Article

Performance Outcomes of Investing Slack Resources in Corporate Social Responsibility

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Abstract

Our study examined relationships among slack resources, investment in corporate social responsibility (CSR) and firm performance, finding that accounting and market returns respond differently to investments of slack in CSR. Although accounting returns to both financial and organizational CSR investment were positive, equity markets reward organizational slack but punish financial slack investments. Moreover, distinguishing among forms of CSR indicates that both accounting and market returns respond much more positively to investment in stakeholder protection than to investment in stakeholder improvement. Finally, risk, strategy, and governance are mediating mechanisms partially explaining CSR effects but not to the extent we expected.

Keywords

corporate social responsibility, slack resources, organization performance, stakeholder theory

Accumulation of slack resources and investment in corporate social responsibility (CSR) are both controversial business practices. Although some scholars have argued that both slack resources (Jensen, 1986) and CSR (Surroca & Tribo, 2008) destroy value, others have argued that they can be crucial sources of value creation (Bourgeois, 1981; Post, Preston, & Sachs, 2002). Compounding the confusion and controversy is that slack and CSR may be complementary practices (Seifert, Morris, & Bartkus, 2004). Although the empirical record may lean toward the potential for CSR investments to yield a pecuniary return (Orlitzky, Schmidt, & Rynes, 2003), their observed correlation commands a search for explanatory mechanisms (Margolis & Walsh, 2003) and boundary conditions (Mattingly, 2017), as an underlying explanation is elusive.

A way forward might be located in a parallel line of inquiry. A growing body of literature has discovered that antitakeover protection (ATP), which shields a management team from turnover when performance is below expectation, may sometimes preserve firm value instead of destroy it (Duru, Wang, & Zhao, 2013). Especially, when stakeholders prefer short-term, liquidating returns from investments instead of a more sustainable, longer term flow of benefits, ATP can delay managerial turnover long enough for longer term strategic investments to show results. This approach can reduce managerial myopia, increasing the likelihood that firms will make longer term investments in value-creating capacity. Moreover, ATP has been linked directly to investments in CSR (Kacperczyk, 2009). Specifically, although ATP generally erodes firm performance, it improved performance for firms that invested in CSR.

Although we concede the practice of accumulating slack resources might lead to a dysfunctional form of managerial discretion, in which funds may be allocated to value-depleting uses, we wonder if the contemporary reality of slack accumulation may be similar to that of ATP. Thus, our empirical study examines performance outcomes of firms that accumulate slack and invest in CSR, establishing relationships among slack resources, CSR, and firm performance. Specifically, we seek to answer two questions: (1) does CSR improve the likelihood that firms holding slack resources use them to enhance instead of deplete value? and if so (2) what mechanisms account for these effects? In the following sections, we examine scholarly literature to inform development of our regression model. Next, we outline the methods by which we collected data and tested our model. Finally, we present the results of our tests and consider their implications for theory development and further inquiry.

Development of Theoretical Model

In the following paragraphs, we survey the literature examining relationships among slack resources, CSR, and firm performance, as well as mechanisms that explain variation

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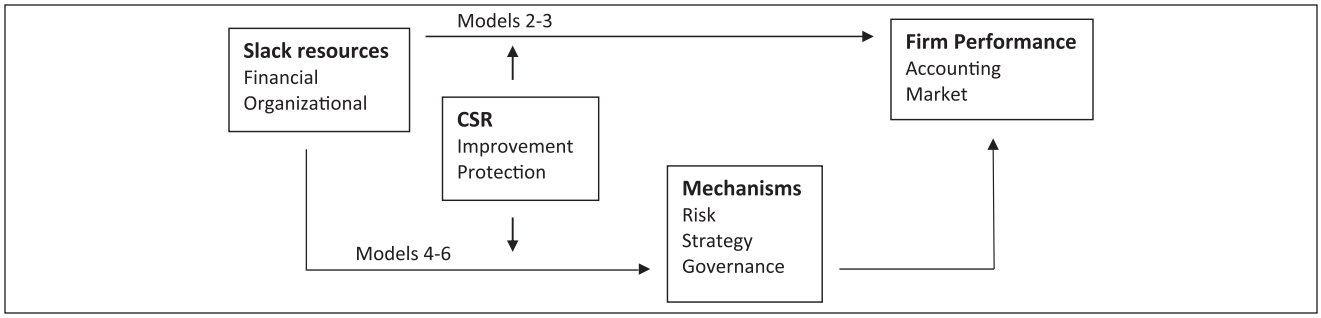

Figure 1. Illustration of linear models.

among them. We first examine the relationship between slack resources and firm performance and then consider how investment in CSR may alter that relationship. Finally, we consider mechanisms that may account for proposed effects. Figure 1 illustrates the configuration of our model, consistent with foregoing explanations.

Slack Resources and Firm Performance

Slack resources should not exist, according to economic theory. According to the classical narrative, there should be no legitimate reason for a firm to hold resources beyond the minimum required to fund currently approved projects (Cyert & March, 1963). To do so would constitute an inefficient use of funds, diluting shareholder returns, and may even promote fraud (Jensen, 1986). Yet organizations can and do accumulate such excess resources, perhaps increasingly, and doing so may have legitimate, value-enhancing functions.

> [Slack resources are a] cushion of actual or potential resources which allows an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment. (Bourgeois, 1981, p. 30)

Bourgeois imagined a firm as a bicycle, suggesting that the novice attempting to operate a bicycle without slack in the chain would soon discover his error, as the chain would break the moment it came under strain. He supposed that slack resources may function in numerous constructive ways to buffer an organization from environmental uncertainty. Among the functions he acknowledged for slack resources, rooted in his definition, were the following: as inducements for conflict resolution among organizational stakeholders, as buffer against uncertainty resulting from significant environmental shifts, and as means to experiment with new strategic positions and organization forms. Thus, these can be viewed as potential sources of friction, which classical economic theory does not anticipate but which organization participants may ignore to their peril.

Scholarly inquiry suggests that organizational participants have indeed developed routines for adjusting to these sources of friction, and that accumulation of slack resources has been integral to those adjustments. A meta-analysis discovered that both financial (available) and organizational (absorbed) forms of slack resources exhibited a strong, positive relationship with financial performance, especially when measured as accounting returns (Daniel, Lohrke, Fornaciari, & Turner, 2004). There may be limits, however, to conditions under which accumulation of slack is value-enhancing. For example, an organization's age may positively moderate performance outcomes of unabsorbed, financial forms of slack, at least among privately held firms (George, 2005). Moreover, demonstrating the means by which managers liquidate absorbed, organizational slack, the downsizing movement of the 1990s improved firm performance when associated with broader strategic retrenchment (Love & Nohria, 2005). Thus, under some conditions, accumulation of slack resources seems an adaptive organization routine, evolved through managerial experience, which can preserve and enhance a firm's capacity for value creation.

> **Hypothesis 1:** Accumulation of slack resources, both financial and organizational, will be positively associated with firm performance.

Slack Resources, Corporate Social Responsibility, and Firm Performance

Although slack resources may prove sometimes to be value-enhancing, their existence also gives rise to agency problems, such that executives may distribute spare resources to themselves in the form of excess compensation (Jensen, 1986). Bourgeois (1981) acknowledged this possibility when he argued the accumulation of slack resources in firms may exhibit diminishing returns to scale. A related, controversial use of slack resources is investment in CSR. CSR was described recently as "actions which managers and organizations take to protect and improve the welfare of society along with business's own interests" (Carroll, 2015,

p. 90). Although empirical study confirms that a business case can be made for CSR, and has demonstrated positive associations between CSR and firm performance (Mattingly, 2017; Orlitzky et al., 2003; Shahzad & Sharfman, 2017), some maintain that investment in CSR constitutes misallocation of a firm's resources (Deb, David, & O'Brien, 2017; Surroca & Tribo, 2008). Thus, there exists tension in the literature as to whether accumulation of slack resources for investment in CSR can be justified.

A clue to a partial synthesis of this tension may be located in a related line of inquiry. ATP insulates a management team from turnover in the face of poor performance. Thus, the market values of firms employing ATP are discounted (Kacperczyk, 2009). However, such protections protect not only against poor performance but also against market myopia, expressed as preferences for short-term gains by activist institutional investors, and other short-sighted stakeholders (Kacperczyk, 2009). As investments in CSR, and other intangible assets, take time to yield returns, some firms that make such investments may choose to adopt takeover protections to shield themselves from turnover, at the hands of activist investors, while waiting for a payoff from long-term investments. Consequently, Duru et al. (2013) discovered that firms making long-term investments in research and development enjoyed greater value enhancement when they also employed ATP. This finding, however, was limited to firms in opaque environments, such as industries in which monitoring is difficult for investors. These authors argued that the ATP provided relief from takeover pressure, due to market myopia, allowing needed time for a payoff from long-term investments.

