimension and run the correlations with the financial performance again. We show the results in Table 5.

Table 5
Correlation matrix for dependent variable with independent variables and the four CSR dimensions

	ROA (Companies above respective median)	ROA (Companies below respective median)
Community	0.12**	0.11**
Employees	0.06	0.08**
Environment	0.02	0.05
Governance	0.14***	0.04
ADCom	0.05	-0.12**
ADEmp	0.16**	-0.06
ADEnv	-0.06	0.02
ADGov	0.01	-0.12**

Note: * – p-value < 0,10; ** – p-value < 0,05; *** – p-value < 0,01.

Regarding the four CSR dimensions, we can see that correlation with financial performance, even though not significant in all cases, it is positive, regardless of the group of analysis. Only Community dimension showed a significant positive correlation for companies above (p-value < 0.05) and below (p-value < 0.05) its median. Employee dimension showed a significant correlation for companies below the median (p-value < 0.05), while Governance dimension showed a significant correlation for companies above the median (p-value < 0.05).

Concerning our proxies for differentiation, we can see there is a shift in the relation between the two groups. While there is still a lack of significance in the correlations with financial performance, we can highlight that for the companies above the median in the Employee dimensions, there is a positive and significant correlation of differentiation in these practices with the financial performance (p-value < 0.05). For companies below the median in Community and Governance dimensions, there is a negative and significant correlation of differentiation in these practices with financial performance (p-value < 0.05).

The last step of our analysis was to access how differentiation in each of the four CSR dimensions would affect financial performance. Therefore, we employed four regression models, one for each dimension, in order to address this. We show the results in Table 6.

Table 6
Results of the regression models

	Model A		Model B		Model C		Model D	
	β	t-value	β	t-value	β	t-value	β	t-value
Intercept	0.30	6.94***	0.29	7.34***	0.23	4.61***	0.34	8.35***
ADCom	-0.03	-2.49**						
AbvComMedian (Yes)	-0.06	-1.86*						
ADCom × AbvComMedian (Yes)	0.03	2.31**						
ADEmp			-0.02	-2.10**				
AbvEmpMedian (Yes)			-0.06	-1.39				
ADEmp × AbvEmpMedian (Yes)			0.03	1.43				
ADEnv					0.00	0.29		
AbvEnvMedian (Yes)					0.05	1.25		
ADEnv × AbvEnvMedian (Yes)					-0.02	-1.02		
ADGov							-0.04	-3.84***
AbvGovMedian (Yes)							-0.09	-2.68***
ADGov × AbvGovMedian (Yes)							0.04	2.71***
Leverage	-0.14	-13.23***	-0.14	-13.26***	-0.15	-13.30***	-0.15	-13.50***
Size	-0.01	-1.81*	-0.01	-1.77*	-0.01	-1.85*	-0.01	-1.92*

EbitMargin	0.00	5.71***	0.00	5.96***	0.00	5.80***	0.00	6.10***
SalesGrowth	0.02	4.65***	0.02	4.57***	0.02	4.56***	0.02	4.55***
Year Fixed Effects	Yes		Yes		Yes		Yes	
F Test	20.45***		20.08***		19.94***		21.02***	
R ²	0.29		0.28		0.28		0.29	
Adj-R ²	0.27		0.27		0.27		0.28	
N	774		774		774		774	
AIC	-1,168.79		-1,163.82		-1,162.30		-1,174.02	
Maximum VIF	4.35		4.68		4.45		4.26	

Note: * – p-value < 0,10; ** – p-value < 0,05; *** – p-value < 0,01.

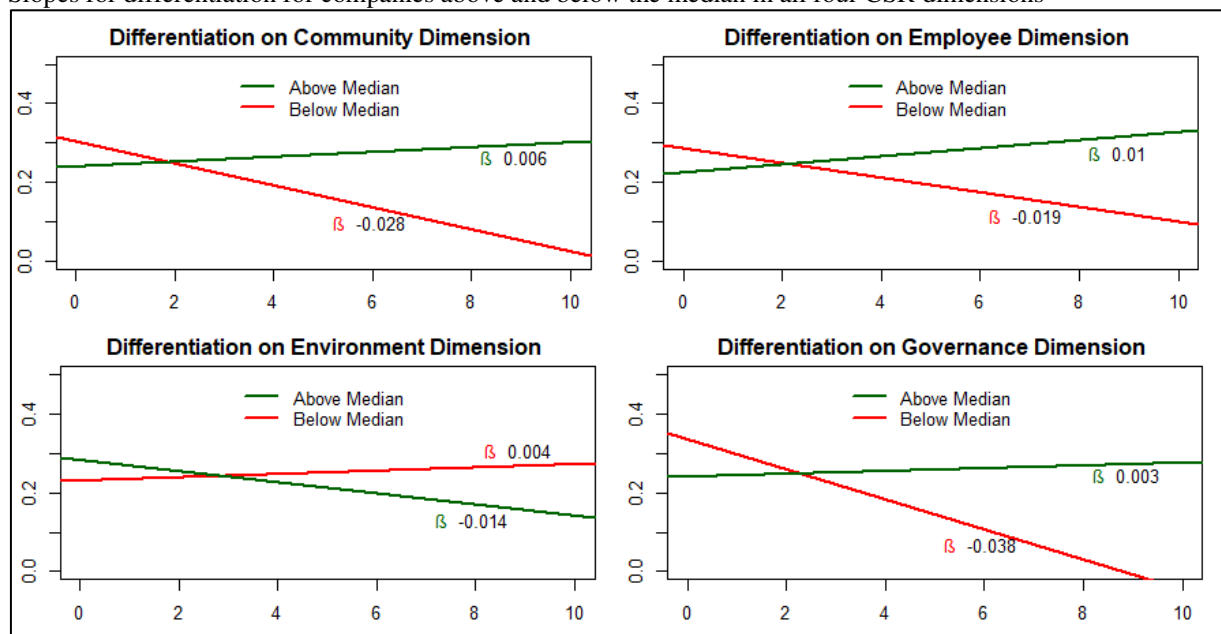
In Model A, we accessed the influence of differentiation in Community dimension (ADCom) over financial performance. While ADCom showed a negative significant influence (p-value < 0.05), the interaction between ADCom with the grouping variable that indicates companies above Community median (AbvComMedian), presented a positive and significant influence (p-value < 0.05). In Models B and C, we accessed the influence of differentiation on Employee (ADEmp) and Environment (ADEnv) dimensions, respectively. While ADEmp showed a negative significant influence (p-value < 0.05), none of the interaction variables in Models B and C (ADEmp × AbvEmpMedian and ADEnv × AbvEnvMedian) showed statistical significance.