A similar study, but related directly to CSR, discovered that although firms that adopted takeover protections experienced lower performance in the main, those that concurrently adopted takeover protections *and* invested in CSR enjoyed improved performance (Kacperczyk, 2009). Kacperczyk argued these correlations supported a "relief from short-termism" hypothesis, suggesting ATP provided relief from market myopia, giving managers time to demonstrate returns from their CSR investments. In both of these studies, takeover protection gave cover to managers making investments with long return horizons, when myopic market expectations for short-term returns threatened to undermine the efficacy of those investments.

Like ATP, slack resources can also be used for value-depleting purposes. However, also like ATP, slack resources may be used for strategic, value-creating projects. Investments in CSR can provide strategic benefits, providing opportunities for differentiation (McWilliams & Siegel, 2000), and creating intangible assets, such as brand equity and reputation (Surroca, Tribo, & Waddock, 2010). We propose that firms which accumulate slack resources will improve performance to the extent that they invest those resources in CSR. Like the firms, described above, that employed takeover protection against market myopia, allowing time for long-term investments to bear fruit, we suspect that firms accumulate slack resources to make necessary investments in CSR, and that these investments will be value enhancing. Thus, we argue that firms that accumulate slack resources to invest in CSR are more likely to do so for strategic reasons, and are less likely than firms which do not invest in CSR to use slack resources unwisely.

However, as indicated in Carroll's definition of CSR, it can take multiple forms. Specifically, CSR can *improve* stakeholder interests or can *protect* them from harm. For example, Costco may offer compensation and benefits in excess of those offered by Wal-Mart or other industry competitors as a means to induce unusual productivity and loyalty among employees. A fast food restaurant chain may offer progressive LGBTQ (lesbian, gay, bisexual, transgender, and queer) partner benefits, beyond industry norms, to attract and retain an underserved labor market but also to differentiate its market position from Chic-fil-A in the minds of consumers, attracting unusually loyal followers at both ends of the business system. In these examples of CSR improvement, funds in excess of industry norms are allocated to improving the interests of stakeholders, thus maintaining their connections to the firm.

Examples of CSR protection, on the other hand, might include policies that fund an unusually large safety compliance department, or offer more time-off between shifts for employees working on offshore drilling rigs to avoid disasters such as that which occurred on the Deepwater Horizon in 2010. Similarly, firms in the chemical industry may have funded research and provided seed funds to new suppliers to develop responsible means for disposing of chemical by-products. Such investments may require outsized expenditure, when compared with industry norms, but might also avoid horrifying incidents, such as those at Love Canal and Times Beach, among others. Numerous such organizational routines have evolved to improve and protect interests of organization participants, they are fostered by accumulation and use of slack resources, and they can often build and protect intangible assets in a manner that preserves and enhances a firm's capacity for value creation.

We expect improvement and protection forms of CSR investment to exhibit similar effects with regard to their relationships with slack and firm performance. Our theory's reasoning suggests potentially troubling patterns of governance activity, such as ATP and accumulation of slack resources, are less troubling when their engagement enables CSR investments, which can enhance and maintain a firm's overall value. Thus, we have no reason to suspect divergent effects between investments in CSR improvement and protection, as both have value-creating potential.

Hypothesis 2: Investment in CSR, both improvement and protection, will be positively associated with firm performance.

Hypothesis 3: Investment in CSR, both improvement and protection, will positively moderate the relationship between slack resources and firm performance.

Mechanisms of the CSR Effect

In addition to establishing the existence of a moderating effect of CSR on the slack–performance relationship, we also seek a better understanding of mechanisms accounting for these effects. Multidisciplinary research on performance outcomes of slack resources may provide clues. Scholars from various business-related disciplines, including accounting, economics, finance, marketing, and management have examined this phenomenon. Our survey of recent contributions to this literature indicates, consistent with Bourgeois's (1981) formulation of slack's functions, key explanations for the accumulation of slack invoke mechanisms of risk, strategy, and governance. Following, we posit these as mechanisms through which CSR moderates performance outcomes of slack resources.

Risk. The primary function of slack resources is to hedge against risk, or perhaps more generally, uncertainty, in its many forms, as originally conceived by Cyert and March (1963). A simple example of employing slack as a technical, workflow buffer is to employ excess raw materials inventories, to hedge against uncertain supplier output, or finished goods inventories, to hedge against uncertain order quantities downstream (Bourgeois, 1981). In these ways, the risk that either suppliers or customers/distributors will not provide expected order quantities can be offset by a provision of slack resources, preventing the loss of business and revenues. Thus, the presence of slack resources avoids disruption to expected resource flows from operations.

Early inquiry discovered that organizational (absorbed) slack positively predicted risk taking and performance (Singh, 1986). However, in declining firms, in which risk taking can hasten demise, firms appeared to accumulate slack, and thereby improve their performance and survival chances, by limiting risky investments in research and development (Latham & Braun, 2009; Wiseman & Bromiley, 1996). Studies in finance and economics discovered that accumulation of financial slack, especially cash reserves, was associated with fluctuations in cash flow, both at the firm level (Lins, Servaes, & Tufano, 2010) and the industry level (Bates, Kahle, & Stulz, 2009). Thus, performance-enhancing effects of slack accrue, at least partly, to the extent that they hedge against the risk of uncertain future resource flows.

Amelioration of risk can be a result of CSR investments, as well. Early study of the relationship between CSR and firm performance established risk reduction as an important mechanism accounting for the relationship (McGuire, Sundgren, & Schneeweis, 1988). They found that firms investing in CSR had lower levels of variation in market and accounting returns, as well as higher profitability. Results of a meta-analysis confirmed that CSR investments consistently reduce risk (Orlitzky & Benjamin, 2001). Specifically, both the variability of firms' market value and cash flows decreased, resulting from those firms' investments in CSR. Thus, as both slack resources and CSR investments have significant implications for a firm's level of risk, and the level of risk can have significant impact on firm performance, we expect firm-level risk to be an important mechanism through which CSR investments have an impact on firm performance.

Hypothesis 4: Firm-level risk will mediate the relationship between slack resources, CSR, and performance.

Strategy. Another essential function of slack resources is to support strategic positioning, including innovations in product or market development, and experimentation with new organization forms (Bourgeois, 1981). An early study confirmed this notion in its discovery that the presence of financial and organizational slack was a key determinant in airlines' ability to make adjustments to routes, fleet, and fares in the wake of deregulation of the airline industry (Cheng & Kesner, 1997). But an airline's strategic orientation was a factor as well, with slack increasing the likelihood that prospectors would make necessary adjustments, but decreasing the likelihood that defenders would do so. Moreover, this element of Bourgeois's (1981) formulation anticipated the emergence of the study of organizational ambidexterity, a rare firm-level capability for simultaneously exploring new business opportunities while exploiting returns from existing lines of business (O'Reilly & Tushman, 2004). Confirming Bourgeois's supposition, recent literature has conclusively confirmed that slack resources are positively related to organizational ambidexterity (Daneels, 2008; Sidhu, Volberda, & Commandeur, 2004; Voss, Sirdeshmukh, & Voss, 2008) and organizational learning (Wiersma, 2007). Thus, accumulation of slack resources may support development of intangible assets, key to strategic positioning (Grant, 1991), and thereby might have a significant impact on firm performance.

A firm's investment in CSR may also contribute to its strategic orientation. Firms may make CSR investments integral to their business systems, as Wal-Mart did by redesigning its truck routes to reduce greenhouse gas emissions, while reducing fuel and equipment costs (Porter & Kramer, 2011). Whereas McWilliams and Siegel (2000) supposed that CSR may be strategically employed as a form of strategic differentiation, empirical studies attest that it can be integral to either innovation (Padgett & Galan, 2010) or operating efficiency (Becchetti & Trovato, 2011), corresponding to differing forms of strategic orientation. Thus, as slack and CSR are important contributors to strategic

orientation, we identify it as an important mechanism, at least partially explaining their effects on firm performance.

> **Hypothesis 5:** Strategic orientation will mediate the relationship between slack resources, CSR, and performance.

Governance. Governance mechanisms shape individuals' incentive structures, so their actions serve organization goals instead of their own. Organization governance in practice, however, is more complex than this simple axiom. The inducement and conflict resolution function of slack resources, in Bourgeois's formulation (also see Cyert & March, 1963), attests to the importance of boundary maintenance for effective organization functioning. The stakeholder view of the firm offers even more explicit treatment of the essential role of effective stakeholder management in sustaining a firm's competitive position (Post et al., 2002). Specifically, they demonstrate that carefully managing a firm's relationships among stakeholders can have positive effects on a firm's long-term performance by maintaining their commitment to providing the firm with resources, both tangible and intangible. Bourgeois anticipated that slack resources may be a crucial contributor to these activities.

Some literature presumes investments in CSR are equivalent to poor governance, as they misallocate a firm's resources in the form of side payments to stakeholders other than stockholders (Deb et al., 2017; Surroca & Tribo, 2008). Their implication is that payments made to improve or protect the interests of societal stakeholders are a cost to the firm, having no potential return. Deb et al. (2017), for example, describe opaque environments, rhetorically opposite of transparent environments, as those in which monitoring is difficult, fostering distribution of resources to stakeholders other than shareholders. However, this interpretation ignores the growing threat to sustainable management of activist investors and other stakeholders that prefer short time horizons. A growing literature has identified short time horizons of some organization stakeholders as a potential detriment to effective organization management, in that they produce policy preferences favoring short-term, liquidating gains to those that more sustainably strengthen the value-creating capacity of the firm. Indeed, in the presence of activist institutional investors, opaque practices such as antitakeover provisions and staggered board terms, can give managers the time they need to produce returns from investments in product innovation (Duru et al., 2013) and CSR (Kacperczyk, 2009). Thus, we expect governance to be an important mechanism for the performance impact of investments in slack and CSR.

> **Hypothesis 6:** Governance will mediate the relationship between slack resources, CSR, and firm performance.

Method

The following passages describe the data sets employed in the empirical examination, the sample which was possible from their union, and computation of measures from those data sets.

Sample and Data

Our sample was constrained by availability of reliable measures for corporate social activity. Our data set included both financial and social indicators. Financial indicators were drawn from Standard & Poor's COMPUSTAT, whereas social indicators were drawn from the Kinder, Lydenberg, Domini (KLD) social ratings data. The limitation for our sample stems from limitations of the KLD data. Its social ratings are available since 1991 for constituents of the S&P 500 and KLD's proprietary DSI 400, which are firms having relatively high social ratings. Although KLD began covering a sample of 3000 of the largest U.S.-based firms beginning in 2003, there is some concern that zeroes in dichotomous observations for some of the smaller firms could represent nonresponse instead of absence of social strengths or concerns (Hart & Sharfman, 2015). Thus, we limit our sampling frame to those firms that were constituents of the S&P 500 from 1991 to 2009, after which subsequent owners of the data set changed its structure and coverage substantially. This sampling frame includes 9,564 firm-years. After matching the KLD data to the COMPUSTAT data, 9,053 firm-years were available. Thus, our sample is representative of large, publicly traded firms based in the United States. Industry sector memberships for firms included in the sample are reported in Table 1. Following are descriptions of measures from KLD and COMPUSTAT data sets.

Measures from KLD Data

Corporate Social Responsibility. The KLD data set includes more than 100 dichotomous items associated with 14 indices, 7 each for social strengths and concerns. The seven indices reflect an organization's attention, or lack thereof, toward the following stakeholder or issue areas: employees, diversity, local communities, product quality/safety, the natural environment, human rights, and corporate governance. Hart and Sharfman (2015) demonstrated that human rights and corporate governance measures are empirically distinct from the other five categories most often used in empirical research. The human rights measure is applicable primarily to multinational firms, so its inclusion could lead to biased results. We retained the items for corporate governance to measure that construct in the mediated portion of our model (explained below). We calculated total strengths and total concerns by computing the mean of dichotomous

Table 1. Count of Sample Firms by Industry Sector.

Sector	Description	Firms	Proportion
0	Agriculture, forestry, and fishing	1	0.1
1	Mining and construction	57	7.3
2	Food, tobacco, textile, and paper	152	19.5
3	Rubber, metal, and equip	184	23.6
4	Transportation, communication, and utilities	114	14.6
5	Wholesale and retail	74	9.5
6	Finance and real estate	124	15.9
7	Services: Hotel, personal, and business	58	7.4
8	Services: Health and management	14	1.8
9	Other, including government agencies	3	0.4
	Totals	781	100

indicators across all items for each of the five strength and five concern areas, resulting in 10 subindices, and calculating standardized values for each of them. Because CSR strengths and concerns exhibit discriminant validity in prior research (Hart & Sharfman, 2015; Mattingly & Berman, 2006), we calculated factor scores for the two measures so they reflect underlying latent factors corresponding to theoretical constructs. CSR strengths reflect activities devoted to improving stakeholder interests, whereas CSR concerns reflect harm to stakeholders. Thus, we multiplied standardized factor scores for CSR concerns by negative one to gauge the extent to which a firm engages in activities aimed at protecting stakeholders from harm.

Governance. As indicated earlier, we use KLD's observations for corporate governance as our measure. Similar to other stakeholder referents, KLD observes both strength and concern (problematic) items for corporate governance. These items relate especially to executive compensation, accounting inconsistencies, the extent to which the firm attempts to influence public policy, and the extent to which the firm adopts best practices regarding transparency. Corporate governance strengths are transparent, whereas concerns are opaque. Thus, our governance measures reflect a generalized tendency regarding transparency or opacity toward numerous stakeholders, including but not limited to stockholders.

Measures From COMPUSTAT Data

Performance. Firm performance was measured using both accounting and market indicators, as they often correlate differently to various components of CSR (Mattingly, 2017). For accounting performance, we measure return on assets (ROA) by dividing EBITDA by total assets. For a market-based indicator of performance, we use a proxy for Tobin's *Q*, which is correlated at .97 (Chung & Pruitt, 1994). It is measured as:

$$Q = \frac{Market\ value\ of\ \ equity + Preferred\ \ stock + Debt}{Assets}$$

in which *Market value of equity* = stock price * number of common shares outstanding; *Preferred stock* = liquidation value of preferred stock; *Debt* = (current liabilities − current assets) + long-term debt; and *Assets* = total assets.

Tobin's *Q* indicates the premium of a company's market value over the replacement cost of its assets and, thereby, is more likely to reflect the value-creating capacity of a firm's intangible assets than accounting measures such as ROA (Perfect & Wiles, 1994).

Slack Resources. A firm's slack resources exist in various degrees of liquidity. An important distinction is made between available, liquid slack and absorbed, organizational slack (Bourgeois, 1981; Singh, 1986). We use the cash ratio to measure available slack, calculated as cash divided by total assets, net of cash. To measure absorbed, organizational slack, we combined conventional measures for recoverable and potential slack. Thus, we summed selling, general and administrative expense with long-term debt and notes payable, dividing by total assets.

Risk. We measured the extent of a firm's risk using volatility for both its stock price and revenue. To measure stock price volatility, we used beta from COMPUSTAT, which compares a firm's stock price movements with those of the broad market. We measured sales volatility by calculating the variance of annual revenue over the prior 5 years.

Strategic Orientation. Our measures for strategic orientation emphasize a well-worn, essential distinction among product-market approaches (Miles & Snow, 1978; Porter, 1985). Firms can compete to achieve advantage either by having the lowest cost structure or by commanding premium prices for superior products and services. Following Hambrick (1983), we measure cost-based positioning using indicators of cost efficiency and asset parsimony. Cost efficiency was calculated by dividing net sales by the number of employees, whereas asset parsimony was calculated by dividing net sales by net property, plant, and equipment. The price-premium (differentiation) strategic position was calculated by summing advertising, research and development, and sales, general, and administrative expenses and dividing the result by net sales.

Controls. Our model controls for industry, firm size, and firm age, as potential confounding effects on firm performance, our dependent variable. We use a dummy variable for one-digit SIC (Standard Industrial Classification)

Table 2. Descriptive Statistics for Initial Data Collection.

Variable	Average	*SD*	Maximum	Minimum	Skewness	Kurtosis
KLD data[a]						
CSR improvement	0.00	1.00	6.65	−1.94	1.30	2.31
CSR protection	0.00	1.00	1.90	−5.91	−1.43	2.40
Transparency	0.00	1.00	4.94	−0.83	0.91	0.12
Opacity	0.00	1.00	7.94	−0.34	2.89	7.68
COMPUSTAT data[b]						
Return on assets	0.14	0.09	0.97	−0.67	0.72	6.48
Tobin's *Q*	1.42	1.44	23.70	−0.19	4.11	30.81
Beta	0.63	25.25	183.85	−2189.42	−76.12	6383.26
Firm age	36.72	14.62	60.00	1.00	−0.34	−1.02
Available slack	0.15	0.34	10.21	0.00	9.05	153.60
Absorbed slack	0.41	0.22	2.03	0.00	1.03	2.81
Combined variables[c]						
Asset parsimony	7.00	15.73	425.90	−14.50	12.19	215.18
Cost efficiency	427.31	893.57	24641.86	−11538.07	13.87	299.98
R&D intensity	0.03	0.07	1.56	0.00	6.67	93.62
Advertising intensity	0.01	0.03	0.25	0.00	3.36	13.56
Selling intensity	0.18	0.16	4.21	−0.05	2.43	42.48
Sales	11327.84	23258.61	425071.00	−4234.47	7.37	81.12
Employees	40.41	84.40	2100.00	0.03	11.62	220.02
Assets	28214.30	99680.58	2223299.00	7.93	10.23	142.16

Note. CSR = corporate social responsibility; KLD = Kinder, Lydenberg, Domini social ratings data.
[a]Variables from KLD data set were factor scores, resulting in mean 0, standard deviation 1. [b]Raw values for financial variables, prior to standardizing and winsorizing. [c]R&D intensity, advertising intensity, and selling intensity were components of differentiation strategy; asset parsimony and cost efficiency were components of cost strategy; sales, employees, and assets were components of firm size; all combinations proceeded after standardizing component variables.

industry sector to control for industry effects. For firm age, we take the difference between the year the firm first appeared in COMPUSTAT and the year of observed data. For firm size, we employ the mean of standardized values for the natural log of net sales, total assets, and the number of employees.