In Model D, in which in accessed the influence of differentiation in Governance dimension (ADGov) on financial performance. Similar to Model A, ADGov showed a negative and significant influence on ROA (p-value < 0.01), but the interaction between ADGov and the grouping variable AbvGovMedian showed a positive influence and significant influence on ROA (p-value < 0.01). We highlight that all four models were statistically significant (F-test p-value < 0.01), explained close to 30% of ROA total variance and had no multicollinearity problems (all VIFs < 5).

In order to better understand the results in Table 6, we draw a slope comparison of companies above and below the median in each CSR dimension, regarding the level of differentiation they showed (Figure 1).

Figure 1

Slopes for differentiation for companies above and below the median in all four CSR dimensions



We can see from Figure 6 that the effect of differentiation for companies above the median is usually lower than for companies below the median. This implies that the positive effect of differentiating more than its peers has a low positive impact on financial performance (or no impact at all). While companies that differentiate more by doing less than their peers, are more penalized in their financial performance. It is also noteworthy that the effect of differentiation on Environment dimension, even though not statistically significant, has opposite directions when compared to the other three dimensions. Based in these results, we argue that there is evidence that companies in the Brazilian context have better financial performance if they choose a conformity strategy approach towards CSR practices, rather than aiming to differentiating from their peers, even if it is by doing more (in this case the effect on financial performance seems to be marginal), or by doing less (in this case the penalties on financial performance seem to be more sensible).

We expected that, due to the early stage of development of CSR in the Brazilian context (Tashman et al. 2019; Zou et al., 2020), a strategy based on a positive differentiation in socially responsible practices could lead to better financial performance, as a result of competitive advantage. Our results show that a positive differentiation (i.e. companies above the industry median with greater distances from their peers), even though positively significant over financial performance in some CSR dimensions (Community and Governance), the effect seems to be rather low (Figure 1). On the other hand, a negative differentiation (i.e. companies below the industry median with greater distances from their peers), seems to have a greater negative impact on financial performance. This way, as stated before, our results indicate that a CSR strategy based on conformity instead of differentiation may be more beneficial in terms of financial performance to Brazilian companies. Based on this results we rejected our research hypothesis.

One possible explanation to that result resides in the fact that, even though CSR in the Brazilian context is be in its early stages of development, stakeholders may not value such practices if they affect the price or the quality of the product or service (Carvalho et al. 2010). This can explain why the differentiation in Community dimension presented a positive significant influence on financial performance. That is because one of its scores involves practices related to products.

Our results also find support on studies like Aquino et al. (2017) and Silveira and Oliveira (2013) who investigated the relationship between a company's innovation and its financial performance. Both studies reported a non-significant relationship between those constructs. One can argue that CSR differentiation is achievable through innovation. And if innovation has no significant effect on financial performance of Brazilian companies, we can imply that CSR differentiation may not affect it significantly as well.

5 CONCLUSION

We sought to identify the effect of CSR differentiation on financial performance of Brazilian companies. This way, the focus of our study was to test which CSR strategy is more beneficial, financially, to such companies: conformity versus differentiation. We also seek to differ from previous studies by investigating the differentiation in four CSR dimensions independently (Community, Employee, Environment, and Governance).

We expected that, since Brazilian CSR development seems to be in its early stages, this scenario would be more favorable to a differentiation approach. As Brown and Dancin (2020) clarifies, differentiation strategies give better return when it is hard for other competitors to imitate a company's practices.

Our results show that a positive differentiation has a low impact on financial performance, while the negative effect of a negative differentiation seems to be more

pronounced. In this sense, our study goes along with the idea that a CSR strategy based on conformity is a better way to achieve higher financial performance.

As managerial implications, our results seem to indicate that, if a company wishes to differentiate themselves regarding their CSR practices, they must focus on Community and Governance dimensions, specially those practices related to price and product quality. On a theoretical perspective, first, we add to the CSR-CFP debate by including the CSR differentiation. Secondly, we answered calls for the use of more specific CSR dimensions (Fransen, 2013).

As limitations of our research, we first highlight that the metrics for our CSR dimensions are based on scores calculated by a third party (CSRHub). So, the sample is limited to companies with data available for analysis (i.e. the companies followed by CSRHub). Aside from that, it should be noted that there is an increase in the companies that make up the sample over the period under analysis, which may have an impact on the results.

For future research, we suggest the use of other CSR datasets, like Thomson Reuters Asset4 ESG data, or Kinder, Lydenberg, and Domini (KLD) dataset. Since those datasets assess CSR in different approaches, it may be possible to draw different conclusions from their use. Another possibility is to try different ways of evaluating companies differentiation in CSR practices (i.e. cluster analysis, other distance measures like Manhattan or Gower).

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