All predictor variables were standardized to mitigate the potential for multicollinearity effects, and we included a dummy variable to control for year effects, to correct for potential autocorrelation. Although predictor variables were standardized, dependent variables were not, so that unstandardized regression coefficients would reflect units of the dependent variable. Finally, all variables were winsorized (at 0.995 and 0.005) to prevent influential outliers. Descriptive statistics and correlations are reported in Tables 2 and 3, respectively

Results

Extant research has provided mixed results regarding effects of slack resources and CSR on financial performance. Our study attempts to clarify mixed findings by distinguishing among types of slack resources, CSR, and firm performance. Additionally, we extend the research by examining potential moderating effects of CSR on the slack–performance relationship, and by considering mediating variables that proxy mechanisms through which slack and CSR may affect a firm's performance, when considering both accounting and market measures. Following, we examine the main effects, moderating effects, and mediating effects that we hypothesized. Regression results are reported in Tables 4 and 5, and beta coefficients are unstandardized, implying they are scaled in units of the dependent variables, which are return on assets and Tobin's *Q*, respectively.

Main Effects

Hypotheses 1 and 2 examine main effects of slack and CSR, respectively, on a firm's financial performance. Our tests are exhibited in column 2 of Tables 4 and 5. Although absorbed slack is positively related to ROA ($\beta = 0.021$, $p < .000$), available, liquid slack is unrelated to ROA. Presence of both available slack ($\beta = 0.263$, $p < .000$) and absorbed slack ($\beta = 0.276$, $p < .000$) is strongly and positively related to a firm's market performance, measured as Tobin's *Q*. These are unsurprising findings, and generally support our hypothesis. However, slack

Table 3. Correlations.

Number	Variable	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Return on assets	−0.09	0.41		0.72	0.05	0.39	0.07	0.09	−0.08	−0.07	−0.19	0.30	−0.04	0.03	−0.01	−0.12
2	Tobin's *Q*	0.08	8.93	0.63		0.16	0.33	0.05	0.15	−0.06	−0.09	−0.13	0.31	0.07	0.02	−0.15	−0.21
3	Available slack	−0.54	7.23	0.07	0.31		0.41	0.08	0.11	0.25	0.00	0.05	0.33	0.16	0.05	−0.16	−0.10
4	Absorbed slack	−2.92	2.91	0.38	0.36	0.26		0.04	0.24	0.10	−0.14	−0.19	0.56	−0.02	0.01	−0.12	−0.19
5	CSR improvement	−1.97	3.63	0.07	0.08	0.02	0.03		0.12	−0.01	0.29	0.14	0.16	0.18	0.20	0.13	0.37
6	CSR protection	−3.80	1.92	0.09	0.18	0.13	0.22	0.01		0.04	−0.33	−0.15	0.21	−0.15	−0.15	−0.36	−0.33
7	Risk/beta	−3.07	9.36	−0.10	0.00	0.27	0.10	0.00	0.01		−0.01	−0.12	0.11	0.06	−0.04	−0.16	−0.05
8	Risk/sales variance	−0.20	10.70	−0.01	−0.04	−0.03	−0.04	0.15	−0.31	−0.02		0.29	−0.11	0.34	0.12	0.20	0.81
9	Strategy/cost	−0.77	7.99	−0.14	−0.09	0.00	−0.21	0.02	−0.13	−0.08	0.26		−0.26	0.14	0.07	0.04	0.10
10	Strategy/differentiation	−0.92	4.79	0.26	0.30	0.19	0.42	0.19	0.17	0.05	−0.05	−0.18		0.10	0.04	−0.04	−0.09
11	Governance/ transparency	−0.83	3.02	−0.04	0.08	0.13	−0.04	0.21	−0.16	0.07	0.20	0.08	0.09		0.05	−0.01	0.31
12	Governance/opacity	−0.34	4.67	0.04	0.03	0.02	0.03	0.26	−0.17	−0.03	0.08	0.01	0.06	0.05		0.14	0.14
13	Firm age	−2.44	1.59	−0.02	−0.21	−0.26	−0.10	0.14	−0.36	−0.14	0.08	−0.05	0.01	−0.03	0.12		0.30
14	Firm size	−2.47	2.83	−0.12	−0.20	−0.20	−0.20	0.42	−0.38	−0.05	0.35	0.03	−0.06	0.32	0.14	0.30	

Note. CSR = corporate social responsibility. Correlations ±0.03 are significant, $p < .05$. Pearson correlations below diagonal, Spearman above. Predictor variables standardized (mean 0, *SD* 1), dependent variables (return on assets and Tobin's *Q*) remain in units as calculated.

Table 4. Regression Results for Return on Assets.[a]

Variables	Model 1: Controls	Model 2: Main effects	Model 3: Moderators	Model 4: Mediator–risk	Model 5: Mediator–strategy	Model 6: Mediator–governance
Intercept	0.153***	0.134***	0.135***	0.132***	0.133***	0.133***
Controls[b]						
Firm age	−0.010***	−0.007***	−0.007***	−0.009***	−0.009***	−0.009***
Firm size	0.000	0.004***	0.004***	0.004***	0.004***	0.005***
Main effects						
Available slack		0.000	−0.003**	0.000	0.000	0.000
Absorbed slack		0.021***	0.021***	0.021***	0.020***	0.020***
CSR improvement		0.007***	0.013***	0.013***	0.012***	0.013***
CSR protection		0.008***	0.043***	0.034***	0.034***	0.034***
Moderators						
Available * Improvement			0.008*	0.008*	0.008*	0.008*
Available * Protection			0.036***	0.026***	0.027***	0.027***
Absorbed * Improvement			0.003***	0.003***	0.003***	0.003***
Absorbed * Protection			−0.001	0.000	0.000	0.000
Mediators						
Risk/beta				−0.013***	−0.013***	−0.013***
Risk/sales variance				0.002*	0.001†	0.001†
Strategy/cost					0.002*	0.002*
Strategy/differentiation					0.004***	0.004***
Governance/transparency						−0.003***
Governance/opacity						0.000
Adjusted R^2	0.281	0.346	0.351	0.371	0.373	0.374
Change in R^2		0.065	0.005	0.02	0.002	0.001
F	127.04***	150.67***	136.95***	141.76***	135.58***	129.50***

Note. CSR = corporate social responsibility.
[a]Reported values are unstandardized regression coefficients, thus scaled in units of dependent variable. [b]Year and industry sector controlled using dummy variables, regression coefficients unreported.
†$p < .10$. *$p < .05$. **$p < .01$. ***$p < .001$ (statistical significance for regression coefficients).

effects vary for different performance measures and different forms of slack. Absorbed, organizational forms of slack exhibited a consistently positive effect for both accounting and market performance. On the other hand, available slack, especially in the form of cash, positively affected market performance, but was unrelated to accounting performance. The primary difference between our accounting and market measures of performance is that Tobin's *Q* accounts for stock price valuation, whereas ROA ignores it. Thus, comparing Tables 4 and 5, investors seem more willing to reward firms for accumulating cash reserves than is justified solely by its contribution to accounting performance.

Direct effects of CSR, both improving and protecting stakeholder interests, consistently and positively predict accounting and market performance. Stakeholder improvement increases ROA ($\beta = 0.007$, $p < .000$), as does stakeholder protection ($\beta = 0.008$, $p < .000$). Stakeholder improvement also increases Tobin's *Q* ($\beta = 0.145$, $p < .000$), as does stakeholder protection ($\beta = 0.098$, $p < .000$). Thus, investment in CSR more consistently contributes to both accounting and market performance than does the presence of slack resources, although the presence of slack resources has a stronger impact on market performance than does investment in CSR. Thus, our findings support Hypothesis 2.

Moderated Effects

Hypothesis 3 suggests that the extent to which a firm invests in CSR will have an important moderating, or interaction effect on the relationship between slack resources and firm performance. These tests are included in column 3 of Tables 4 and 5, and illustrated in Figures 1 to 8, distinguishing among types and levels of slack, CSR, and firm performance. We first consider effects on accounting performance, then on market performance.

Accounting Performance. Interaction effects of CSR and slack on accounting performance are all positive, shown in column 3 of Table 4, as we hypothesized. Note, however, in Table 4 that inclusion of interaction effects in column 3

Table 5. Regression Results for Tobin's *Q*.[a]

Variables	Model 1: Controls	Model 2: Main effects	Model 3: Moderators	Model 4: Mediator–risk	Model 5: Mediator–strategy	Model 6: Mediator–governance
Intercept	1.465	1.311	1.344	1.320	1.342	1.356
Controls[b]						
Firm age	−0.346***	−0.240***	−0.235***	−0.249***	−0.249***	−0.238***
Firm size	−0.095***	−0.045**	−0.039*	−0.040*	−0.038*	−0.063***
Main effects						
Available slack		0.263***	0.193***	0.224***	0.209***	0.198***
Absorbed slack		0.276***	0.275***	0.272***	0.243***	0.246***
CSR improvement		0.145***	−0.002	−0.004	−0.028	−0.037
CSR protection		0.098***	0.713***	0.634***	0.650***	0.673***
Moderators						
Available * Improvement			−0.119*	−0.118*	−0.126*	−0.130*
Available * Protection			0.615***	0.532***	0.561***	0.576***
Absorbed * Improvement			0.113***	0.110***	0.104***	0.104***
Absorbed * Protection			0.008	0.011	0.011	0.011
Mediators						
Risk/beta				−0.111***	−0.109***	−0.112***
Risk/sales variance				0.025*	0.019	0.014
Strategy/cost					0.038**	0.034**
Strategy/differentiation					0.114***	0.106***
Governance/transparency						0.081***
Governance/opacity						0.000
Adjusted R^2	0.218	0.321	0.331	0.337	0.342	0.345
Change in R^2		0.103	0.01	0.006	0.005	0.003
F	90.92***	134.88***	125.32***	122.01***	118.84***	114.59***

Note. CSR = corporate social responsibility.
[a]Reported values are unstandardized regression coefficients, thus scaled in units of dependent variable. [b]Year and industry sector controlled using dummy variables, regression coefficients unreported.
$^{\dagger}p < .10$. $^{*}p < .05$. $^{**}p < .01$. $^{***}p < .001$ (statistical significance for regression coefficients).

reveal a slightly negative relationship between available slack and accounting performance, once the interaction effects are included in the model. This negative relationship is illustrated in Figures 2 and 3, as the lower, solid line in the graphs. Thus, in Figure 2, we see that, for firms that invest little in stakeholder improvement, available slack has a slightly negative effect on accounting performance. However, for firms that invest substantially in stakeholder improvement, available slack has a slightly positive effect on ROA.

Performance effects of available slack are much more significant for stakeholder protection. For firms that routinely allow harm to stakeholders, available slack has a strongly negative effect on accounting performance. However, for firms that invest substantially in protecting stakeholders from harm, accounting returns to available slack are significantly positive. Thus, it seems clear that, as we previously argued, although presence of slack resources—especially cash—may give pause to investors, their concerns may be less justified when slack is accumulated for investment in CSR. However, accounting returns to the use of cash for protecting stakeholders from harm has a significantly greater effect on profitability than when it is used for stakeholder improvement.

Moreover, Figures 4 and 5 illustrate that positive accounting returns to absorbed (organizational) forms of slack depend little on whether they are invested in CSR. Evidently, absorbed slack is more difficult to misallocate than cash; thus, the performance effect of absorbed slack is less conditional than that of available slack.

Market Performance. Unlike interaction effects of slack and CSR on accounting returns, their interaction effects on market returns vary across types of slack and CSR, inconsistent with our hypothesis, which proposed only positive interactions. These effects are reported in column 3 of Table 5 and are illustrated in Figures 6 to 9. Although the interaction effect of stakeholder improvement and available slack was slightly positive for accounting returns, it is slightly negative for market returns (Figure 6). However, a comparison

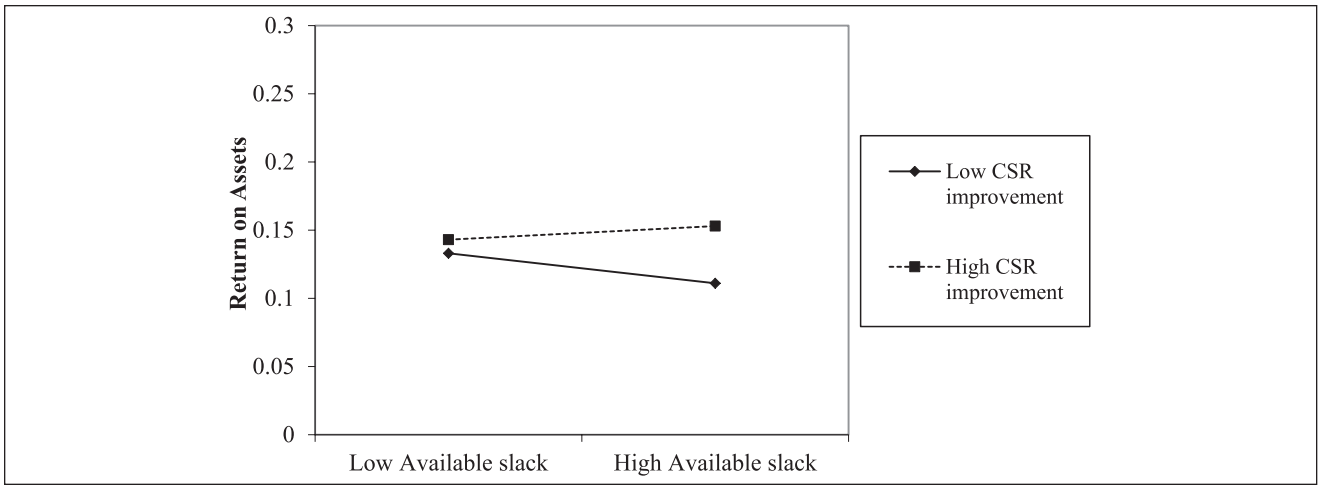

Figure 2. Interaction of available slack and stakeholder improvement on accounting performance.

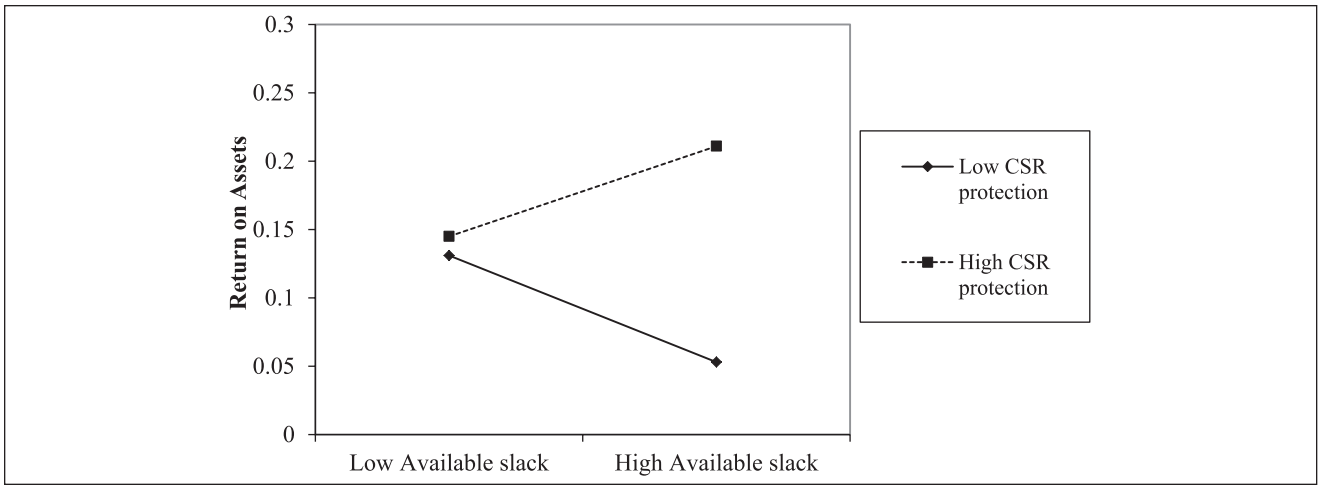

Figure 3. Interaction of available slack and stakeholder protection on accounting performance.

of Figures 6 and 2 reveal that this difference does not imply negative returns for high levels of investment in stakeholder improvement. Indeed, the slope of returns to high levels of investment in stakeholder improvement are similar for accounting and market indicators, revealing that investors seem to reward the presence of cash reserves commensurate with their impact on accounting performance for firms that make substantial investments in stakeholder improvement. However, market returns to cash reserves are much steeper for firms that invest low levels in stakeholder improvement, especially when compared with the diminished accounting returns these firms experience (Figure 2). Thus, investors' seem to reward firms carrying high cash reserves for avoiding investment in stakeholder improvement, even though doing so appears to have a detrimental impact on accounting performance.

Comparing Figures 7 and 3 illustrates a similar, strong relationship between market and accounting returns to available slack and stakeholder protection. Indeed, these are the strongest interaction effects in our study. Simply, there is a strong negative market return for those firms that carry high levels of available slack but do not use it to protect stakeholders from harm. However, market returns are strongly positive when cash reserves are allocated to higher levels of stakeholder protection.

Absorbed, organizational slack has a substantially stronger interaction with stakeholder improvement for market returns than for accounting returns (Figures 8 and 4). Indeed, CSR involving stakeholder improvement increases the effect of absorbed slack on market performance and is substantially steeper than their joint effect on accounting performance. Finally, as was the case with accounting returns, market returns are unaffected by whether absorbed slack is used for stakeholder protection, as indicated in similar patterns of Figures 9 and 5. Market returns to investment in absorbed, organizational slack are moderately

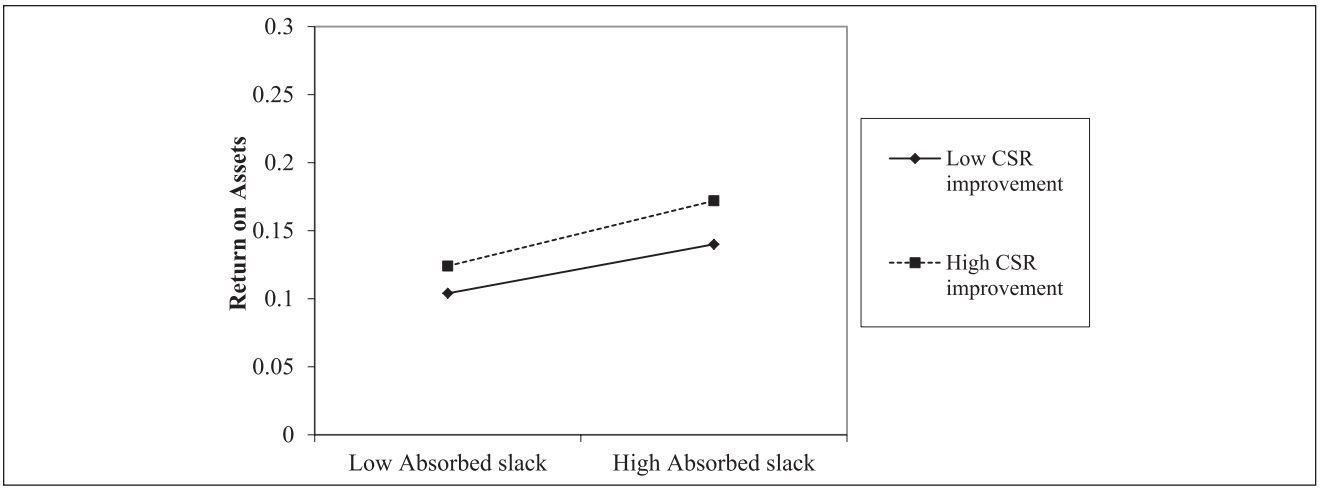

Figure 4. Interaction of absorbed slack and stakeholder improvement on accounting performance.

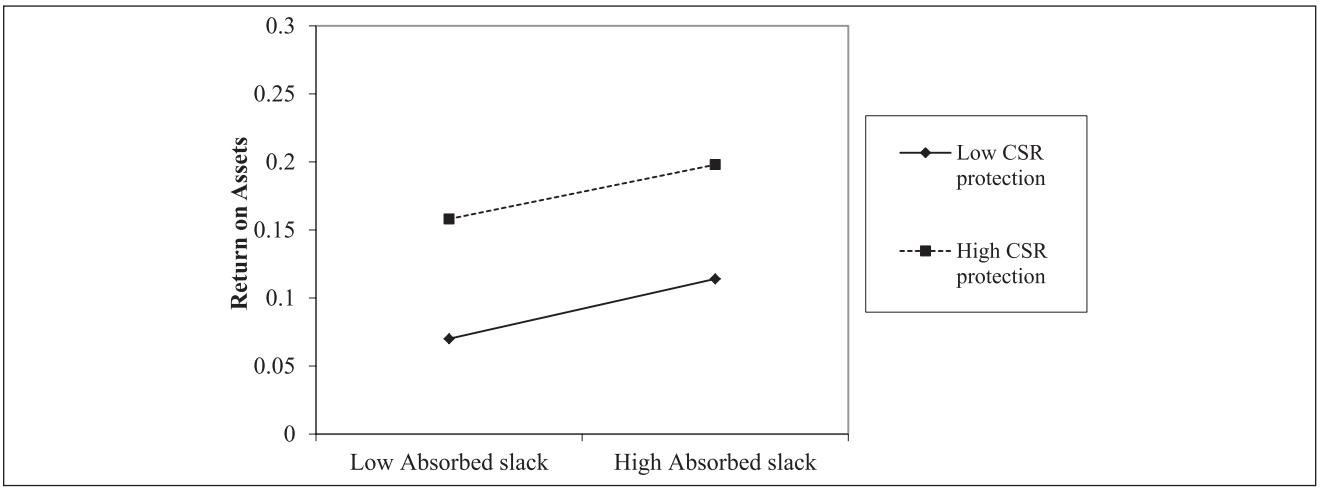

Figure 5. Interaction of absorbed slack and stakeholder protection on accounting performance.

positive, regardless of the level of investment in stakeholder protection (Figure 9). The extreme distance between the two lines in Figure 9 illustrate the extremely strong main effect of the stakeholder protection form of CSR on market returns.

Our findings indicate partial support for Hypothesis 3 in that CSR generally improves returns to slack, albeit in complex ways. When parsing *forms* of slack, CSR, and performance, the general direction of interactions was positive, as we hypothesized, indicating that CSR investment does, indeed, improve the likelihood that slack resources are used productively. Firms that invest in CSR better leverage slack resources and investors reward them for it. However, returns to available slack, in the form of cash reserves, were especially sensitive to investment in CSR. Market returns differed from accounting returns in response to CSR investment. Importantly, although firms investing available slack in both stakeholder improvement and protection enjoyed higher earnings, investors rewarded firms for *high* levels of investment in stakeholder protection but rewarded them for *low* levels of investment in stakeholder improvement. Market returns for *high* levels of stakeholder improvement were still slightly positive, but returns for *low* levels were much higher (Figure 6). Thus, investors seem irrationally averse to funding *financial* slack for stakeholder improvement, but eager to fund *organizational* slack for the same purpose, although both investments have a similar, positive effect on profitability.

Mediated Effects

Mediating variables share covariation between other predictor variables and a response variable they share in common. When mediating variables are included in a regression model,

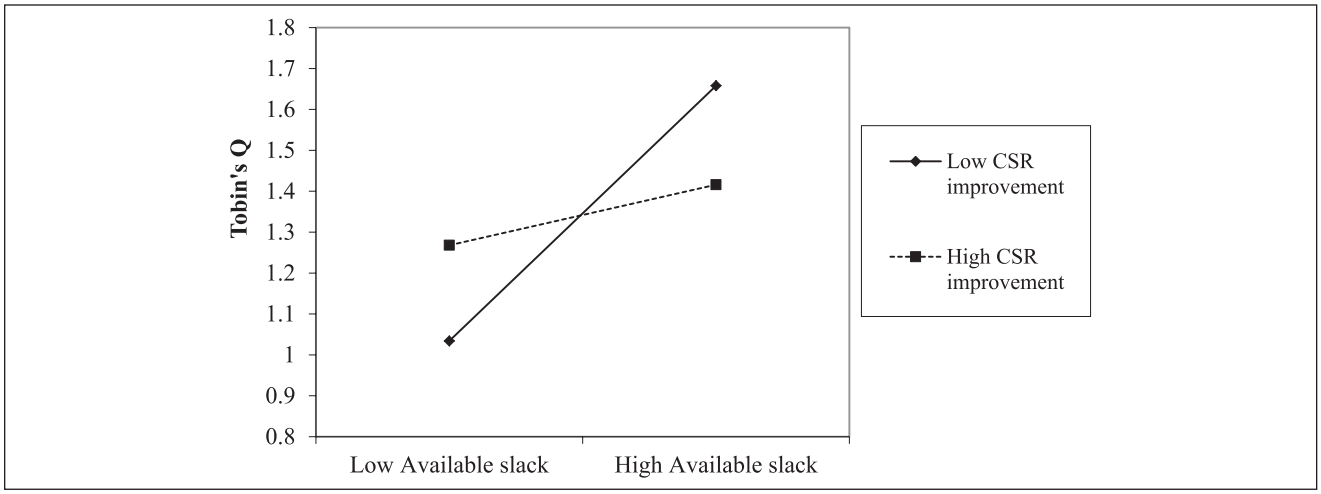

Figure 6. Interaction of available slack and stakeholder improvement on market performance.

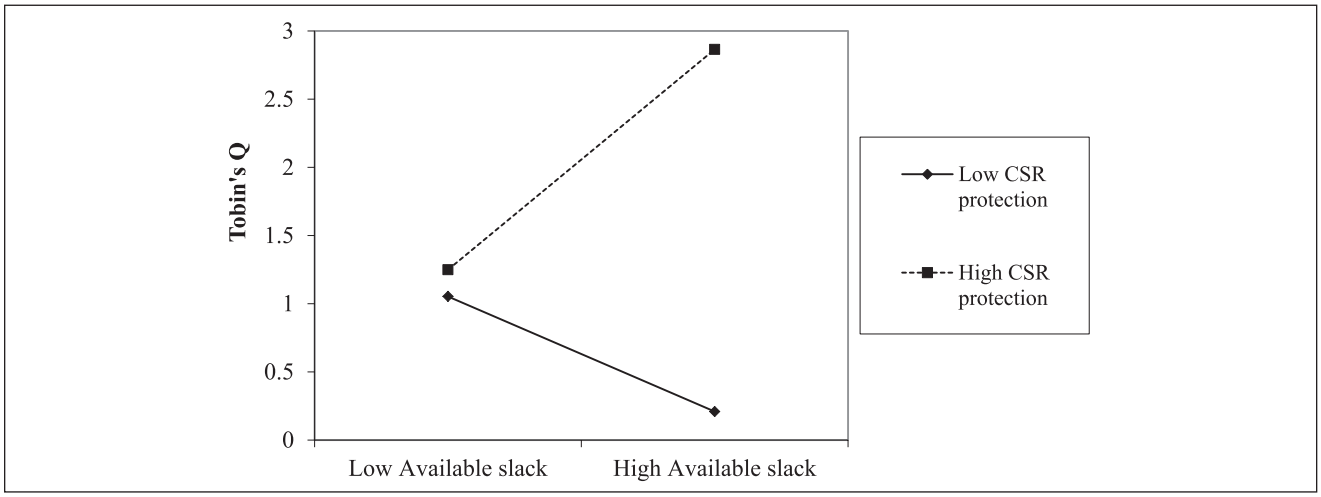

Figure 7. Interaction of available slack and stakeholder protection on market performance.

independent variables lose at least some of their predictive power. The first test, however, to determine the existence of mediating effects is to establish whether the model's predictor variables correlate significantly with mediating variables (Baron & Kenny, 1986). Our analysis indicates that slack and CSR significantly related to all three of our mediating variables: risk, strategic orientation, and governance (Table 6).

Note that available slack positively predicts stock price volatility (beta), differentiation strategy, and both transparent and opaque forms of governance, whereas absorbed slack positively predicts revenue volatility, differentiation strategy, and governance opacity, and negatively predicts cost strategy. CSR, in the form of stakeholder improvement, positively predicts both forms of strategy orientation and both forms of governance, but neither form of risk, whereas stakeholder protection negatively predicts stock price volatility, differentiation strategy, and both forms of governance, and positively predicts cost strategy. Interaction terms exhibit fewer significant paths to mediator variables. Only the product of available slack and stakeholder protection exhibited strong relationships across many of the mediator variables. Specifically, it demonstrated negative relationships with all but two variables. Revenue volatility and cost strategy were positive outcomes. Thus, predictors correlated with mediators, confirming the relevance of mediated tests.

The second test of mediation is to determine the extent to which presence of mediator variables in regression models weakens observed effects of predictor variables (Baron & Kenny, 1986). Any observed mediating effects reflect the extent to which risk, strategy orientation, and governance may be important mechanisms explaining observed effects of slack and CSR on accounting and market measures of firm performance.

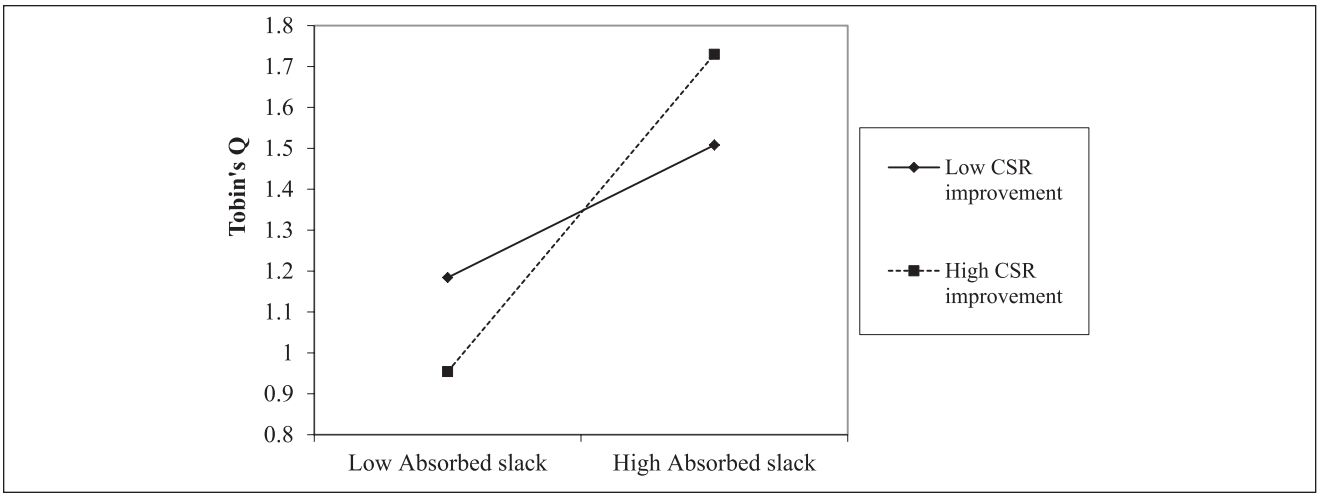

Figure 8. Interaction of absorbed slack and stakeholder improvement on market performance.

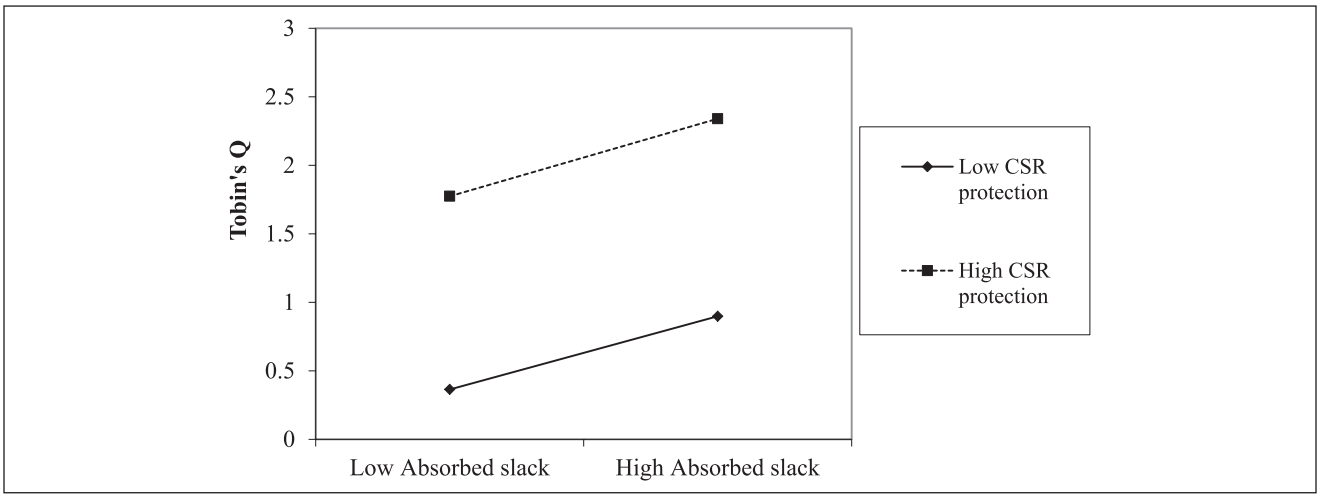

Figure 9. Interaction of absorbed slack and stakeholder protection on market performance.

Risk. Our fourth hypothesis proposed that risk variables would mediate expected slack and CSR main effects and interactions on firm performance. Column 4 in Tables 4 and 5 tests this hypothesis for accounting and market performance, respectively. Specifically, stock price volatility (beta) entirely negates the negative effect observed in column 2, Table 4, of available slack on accounting performance, and reduces effects of stakeholder protection and the interaction effect for available slack and stakeholder protection. Thus, stock price volatility, and the implied increased capital cost, fully accounts for the negative effect of available slack on accounting performance, but only partially accounts for the positive stakeholder protection effect.

Examining Table 5, stock price volatility negatively predicts market performance, and only partially mediates the positive effect of stakeholder protection and its associated interaction with available slack. Unlike accounting performance, level of stock price volatility does not explain the positive effect of available slack on market performance. This observation suggests that, when investors reward firms that hold cash reserves to invest in stakeholder protection, they do so only partly because reduced risk decreases capital cost. Other reasons they do so remain unexplained in our model. Thus, results imply conditional support for our fourth hypothesis.

Strategy. Hypothesis 5 proposed that strategy orientation would mediate slack and CSR effects on firm performance. Column 5 in Tables 4 and 5 tests this hypothesis. Although strategy orientation, especially differentiation strategy, positively predicts accounting performance, its presence in the model has little influence on observed main effects or interactions (Table 4). Thus, strategic orientation is not an explanatory mechanism for these effects.

Table 6. Regression Results for Mediators.[a]

Variables	Risk/beta	Risk/sales variance	Strategy/cost	Strategy/ differentiation	Governance/ transparency	Governance/ opacity
Controls[b]						
Firm age	−0.15***	−0.08***	−0.07***	0.02†	−0.15***	0.02†
Firm size	0.05***	0.26***	−0.13***	0.04**	0.32***	−0.04**
Direct effects						
Available slack	0.28***	−0.01	−0.03*	0.13***	0.16***	0.06***
Absorbed slack	−0.02	0.05***	−0.12***	0.30***	−0.02	0.04**
CSR improvement	−0.03	−0.04	0.11*	0.18***	0.13**	0.24***
CSR protection	−0.69***	0.08	0.35***	−0.25***	−0.31***	−0.45***
Interactions						
Available * Improvement	−0.02	−0.10*	0.03	0.06	0.04	−0.01
Available * Protection	−0.68***	0.33***	0.47***	−0.39***	−0.21**	−0.28***
Absorbed * Improvement	−0.02*	−0.02	−0.01	0.06***	0.00	0.02†
Absorbed * Protection	0.02†	−0.03**	−0.04***	0.01	−0.01	−0.01
Adjusted R^2	0.19	0.18	0.22	0.30	0.23	0.11
Change in R^2	0.04	0.04	0.03	0.14	0.02	0.06
F	59.81***	55.10***	70.34***	109.56***	77.63***	32.66***

Note. CSR = corporate social responsibility.
[a]Reported values are standardized regression coefficients. [b]Year and industry sector controlled using dummy variables, regression coefficients unreported.
†$p < .10$. *$p < .05$. **$p < .01$. ***$p < .001$ (statistical significance for regression coefficients).

Although strategy orientation does not mediate observed effects on accounting performance, it partially mediates effects on market performance (Table 5). Specifically, differentiation strategy exhibits a strong, positive relationship with market performance, and partially mediates both forms of slack effects, available and absorbed, and registers a barely noticeable effect on the interaction of absorbed slack and stakeholder improvement. Thus, although strategy orientation appears to explain some of the observed slack effect on market performance, it explains little of the CSR effect. Therefore, results imply conditional support for our fifth hypothesis.

Governance. Our Hypothesis 6 proposed that governance variables would mediate expected main and interaction effects. Column 6 in Tables 4 and 5 tests this hypothesis. Transparency negatively predicts accounting performance, whereas opacity is unrelated. However, neither transparency nor opacity influences slack and CSR interaction effects on accounting performance (Table 4).

Although its effect on accounting performance is negative, transparency has a strongly positive effect on market performance (Table 5). Additionally, transparency partially mediates the positive effect of available slack on market performance, implying that investors reward firms for carrying cash reserves only partially due to their transparency but also for other reasons. Although strategic differentiation accounted for some of available slack's positive effect on market performance, much of the variance remains unexplained. Somewhat surprisingly, opacity appeared to affect neither market performance, directly, nor to mediate observed effects with other predictor variables. Thus, results imply conditional support for Hypothesis 6.

Conclusion

Our study sought to determine the nature of relationships among slack resources, CSR investments, and firm performance. Our research questions aimed specifically to test whether the presence of CSR investment improved the likelihood that slack resources would create value instead of destroying it and to discover mechanisms accounting for these effects. We were especially sensitive to prior research that specified important distinctions among components of these constructs, acknowledging specific forms of each. Thus, respecting these distinctions revealed complex associations among forms of slack, CSR, and firm performance.

Main effects we observed largely confirmed findings of prior empirical studies, as expected, observing positive effects of both slack and CSR on firm performance. However, inclusion of interaction effects of slack and CSR in the regression model revealed a slight negative effect of available slack on accounting performance, although market valuations do not respond accordingly. Thus, at least under some conditions, accumulation of cash reserves can

have detrimental effects on accounting returns, as Jensen (1986) proposed, although the effect we observed is neither as broad nor as strong as he suggested. Nevertheless, our finding reveals that further investigation should identify conditions under which accumulation of slack helps or harms profitability. Answering our first research question, we identified one such condition, specifically investment in CSR, that not only improves the likelihood that financial slack will be used to create value instead of destroying it but may also explain *why* some firms accumulate slack resources.

Interaction effects revealed complex relationships among slack resources, CSR investment, and firm performance. Notably, market returns and accounting returns diverged in their responses to investments of various forms of slack resources in forms of CSR. Accounting and market returns responded most decisively to investments in protecting stakeholders from harm, which is summarily rewarded. Market returns and accounting returns consistently reward firms that invest slack resources in stakeholder protection and punish them fiercely for holding cash reserves in the absence of such investments. However, market returns diverge from accounting returns regarding investments in stakeholder improvement and are especially sensitive to investments of financial slack (e.g., cash holdings). Although there are modest accounting returns to investments of slack resources, regardless of form, market valuations undercompensate investments of *financial* slack and overcompensate investments of *organizational* slack in stakeholder improvement, when compared with their effects on accounting returns. Thus, further investigation should attempt to explain this apparent inconsistency. Moreover, our finding was serendipitous and ad hoc, unexplained by our theory. Thus, further attention should be given to discovering a theoretical explanation for divergent effects between accounting performance and market valuation, especially when CSR investments are involved.

Regarding our second research question, mediated effects indicated that risk reduction was the most consistent explanation for performance outcomes of slack and CSR. Especially, investment of financial slack in stakeholder protection preserved value-creating capacity, largely due to stabilizing market valuation, and presumably, capital costs. Differentiation strategy and governance transparency partially mediate positive market valuations of slack resources. However, neither strategy nor governance mediated performance outcomes of CSR. Thus, amelioration of risk is an important mechanism through which CSR investments have an impact on a firm's performance outcomes. Neither strategy nor governance exhibited similar mediating effects. Therefore, scholarly inquiry should continue the search for mechanisms explaining observable performance outcomes of CSR investment, in both stakeholder improvement and stakeholder protection forms.

Finally, our study also has implications for practitioners. A recently developing literature has begun to chronicle the irrationality of market myopia (Duru et al., 2013; Kacperczyk, 2009; Surroca et al., 2010). The rational managerial response to market myopia, it seems, is to adopt various forms of takeover protection and to accumulate slack resources. Irrational market myopia is most keenly expressed by activist institutional investors who use proxy battles and other means to pressure firms into actions that may provide a short-term benefit to investors but undermines the firm's long-term value-creating capacity (Useem, 1996; Zom, Dobbin, Dierkes, & Kwok, 2005). This struggle between activist investors and managers is the basis for what has been described as a contested governance terrain in the United States (Shin, 2013). This contest is a contemporary artifact of the age-old debate regarding rightful claimants of a firm's value in which the shareholder value side identifies investors as the only rightful claimants, whereas proponents of CSR argue that a firm must distribute benefits more broadly, employing both ethical and pragmatic reasoning (see Freeman, Wicks, & Parmar, 2004, for a cogent treatment). These positions have been described as "normative belief structures about the allocation of power in the firm." (Fiss & Zajac, 2004, p. 502). Irrational market myopia constitutes erroneous overcommitment to the shareholder value norm beyond its range of practical relevance, and our study is but one exemplar of its cost. If investors are discounting financial slack investments in stakeholder improvement when these investments exhibit the dual benefit of yielding an accounting return and reducing risk, they are missing an important investment opportunity, and worse, they may undermine the nation's economic progress. Thus, activist investors may improve their returns, and act more responsibly, by abandoning uncritical adherence to the shareholder value principle, and more carefully recognizing the value of CSR investments when they improve the value-creating capacity of the firm. Moreover, because this contest has broader implications for our nation's long-term economic health, regulators should be ready to step in, in the event that activist investors are unable to self-correct potentially harmful behavior patterns.

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